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Oil Market Report Contacts

STOCKDRAW

As the third quarter gets under way, the oil market is rivetted on one subject: oil inventories. The word on the lips of most everyone in the oil market is 'stockdraw'. OPEC countries and a few other producers have achieved a high measure of compliance with their 1 April production cut and the political underpinnings of the agreement on production cuts appear strong enough to suggest that this will continue for at least a few more months. The US economy continues to surge forward and many Asian economies are showing signs of life after almost two years of economic agony. With solid economic fundamentals, oil demand is expected to grow steadily during the second half of the year. Non-OPEC supply, in contrast, is languishing in the absence of a substantive pick-up in oil drilling and other upstream activities. It is no surprise that oil prices have regained levels last seen at the end of 1997.

World Oil Supply/Demand
(million barrels per day)

	First Quarter 1999					Second Quarter 1999		Third Quarter 1999		Fourth Quarter 1999	
	Level	Change*	April	May ^p	June ^e	Level	Change*	Level	Change*	Level	Change*
World Demand	76.02	+0.84	72.77	71.22	74.40	72.78	-3.24	74.62	+1.84	77.00	+2.38
OECD	48.75	+0.62	45.92	44.41	47.39	45.89	-2.86	47.46	+1.57	49.25	+1.79
Non-OECD	27.27	+0.22	26.85	26.81	27.01	26.89	-0.38	27.17	+0.28	27.75	+0.58
World Supply	75.12	+0.19	73.23	72.98	72.29	72.83	-2.29	73.01	+0.18	73.76	+0.75
Non-OPEC	44.63	-0.08	44.07	44.22	43.72	44.00	-0.63	44.42	+0.42	45.16	+0.74
OPEC NGLs	2.78	+0.02	2.77	2.75	2.78	2.76	-0.02	2.79	+0.03	2.80	+0.01
OPEC Crude**	27.71	+0.24	26.40	26.00	25.80	26.06	-1.65	25.80	-0.26	25.80	0.00
Difference	-0.90		+0.46	+1.76	-2.11	+0.05		-1.61		-3.24	
Stock Changes											
OECD	-0.91		+1.00	+0.73	-0.15	*** +0.54					
Oil-at-Sea	+0.08		-0.10	-0.44	+1.01	+0.16					
Non-OECD	-0.07					-0.65					

* changes from previous period

** assuming OPEC at 90% of "Hague Agreement" levels; Iraq production at its June level

*** US stock change only

p preliminary

e estimated

With demand up and supply down, the stock overhang generated in last year's weak oil market has begun to dissipate. OECD stocks fell in the first quarter by more than 900 kb/d. In the second quarter, it is non-OECD stocks that appear to have gone down, by an estimated 650 kb/d, and the OECD seasonal stockbuild of 540 kb/d was lower than normal because of the advent of a new round of OPEC production cuts and, also importantly, because of increased compliance with pledges of production restraint made in 1998. In June, OECD inventories may have begun to fall in the US and possibly elsewhere. Much of the excess in crude oil stocks in OECD countries was worked off over the first half of the year, although product stocks remain high both in the US and in Europe.

The global stockdraw is expected to intensify in the third quarter. Quarter-to-quarter demand growth, led by the US and Asia, is projected to be 1.8 million b/d. Less than 200 kb/d of that growth is expected to be met by increased supply. More than half of the quarterly increase in non-OPEC production, following the return of fields from spring maintenance, would be offset if OPEC compliance continued at June levels. This arithmetic shows that this leaves 1.6 million b/d of the demand to be met by inventory drawdowns. A stockdraw of that magnitude is unusual, especially in the third quarter, when stocks have been built up in twelve of the last fourteen years. If current trends are projected forward into the fourth quarter, they will trigger one of the biggest quarterly stock draws in history, hypothetically over 3.2 million b/d, a level which has been seen only once in the last 20 years, during the exceedingly cold winter of 1987.

But this is *not* a very plausible scenario. The US economic boom may keep booming and the Asian turnaround may keep turning. The weather might even be normal after two "non-winters." But as these factors drive up world oil demand, the prospect for a continued high level of OPEC compliance rapidly falls. At least some OPEC countries would be tempted to increase production, as past history suggests. A more plausible scenario is that, before the end of the year, there will be an "upward adjustment" of production. A move that could be collective or individual, official or unofficial, but would result in an appreciable increase in oil supplies.

DEMAND

Summary

- **World oil demand** is projected to average 75 mb/d in 1999, 1.5% more than last year and 50 kb/d over the assessment in last month's Report. The bulk of the demand growth will occur in OECD countries, somewhat more in the United States, where demand remains particularly strong, and less in OECD Europe. Preliminary demand data for Japan and Korea are consistent with gradual recovery. The collapse of demand in the Former Soviet Union may have been stemmed, with exports moderating in June. The increase in anticipated global demand is essentially all in Brazil, where demand seems to be much stronger than previously thought; first quarter oil demand grew almost 2% despite an uncertain economy.

Global Oil Demand by Region 1997-1999

(million barrels per day)

	1999	Annual Change (mb/d)			Annual Change (%)		
		1997	1998	1999	1997	1998	1999
North America	23.70	0.44	0.45	0.54	2.0	2.0	2.3
OECD Europe	15.53	0.15	0.31	0.19	1.0	2.1	1.3
OECD Pacific	8.61	0.12	-0.54	0.20	1.3	-6.0	2.4
Total OECD	47.84	0.70	0.23	0.93	1.5	0.5	2.0
FSU	3.90	-0.03	-0.07	-0.37	-0.6	-1.7	-8.6
Non-OECD Europe	0.83	0.04	0.03	0.02	5.3	3.5	2.8
China	4.27	0.41	0.07	0.12	11.0	1.7	2.8
Other Asia	7.03	0.35	0.05	0.21	5.4	0.7	3.1
Latin America	4.63	0.17	0.11	0.05	4.0	2.4	1.1
Middle East	4.21	0.02	0.09	0.09	0.5	2.1	2.3
Africa	2.40	0.08	0.06	0.02	3.7	2.7	0.6
Total Non-OECD	27.27	1.04	0.33	0.15	4.0	1.2	0.5
World	75.11	1.75	0.55	1.07	2.4	0.8	1.5
<i>of which</i>							
United States (ex Territories)	19.36	0.31	0.30	0.44	1.7	1.6	2.3
Mexico	2.17	0.05	0.13	0.09	2.6	6.8	4.2
European 4	8.68	-0.03	0.06	0.00	-0.3	0.8	0.0
Japan	5.60	-0.05	-0.20	0.09	-0.9	-3.5	1.6
Korea	2.05	0.16	-0.33	0.09	7.5	-14.4	4.6

European 4 = France, Germany, Italy and the United Kingdom

- **Second-quarter** projections, incorporating actual April data for nearly all OECD countries and preliminary indications of May deliveries, show minimal demand growth, but should be considered in combination with the first quarter's exaggerated strength. The second quarter assessment has been increased for the United States, where preliminary indications of demand have again proved to be significantly understated. Year-on-year global demand growth is projected to accelerate in the third and fourth quarters.

Global Demand from 1998 to 1999

	Demand (mb/d)	Annual Change*		Changes from last month's Report (mb/d)
		(%)	(mb/d)	
1Q98	74.7	1.8%	1.3	-
2Q98	72.6	0.9%	0.7	-
3Q98	73.7	0.6%	0.5	-
4Q98	75.2	-0.3%	-0.2	-
1Q99	76.0	1.8%	1.4	-
2Q99	72.8	0.2%	0.2	0.2
3Q99	74.6	1.3%	1.0	0.1
4Q99	77.0	2.4%	1.8	-
1998	74.0	0.8%	0.6	-
1999	75.1	1.5%	1.1	-

* year-on-year change (mb/d)

- Final statistics for US oil demand in 1998 showed demand virtually identical, in aggregate, to that reflected last month. Next month's Report should incorporate revised demand figures for all OECD countries from 1997 on and is anticipated to include the first official statistics for 1997 demand in non-OECD countries.

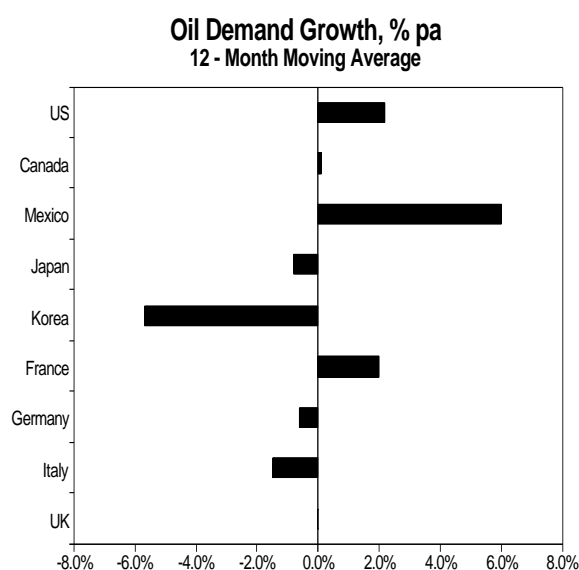
Summary of Global Oil Demand

	1996	1Q97	2Q97	3Q97	4Q97	1997	1Q98	2Q98	3Q98	4Q98	1998	1Q99	2Q99	3Q99	4Q99	1999
Demand (mb/d)																
North America	22.27	22.26	22.48	22.95	23.13	22.71	22.66	22.98	23.54	23.45	23.16	23.54	23.24	23.92	24.09	23.70
Europe	14.87	14.85	14.80	15.00	15.42	15.02	15.44	14.75	15.24	15.90	15.33	15.78	14.63	15.49	16.20	15.53
Pacific	8.83	9.84	8.17	8.44	9.37	8.95	9.18	7.76	7.94	8.78	8.41	9.44	8.02	8.05	8.95	8.61
Total OECD	45.98	46.95	45.45	46.39	47.92	46.68	47.28	45.49	46.72	48.13	46.91	48.75	45.89	47.46	49.25	47.84
FSU	4.36	4.32	4.29	4.26	4.48	4.34	4.63	4.24	4.13	4.07	4.26	4.21	3.56	3.79	4.04	3.90
Europe	0.74	0.84	0.78	0.72	0.79	0.78	0.87	0.81	0.75	0.81	0.81	0.89	0.83	0.77	0.84	0.83
China	3.68	4.06	3.90	4.09	4.27	4.08	4.35	4.25	4.04	3.98	4.15	4.26	4.31	4.23	4.26	4.27
Other Asia	6.42	6.72	6.72	6.73	6.90	6.77	6.81	6.69	6.73	7.02	6.81	7.03	6.91	6.92	7.25	7.03
Latin America	4.30	4.27	4.46	4.57	4.60	4.47	4.41	4.59	4.68	4.64	4.58	4.46	4.63	4.73	4.70	4.63
Middle East	4.01	3.89	3.99	4.16	4.10	4.03	3.93	4.17	4.30	4.08	4.12	4.05	4.25	4.39	4.17	4.21
Africa	2.24	2.32	2.34	2.28	2.35	2.32	2.38	2.39	2.31	2.45	2.38	2.36	2.40	2.34	2.49	2.40
Total Non-OECD	25.76	26.41	26.48	26.81	27.48	26.80	27.38	27.13	26.94	27.05	27.12	27.27	26.89	27.17	27.75	27.27
World	71.73	73.36	71.94	73.21	75.40	73.48	74.66	72.62	73.66	75.18	74.03	76.02	72.78	74.62	77.00	75.11
of which:																
<i>US (ex Terr.)</i>	18.31	18.27	18.49	18.75	18.97	18.62	18.46	18.86	19.24	19.10	18.92	19.19	19.07	19.51	19.65	19.36
<i>Euro 4</i>	8.64	8.56	8.48	8.62	8.80	8.62	8.84	8.35	8.64	8.90	8.68	8.96	8.05	8.70	9.02	8.68
<i>Japan</i>	5.76	6.39	5.17	5.42	5.87	5.71	6.15	4.97	5.23	5.69	5.51	6.17	5.17	5.28	5.77	5.60
<i>Korea</i>	2.13	2.50	2.04	2.05	2.55	2.29	2.09	1.83	1.79	2.12	1.96	2.30	1.88	1.83	2.19	2.05
<i>Mexico</i>	1.90	1.89	1.93	1.97	2.00	1.95	2.04	2.06	2.08	2.14	2.08	2.18	2.12	2.16	2.20	2.17
<i>Canada</i>	1.87	1.90	1.90	2.02	1.97	1.95	1.96	1.89	2.01	2.02	1.97	1.96	1.88	2.03	2.05	1.98
<i>Brazil</i>	1.76	1.74	1.86	1.93	1.95	1.87	1.85	1.96	2.03	1.98	1.95	1.88	1.97	2.05	2.00	1.98
<i>India</i>	1.72	1.89	1.83	1.73	1.84	1.82	1.92	1.89	1.82	1.97	1.90	2.09	2.04	1.90	2.06	2.02
Annual Change (% per annum)																
North America	3.1%	-0.7%	2.8%	3.9%	2.0%	2.0%	1.8%	2.2%	2.6%	1.4%	2.0%	3.9%	1.1%	1.6%	2.7%	2.3%
Europe	1.9%	-1.6%	4.2%	0.3%	1.2%	1.0%	4.0%	-0.4%	1.6%	3.1%	2.1%	2.2%	-0.8%	1.7%	1.9%	1.3%
Pacific	1.7%	0.4%	1.2%	3.8%	0.3%	1.3%	-6.7%	-5.0%	-5.9%	-6.2%	-6.0%	2.8%	3.4%	1.3%	1.9%	2.4%
Total OECD	2.5%	-0.8%	2.9%	2.7%	1.4%	1.5%	0.7%	0.1%	0.7%	0.4%	0.5%	3.1%	0.9%	1.6%	2.3%	2.0%
FSU	-8.3%	-7.2%	1.7%	-0.2%	3.6%	-0.6%	7.0%	-1.2%	-3.0%	-9.2%	-1.7%	-9.0%	-16.0%	-8.2%	-0.8%	-8.6%
Europe	7.1%	5.2%	5.2%	5.2%	5.5%	5.3%	3.5%	3.5%	3.5%	3.5%	3.5%	2.8%	2.8%	2.8%	2.8%	2.8%
China	10.5%	11.6%	3.9%	14.7%	14.2%	11.0%	7.2%	8.9%	-1.3%	-6.9%	1.7%	-2.0%	1.4%	4.9%	7.2%	2.8%
Other Asia	7.7%	6.0%	5.2%	5.7%	4.6%	5.4%	1.4%	-0.5%	0.1%	1.7%	0.7%	3.2%	3.3%	2.7%	3.3%	3.1%
Latin America	3.3%	3.5%	3.2%	3.5%	5.9%	4.0%	3.4%	2.9%	2.5%	1.0%	2.4%	1.1%	1.0%	1.0%	1.2%	1.1%
Middle East	2.2%	-0.5%	-1.2%	-0.3%	4.2%	0.5%	1.2%	4.6%	3.2%	-0.5%	2.1%	3.0%	1.7%	2.1%	2.4%	2.3%
Africa	1.8%	6.4%	3.1%	3.4%	2.0%	3.7%	2.6%	2.1%	1.4%	4.4%	2.7%	-0.8%	0.6%	1.1%	1.5%	0.6%
Total Non-OECD	2.9%	3.0%	2.9%	4.4%	5.8%	4.0%	3.7%	2.4%	0.5%	-1.6%	1.2%	-0.4%	-0.9%	0.8%	2.6%	0.5%
World	2.6%	0.6%	2.9%	3.3%	3.0%	2.4%	1.8%	0.9%	0.6%	-0.3%	0.8%	1.8%	0.2%	1.3%	2.4%	1.5%
Annual Change (mb/d)																
North America	0.68	-0.16	0.60	0.86	0.46	0.44	0.40	0.50	0.59	0.32	0.45	0.87	0.25	0.38	0.64	0.54
Europe	0.28	-0.24	0.59	0.04	0.19	0.15	0.59	-0.06	0.24	0.48	0.31	0.34	-0.12	0.25	0.31	0.19
Pacific	0.15	0.04	0.09	0.31	0.03	0.12	-0.66	-0.41	-0.50	-0.58	-0.54	0.25	0.27	0.10	0.17	0.20
Total OECD	1.11	-0.36	1.29	1.21	0.68	0.70	0.33	0.04	0.33	0.21	0.23	1.47	0.40	0.73	1.12	0.93
FSU	-0.39	-0.34	0.07	-0.01	0.16	-0.03	0.30	-0.05	-0.13	-0.41	-0.07	-0.42	-0.68	-0.34	-0.03	-0.37
Europe	0.05	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02
China	0.35	0.42	0.15	0.52	0.53	0.41	0.29	0.35	-0.05	-0.30	0.07	-0.09	0.06	0.20	0.29	0.12
Other Asia	0.46	0.38	0.33	0.36	0.30	0.35	0.09	-0.03	0.01	0.12	0.05	0.21	0.22	0.18	0.23	0.21
Latin America	0.14	0.14	0.14	0.16	0.26	0.17	0.15	0.13	0.11	0.05	0.11	0.05	0.04	0.05	0.05	0.05
Middle East	0.08	-0.02	-0.05	-0.01	0.17	0.02	0.05	0.18	0.13	-0.02	0.09	0.12	0.07	0.09	0.10	0.09
Africa	0.04	0.14	0.07	0.08	0.05	0.08	0.06	0.05	0.03	0.10	0.06	-0.02	0.01	0.03	0.04	0.02
Total Non-OECD	0.72	0.77	0.75	1.13	1.50	1.04	0.97	0.65	0.13	-0.43	0.33	-0.11	-0.24	0.23	0.70	0.15
World	1.83	0.42	2.04	2.34	2.18	1.75	1.31	0.68	0.46	-0.22	0.55	1.35	0.16	0.96	1.82	1.07
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	-	-	-	-	-0.02	0.15	0.03	-0.05	0.03
Europe	-	-	-	-	-	-	-	-0.01	-	0.01	-	-0.04	-0.20	0.02	0.10	-0.03
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	0.01	-	-0.06	-0.05	0.04	0.05	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	0.09	0.03	-0.09	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	0.03	-	-	0.01
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	0.04	-	-	0.01
Latin America	-	-0.01	-	-	0.01	-	-0.01	-	-	0.01	-	0.04	0.04	0.04	0.03	0.04
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-0.01	-0.01	-	-
Total Non-OECD	-	-0.01	-	-	0.01	-	-0.01	-	-	0.01	-	0.04	0.19	0.06	-0.06	0.06
World	-	-0.01	-	-	0.01	-	-0.01	-	-	0.02	-	-0.02	0.14	0.11	-0.01	0.05

OECD

Demand in May in the Nine Largest Oil-Consuming Countries

According to preliminary estimates, inland deliveries during May were weak compared to a year earlier. But these declines should not be mistaken for a new direction. As anticipated, the first quarter's exaggerated increase in deliveries - predeliveries, in a sense - is limiting second quarter growth. In any case, month-to-month data vary significantly; for example, Korea's 4.8% drop follows a seemingly-spectacular 12.5% increase in April. It also matters which products seem weak. Demand for residual fuel oil, down 135 kb/d in the European Four (France, Germany, Italy and the UK), reflects the vagaries of weather, nuclear and hydro- power as well as the trend to reduce fuel oil's use for power generation, particularly in Italy. Moreover, preliminary estimates are only that. The US Energy Information Agency's final figure for April 1999 exceeded the weekly estimate by more than 400 kb/d.

Preliminary Inland Deliveries - May 1999¹

	Gasoline		Jet/Kerosene		Diesel		Gasoil		RFO		Other ²		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States ³	8.36	+1.0	1.62	+3.3	2.37	+8.7	1.06	-2.8	0.89	+18.1	4.20	-6.8	18.50	+0.7
Canada	0.61	+0.7	0.09	-8.8	0.34	+1.8	0.08	+5.3	0.11	-19.1	0.21	-1.0	1.45	-1.6
Mexico	0.50	+1.0	0.05	+10.6	0.27	+2.2	0.00	-57.1	0.45	-6.1	0.31	+10.6	1.59	+0.8
Japan	0.96	+1.4	0.32	+2.2	0.69	-3.2	0.41	+4.6	0.47	-4.7	1.77	+16.4	4.61	+5.5
Korea	0.15	-11.5	0.05	-10.0	0.33	-2.1	0.06	-30.1	0.32	+9.7	0.73	-5.4	1.63	-4.2
France	0.33	+0.1	0.12	+6.9	0.51	+3.7	0.17	-17.8	0.04	-35.0	0.44	-6.8	1.62	-3.9
Germany	0.71	+0.4	0.15	+4.7	0.52	-2.0	0.30	-36.5	0.07	-26.9	0.48	-0.6	2.24	-8.4
Italy	0.39	+0.1	0.07	+14.9	0.34	+3.2	0.07	+3.7	0.27	-22.4	0.38	-1.3	1.53	-3.8
UK	0.49	-2.1	0.26	+5.6	0.29	+2.2	0.14	-1.4	0.03	-18.0	0.28	-2.7	1.49	-0.5

sources: US EIA, Japan MITI, France CPDP, Germany MWV, UK PIA, Italy Ministry of Industry, Statistics Canada, Mexico PEMEX, Korea PEDCO
percentage change is calculated versus May 1998

¹ excludes refinery fuel and bunkers (except US)

² includes direct use of crude oil

³ excluding US Territories; gasoil/diesel split is estimated

For these nine countries, this Report incorporates assessments of May demand broadly based on the reported changes in inland (and where available, bunker) deliveries, the proportion of total demand not captured by inland deliveries and any observed estimating bias in "deliveries".

Moving Annual Average Change in Oil Demand

(12-Month Moving Average to May 1999)

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
US	-3.2%	5.6%	2.6%	3.0%	3.4%	-1.8%	9.1%	2.8%	2.2%	404
Canada	-6.9%	5.8%	3.0%	-3.3%	1.8%	-0.9%	11.4%	-5.4%	0.1%	2
Mexico	8.8%	-8.0%	1.4%	5.5%	4.8%	na	-0.2%	nm	6.0%	119
Japan	-0.1%	1.1%	2.4%	0.4%	-1.7%	-0.4%	-3.8%	-6.4%	-0.8%	-47
Korea	1.5%	2.8%	-9.1%	13.4%	-12.3%	-18.3%	-14.2%	nm	-5.7%	-123
France	5.1%	2.0%	-0.2%	7.3%	4.5%	0.2%	4.7%	-4.3%	2.0%	39
Germany	-3.6%	0.3%	0.8%	3.6%	4.3%	-3.6%	-2.6%	-5.5%	-0.6%	-17
Italy	-0.0%	-10.3%	1.4%	6.2%	2.8%	7.5%	-11.8%	9.6%	-1.5%	-29
UK	-4.6%	6.4%	-1.2%	9.7%	0.5%	2.7%	-10.7%	-5.5%	-0.0%	-1
Total	-1.2%	1.5%	2.0%	3.8%	2.1%	-2.0%	-2.3%	1.1%	0.9%	349
kb/d	-48	39	243	129	108	-78	-87	42	349	

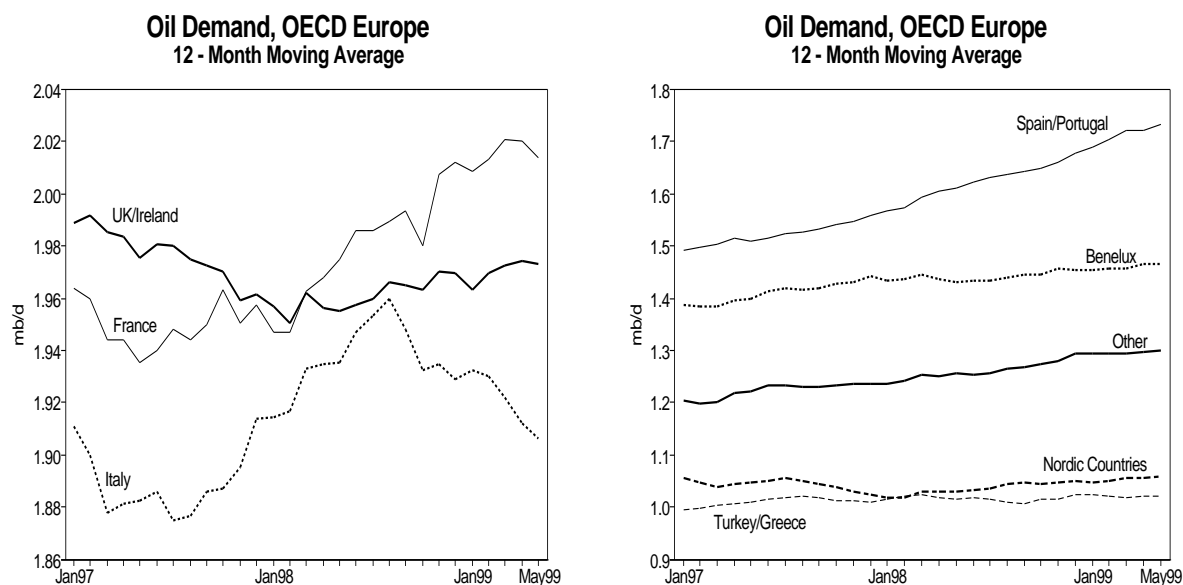
For most analytical purposes, oil demand measured on a twelve-month moving average remains a preferable basis. Demand in this group of nine countries is strongest in the US and Mexico, with demand weakness progressively moderating in Japan and Korea.

European Demand

France appears to be the strongest of the European Four. Oil demand for the year as a whole is projected to finish 20 kb/d (1%) higher than in 1998, essentially all in the form of on-highway diesel, with gains in demand for jet/kerosene offset by declining demand for residual fuel oil and "other products".

In the **United Kingdom**, oil demand is projected to be flat due to fuel tax increases specifically designed to restrain demand. When it comes to diesel for long-haul European Union truckers, this simply means refuelling in another country where fuel taxes and prices are lower.

Expected minor oil losses of demand in **Germany** and **Italy** would offset French demand growth, leaving oil demand for the European Four unchanged from 1998. With NATO's air campaign against Serbia over and no ground war in sight, adjustment to demand for further military activity is unnecessary. Annual oil demand in Germany has been basically flat within a narrow 2.88-2.92 mb/d range since a steep fuel tax increase in the early 1990's, with continuing economic difficulties likely to hold demand inside that range. In Italy, with the economy somewhat stronger than previously feared, slowly increasing demand for transportation fuel is unlikely to offset residual fuel oil's demand losses as fuel oil's role in power generation declines.



Oil demand in OECD Europe is anticipated to average 15.5 mb/d in 1999, or 200 kb/d more than in 1998. The star performers are the new "European tigers": Spain, a 1.4 mb/d market which recently has grown by 7% per year; Poland, 0.4 mb/d and 14%; Portugal, just 0.3 mb/d but growing by 9% per year.; and Ireland, a 0.2 mb/d market growing by 13-14% per year. Look to the Benelux countries (primarily the Netherlands) and the Nordic countries (particularly Sweden) for 40 kb/d in combined growth. Prospects in the Nordic countries outside Sweden look dim; in Norway, for example, GDP is forecast to be virtually flat through the year 2000.

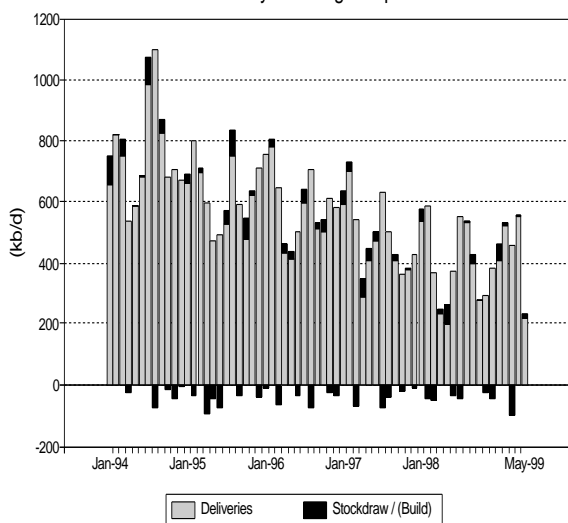
OECD Pacific Demand

Japanese oil demand during the first five months of 1999 averaged an estimated 5.8 mb/d, 130 kb/d higher than in the previous year. Almost all the increase can be explained by higher demand for LPG and naphtha, heavily used as feedstocks for the production of petrochemicals and (to a modest extent) for electric power production. Neither is a very good indicator of the state of the overall economy.

Consider oil demand in Japan excluding oil used for electricity generation (where the trend is down). The change in the moving average demand for gasoline appears to be stable, while diesel and jet fuel are showing improvement. These are positive indicators of economic recovery. Japanese oil demand is expected to grow an average 85 kb/d during 1999, slightly more than foreseen in the last Report.

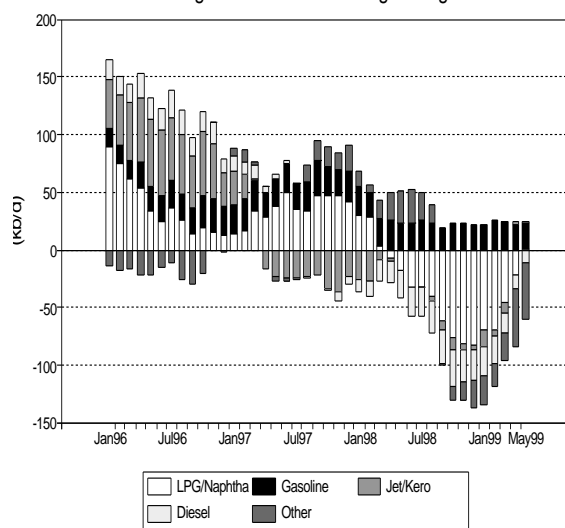
Oil Consumption by Electric Utilities

Gradually Declining in Japan



Oil Demand in Japan excl. Electric Utilities

Changes in 12 - Month Moving Average



Despite the decline in May deliveries, **Korean** oil demand for the year through May is 7% (145 kb/d) higher than during the same period of 1998. Almost 130 kb/d of the increase is in jet/kerosene demand, which surged by a staggering 60%. Over the past twelve months, jet/kerosene demand has increased by an annual average 30%. With jet/kerosene demand generally a leading indicator of economic recovery, it is perhaps not surprising that the Korean economy is now expected to grow by 5-6% in 1999, three times as fast as the official forecasts of only a few months ago. Demand for the year 1999 as a whole is expected to increase by 90-100 kb/d.

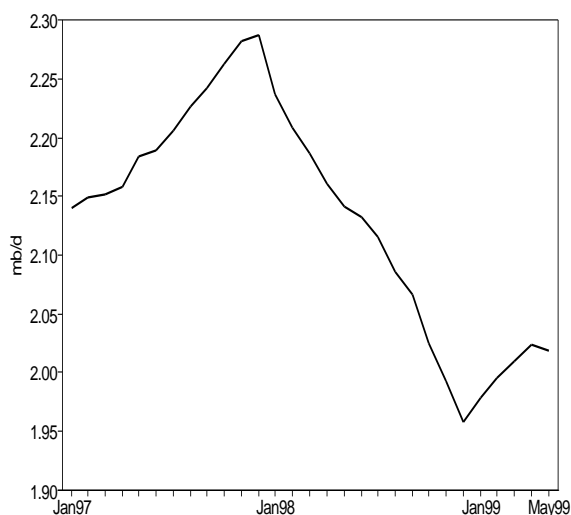
North American Demand

North American oil demand is anticipated to grow by 540 kb/d in 1999. The largest volume contribution, 440 kb/d, is expected from the **US**, with demand growth of 2.3% just short of expected economic growth of 2.8%. Demand is growing most quickly in **Mexico**, anticipated to be 4.2% (90 kb/d) higher this year than last. **Canadian** oil demand is likely to be virtually flat.

In fact, all three North American economies are expected to grow roughly by 3% in 1999, but their patterns of oil use - and demand growth - are very different. Generally, economic strength is accompanied by growth in demand for transportation fuels, particularly motor gasoline and diesel. Demand growth in those two fuels combined has most recently averaged 3% in all three countries. Much of the marked difference between *total* demand growth and demand growth for gasoline and diesel is explained by demand for LPG and "other products": down by more than 30 kb/d in Canada but up by more than 90 kb/d in Mexico during the most recent twelve months.

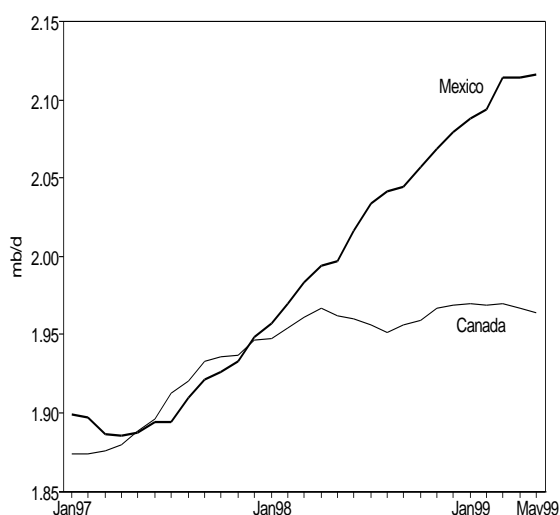
Oil Demand, Korea

12 - Month Moving Average



Oil Demand, Canada & Mexico

12 - Month Moving Average

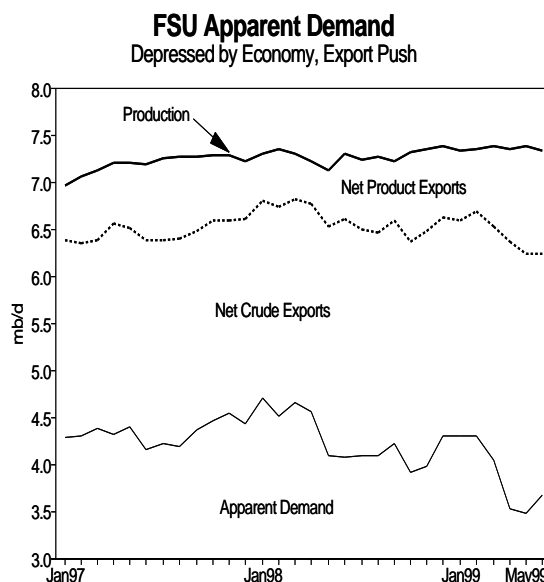


Non-OECD

Former Soviet Union Apparent Demand

In the **Former Soviet Union**, apparent oil demand in June totalled 3.7 mb/d, 400 kb/d lower than a year earlier. This was the fourteenth consecutive month of year-on-year declines but the second consecutive month of improvement relative to a year earlier; apparent demand in April 1999 fell one million barrels per day short of that in April 1998. While it is too soon to say that oil demand is recovering in the FSU, we do observe a halt in its long free-fall.

Some observers credit a portion of the recent export surge - with the attendant compression of consumption - to a rumoured reduction in crude stocks over an 18-month period from 45 million barrels to just 10 million. Even such a dramatic change in standard operating procedures would explain only an average 70 kb/d of incremental exports. It seems more likely that the relative undesirability of domestic sales (in terms of price, currency and the likelihood of actually being paid) combined with fears of a tightening fiscal regime led to the surge in FSU exports, drawing stocks and leaving the domestic market "undersupplied". In response, domestic retail prices surged, effectively rationed supply and re-balanced the market. But this is a nation not yet comfortable with price as the market flywheel; the price spikes led FSU authorities to seek voluntary price freezes (in practical terms, price caps) for the balance of 1999. To the extent that domestic prices are held below free-market prices, the move will tend to ensure that exporting remains more attractive than domestic sales.



Demand in 1999 is projected to average 370 kb/d lower than in last year although FSU demand is projected to strengthen over the remainder of the year, consistent with gradual economic recovery. The recent surge in the market value of Russia's Soviet-era debt, bought and sold as a commodity, tends to confirm that financial-market participants generally expect recovery, restructuring and new IMF loans.

Chinese Apparent Demand and Trade

Chinese apparent demand, derived from trade and indigenous production data, continues to improve, with apparent demand for the first four months of 1999 just 15 kb/d shy of a year earlier. In April, apparent demand totalled 4.3 mb/d, nearly 200 kb/d higher than in April 1998. Oil demand in 1999 is projected to average 110-120 kb/d higher than in 1998, assuming that implementation of the proposed fuel tax will not come before year-end.

Because Chinese oil imports have been limited by import bans and other government policies for almost a year, net oil imports spiking to over 1 mb/d in March and April stand out. China introduced import restrictions to protect its domestic oil industry. It is ironic, then, that the protectionist effort resulted in higher imports when prices rose. Part of the spike in imports is believed to represent replenishment of product stocks drawn down by import bans, but the majority is likely to represent true demand growth. It is the agricultural planting season in March and April; crude and product imports (and apparent demand) normally increase at this time of the year. An increase in apparent

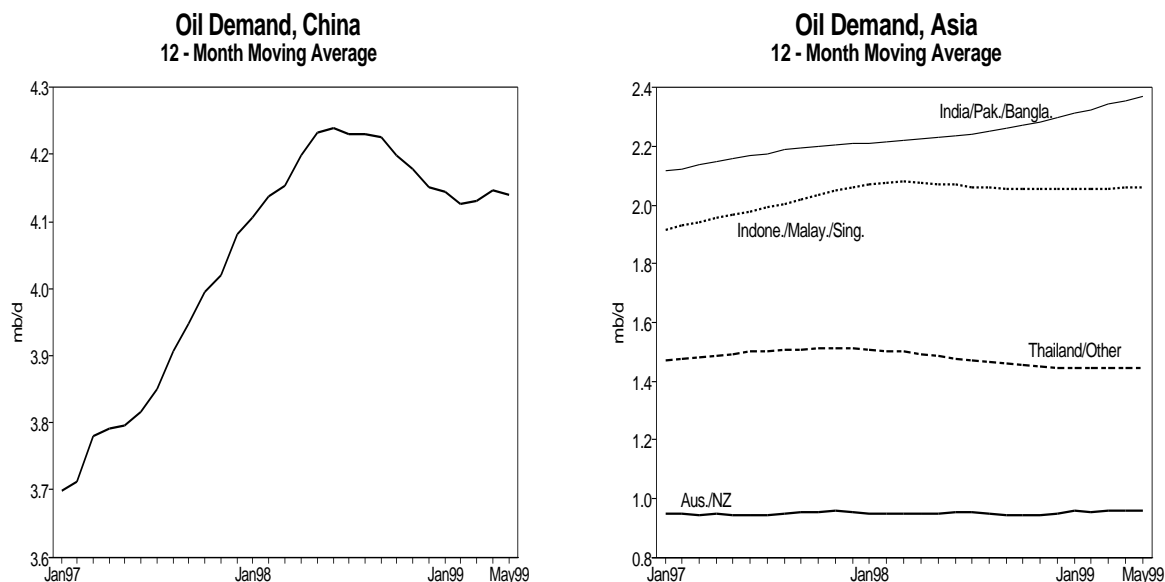
Chinese Crude Oil and Product Trade

(thousand barrels per day)

	kb/d			Latest Month v.	
	Apr 99	Mar 99	Apr 98	Mar 99	Apr 98
Crude Imports	715	860	748	-145	-33
Crude Exports	151	157	228	-6	-78
Net Crude Imports	564	703	520	-139	44
Product Imports	701	651	623	49	77
Product Exports	146	158	157	-13	-12
Net Product Imports	555	493	466	62	89
Total Imports	1415	1512	1371	-96	44
Total Exports	297	316	386	-19	-89
Total Net Imports	1119	1196	986	-77	133
Product Net Imports					
LPG	163	194	121	-31	42
Naphtha	25	18	53	7	-29
Gasoline	-78	-88	-39	11	-39
Kerosene	23	19	11	4	12
Diesel	6	-1	83	7	-77
RFO	316	262	257	55	60
Other Products	100	90	-20	10	121
Total Products	555	493	466	62	89

demand may seem paradoxical given the recent economic indicators of lower growth this year, but government programs attempting to stimulate the economy are likely to have been responsible.

Indian oil demand for the twelve months ending April 1999 averaged 1.95 mb/d, 120 kb/d or 6-7% higher than a year earlier. Demand for LPG and naphtha (for petrochemicals and power) contributed a combined 50 kb/d of the growth, high-sulfur gasoil 30 kb/d and kerosene 20 kb/d. This is not transportation-led growth; in oil market terms, India remains an emerging economy.



Data from the Indian Ministry of Commerce show that net oil imports in April remained high at 1.20 mb/d. Expanding domestic refining has kept crude imports high since the fourth quarter of 1998 and crude imports will step up again to supply Reliance Petroleum's new refinery. April crude imports, though high, were 120 kb/d lower than in March, with imports from Nigeria, the largest single supplier in 1998, accounting for most of the decrease. Meanwhile, product imports fell by 40 kb/d to 340 kb/d; gasoil and LPG imports decreased, while kerosene imports increased.

Other Non-OECD Asia

There is increasing economic evidence of recovery. Most recently, Malaysia is reported to have improved from a 10% economic contraction in the fourth quarter of 1998 to economic growth beginning in February 1999. Government efforts have been given the credit for the turnaround, but independently improving fundamentals for the electronics industry are supporting domestic core industries such as silicon chip manufacture. It is projected that oil demand will increase slightly in non-OECD Asian countries excluding China and India.

Demand in Latin America

Oil demand in Latin America is projected to average 4.6 mb/d in 1999, or 50 kb/d higher than in 1998. The focal point of growth is **Brazil**, the region's largest economy, where demand for oil has increased by nearly 60 kb/d (3%) over the past twelve months and almost 2% as recently as the first quarter. Brazilian monetary policy appears to be working, as reflected in Latin American Consensus Forecasts (LACF) of Brazilian economic contraction in 1999: 4% in February, 3% in April and just 1% by June.

Prospects look somewhat dimmer in **Argentina**, where oil demand slipped from 4% growth in the first quarter of 1998 to a 1% decline by 1999. The LACF prediction of Argentine economic growth in 1999 is now -2.5%. Venezuela, the third Latin America country for which timely oil demand statistics are available, appears to be the worst off, still reeling from the effects of lower oil prices on government revenues. Oil demand has slipped an average 4-5% over the twelve months ending in March 1999 and the LACF expects its economy to contract by 5% in 1999.