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In its review of **oil market conditions**, the Organization of the Petroleum Exporting Countries (OPEC) would like to highlight that the market is currently characterized by ample oil supply, moderate oil demand growth and increasing crude and product inventories, as well as consumers experiencing an extended period of low oil prices.

After tumbling to a 12-year low earlier in this year, crude oil prices have begun to see some recovery at the end of the 1st quarter. Crude oil futures prices are currently hovering around $40/b. Fundamental factors were the main drivers behind lower oil price at the start of the year, including continued excess supply, higher oil inventories, the slower pace of growth in the Chinese economy, and warmer-than-usual winter weather in the Northern Hemisphere. The overwhelmingly bearish sentiment of investors in the financial oil markets also contributed to the downward momentum. The recent rebound in oil futures amid numerous positive factors suggests that the 20-month selloff could be hitting a bottom, amid efforts to alleviate the persistent supply glut. The ongoing decline in US rigs count, reduced expectations for US crude oil output, and higher equity prices also eased some of the bearish mood impacting the market.

This year, the **world economy** is forecast to grow by 3.1%, only slightly higher than in the previous year, when global growth is estimated to have stood at 2.9%. While some upside potential to this year's growth forecast exists, the growth risk remains skewed to the downside.

The US economy remains the most important driver of growth in the OECD, with an expected expansion of 2.2% this year, slightly lower than the 2.4% growth seen in 2015. Healthy domestic consumption supported by an improving labour market is seen counterbalanced by a considerable decline in investments in the energy sector, challenges for exports due to the strength of the US dollar and slightly slower productivity. Meanwhile, the Euro-zone continues enjoying a cyclical recovery. However, the ongoing weakness in the banking sector, re-emerging deflation, lingering sovereign debt-related issues and the uncertain outcome of the upcoming referendum on the UK's continued EU membership will weigh on the region this year. Together with the deceleration increase in domestic demand, this is likely to lead to a growth of 1.4% in the Euro-zone in 2016, down from 1.5% in 2015. In Japan, despite the support of ongoing monetary easing policies, the economy is facing numerous issues, ranging from declining exports, the rising value of the yen to the US dollar, slowing domestic demand and low inflation. Hence, Japan's GDP is expected to rise only marginally in the current year at 0.7%, compared to 0.4% in 2015.

Within emerging and developing countries, the economic growth trends are increasingly different. Brazil is expected to contract by 2.9% this year after negative growth of 3.8% in 2015. Russia is also forecast to see a second year of recession in 2016 with minus growth of 1.1% following a contraction of 3.7% last year. Despite slowing momentum, China's GDP growth is holding up relatively well this year at 6.3%, coming from 6.9% in 2015. India is expanding its growth level this year to grow by 7.5%, compared to 7.3% in 2015. For several developing countries, the decline in global trade – partly due to sluggish demand from major economies for raw materials and products, as well as lower commodity prices in general – are particularly harmful.

Monetary decisions could continue to impact the global economy through capital flows leading to more volatility in commodity prices, currency exchange rates and capital markets in general. In this respect, the upcoming decisions of the US Federal Reserve constitute a key factor in the near-term, particularly as the European Central Bank, the Bank of Japan, and also the People's Bank of China have embarked on differing strategies.

Turning to the oil market, **world oil demand** grew by a better-than-expected 1.54 mb/d in **2015**. In OECD Americas, bullish oil demand growth was seen in the US with transportation and petrochemical sectors leading gains. Gasoline consumption was encouraged by lower pump prices, in addition to improving car sales. A similar trend was also observed in OECD Europe with automotive diesel and LPG supporting growth, while in OECD Asia Pacific, Japanese oil demand contracted. In the non-OECD, Chinese oil demand growth was mainly driven by gasoline and LPG requirements, supported by lower retail prices, high SUV sales and expansions in the petrochemical industry. Indian oil demand data showed impressive growth driven by gasoline and LPG. Oil demand in the Middle East region was supported by robust demand from the Saudi Arabia, which partially counterbalanced slowing demand growth in Iraq. In Latin America, Brazilian oil requirements turned negative as economic momentum slowed.

In **2016**, the gradual improvement in global economic activities is anticipated to translate into world oil demand growth of 1.25 mb/d. In the OECD region, positive factors associated with US oil demand from the road transportation sector are currently outweighing the negative impact of fuel substitution and vehicle efficiencies. Oil demand in the major economies of OECD Europe is expected to grow given the low oil price environment. In OECD Asia-Pacific, the expectation for Japanese oil demand in 2016 is tilted toward the downside, mainly as a result of a strong likelihood that a number of nuclear plants will begin operating again.

In the non-OECD region, steady oil requirements are anticipated in Other Asia, China and the Middle East, driven by a gradual improvement in overall economic activities. The effect of subsidy reductions is assumed to be higher than in past years. Other Asia is anticipated to lead global demand growth in 2016, with India expected to continue the exceptional performance seen in 2015. In Latin America, oil demand projections are forecasted to reflect slightly better economic expectations compared to 2015. Despite the continued economic recession, Brazil is assumed to be the main contributor to growth, with transportation fuels leading the way. In the Middle East, oil demand growth is anticipated to be slightly lower than in 2015, mainly as a result of subsidy reductions in various countries in the region. The outlook for China – with GDP growth lower than in 2015 – is based on the assumption that transportation and industrial fuels lead the product mix in 2016 and there is a continuation of fuel quality programmes that target fewer emissions, as well as a continuation of fuel substitution by natural gas.

On the **supply** side, non-OPEC oil supply in **2015** grew by 1.42 mb/d, lower than in the previous year. On a regional basis, oil supply from OECD Americas saw the greatest increase among all non-OPEC regions in 2015 at 0.91 mb/d. On a country basis, growth was led by the US at more than 1 mb/d, followed by Brazil, Russia, UK, Canada, China, Norway, Malaysia, Oman and Vietnam. The sharpest declines were seen in Mexico, Yemen and Kazakhstan.

For **2016**, the expectation for a decline in cash flows this year has prompted many companies to reduce investments, deferring major new projects until there is a more sustained oil price recovery. Hence, a strong contraction of 0.70 mb/d in non-OPEC supply is expected for 2016. The bulk of this contraction is expect to come from the drop in North American output of approximately 0.5 mb/d, as US production continues to be impacted by lower oil prices. The US, FSU, Mexico, UK, China and Colombia are expected to see the largest declines, while Canada, Brazil, Malaysia and Australia are likely to see some growth in 2016.

The forecast for non-OPEC supply this year is subject to many uncertainties. On the one hand, the oil market has experienced lower capital expenditure on the part of IOCs, as well as a decline in the US rig count. On the other hand, there has been a reduction in oil production costs, mainly in the US, as well as some offsetting compensation from hedging.

The latest information for February indicates that **OECD commercial oil stocks** stood at a record high reaching 3,033 mb. This steady build came from the rise in global supply which outpaced the increase in world oil demand. As a result, OECD commercial oil inventories are around 359 mb above the five-year average, with crude and product inventories showing surpluses to the five-year average of 236 mb and 123 mb, respectively. Within the regions, OECD Americas has seen the largest share of the surplus with gains of 274 mb compared to the five-year average, followed by OECD Europe and OECD Asia Pacific with 69 mb and 16 mb, respectively.

Despite improving oil demand, total OECD commercial oil stocks in terms of days of forward cover stood at a very high level in February of 66.5 days, nearly 8 days above the latest five-year average. Non-OECD inventories have continued to show a steady increase, with an estimated build of nearly 100 mb over the previous year to stand at 2,196 mb.

Based on OPEC's supply/demand projections, demand for OPEC crude in 2016 is forecast to rise by 1.8 mb/d to average 31.5 mb/d, with the third quarter reaching 32.7 mb/d. In this regard, the imbalance in fundamentals is expected to be reduced by the latter part of this year.

In closing, the **Organization of the Petroleum Exporting Countries** would like to take this opportunity to reaffirm its longstanding commitment to supporting oil market stability and to supplying consuming nations with oil in an efficient and economic manner.