



**Bank
Financial
Group**

TD Economics

Observation

September 10, 2009

OPEC OUTPUT QUOTAS HELD STEADY DESPITE OVERSUPPLIED MARKET

With crude oil prices hovering around the US\$70 per barrel mark – a price that OPEC members appear to be content with – markets were widely expecting OPEC to leave output quotas unchanged at the 154th (Ordinary) meeting. And that is exactly what the cartel did last night. While the market is awash in oil, a further cut in production could have sent prices higher, potentially hindering the economic recovery – of which, OPEC acknowledged, the magnitude and speed is still very uncertain. Still, the cartel noted that “the fundamentals remain weak, refinery utilization rates are low and product inventories have risen considerably”. As such, OPEC agreed to continue to monitor developments in the market and will hold an extraordinary meeting on December 22nd in Angola to re-evaluate the market conditions.

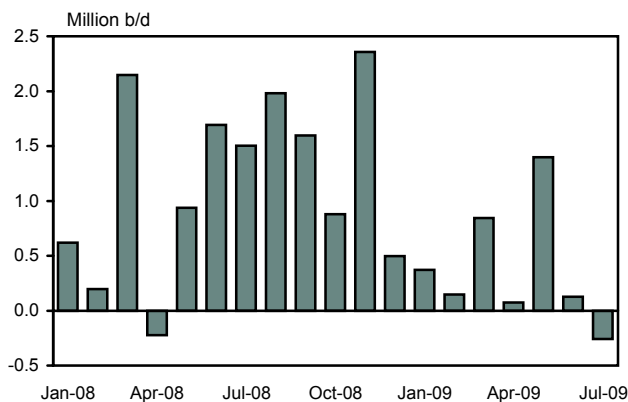
The recent strength in crude oil prices, up from about US\$50 per barrel at the start of May, has largely stemmed

HIGHLIGHTS

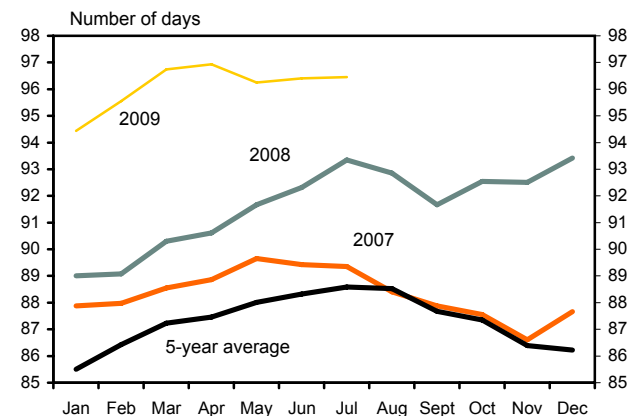
- **OPEC leaves output quotas unchanged**
- **Supply-demand balance showing some improvement, but massive inventory overhang to limit any upward price pressure**

from financial flows rather than fundamentals – with the depreciation of the U.S. dollar against the euro and a basket of other currencies playing a key role. However, the most recent data are beginning to show a tightening in the supply-demand balance. While global demand remains quite depressed, consumption in July was down by only 2 million barrels per day compared to year-ago levels, much better than the second quarter average of about 3 million barrels per day. This translates to a 2.2% Y/Y

WORLD SUPPLY-DEMAND BALANCE



GLOBAL OIL INVENTORIES: DAYS SUPPLY



decline in demand. Meanwhile, global supply was down by an even larger 3.3% Y/Y in July, as a 1% increase in non-OPEC production only partially offset the 9% drop in OPEC output.

As a result, for the first time in 15 months, consumption outpaced production in July, creating a supply deficit of 300,000 barrels per day. Although this is just one month's worth of data, early estimates suggest that this trend continued into August. Nonetheless, the recent supply shortfall has yet to make a dent in the massive supply glut that has been mounting since the start of 2008. Indeed, global inventories remain above 96 days supply – well-ahead of the 5-year average of about 88 days supply. And with global demand still in the doldrums, it will be a while

before markets are more balanced.

So while the fundamental picture may be showing signs of improvement, the supply overhang in the market will limit any further upward pressure on crude oil prices. It is important to note that as consumption begins to turn the corner – which is likely to happen in the coming months – the brisk Y/Y changes will result in a somewhat distorted picture given the demand destruction that occurred during the second half of 2008. As such, looking at consumption levels rather than growth rates and comparing them to 2007 levels will be a better indicator of the real strength – or lack thereof – of the recovery in oil demand. Overall, we expect prices to remain in the US\$65-75 per barrel range over the next 12 months.

Dina Cover, Economist
416-982-2555

This report is provided by TD Economics for customers of TD Bank Financial Group. It is for information purposes only and may not be appropriate for other purposes. The report does not provide material information about the business and affairs of TD Bank Financial Group and the members of TD Economics are not spokespersons for TD Bank Financial Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. The report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise TD Bank Financial Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.