

**Oil Market**

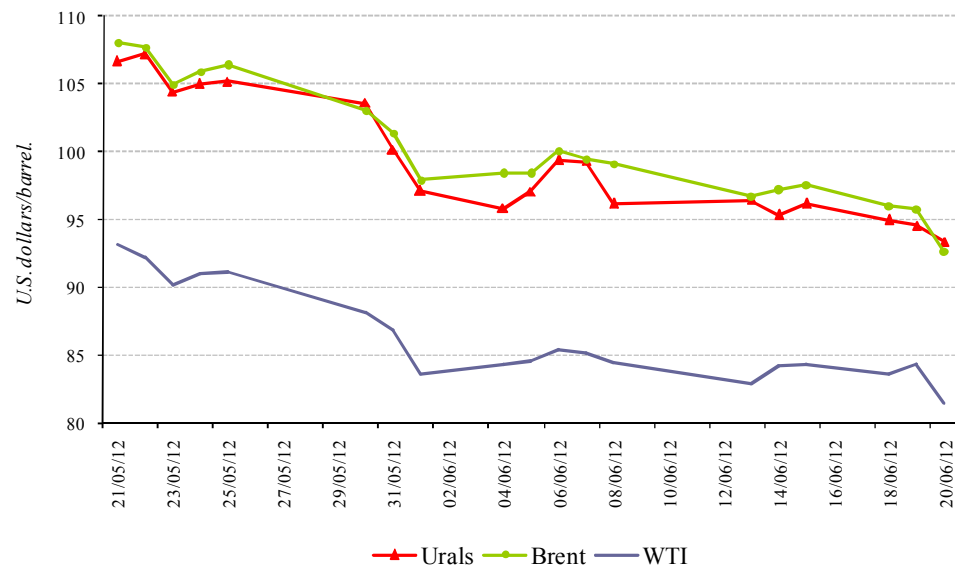
**The current state of the oil market**

During the monitoring of the oil market from May 23, 2012 to June 21, 2012, the price for the basic grades (Urals, Brent, WTI) ranged from 78,2 to 106,7 U.S. dollars per barrel.

Changes in average oil prices:

average for the period	Urals		Brent		WTI	
	Prices, USD / barrel	Change, % to prev. period	Prices, USD / barrel	Change, % to prev. period	Prices, USD / barrel	Change, % to prev. period
20/04/2012-20/05/2012	113,5	95,0	114,9	93,6	99,6	95,7
20/05/2012-20/06/2012	100,0	88,1	100,2	87,2	86,3	86,6

Source: Bloomberg New Agency



In June of this year, the world oil prices continued to fall sharply. In a month, the price of Brent crude oil fell by 17.5 percent or 18.9 U.S. dollars per barrel and reached the lowest level since late 2010. The WTI dynamics is characterized by a similar trend: in a month, oil cheapened by 16.0 percent or 14.9 U.S. dollars. The main reasons of decline are the negative economic data in Europe, China and the United States.

Investors are concerned that the weak economy in Europe could lead to a reduction in global demand for energy. Investors' concerns are amplified against the backdrop of the following data:

- the PMI in the production sector of the Eurozone continued to decline and constituted 45.1 points in May 2012 versus 45.9 points in April. At the same time, the decline was also observed in Germany - by 1 point to 45.2 points, and in France - by 2.2 points to 44.7 points. In Spain, the PMI declined by 0.5 points to 42 points;
- in May, unemployment in the Eurozone rose to a new record high of 11 percent versus 10.9 percent a month earlier. The greatest value of the index was noted in Spain, where the unemployed constitute 24.3 percent of the workforce;
- German exports fell by 1.7 percent in April compared to March of this year. At the same time, the analysts expected a decline by only 0.7 percent.

Thus, experts state that the latest data reflecting the state of the labor market and business activity of the Eurozone confirm the fact that the economic downturn in the region is gaining momentum.

Meanwhile, the Fitch international agency has downgraded the credit ratings of Spain by three notches at once, from A to BBB. The forecast for all ratings is negative, indicating a possible further rating downgrade. The long-term credit rating of another 18 Spanish banks was also reduced.

Against the background of these factors, the U.S. dollar has significantly increased against the euro and other currencies, which in turn adversely affected the oil market.

According to the official PMI, issued by the National Bureau of Statistics of China, in May, business activity in the country's manufacturing sector fell to 50.4 points versus 53.3 points a month earlier. The analysts expected that the index value would constitute 52 points. The value of an alternative PMI, calculated together with HSBC and Markit (HSBC / Markit PMI) for the same period fell to 48.4 points versus 49.3 points in April. Analysts note that although the weakness of the data in part reflects a seasonal downward trend which is usual for May, given the smaller number of working days, reduction of all components of the PMI and the message to ease loan terms in the past month points to further weakening of domestic and external demand and the weakening of industrial activity in May.

U.S. macroeconomic data suggest a slowdown in economic recovery of the country. Thus, the unemployment rate in May rose to 8.2 percent against 8.1 percent in April this year, indicating that labor market conditions deteriorate. In addition, the ISM index, describing the activity in the U.S. manufacturing sector, fell from 54.8 to 53.5 points.

Ben Bernanke, Fed Chairman, in his speech said that the financial problems in Europe could spread and harm the U.S. economy. According to him, the economic problems in Europe have already led to a reduction in U.S. exports, had a negative influence on businesses and consumers and put pressure on the U.S. financial markets and institutions. However, contrary to expectations of traders, the Fed Chairman did not mark any concrete action against the third round of quantitative easing in the U.S., which also was one of the reasons for the decline in world oil prices.

A regular meeting of the Iranian authorities with international mediators was held on June 18-19, 2012 in Moscow. According to the EU High Representative, during the talks, the parties for the first time discussed the technical details of solving the problem. According to media reports, differences between the parties on some issues still remain and the search for solutions will continue. The next meeting will be held on July 3, 2012 in Istanbul.

## **Forecasts for short and medium term**

## Oil Prices

### Price forecast for Brent and WTI crude oil for 2012-2015

(U.S. dollars per barrel)

	Actual		Forecast					
	2011	2012	2012			2013	2014	2015
			I quarter	II quarter	III quarter	IV quarter		
<b>Brent</b>	112.2	119.7	113.7 ↓	115.0 ↓	115.0 -	115.0 -	115.0 ↑	117.5 ↑
<b>WTI</b>	94.7	103.0	101.5 ↓	104.0 ↓	105.5 ↓	110.0 -	108.2 ↓	115.0 -

Source: Bloomberg

\* changes in forecasts are given in comparison with the estimates in the previous month

↓ forecast is lowered

↑ forecast is risen

— forecast did not change

According to the Bloomberg News Agency, the average price for Brent crude oil in the third quarter of 2012 is expected to reach 115.0 U.S. dollars per barrel, and for WTI - 104,0 U.S. dollars per barrel.

## OPEC, IEA

According to the RBC Information Agency, at the regular meeting in Vienna (held twice a year), the ministers of the OPEC member states decided to leave the maximum level of oil produced by cartel, 30 million barrels per day, unchanged.

Total OPEC oil production quota is a formal benchmark, but the actual level of production by the cartel often does not coincide with the official one. In May of this year, OPEC production was significantly higher than the official quota - 31.6 million barrels per day. The excess is explained, mainly, by additional volumes from Saudi Arabia, a key producer in OPEC. Saudi Arabia currently prefers lower oil prices, assuming that it is beneficial for economies of the West and the world economy as a whole. The country's oil minister said that the actions of the kingdom, aimed at lowering the cost of “black gold”, are a kind of an “incentive measure” for the global economy.

According to the IEA's monthly report on the status and prospects of the global oil market, oil consumption in the world in 2012 will amount to 89.9 million barrels per day, instead of 90.7 million barrels per day, as was assumed a month earlier. IEA experts note that the forecast has been reduced because of the contradictory macroeconomic data. One of the main reasons for the decline in oil consumption forecasts were lower estimates of GDP growth in some countries. At the same time, the forecast of oil consumption will be likely revised in the upward trend. This will depend on demand for oil and petroleum products in the current summer season, as well as on the level of industrial oil energy reserves in OECD countries, IEA experts note.

## Kazakhstan

Kazakhstan and Russia agreed on duty-free supplies of Russian oil in the amount of 6 million tons per year to the Pavlodar Petrochemical Plant (hereinafter - the PPCP). The parties also agreed that Kazakhstan will reimburse to Russia the losses from duty-free supplies, but it is unclear how this will be done. Earlier, Russia cut oil supplies to the PPCP by half due to the fact that Kazakhstan has not signed the methodology of calculation of export duties on oil and petroleum products within the Customs Union. Oil supplies to the PPCP in May amounted to 270 thousand tons instead of 500 thousand tons monthly.

According to the Statistics Agency of Kazakhstan, 1.3 million tons of motor fuel was produced in January-May 2012, which is 28.9 percent more than in the corresponding period in 2011.

“Maximum retail prices for petroleum products in Kazakhstan, most

likely, will not grow,” the Novosti-Kazakhstan news agency reports with reference to oil and gas minister of RK. Price caps on retail sales of petroleum products with state price regulation were set in April 2012 in the following amounts with VAT: diesel fuel - 95 tenge per liter; АИ - 80 - 91 tenge per liter; АИ - 92 - 112 tenge per liter.

### Russia

Prices and data on changes in retail prices in Russia for gasoline and diesel fuel as at 09/06/2012, compared to the prices as at 21/05/2012.

	21/05/2012	09/06/2012	change., in % (+/-)
	price, ruble	price, ruble	
<b>1. Gasoline</b>	<b>27,30</b>	<b>27,38</b>	<b>+0,3</b>
<i>including:</i>			
АИ-80 grade	<b>25,05</b>	<b>25,17</b>	<b>+0,5</b>
АИ-92 grade	<b>26,65</b>	<b>26,72</b>	<b>+0,3</b>
АИ-95 grade and higher	<b>28,84</b>	<b>28,92</b>	<b>+0,3</b>
<b>2. Diesel Fuel</b>	<b>27,88</b>	<b>27,89</b>	<b>+0,03</b>

Source: State Statistics Committee of the Russian Federation.

Monitoring of the petroleum products internal market in Russia indicates a moderate growth in prices for gasoline and diesel fuel. Since the beginning of the year, gasoline increased by 1.4 percent on average and diesel fuel by 0.2 percent. According to the deputy head of the Federal Antimonopoly Service of Russia, the increase in prices was caused mainly by the increase in excise taxes. Despite the downward trend in world oil prices, experts expect a further increase in prices due to another increase in excise taxes in July of this year.

According to the Minister of Energy of Russia, there is no threat of fuel shortages in the country, and this “this situation is true for all regions of Russia.”

### Kyrgyzstan

Prices and data on changes in retail average prices for gasoline and diesel fuel in June<sup>1</sup> 2012 compared with prices in May 2012.

Cities	А-95		АИ-92		Diesel Fuel	
	price, KSG	change, in % (+/-)	price, KSG	change, in % (+/-)	price, KSG	change, in % (+/-)
Bishkek	38,00	0,0	35,80	-0,8	39,50	0,0
Karakul	37,84	+0,4	35,88	-0,2	38,80	+0,5
Djalal-Abad	40,53	-0,2	38,07	-0,5	41,60	-0,1
Naryn	38,00	0,0	35,83	-1,1	39,60	-0,4
Batken	0,00	-	39,75	-1,0	43,75	+1,4
Osh	39,80	0,0	38,27	-1,9	39,77	-2,8
Talas	38,00	0,0	35,63	-0,6	37,52	-0,2
Tokmok	38,00	0,0	35,68	-0,3	38,80	-0,5
Kara-Balta	0,00	-	35,73	-0,7	38,07	-3,2
The average in the country	<b>38,45</b>	0,0	<b>36,44</b>	-0,9	<b>39,71</b>	-0,4

Source: The National Statistical Committee of the Kyrgyz Republic.

“-“ – no product

According to the online edition of “Vecherny Bishkek”, crude oil for the

<sup>1</sup> The average prices of gasoline as of June 21, 2012

refinery in Kara-Balta will be transported from Shymkent (Kazakhstan) to the refinery in Kara-Balta, and then to the city of Aksu (Xinjiang Uygur Autonomous Region, China). The Shymkent-Kara-Balta pipeline is 400 km long and Kara-Balta - Aksu is 700 km long. Refinery will provide 65 percent of fuel needs of Kyrgyzstan. Construction is scheduled for completion this fall. The representatives of Jundi China Petrol Company LLC which has been building a facility since 2009 state that they are not behind schedule. 80 percent of distilled crude oil will be transported to China, and the rest - for the needs of Kyrgyzstan. According to the design capacity, up to 100 tons of gasoline and diesel fuel is planned to be produced a day. After completion of construction and startup of the refinery 600 new jobs will be created. By the end of the year it is planned to receive 20 thousand tons of oil. Recycled raw materials such as АИ–92, АИ–95, and АИ–97 petroleum products, diesel fuel, lubricating oils and petroleum liquefied gas will be supplied to the market in Kyrgyzstan. The quality of petroleum products will conform to European standards.

On May 10, 2012, the Government of the Kyrgyz Republic signed a decree “On some measures to regulate the movement of heavy vehicles on the roads in the country.” In accordance with this resolution, it is prohibited to travel on public roads and highways for heavy vehicles, in particular, with a total mass exceeding 44 tons. About 95 percent of heavy vehicles in Kyrgyzstan do not meet the new requirements. According to the Oil Traders Association of Kyrgyzstan, currently, POL supplies to the south of Kyrgyzstan are reduced by 40 percent an increase in prices of 1-3 som is observed in the region.

According to the NSC of the KR, as of June 21, 2012, an increase in prices for diesel fuel is observed in Batken - by 1.4 percent or 0.6 som compared with the average prices for May. In the cities of Osh and Djalal-Abad, a decline in prices for gasoline and diesel fuel is also noted.

Overall, in the country, the prices of АИ -92 gasoline, compared with the previous month, decreased by 0.9 percent, and by 0.4 percent of diesel fuel.

## **Natural Gas**

### ***Kyrgyzstan***

Kyrgyzstan and Kazakhstan have prolonged the contract to supply gas until September 2012 at a price of 224 U.S. dollars per thousand cubic meters. Kazakhstan and Kyrgyzstan signed the contract on gas supplies in October 2011 to April 2012 - to supply 300 mln. cubic meters of natural gas at a price of 224 U.S. dollars per thousand cubic meters. At present, the Kyrgyzgaz OJSC underconsumed 75 mln. cubic meters of gas under the contract; according to the calculations, underconsumed amount of gas will be purchased before October 2012.

## **Electric Power**

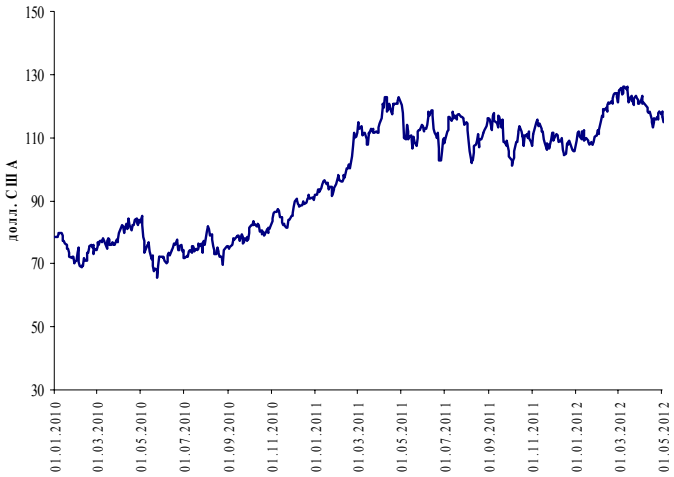
### ***Kyrgyzstan***

Kyrgyzstan began to supply electricity to Kazakhstan at a price of 2.8 cents per 1 kW/h; last year, Kyrgyzstan sold 2.2 billion kW/h of electricity to Kazakhstan for a similar price. In 2012, Kyrgyzstan intends to export to Kazakhstan 1 billion kW/h of electricity. The export mode of electricity from Kyrgyzstan, as a rule, is linked to a water one. Not only energy specialists, but also managers of water facilities in Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan are invited to negotiations. Previously, electricity generated by water

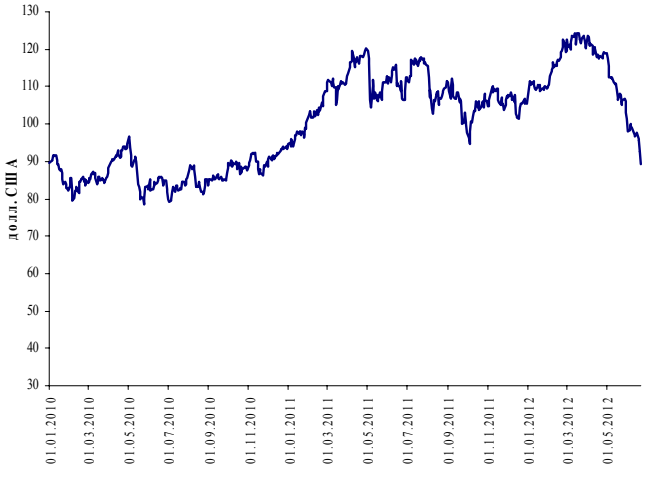
discharge in the summer was bought by Kazakhstan and Uzbekistan equally, but in the current year, agreements to supply electricity to Uzbekistan have not been achieved.

***The review was prepared according to:*** 24.kg, Reuters, RBC, Kazakhstan Segodnya, Tazabek, CentrAsia, KirTAG, ITAR-TASS, REGNUM, Neftegazovaya Vertical Edition.

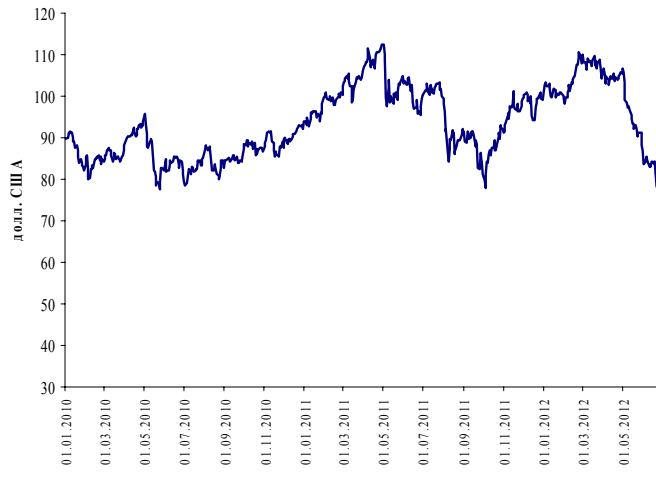
**Graph 1: Urals from 01/01/2010 – 21/06/2012**



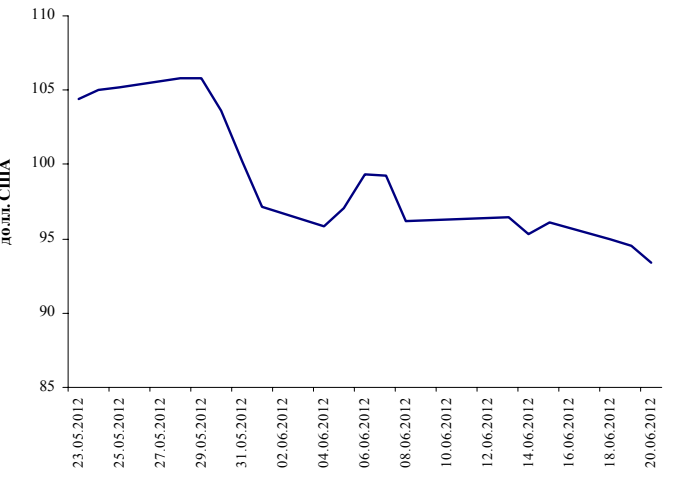
**Graph 2: from 01/01/2010 – 21/06/2012**



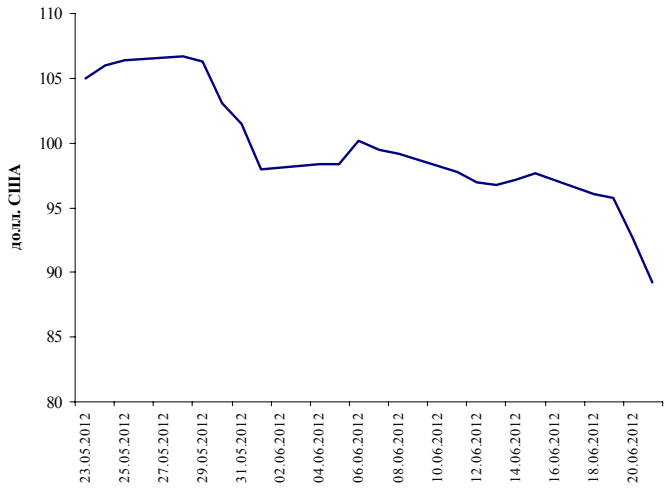
**Graph 3: WTI from 01/01/2010 – 21/06/2012**



**Graph 4: Urals from 23/05/2012 – 21/06/2012**



**Graph 5: Brent from 23/05/2012 – 21/06/2012**



**Graph 6: WTI from 23/05/2012 – 21/06/2012**

