Developments in energy and commodity markets

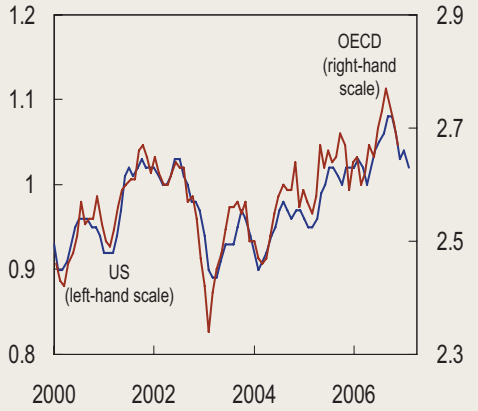
The average oil price so far this year is USD 56 per barrel, about USD 9 lower than the average in 2006. The price rose to over USD 75 in summer 2006, reflecting uncertainties about oil production in several regions. Later in autumn, prices fell as unrest in the Middle East subsided, BP's production problems in Alaska were resolved more rapidly than expected and the hurricane season in the Gulf of Mexico passed without major destruction.

Oil inventories increased in pace with high production in both OPEC and non-OPEC countries, while demand slackened (see Chart 1). OPEC therefore decided to cut production by a total of 1.7 million barrels per day – 1.2 million barrels from November 2006, and a further 0.5 million barrels from February this year. Lower demand for heating oil as a result of a record-mild winter in the US and Europe contributed to a further fall in prices.

High inventories and an increase in spare OPEC capacity following the production cuts also influenced price expectations in the oil futures market, where participants unwound their positions substantially at the beginning of 2007 (see Chart 2). A less tight oil market also reduced the impact on oil prices of news that would normally have received considerable attention – for example a halt in Russia's transport of oil exports through Belarus, increased government involvement in oil activities in Venezuela and recurring problems in Nigeria.

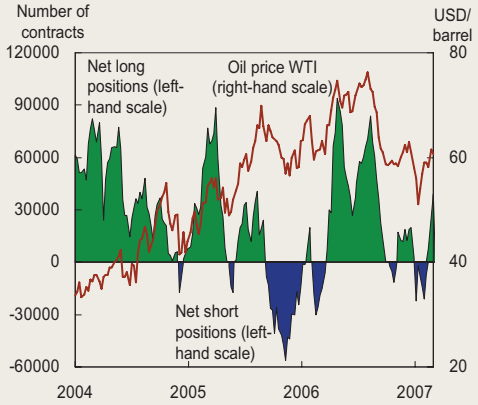
The underlying balance in the oil market changed later in January. Demand for oil rose as more normal winter weather set in. A somewhat brighter world economic outlook and the price fall in the second half of 2006 also boosted demand. The supply of oil was reduced because OPEC continued to implement the approved production cuts, while growth in production in non-OPEC countries was somewhat lower than expected. The US plan to double its strategic oil reserves over time also pushed up prices. This was not only due to the effect on demand for oil.[1] The plan was interpreted by some market participants as indicating that the US was increasing stockpiles to guard against possible further reductions in oil production, particularly in the Middle East.

Chart 1 Oil inventories. In billions of barrels. Monthly figures. Jan 00 – Feb 07



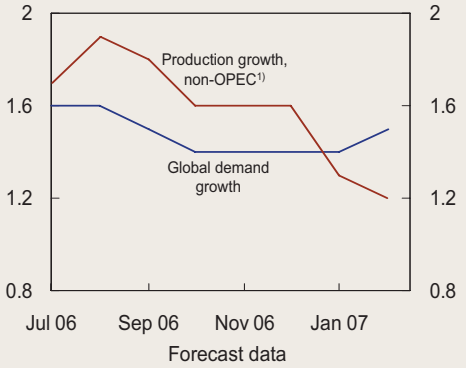
Sources: International Energy Agency (IEA), Energy Information Agency (EIA) and Reuters (EcoWin)

Chart 2 Oil price (WTI in USD per barrel) and net positions of non-commercial traders in the futures market for WTI (number of contracts). Weekly figures. Week 1 2004 – Week 10 2007



Sources: Reuters (EcoWin), Commodity Futures Trading Commission (CFTC) and NYMEX

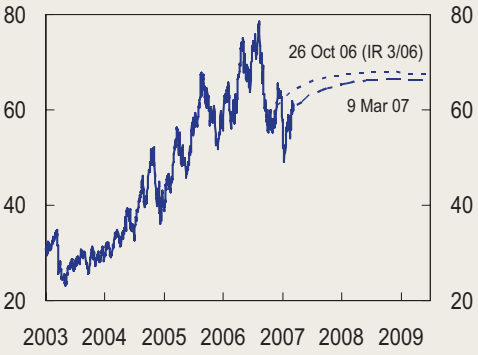
Chart 3 IEA's forecasts for growth in demand and production in 2007. Change in million barrels per day from previous year. Monthly figures. Jul 06 – Feb 07



1) See notes to Table 1 below.

Sources: International Energy Agency (IEA) and Norges Bank

Chart 4 Oil price (Brent Blend) in USD per barrel. Daily figures. 2 Jan 03 – 9 Mar 07. Futures prices from 26 Oct 06 and 9 Mar 07. Monthly figures. Dec 06 – Sep 09



Sources: Reuters (EcoWin) and Norges Bank

Whether OPEC decides on further production cuts – particularly at the beginning of the second quarter, when demand for oil shows a seasonal decline – will primarily depend on whether prices fall again. In addition, OPEC will place emphasis on developments in oil inventories, projected growth in global oil demand and growth in supplies from non-OPEC countries.

According to statements from a number of member countries, OPEC will seek to keep the oil price over USD 50, possibly close to USD 60 per barrel. Although spot prices and short-term futures prices have fallen to USD 50 – 55 in periods, the longer futures prices have remained at over USD 60 per barrel for the most part. Thus, market participants appear to believe that OPEC is willing and able to defend its price ambitions. Oil inventories have fallen since OPEC reduced production in November last year. Growth in global demand for oil appears to remain firm, while estimated growth in the supply of oil from non-OPEC countries has been revised down recently (see Chart 3). This would indicate that the need for further OPEC cuts to prevent an increase in oil inventories in the period ahead has declined.

In the table, forecasts from the International Energy Agency (IEA) are compared with those of the US Energy Information Administration (EIA) and OPEC.

The forecasts of the various institutions indicate that there is no need for further OPEC production cuts in 2007 as a whole, as crude oil production in

Table 1 Global demand and supply from non-OPEC countries in 2007. Growth in millions of barrels per day from 2006, unless otherwise specified.[1)]

	IEA	EIA	OPEC
Global demand	1.5	1.6	1.2
Supply from non-OPEC[2)]	1.2	0.7	1.2
Call on OPEC, level[3)]	30.6	30.5	30.2
OPEC's crude oil production, January 2007, level[4)]	30.2	30	30

1) The projections are based on the different institutions February reports. As of January, Angola is a member of OPEC, and is therefore not included in non-OPEC. The growth in supply from this group is thus considerably smaller than earlier, as Angola has had and is expected to have high production growth. Angola is not yet covered by OPEC's quotas.
2) Non-OPEC supply includes crude oil, NGL (including from OPEC), condensates and oil from non-conventional sources.
3) Call on OPEC is the difference between global demand and non-OPEC supply. OPEC's production quotas only include the cartel's crude oil production.
4) The figures may vary as the institutions use different data sources.

Sources: Oil Market Report, International Energy Agency, February 2007; Short-Term Energy Outlook, Energy Information Administration, February 2007; and Monthly Oil Market Report, OPEC, February 2007

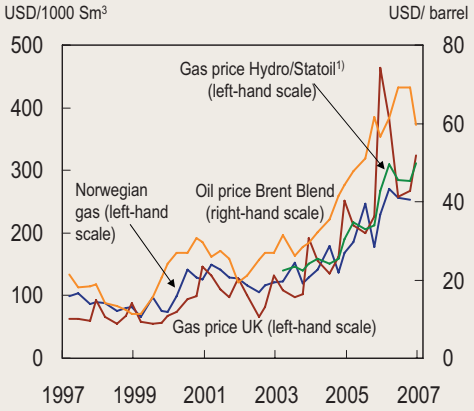
January 2007 was lower than the average need for OPEC production in 2007. Both the IEA and the EIA envisage a tighter oil market than OPEC.

Futures prices are used in this report as a technical assumption (see Chart 4). These prices now indicate an oil price of USD 62 in 2007 and USD 66 in 2008, somewhat lower than in *Inflation Report* 3/06. At the beginning of each month, *Consensus Forecasts* publishes a forecast for the most likely price of US benchmark oil West Texas Intermediate (WTI) three months and one year ahead. These forecasts are currently fairly consistent with corresponding futures prices. Oil options prices at the beginning of March show a much higher probability that the price of WTI will be over USD 90 in December 2008 than that it will be under USD 30. This may reflect some concern about possible supply disruptions. However, the potential for a dramatic fall in oil prices is limited by a fairly positive outlook for the world economy and by OPEC's central market position.

The price of Norwegian gas follows the oil price with a certain lag because gas is largely sold under oil-indexed contracts (see Chart 5). However, some of the gas is sold in spot markets, particularly in the UK. The gas price in the UK fell through 2006 as a result of higher import capacity, mild weather and lower oil prices. However, the price of Norwegian gas is expected to hold up in tandem with oil prices.

A fall in prices in a number of commodity markets at the beginning of 2007 raised the question of whether the pronounced price rise of recent years was being reversed (see Chart 6). The experience of previous commodity price cycles indicates that rising prices gradually lead to increased supply and reduced demand. This in turn leads to a fall in prices. Futures prices that are lower than spot prices for several industrial metals indicate expectations of a price fall, which is consistent with a moderate slowing of the global economy. This development may also reflect lower risk premia on prices as a result of somewhat higher inventories and increased supply-side capacity. However, prices for food and other agricultural products have showed some increase recently, reflecting two factors in particular. Increased demand for biofuels leads indirectly to higher food prices. Climatic conditions have also resulted in poor harvests in some regions.

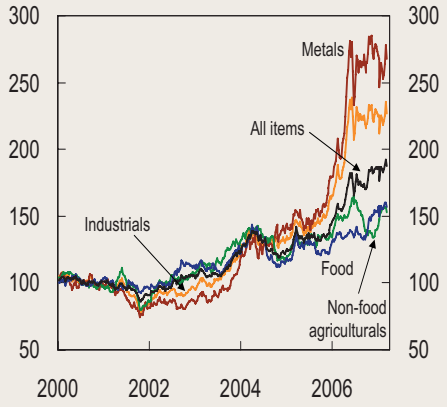
Chart 5 Prices for crude oil and natural gas. Gas price in USD/1000 Sm^3. Oil price in USD/barrel. Quarterly figures. 97 Q1 – 06 Q4



1) Weighted average gas price. Statoil weighted with 0.7, Hydro weighted with 0.3.

Sources: Statistics Norway, Statoil, Norsk Hydro, Reuters (EcoWin) and Norges Bank

Chart 6 *The Economist* commodity price index. 2000 = 100. USD. Weekly figures. Week 1 2000 – Week 10 2007



Sources: Reuters (EcoWin) and *The Economist*

[1] In his State of the Union address, President Bush proposed increasing strategic oil reserves to 1.5bn barrels by 2027. At end-January 2007, reserves totalled 688m barrels. The proposal requires congressional approval. Approval will imply an increase in demand for oil of about 110 thousand barrels per day up to 2027, according to the US Department of Energy's Energy Information Administration.