



Mid-Week Update

Oil prices rebounded this week with Brent climbing above \$104 after trading below \$100 on Monday. At the close on Wednesday New York oil was at \$93.74 and London at \$103.04. The weekly stocks report showed a 6.3 million barrel decline in crude stocks as refiners ramped up operations to 88.4 percent of capacity in anticipation of the summer driving season. Crude imports last week were down to 7.3 million b/d as compared to the recent average of 7.7 million.

The US economic news has not been good with US factories having their worst month in May since the recession ended in 2009. The private sector jobs report on Wednesday was well below expectations and the April report was revised downwards.

Natural gas has been holding around \$4 per million this week as the markets await some change in the weather.

Iran's election is in full swing with Ayatollah Khamenei warning the candidates not to appease the West in their campaign speeches.

Washington unveiled a new round of sanctions including an effort to make Iran's currency unusable outside of the country. The US also blacklisted 37 firms around the world that have been acting as fronts for the Iranian government.

Russia and China joined the West in a renewed effort to press Iran into cooperating with the IAEA in monitoring Iran's nuclear program. The West would have liked a stronger warning to Tehran but are held back by Russia and China who maintain the sanctions will be counter productive. In the meantime, the West has accused Tehran of nuclear deception and is deeply troubled by new plans to build a nuclear reactor that could produce fissionable plutonium.

After a 2-week siege, the Syrian Army supported by possibly 4,000 Lebanese Hezbollah militiamen overran what was left of the key city of Qusayr. The city has been under heavy artillery fire for days so there is not much left -- no word on the inhabitants. The fall of the city is a blow to the rebels as it cuts the supply lines from Lebanon to Homs and reconnects the northwest coast, which is the Alawite homeland, with Damascus. Most observers see the development as simply prolonging the war and with the intervention of Hezbollah spreading the fighting into Lebanon. There are reports that the Hezbollah militia is moving north in a effort to retake Aleppo. The forces that remain loyal to Assad in a predominately Sunni country are running pretty thin which is why the addition of Lebanese Shiites to the fighting has become so important.

Britain and France say they have solid forensic evidence that sarin nerve gas has been used multiple times in the Syrian fighting but in a "localized way."

Most observers agree that Hezbollah, while probably contributing the forces necessary for the victory at Qusayr, is taking a big risk in intervening directly in the fighting in order to keep the Assad government in power. The intervention certainly is prolonging the fighting, but is provoking strong reactions among Sunnis across the Muslim world. It would seem that this fight is just beginning.

If the Geneva peace conference to discuss a settlement in Syria ever does get off the ground, the talks clearly will not come in June according to a UN spokesman.