



Mid-Week Update

After rising sharply last week on concerns about developments in Syria, oil prices have been relatively steady this week trading around \$98 a barrel in NY and \$106 in London. Most attention has been focused on the G-8 meeting in Northern Ireland and on the Federal Reserve meeting. The Fed is now forecasting better economic growth in the next 18 months, raising the possibility that it might curtail quantitative easing later this year. For now, however, the Fed will continue to buy \$85 billion worth of securities a month. The hint that quantitative easing might slow sent the equity markets tumbling, contributing to a decline in oil prices on Wednesday.

The weekly US oil stocks report showed a small increase in crude and gasoline inventories and a 500,000 barrel drop in distillates. As the weather is mild and the economy is not doing that well, most of the distillates are likely being exported. The inventory at Cushing Okla. fell by 670,000 barrels last week to the lowest level since December. Gasoline consumption increased by 2.2 percent for the first time in three weeks as we get into the driving season.

Moscow still refuses to compromise over the Syrian situation reducing the likelihood that peace talks will take place until after there is change in the military situation on the ground. Interest in arming the rebels seems to be softening in the West and recognition is growing that the major powers may not be able to control Middle Eastern developments to the extent they have in the past. The fighting in Syria is increasing as the government with the help of Hezbollah attempts to drive the insurgents away from Damascus and out of Aleppo.

Optimism is growing that progress may be possible in the standoff with Iran. Washington plans to press Tehran to reopen negotiations. Iran's President-elect gave a conciliatory speech saying that he wanted to reduce tensions with the US. Moscow says Tehran is ready to stop enriching uranium above 20 percent in return for an easing of the sanctions and recognition of Iran's inherent right to enrich uranium. As before, verification remains the key to any agreement. Outside analysts are saying that the election has shown the ruling clerics including the "Supreme Leader" that Iran's people are tired of economic austerity and isolation from the rest of the world. In this environment progress might be possible.

Bombs continue to go off in Iraq, as Baghdad excludes any production from the autonomous Kurdish region in its plans for a big jump in oil production. Erbil has confirmed that a Turkish firm will develop six oil and gas blocks in its territory including two blocks in territory still in dispute. France's Total has bought a majority stake in an exploration block in Kurdistan further enhancing the Kurds position and presenting yet another challenge to Baghdad.

Cairo is bracing for a round of anti-government demonstrations set for June 30th. Buildings are being fortified and Islamist counter demonstrations are being planned. There are reports that the police will stay out of the confrontation which could turn into a major battle.

Over in Libya, the government is reporting that oil production is back to 1.3 million b/d. Unrest continues in the country and its future as a reliable producer of oil remains in doubt.