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Mid-Week Update

The combination of the military coup in Egypt which ousted President Morsi and a much larger-than-expected drop in US crude and product inventories sent US futures prices to a close above a $100 a barrel for the first time in more than a year. At one point NY oil was trading above $102 on Wednesday, $6 a barrel higher than the Monday low. NY closed prior to the 4th of July holiday at $101.24 and London settled at $105.76 closing the spread to $4.52.

The weekly stocks report was clearly bullish with refineries operating at 92.2 percent of capacity up from 90.2 percent the previous week; crude inventories falling by 10.3 million barrels; gasoline and diesel stocks down 1.7 million and 2.4 million barrels respectively; and total petroleum inventories down by 14.7 million barrels.

Interestingly US crude production was up by only 6,000 b/d last week to 7.27 million b/d. The recent high of 7.37 million which was set two months ago in early May has not been exceeded in the last eight weeks despite the hype about energy independence and oil exports. While fracked tight oil production is still growing, there are reports of falling output from some of the deep-water platforms.

New York gasoline futures participated in the surge with prices climbing nearly 14 cents a gallon this week. Retail gasoline prices have been falling recently as maintenance outages in several refineries concluded and normal production resumed. Midwestern and West coast prices have dropped dramatically in the last two weeks.

With the spread between NY and London oil prices falling to as little as $3.10 on Wednesday from a high of $23 in February, many analysts are saying the era of weak mid-western oil is over. Increased local refining coupled with improved rail and pipeline capacity to either refine or move the crude where it is needed is reducing the Midwestern glut Disruptions caused by floods in Alberta have also slowed the import of oil into the Midwest.

Chaos across the Mideast continues to get worse. It is unclear where Egypt is going after the ouster of its democratically elected President by the military, sparked by multi-million person demonstrations. At one point the Egyptian army was claiming that 14 million were in the streets. The Army has stepped up patrols along the Suez Canal and pipeline which moves some 2.2 million barrels of oil a day from the Middle East to markets in Europe and the US. While most are saying the canal is safe because it is Egypt's major source of income, it only takes the sabotage of one ship to block the waterway for an extended period.

The violence in Iraq continues with 761 killed in June and another 100 or so in the first days of July. Iraqi exports dropped for the third consecutive month largely because of sabotage to the Iraq-Turkey pipeline which exported 273,000 b/d in May but only 179,000 b/d in June. With violence continuing to grow, Iraq looks like the top contender for the country with a substantial drop in exports next.

In Syria, the government's offensive to recapture Homs and Aleppo seems to be stalling amid fierce fighting. With some 1.7 million refugees now living in camps in neighboring countries, Jordan, Turkey, and Iraq are attempting in slow the influx leaving thousands stranded inside Syria. The US and Russia continue efforts to establish peace talks, but nobody seems interested. Concerns that thousands of al Qaeda terrorists that are being armed, trained and battle hardened will soon be making their way into Europe are growing.

Perhaps the only good news of the week was the South Sudan resumption of crude exports through Sudan for the first time in 18 months.

The threatened collapse of Portugal's government has Europe panicking over the possibility of another Euro-crisis and China's "shadow banking" crisis still has a lot of observers worried.