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Mid-Week Update

The oil price surge that began in late June continued this week with New York oil up another $3 in three days of trading this week to close at $106.52. London is up another $1.50 a barrel this week closing Wednesday at $108.10, leaving the WTI-Brent spread below $2 for the first time since December 2010. A number of factors are contributing to the current price surge that has pushed NY oil up $12 a barrel in the last three weeks. The uprising in Egypt and all that implies heads the list followed by the Syrian and Iraqi situations. The week stocks report showed US crude inventories dropping by another 10 million barrels last week. The 20 million barrel drop in US crude inventories in two weeks is the fastest decline since the EIA began keeping records in 1983. It also appears that the Federal Reserve will continue quantitative easing for a while longer which contributes to higher prices. NY oil prices have now passed the famous "Fibonacci retracement" point which is 61.8 percent of the way between oil's high of $147.27 a barrel in July 2008 and the low of $32.40 in December of that year. Passing the Fibonacci point usually leads technical traders to place buy orders.

The EIA also reported that US oil output continued to push ahead last week reaching 7.40 million b/d or the highest since January 1992 sparking another round of stories about the US's approach to "energy independence".

In its *Short Term Energy Outlook*, EIA forecast that net US imports of crude and petroleum products will fall to 5.7 million b/d by 2014. Gasoline futures have followed crude up in the last ten days and are now have climbed some 30 cents a gallon since the beginning of July.

So far retail prices have not risen much as many of the refining problems that were causing unusually high retail prices (well above $4 a gallon) in the Midwest and on the West coast were resolved and refineries came back into production. The 30 cent a gallon jump in futures likely means that we will be seeing higher prices at the pump shortly.

There has been little change in the rate that Middle Eastern problems are growing. Egyptian troops fired on a demonstration killing some 50 Morsi supporters and wounding hundreds. This action will set efforts at reconciliation back a ways. Saudi Arabia and the UAE have offered to prop up Cairo with an $8 billion mix of cash, central bank deposits, and oil products to help stabilize the rapidly deteriorating Egyptian economy. The Gulf Arabs clearly realize that if the Egyptian situation deteriorates to something akin to Syria's, the Gulf States are likely to see hordes of Egyptian refugees descending on them in search of food and safety.

The Syrian civil war is about the same with government forces helped by Hezbollah slowly making their way into the pile of rubble that was Homs after intensive shelling. The insurgents are concentrating on defending Aleppo as they regain military strength and absorb new weapons supplied by Gulf Arabs and the West. Iraq is little changed with the requisite number of terrorist bombs going off daily.

There have been some bad economic numbers out of China this week – inflation is up and exports are down more than expected. All indications suggest that China may be facing a bigger economic slowdown in the near future than most observers have been predicting. Some of the drop in exports may be due to a government crackdown on "over invoicing" as a way to bypass restrictions on bringing capital into the country.

China's crude oil imports fell in the first half of 2013 which is the first January-June contraction since the recession of 2009. Beijing imported an average of 5.6 million b/d in the first half, down by 1.4 percent from 2012. In contrast, crude imports rose by 7 percent in the first half of 2011 and 11 percent in the first half of 2012. Many Chinese refineries are coming out of maintenance so an increase in imports during the 3rd quarter can be expected.