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ASPO USA PEAK OIL REVIEW

Association for the Study of Peak Oil & Gas USA

July 18, 2013

Mid-Week Update

Crude oil prices traded in a narrow range after three weeks of steady increases that brought New York crude from $94 a barrel to $106 and London from $100 to close Wednesday at $108.57. NY gasoline futures followed a similar pattern climbing from $2.70 a gallon three weeks ago to close Wednesday at $3.10. The weekly US stocks reports showed a third large and unexpected decline of nearly 7 million barrels for the US crude inventory. The three week drop of 27 million barrels is the largest on records going back to 1982. Crude stocks still remain relatively high having risen to nearly 400 million barrels in May, the highest on record going back to 1931.

The rapid drop in US crude stocks is thought to be caused by an increased flow of Midwestern crude by rail and pipeline to Gulf Coast and other refineries. The recent reversal in futures prices, making oil for nearby delivery now more expensive than that for delivery in more distant months, is an incentive for refiners to process their current crude inventories as it can be replaced with cheaper oil in future months.

The week's report also showed gasoline stocks increasing unexpectedly which put a damper on the recent price surge Wednesday. The EIA reported that the demand for gasoline last week was 1.2 percent higher than last year; it also fell by 6.2 percent from the week before last, which, however, included the 4th of July holiday. The average price of gasoline in the US hit $3.65 on Wednesday, which is still somewhat below the price at which analysts believe motorists begin to curtail driving. On the West Coast, however, gasoline is retailing above or in the vicinity of $4 a gallon.

The Wall Street Journal says that OPEC may have to cut production by 500,000 b/d around the end of the year as the increases in US and other non-OPEC production takes away its markets. Goldman Sachs, however, is warning that the increasing turmoil across the Middle East increases the risk of higher oil prices in the coming months.

US natural gas prices are largely unchanged this week trading around $3.65 per million as the markets can't get a good fix on where temperatures are going this summer.

The Middle Eastern situation continues downhill. Syrian government forces appear to be making some progress in retaking what is left of Homs, but the rebels are claiming victories in other parts of the country. The UN says 6,000 Syrians are fleeing the country each day; 5,000 a month are being killed; and 6.8 million need humanitarian assistance.

The by-now-usual number of bombings and other violence killed at least 170, mostly innocent, Iraqis during the first week of the Ramadan holy month. In Egypt the pro-Morsi mobs are in the streets demanding his reinstatement. Fighting between the Egyptian Army and insurgent groups in the Sinai seems to be on the upswing. The only good news is that the lines at Egyptian gas stations have gone away for the minute. This may be due to so many people taking part in demonstrations or one side or the other they don't have time to fill up, or more likely because a big tanker full of diesel fuel, a gift from Kuwait, arrived this week.

Another possible piece of good news came when Iran's President-elect said that the economy is in far worse shape than departing President Ahmadinejad has been saying and that he plans the fix the situation by improving relations with the US. Supreme leader, Ayatollah Ali Khamenei, seems to agree with this sentiment, but there is as yet no word on their sacrosanct nuclear policies.

Platts says China's apparent demand for oil unexpectedly increased by 9 percent in June, year over year, to 9.9 million b/d. That is the biggest monthly jump in demand since February 2011. It could be related to new refining capacity coming into operation.