



Mid-Week Update

Oil prices were relatively stable on Monday and Tuesday, but fell on Wednesday on bad economic news from China and only a modest, close-to-expected, 2.8 million barrel decline in US crude inventories. New York crude fell 1.7 percent on Wednesday to close at \$105.39 a barrel and London fell 1.1 percent to close at \$107.19. The WTI/Brent spread which had been close to parity early in the week widened to \$1.80 in favor of Brent. A weaker US dollar and another increase in US crude production to 7.56 million b/d contributed to the weakness of NY futures.

In its weekly report, the EIA also said that US gasoline and distillate stocks were down 1.4 and 1.2 million barrels respectively. US crude stockpiles have now dropped by 30 million barrels in the last four weeks, the largest one month drop since record keeping began in 1982. Products supplied to the US market were up by 4 percent in the past four weeks over last year. Distillate supplied during the period was up by 14 percent suggesting that much of the “increase” in apparent US consumption is being exported.

The general sentiment of oil market analysts seems to be that prices have risen enough on the current news and that it will take a major adverse development in the Middle East or elsewhere to move prices higher. The National Bank of Kuwait has joined the chorus saying that OPEC will have to cut production by the end of the year to avoid a drop in oil prices.

Iran's Supreme Leader Khamenei said he does not believe that new talks between the US and Iran would lead to any agreement. In the meantime Tehran and Baghdad have signed a \$14.8 billion agreement under which Iran is to supply 800 million cu. ft. of natural gas per day to Iraq largely for use in two Iraqi power stations. The 140 mile pipeline to supply the gas is expected to be completed in about two months. The US is obviously concerned about the deal which would double Iran's gas exports in contravention of US sanctions. Baghdad, however, is desperately short of natural gas to run its power plants which continue to suffer from frequent breakdowns in the face of record summer heat. In reality, a new natural gas pipeline across Iraq may prove to be little more than a juicy target for al Qaeda terrorists seeking to weaken the government.

China's imports of Iranian crude fell 39.1 percent in June to 386,000 b/d, year-over-year. Iran was China's sixth largest crude supplier in June vs. third largest in May. This may mean that Beijing is really making an effort to cut back on Iranian crude imports, but these import numbers have jumped around in the last year so the apparent drop may be due to shipping schedules. As Russian exports to China soar, however, Beijing may not need as much oil from Iran in the future and may prefer to keep out of the Middle Eastern nuclear dispute.

The worst news of the week so far was al Qaeda's attacks on two Iraqi prisons, freeing hundreds of hardened terrorists imprisoned there. The attacks, which took place with the help of prison staff, show the increasing capabilities of al Qaeda in Iraq and the hapless performance of Iraqi security forces in the absence of direct US support. The usual daily attacks on security forces and civilian targets continue this week. In one brutal incident, gunmen, presumably Sunnis, set up a road block and then executed 14 Shiite truck drivers who happened along.

Elsewhere in the Middle East, rebel forces in Syria claim to have captured the western area of Aleppo and driven government forces from a key base in the area. In Egypt the Army has called for nationwide rallies in support of the new government and the Muslim Brotherhood has called for demonstrations against the US embassy. At least 12 people have died in the nearly continuous demonstrations protesting the Morsi ouster. The US has delayed delivery of four F-16s to the Egyptian Air Force.