



Mid-Week Update

Oil prices were flat on Monday, fell a bit on Tuesday on the economic outlook, and then bounced up \$2 a barrel in NY and 79 cents in London after the US stocks report showed a 1.9 million barrel decline in the inventory at Cushing, Okla. The decline at Cushing during July was 7.5 million barrels, the largest one-month drop since data collection began nine years ago. At Wednesday's close, NY oil was \$105.03 and London was at \$107.70.

While overall US crude inventories were up by 430,000 barrels last week, gasoline and distillate inventories unexpectedly dropped by 1.3 million barrels. The Department of Commerce announced that the US GDP grew by 1.7 percent in the 2nd quarter, more than the 1.1 percent economists were expecting. These are preliminary numbers, however, which are frequently revised downwards. The higher-than-expected GDP growth contributed to the optimism that pushed up oil prices.

US natural gas prices have hovered around \$3.45 per million this week on cooler summer weather; a 1.1 percent increase in natural gas production year over year in May; and an EIA report that natural gas consumption by power stations fell by 25 percent year over year in May as prices averaged \$4.06 per million during the month, well above the \$2.49 averaged in May 2012.

The Middle Eastern turmoil rolls on and on. In Algeria, a battle between the government and gasoline smugglers is driving up prices. Algeria has the lowest prices in the region so much of its gasoline ends up in Tunisia or Morocco. Libya has closed all but one of its export terminals amid strikes and other disorders. The closures have temporarily reduced exports to 300,000 b/d from the recent 1.4 million. Fighting between militias and government force has flared across Libya in the past week suggesting that at some point it will become increasingly difficult to keep the oil flowing.

In Syria, government forces continue to push slowly into rebel-held areas. Tehran and Damascus have signed a deal for Iran to supply all the oil Syria needs in return for some vague development rights in the future. Few foreign reporters are entering Syria these days from fear of being kidnapped by a militant group desperate to raise money. The quantity and quality of the reporting on the fighting has taken a dive. Meanwhile the UN is running out of food to feed the millions displaced by the fighting.

Monday was a banner day for bombers in Iraq with a dozen bombs going off across the country leaving more than 60 dead and hundreds wounded. A couple of the bombs went off in way down in Basra, the middle of oil country. The northern crude export pipeline to Turkey was blown up for the umpteenth time right after coming back from a month-long outage caused by the last bomb. This time the bombers did a better job than usual so that the pipeline could be out of service for quite some time – cutting Iraqi exports.

Pro-Morsi supporters have been staging mass rallies demanding his return to office all week. The government has given security forces new powers to clear the crowds from the streets. In two previous confrontations with security forces dozens of pro-Morsi protestors were killed. The situation is clearly going downhill with no end in sight.

As the Army's crackdown on the demonstrators continues in Egypt, Washington is becoming concerned that we are entering a prolonged period of instability that could lead to civil war. Insurgent attacks on army installations in the Sinai are increasing and the Army has launched a major operation to suppress dissidence in the peninsula. While the Gulf Arab exporters are still relatively isolated from the turmoil sweeping the region, they are clearly worried.