



Mid-Week Update

New York futures have fallen this week largely on expectations the Federal Reserve will taper off quantitative easing in the near future. The uncertainty as to when this will happen has been overshadowing bullish news to send NY oil down by nearly \$4 a barrel this week to close Wednesday at \$103.86. Brent crude, which is more attuned to the troubles in Egypt and the export stoppage in Libya, has only fallen a dollar or so and closed Wednesday at \$109.81. The relative strength of London oil widened the WTI-Brent spread to nearly \$6 a barrel despite a continuing decline in the stockpiles at Cushing, Okla.

The weekly stocks report showed US crude inventories falling by a more-than-expected 1.4 million barrels. US gasoline stocks fell by 4 million barrels, showing that US gasoline exports are doing well. US domestic oil production declined by 0.7 percent to 7.52 million b/d last week. The Texas Railroad Commission reported that the fracked Eagle Ford field's production declined to 621,000 b/d in June from 650,000 in May. There are persistent reports that drillers are having difficulty finding sufficient water to frack wells in south Texas in the midst of drought conditions.

Natural gas futures have been stable around \$3.45 per million as traders try to figure out the transition from summer to fall weather. Bloomberg reports that the major oil companies are slowing the purchase of new natural gas properties across the US in the face of low natural gas prices and falling gas property values. In recent months drillers have been selling off leases to finance new drilling operations, but as values sink this is no longer a feasible way to do business. Some think this development may slow oil and gas production as companies that built up large debts during the rush for shale acreage can no longer finance drilling.

A new report from the Intergovernmental Panel on Climate Change states that the authors are now 95 to 100 percent confident that human activity is the primary influence on planetary warming.

The situation regarding Libyan oil exports remains unclear. On Tuesday there were reports of clashes at the striking oil terminals and that an unauthorized tanker was blocked from taking on oil by the Libyan Navy. The government announced that two of the smaller terminals, with an export capacity of 180,000 b/d, were about to be opened but that the biggest terminal, Es Sider, remains closed.

Tehran says that its Foreign Ministry will take the lead in forthcoming nuclear talks with the six nation group of world powers. The new government says it will reduce the anti-western bombast that characterized the Ahmadinejad administration but also says there will be no changes in its nuclear policies.

The release of former President Mubarak from prison is thought to be another sign that Egypt is on its way to authoritarian government and prolonged conflict.

Allegations that the Syrian government has killed hundreds of civilians in a poison gas attack is roiling the Syrian situation. Damascus and Moscow are alleging that it is the rebels who carried out the attack during the visit of a UN investigating team in order to discredit the Assad government.

Japan's Fukushima nuclear crisis took a turn for the worse this week when it was announced that hundreds of tons of highly contaminated water have leaked from storage tanks into the sea. Some have calculated that 40 trillion becquerels have now leaked. Regional governments, especially Beijing, are outraged that Tokyo has been so slow in admitting to the scope of the disaster. Some are concerned that radioactive water will eventually make it to the west coast of the US.