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ASPO USA PEAK OIL REVIEW

Association for the Study of Peak Oil & Gas USA

August 29, 2013

Mid-Week Update

With war drums sounding in Washington, Europe and across the Middle East, the oil markets took off this week. New York futures which had been trading around $106 a barrel hit a high of $112.24 on Wednesday before settling to close at $110.10. London futures, being a lot closer to the action, went from $111 a barrel on Monday to a high of 117.34 on Wednesday before settling to $116.61 at the close.

Washington would like to see a quick series of air strikes on high-value Syrian military targets that would discourage Damascus from continuing to use poison gas against the insurgents and their civilian supporters. The problem of course is how the Syrians and their allies accept the blows, without attempting some sort of military/terrorist retaliation that would spread the conflict. Damascus, Tehran, and Hezbollah are already threatening an Apocalypse should there be an attack on Syria. As usual the most tempting target for quick military retaliation is Israel, where the government is already handing out gas masks, moving defensive missiles into position, and calling up reservists. Over the longer run, there are numerous targets including embassies and oil facilities that could be attacked, but this will take longer to orchestrate.

Oil traders are already talking about prices going to $125 a barrel when the bombs start to fall and possibly spiking to a short term high of $150, if Middle Eastern oil exports should be slowed in reaction to air strikes on Syria.

Oil exports from Libya have fallen to about 200,000 b/d this week as export terminals in Western Libya joined the striking eastern terminal workers. Rounds of bombings in Iraq on Monday and Wednesday killed over 100 and wounded hundreds.

An attack on Syria would just add one more facet to the turmoil engulfing the Middle East. With the exception of the Saudis and the handful of their brethren Gulf Arab states, nearly every other oil exporting country is in the midst of a crisis that has reduced, or has the potential of reducing, exports. It is difficult to see how the level of Middle Eastern oil coming from the Middle can continue much longer at the accustomed rates.

EIA's weekly stocks report showed the crude inventory up by 3 million barrels, largely due to a 420,000 b/d increase in imports last week. US crude domestic crude production continues to increase and is now up to 7.61 million b/d.

New York gasoline futures have climbed in sympathy with oil by 13 cents a gallon since the Monday close and now stand at $3.08 a gallon.

Natural gas futures have been creeping up this week on slightly warmer weather in the Mid-west.

Optimism is building that progress in the Iranian nuclear negotiations is possible with the election of Hasan Rouhani as the new President. Diplomats say that talks with UN's IAEA will resume in September. These talks are seen as an indicator of whether real progress is possible under the new administration. The likely appointment of a veteran diplomat to head the Iranian delegation is seen as a good sign.

The India rupee fell to an all-time low of 68 to the dollar. The currency has slumped by 20 percent this month as the country faces a deepening economic crisis.

Japan's Fukushima nuclear reactor is back in the news as the government stepped in to help stem the leak of toxic radioactive water from the site. The cost of closing the leaks has gotten beyond what Tokyo Electric Power can afford, so that only the government can bear the ever-increasing costs of the disaster.