



Mid-Week Update

It has been a volatile week with oil prices starting on Monday at \$111 a barrel in NY and over \$116 in London as fears of a US strike on Syria reached a peak. To the surprise of most, however, the Syrian poison gas crisis took an unexpected turn with the announcement that Syria would give up its poison gas stockpiles and President Obama asked Congress to delay a vote on a Syrian strike. Oil prices fell on Monday and Tuesday to circa \$108 in New York and circa \$112 in London. The US and Russia will meet in Geneva today in an effort to contain the situation and have begun meetings at the UN to get that organization involved. It is too early to say what effect all this activity will have on the uprising.

While the Syrian situation still has a long ways to play out, attention turned on Wednesday to other factors driving oil prices such as the near cessation of Libyan production, a budding war in the Sinai between the Egyptian Army and radicals living near the Gaza strip, and stockpile reports.

This week's EIA stocks report contained bullish news that supplies at Cushing, Okla. slid for the 10th time last week as unusually high refinery utilization rates increased the demand for Cushing oil. US domestic oil production continues to creep upwards and is now at 7.75 million b/d, the highest since May 1989. US crude inventories which continue to fall slowly were down by 219,999 barrels last week. US imports have been holding around 8 million b/d in recent weeks which is still over half the 15.9 b/d which the US refined last week. There is still far to go before "energy independence."

Besides the Syrian situation, the Middle East continued to deteriorate this week. More bombs went off in Iraq; there is no oil coming out of Libya and somebody blew up a car bomb at the Foreign Ministry; and fighting in the Sinai is increasing as insurgents blew up an Army intelligence building.

The loss of Libya's oil production, which was running about 1.4 million b/d, to internal disagreements as to how to divide the pie has yet to have had the impact it did during the civil war in 2011. OPEC says there is no trouble as increases in US and Saudi production have been making up the difference. The IEA, however, says OECD stockpiles including those in the US have been dropping in recent weeks and that the global oil markets are gradually tightening.

Beijing says its industrial growth is on the rebound, hitting a 17-month high in August. The Chinese say industrial production last month was up 10.4 percent year over year and that electricity, gas, and water output was up by 12.5 percent. In recent years, outside analysts have been increasing questioning the economic statistics released by Beijing as not being internally consistent and being compiled too quickly each month.

Ottawa says it is willing to change its laissez-faire greenhouse gas emission policies to bring them in line with those of the US. Although the government says this is not a concession to win approval of the Keystone Pipeline, there are reports that Canadian Prime Minister Harper made such an offer to Washington last week. The Canadians point out that their emissions are only 1/32nd those of the much larger US economy so that Washington should not worry about how dirty their oil might be.