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Mid-Week Update

After falling on Monday and Tuesday in the wake of the Syrian poison gas agreement, oil futures rebounded sharply on Wednesday after the Federal Reserved announced it will continue the current pace of bond buying and US crude stocks dropped by more than expected. Traders said the oil markets have been expecting the Fed to cut is bond-buying for some time and had already built this expectation into the price.

At the close Wednesday, NY futures were back up to $108.07 and London was at $110.60. The Brent-WTI spread narrowed to $3.23 as Libya resumed some oil shipments, easing pressure on London crude.

The weekly stocks report showed US refineries continuing to operate at well-above normal levels for September after the summer driving season has ended. The report also showed US crude stocks falling by 4.4 million barrels last week on lower imports and higher refining rates. Analysts were expecting a drop of 1.2 million barrels and the API reported that they expected a drop of only 252,000 barrels in their weekly survey. Gasoline stocks were down by 1.1 million barrels and distillates by 1.1 million. Supplies at Cushing, Okla. fell for the 11th week, this time by 861,000 barrels to 33 million. US crude production last week grew by 1.1 percent to 7.83 million b/d.

The EIA reported that total US fuel consumption increased by 1.46 million b/d last week to 19.1 million. As there is no evidence of a surge in the US economy, particularly after the summer driving season, much of this increased “consumption” is likely being exported.

Natural gas prices which had been climbing for the previous four trading sessions on warmer weather in the Mid-West paused on Wednesday at $3.71 per million ahead of the Thursday inventory report.

Some oil is starting to come out of Libya again. The latest reports say it could be as much as 400,000 b/d or roughly a quarter of prewar production. While this is helping somewhat, European oil supplies are still tight and there is likely to be continuing demand for US exports of finished petroleum products. The UN has warned Tripoli that it had better solve its oil export problem soon or it will go broke as oil exports consist of nearly all its earnings.

The bombs continue to go off across Iraq, and another province, Ninewa which is in the northwest and has many Kurds in its population, is exploring the possibilities of bypassing Baghdad and contracting directly with international oil companies. The northern export pipeline to Turkey was bombed yet again on Wednesday, but it usually only takes a couple of days to repair thereby giving somebody a reason to blow it up again.

There were few developments in the Syrian situation this week as the action shifted to the UN. Moscow is still trying to convince the world that it is the rebels, not the Assad government, that have been using poison gas. The Iranians continue to make conciliatory noises and gestures to convince the would how nice it would be if we could all just settle this nuclear weapons dispute and lift the sanctions.

Canada says not to expect approval of the Keystone pipeline this year and GM announced it is working on a $30,000 electric car with a 200 mile range. Most agree that a relatively cheap 200-mile electric car could be a game changer given the likely price of gasoline by the end of the decade.