



Mid-Week Update

With the US shutdown/default crises overshadowing other issues, NY oil traded between \$101 and \$103 this week as prospects for a resolution to the standoff in Washington went up and down. On Wednesday the equity markets and the oil complex jumped on news that the Congress had reached an agreement as was ready to vote out a temporary solution to the budget crisis. In London, which was less concerned about the machinations in Washington, oil traded more narrowly around \$110 a barrel. The jump in NY Wednesday oil closed the Brent/WTI premium to \$8.75 at the close.

Because of the partial government shutdown, the EIA will not issue its weekly stock's report, which should come on Thursday because of the Monday holiday, but the API which does a weekly telephone survey of the industry reported Wednesday evening that US crude stocks climbed by nearly 6 million barrels last week, but gasoline and distillate inventories dropped by 2.2 and 1.3 million barrels respectively. While the API telephone surveys have frequently diverged from the more accurate, EIA reports which are based on mandatory reports to Washington from the oil industry, the API usually has the direction right when large movements in stocks take place.

The meeting between Iran and the six world powers this week seems to have made progress as another round of negotiations is scheduled to take place on 7-8 November. Although no details of the discussions were released, both sides acknowledged that the election of a new more moderate Iranian President last summer, largely brought about by the hardships of the sanctions, has brought about a distinctive change in the atmosphere of the talks. There was said to be much greater detail than ever before in answers to each other's questions. Iran is reported as having agreed to more intrusive inspections in return for world acknowledgement of its right to enrich uranium. At this point only Israel and some hard-liners in the US Congress seem to be demanding that Iran halt all enrichment.

Easing some of the sanctions may be difficult for Washington as they have been enshrined into US law which will require congressional action to ease.

Terrorist bombs continue to kill and maim across Iraq this week; the Basra provincial government is negotiating a bilateral deal with Tehran to build a new pipeline that will supply Iranian gas to three new power plants; and a recently drilled well in Iraqi Kurdistan is flowing at an impressive 32,000 b/d improving prospects for higher output from the province as it completes a new pipeline to Turkey.

The Saudis are making a new effort to increase production at several oil fields to offset declining production at other aging fields and the rapid increase in domestic demand for oil, which at current rates of increase will leave them with very little to export ten or twenty years from now. The Saudis claim they are on track to increasing the average oil recovery from existing wells to 70 percent which they say is nearly double the global average.

Beijing reports that its electricity consumption in September rose by 10.4 percent year on year and between January and September consumption increased by 7.2 percent. Electricity consumption in China usually correlates well with the pace of economic growth.