



Mid-Week Update

There has been little movement in the price of oil so far this week with New York futures hovering around \$95 a barrel and London around \$101. The uncertainty surrounding the future of Chinese economic growth and of Federal Reserve policies is widely cited as the reason for little movement. The announcement on Wednesday that according to revised figures the US economy grew by only 1.8 percent in the first quarter suggests that the Fed will maintain quantitative easing for a while longer. The flooding in Alberta has slowed oil shipments to the US. This in turn forced up the price of WTI so that the spread with London was down to \$5.94 at Tuesday's close – the lowest since January 2011. Some analysts expect to see the spread down to \$5 before the end of the summer.

US crude stocks increased only slightly last week as opposed to the 1.7 million barrel decline expected by analysts. US crude production last week was 7.26 million b/d, down slightly from the 7.3 million reached in early May. Stocks at Cushing, Okla. increased by 664,000 barrels last week, again showing there still is not enough pipeline capacity to move the oil to Gulf Coast refineries. The drop in Canadian exports this week will likely show stocks at Cushing down in next week's report.

Gasoline stockpiles rose by 3.6 million barrels last week, the largest increase since 1999. US gasoline consumption over the last month is down slightly from last year, while distillate deliveries are sharply higher largely due to export demand.

US natural gas futures hit their lowest level in 15 weeks on Tuesday after falling 31 cents on forecasts of a cooler July in the Eastern US.

The Middle East is still rife with turmoil. The Syrian civil war is spreading into Lebanon and hope for a peace conference is fading. As Assad's offensive continues, the insurgents are calling for more help and weapons from the outside. It now seems as if the US and EU will be supplying non-lethal military aid while the Gulf Arabs supply the guns and ammunition. Jihadists are coming from all directions to join the fighting which is morphing into a global Sunni/Shiite confrontation. Earlier this week four Shiites were beaten to death in Egypt by a frenzied Sunni mob.

Terrorist bombs continued to kill dozens in Iraq this week. Baghdad's oil exports were down in May due to terrorist attacks on the northern export pipeline to Turkey. The pressure on Iran's oil exports continues with India and Korea pledging to cut imports further. Cairo is bracing for anti-Morsi demonstrations on Sunday, which opponents hope will bring down the government. There is confusion as to whether the Egyptian Army will move if the demonstrations get out of control. The oil and food situation in Egypt continues to get worse with Cairo expected to announce the details of its oil rationing plan on Saturday. The plan is scheduled to start in July or August when a "smart" rationing card will be required to purchase gasoline and diesel.

President Obama announced his plan which relies on a reinterpretation and more stringent enforcement of the existing Clean Air Act to cut US emissions. The plan involves more focus on state-level actions that would encourage less burning of coal and more use of natural gas. The legal and political battles which will evolve from this plan likely will continue for years. The goal is to cut emissions between 2005 and 2020 by 17 percent. Opponents of the plan say it will destroy the economy while environmentalists say it is not nearly enough.