



## Mid-Week Update

After falling on Monday and Tuesday, oil prices rebounded to roughly unchanged on Wednesday on a weaker dollar and a report from Libya that oil production has fallen to less than 1 million b/d after sabotage and labor unrest closed oilfields and ports. New York oil futures closed at \$95.88 and London at \$103.49 -- widening the spread which on Tuesday narrowed to the lowest it has been in two years.

The EIA reported that the US crude inventory increased by 2.5 million barrels last week, while analysts were expecting a 0.5-1.5 million barrel drop. The API's survey had crude stocks increasing by 9 million barrels. The weekly stocks report showed US gasoline demand dropping to 8.6 million b/d which is the lowest level for this time of year since 2003. The oil glut at Cushing, Okla. fell by 1.5 percent last week to 49.3 million barrels.

The IEA's monthly *Oil Market Report* continues to forecast that global oil demand will increase by 785,000 b/d this year; however, the Agency is expecting a spike in demand this summer as new refineries in Saudi Arabia and more Chinese refining activity increase demand by 2.3 million b/d between the 2<sup>nd</sup> and 3<sup>rd</sup> quarters.

A new EIA report increases estimates of global recoverable shale oil resources from 32 billion barrels to 345 billion, a dramatic increase. The report also puts recoverable shale gas resources at 7.3 trillion cubic feet – 10 percent higher than last year's estimate.

No letup in the Middle East turmoil this week. Sudan is threatening war against South Sudan; Syrian government forces accompanied by Hezbollah are moving towards Aleppo; bombs went off in Damascus; the West is contemplating arming the rebels; even more bombs went off in Iraq killing dozens; a brigade of Iraq's Kurdish troops has defected from Baghdad's command to the Kurdish government; round one of Iran's Presidential election will take place on Friday; and Egypt threatens military action if Ethiopia continues in its plan to dam the Nile.

The momentum may be shifting in the Iranian Presidential race to the most moderate of the hand-picked candidates. No one seems to believe the outcome of the election will make any difference for the immediate future as the key decisions, such as nuclear weapons and intervention in Syria, will remain in the hands of the Ayatollah. The new President will be left to deal with the deteriorating economy.

The apparently successful intervention by Hezbollah's militia into the Syrian fighting has moved to the top of the worries list as influential Sunni clerics across the region are calling the world's 1.3 billion Sunnis to come to the aid of the embattled insurgents. The Gulf Cooperation Council which has lots of money is threatening retaliation against Hezbollah. The fighting is spreading into Lebanon and predictions that we are soon going to see a region-wide Shiite-Sunni war are being made daily.

The IEA has issued a new blast at the lack of action in dealing with climate change. The Agency says that waiting for another seven years to draft and implement a new treaty to curb carbon emissions is too long. The average temperature will increase by another 2°C and there will be all sorts of dramatic results, especially extreme weather events with severe social and economic consequences.