



Mid-Week Update

Oil prices, which had remained relatively steady since the end of last week, plunged on Wednesday after the EIA released its weekly stocks report showing a 6.8 million barrel increase in US crude stocks – more than four times what analysts had been expecting. The news sent prices down by \$1.88 a barrel in NY and \$1.10 in London to close at \$101.61 and \$109.06 respectively. The WTI/ Brent spread widened to \$7.45.

The government shutdown and the talk of a possible default on the US debt still overshadow the markets and until there is some resolution, markets are likely to be weak. Crude continues to drain away from Cushing, Okla., this time by 168,000 barrels. Stocks at Cushing have now fallen by 31 million barrels in the last 14 weeks – the longest string of weekly declines on record. People are starting to suggest that the size of the Cushing inventories is no longer much of a factor in the determination of WTI oil prices.

The EIA issued with some new forecasts this week. Brent and WTI crude are now forecast to decline over the remainder of the year with Brent averaging \$105 a barrel in December and WTI \$98.50. Given that Iran and Syria are behaving somewhat better and with sequesters and shutdowns the outlook for US oil product demand in the immediate future is not that good, the EIA's forecast of further price declines is probably right.

Natural gas prices surged on Monday and Tuesday by 8.7 cents to \$3.71 on the prospects for colder weather in key as consuming regions of the US. They then slipped a few cents on Wednesday. The EIA expects gas prices to continue to rise this winter and to average \$4 per million BTUs in 2014.

Iran has refused to join any Syrian peace conference that is not based on the premise that Assad and his Shiite government will remain in power. However, Tehran continues to talk optimistically about the prospects for a settlement of the nuclear issue. The Iranians are reported to be preparing a package of proposals as to how they would halt enriching uranium to near weapons grade. In the meantime the Israelis and Saudis are very upset that the US seems to be moving towards a rapprochement with Tehran after 34 years of confrontation.

Bombs continue to go off in Iraq killing at least 38 on Monday and another 8 on Wednesday. Al Qaeda has taken credit for the bombing that took place in the relatively peaceful Kurdish capital of Erbil last week. Shell officially opened Iraq's Majnoon oil field on Sunday with an initial target of 175,000 b/d. Baghdad hopes to increase this to 200,000 by the end of the year as part of the plan to increase oil production to 6 million b/d from the current 3.2 million.

The situation in Egypt continues to deteriorate. On Sunday 51 Brotherhood protestors were killed in a confrontation with security forces. The demonstrators had tried to march on Tahrir Square where the Army was celebrating its short-lived victories over Israel in the first days of the Yom Kippur War. Outside observers see more trouble ahead as the Army continues its efforts to shut down and outlaw the Brotherhood. Washington is suggesting it will announce a reduction in military aid to the Egyptian Army which has been the centerpiece of US-Egyptian relations since the Camp David accords.

A dense smog settled in on Beijing Sunday closing highways and disrupted air travel as millions were returning from a week-long holiday. The smog is early this year and we are likely to see more before the winter is over. The government is moving on plans to close the city's four main coal-power generating stations and replace them with large gas-fired plants that will supply power and some heat to much of the city. As usual, the Chinese have ambitious plans to build these new plants in the next two years. Contrary to forecasts, shale gas production does not seem to be moving very fast, if at all, in China so the demand for LNG there will likely increase spectacularly over the next decade if efforts to clean up the air continue.