

Diesel Fuel Price Outlook for the First Week of October

Gregg Ibendahl

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Introduction¹

This is part of an series of newsletter discussing the outlook for diesel fuel over the next 12 months. Diesel costs are a major expense item for nearly every farm so estimating diesel prices over the next year could help farmers with planning and fuel purchase decisions. These articles will briefly analyze the current fuel environment and then discuss factors that could drive prices upward or downward over the next year.

Current prices

Current diesel and gasoline prices are shown in Figure 1. Diesel prices had been decreasing during 2023 until the start of July. Diesel prices have been rising ever since. As shown in Figure 2, diesel prices over the last two years are well above the typical range from the previous five years. The price pattern of diesel during 2023 has been almost the exact opposite of 2022 with prices rising this year when they were falling last year.

Current supply

Diesel stocks remain below the typical range from the previous five-year years (Figure 3) Stocks of diesel fuel have improved slightly since 2022 but not enough to get within the normal range of fuel stocks. Refinery capacity in the U.S. remains below the levels before Covid so improving the supply of diesel is likely to be a long-term process. Also, there was a refinery fire in Louisiana late summer which further put pressure on the U.S. refinery system.

¹Kansas State University - Department of Agricultural Economics
AgManager.info
email: ibendahl@ksu.edu

Diesel price premium

Figures 4 and 5 show the diesel price premium relative to gasoline. The diesel premium reached a record level at the end of 2022. However it dropped every week until July of this year. In July, the price premium was actually below historical levels. However, the price premium has risen since July and is again above normal levels. The current premium of \$0.60 is about twice the typical premium range from the previous five years.

Discussion

There are several factors driving diesel prices. The first is the world oil price. Oil prices have been increasing since the summer due in part to the production restrictions that Saudi Arabia and Russia have imposed. The second is the continual capacity constraints facing the U.S. refinery system. Capacity has declined since Covid and may never be at those levels again. Current capacity is often utilized at nearly 95% of capacity. Thus, any hiccup in the refinery system can lead to price spikes. The fire in Louisiana quickly led to higher prices, especially in the midwest. These refinery constraints are a major reason the diesel supply issue remains a problem and why diesel prices are well above gasoline prices.

Outlook

Figure 5 shows the projected diesel prices for the next 12 months. This model is based on the oil futures price and the expectation of the diesel to gasoline premium. The futures market is indicating lower diesel prices and the diesel premium is also expected to shrink. However, the oil market is very volatile and this forecast could change very quickly.

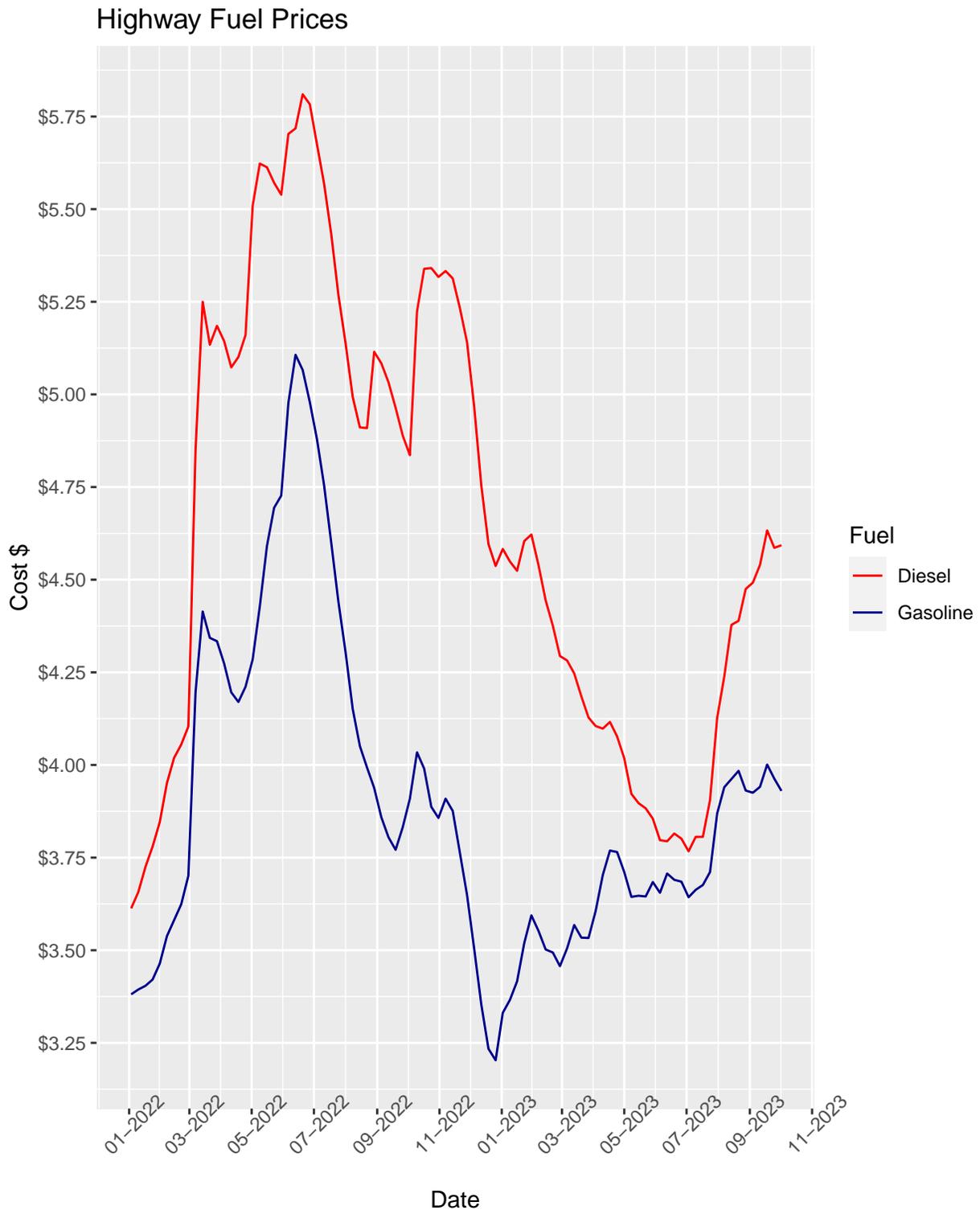


Figure 1: U.S. Highway Gasoline and Diesel Prices Since 2022

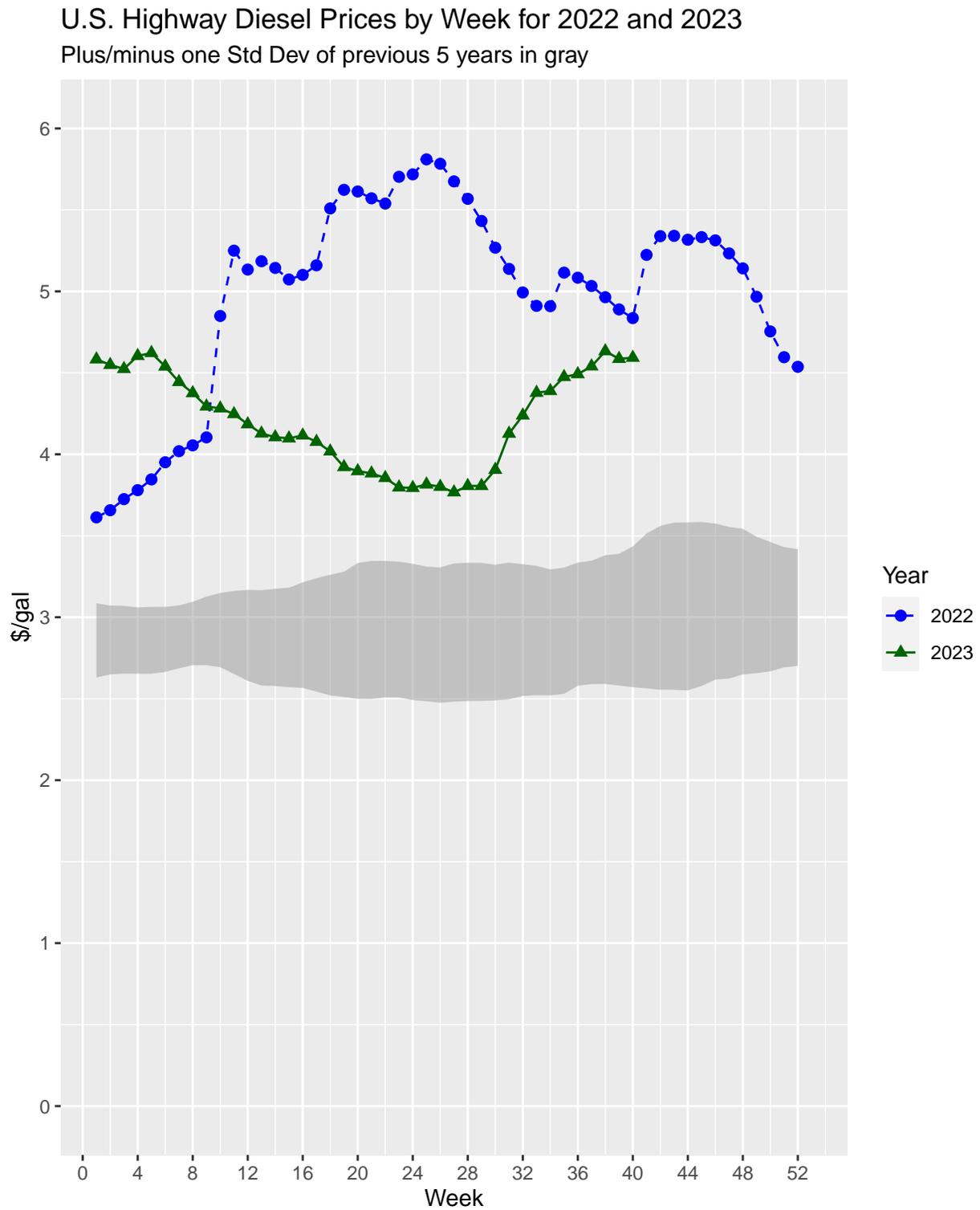


Figure 2: Diesel Prices Relative to the Last Five Years

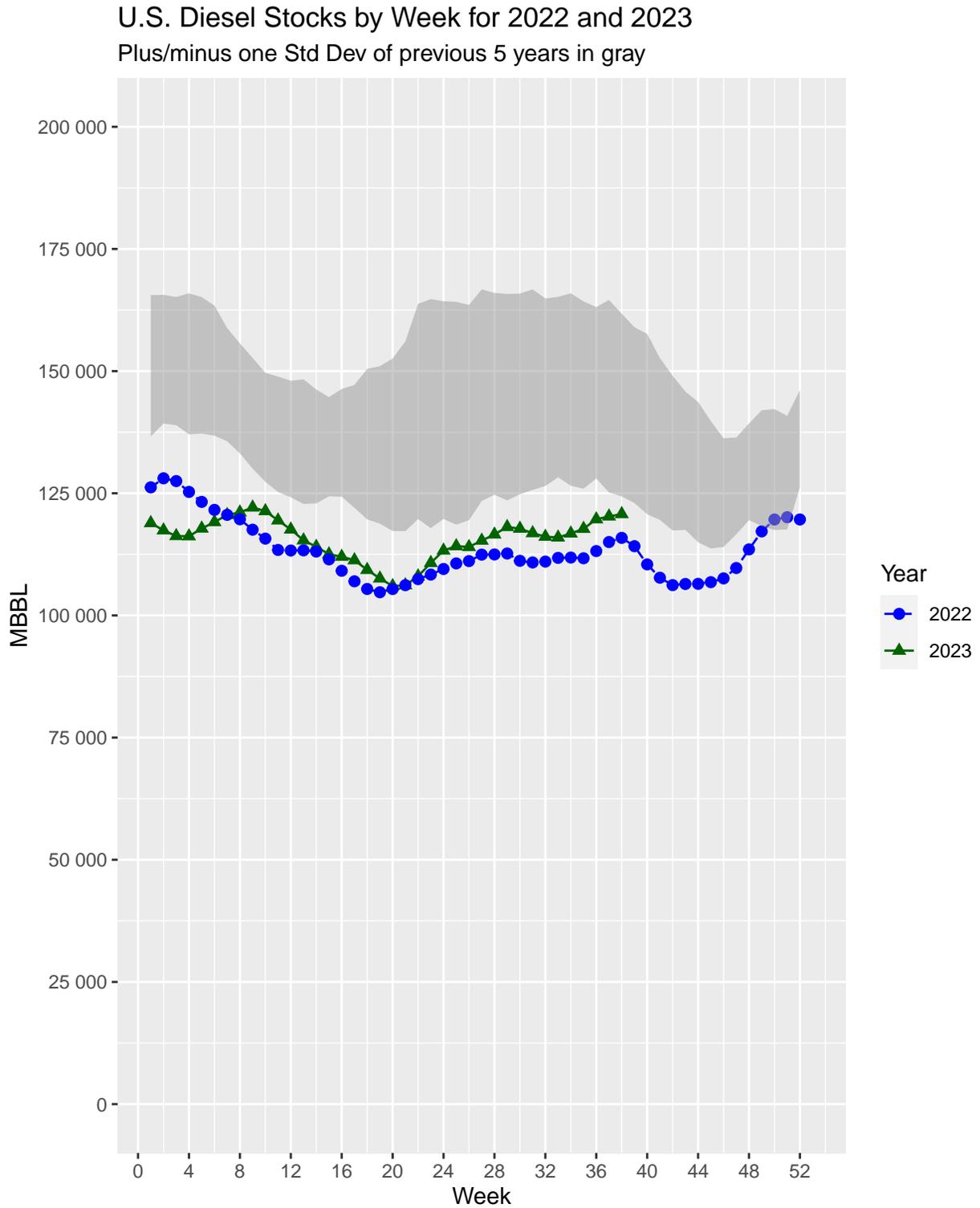


Figure 3: Diesel Stocks Relative to the Last Five Years

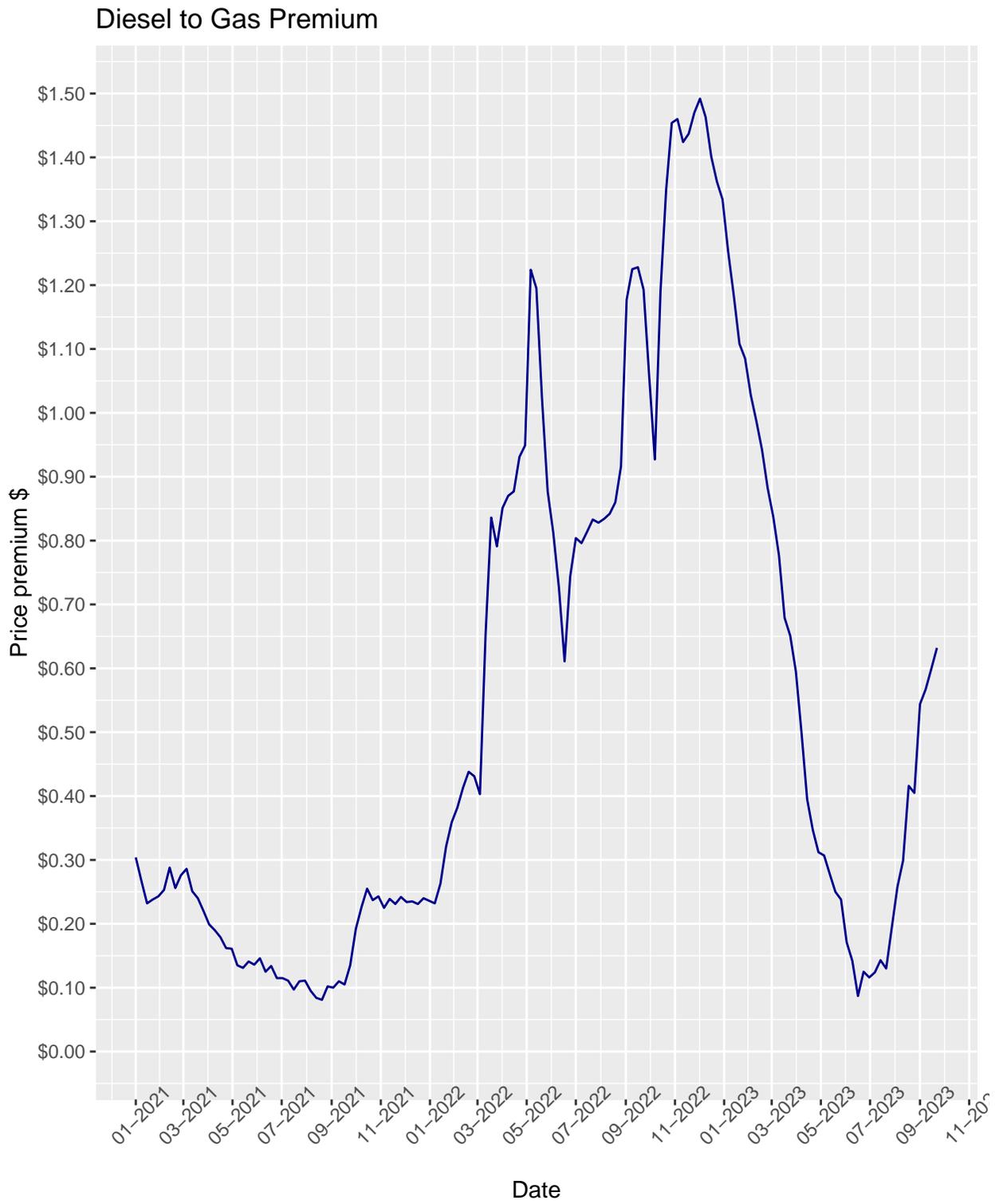


Figure 4: Diesel Premium to Gasoline

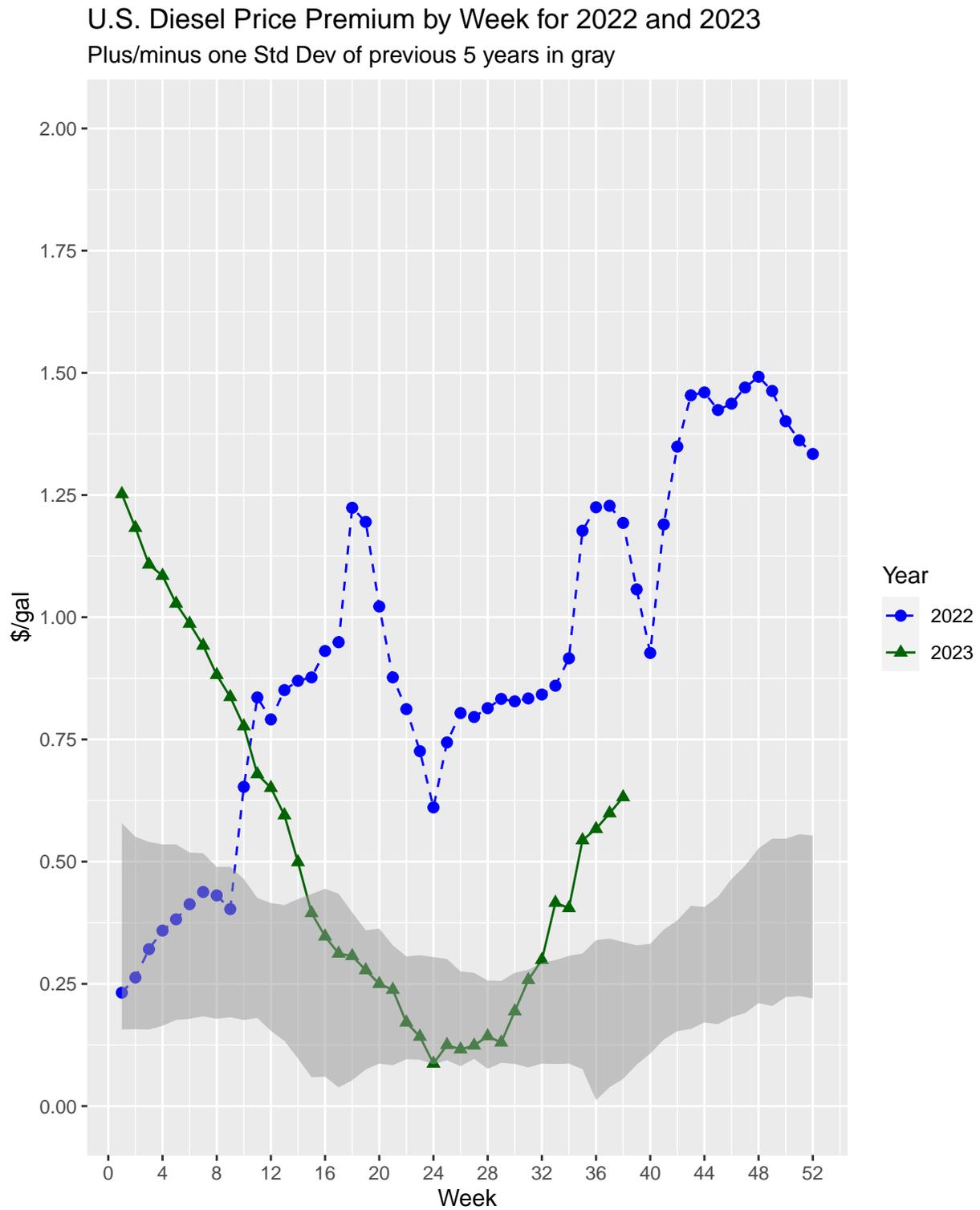


Figure 5: Diesel Price Premium Relative to the Last Five Years

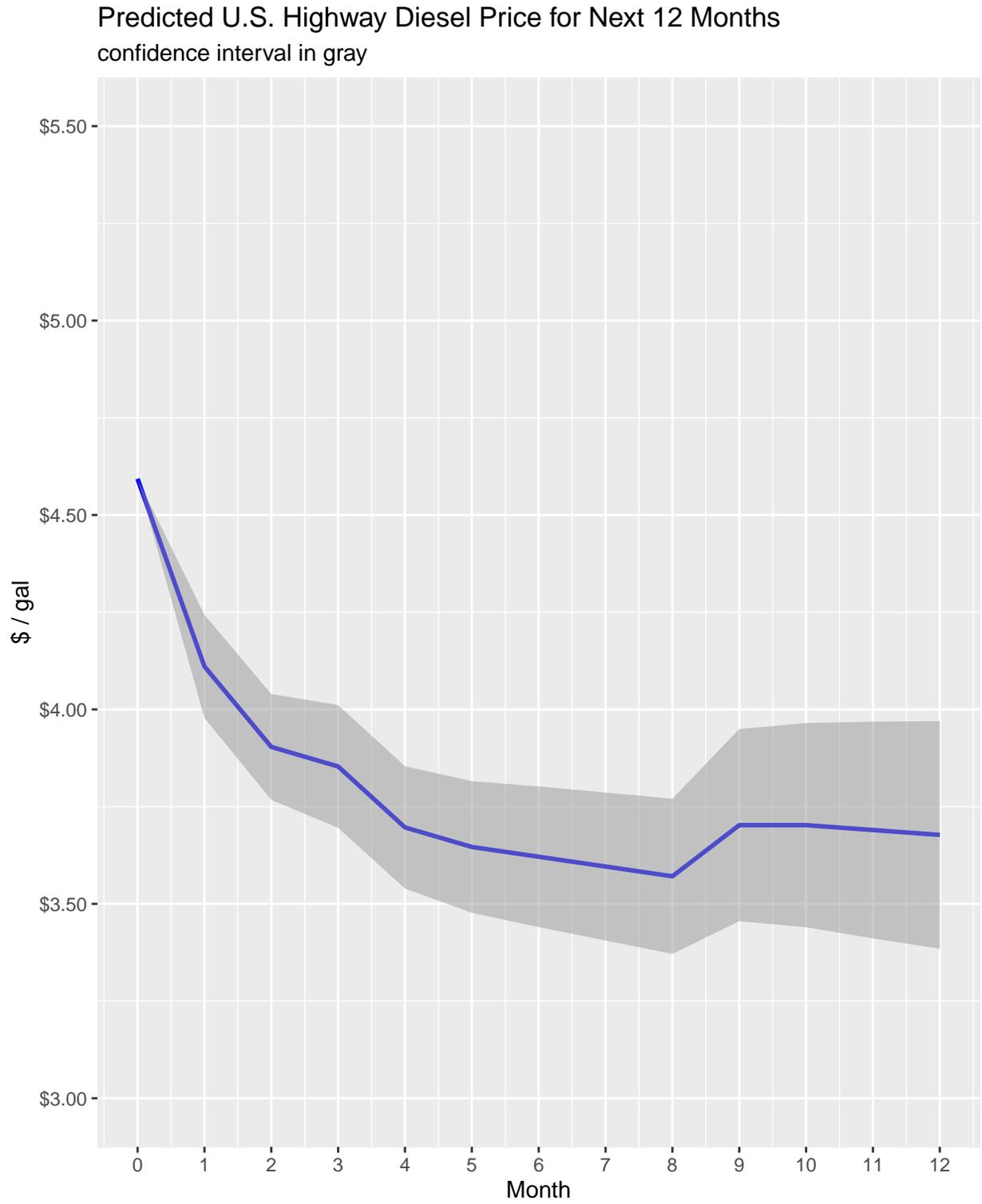


Figure 6: 12 Month Price Prediction for Diesel Fuel