

The Price Premium for Diesel Fuel

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Introduction

Currently, the price premium for diesel fuel compared to gasoline is the highest its ever been at \$1.50 per gallon (see Figure 1). Historically, the premium has been much smaller. However, beginning in 2022, the premium started to rise. This article discusses some of the factors behind this increasing price premium

Discussion

Much of the increasing price premium can be traced to the supplies of diesel and gasoline in the the country. As shown in Figure 2, diesel stocks are the lowest they have been in the last 5 years. Normally, the price premium and the lower than normal diesel stocks would be an incentive for refineries to produce more diesel fuel. Refineries have some ability to modify the percent of gasoline and diesel fuel they produce from a barrel of oil. However, the exact amount refineries can modify their final fuel mix is unknown outside of the industry.

Unfortunately, while gasoline stocks in the U.S. are in better shape than the diesel stock situation, gasoline stocks are below average as well. Thus, refineries haven't emphasized diesel production as much as they might if

gasoline stocks were higher. This leads to the next question of why are both gasoline and diesel stocks below average.

The refinery capacity and utilization figure (see Figure 4) can help explain why gasoline and diesel stocks are both low. Capacity to produce fuel is below what it was when Covid started. Covid cause some refinery shutdowns due to lack of demand when the economy was in shutdown. During this time a refinery fire and permanent shutdown resulted in a lack of capacity that is likely never coming back. Refineries typically operate at near 95% utilization so getting more gasoline and diesel fuel produced is not a short-term prospect.

The lack of capacity to produce diesel fuel and gasoline is likely to become even more troublesome if the economy starts to grow faster. Based on the current levels of diesel fuel, farmers and consumers can expect to see a higher than normal price premium for diesel fuel for the foreseeable future.

For a further analysis on this topic, visit the [video presentation at https://www.youtube.com/watch?v=5Jq3sRIMGvg&t=1s](https://www.youtube.com/watch?v=5Jq3sRIMGvg&t=1s)

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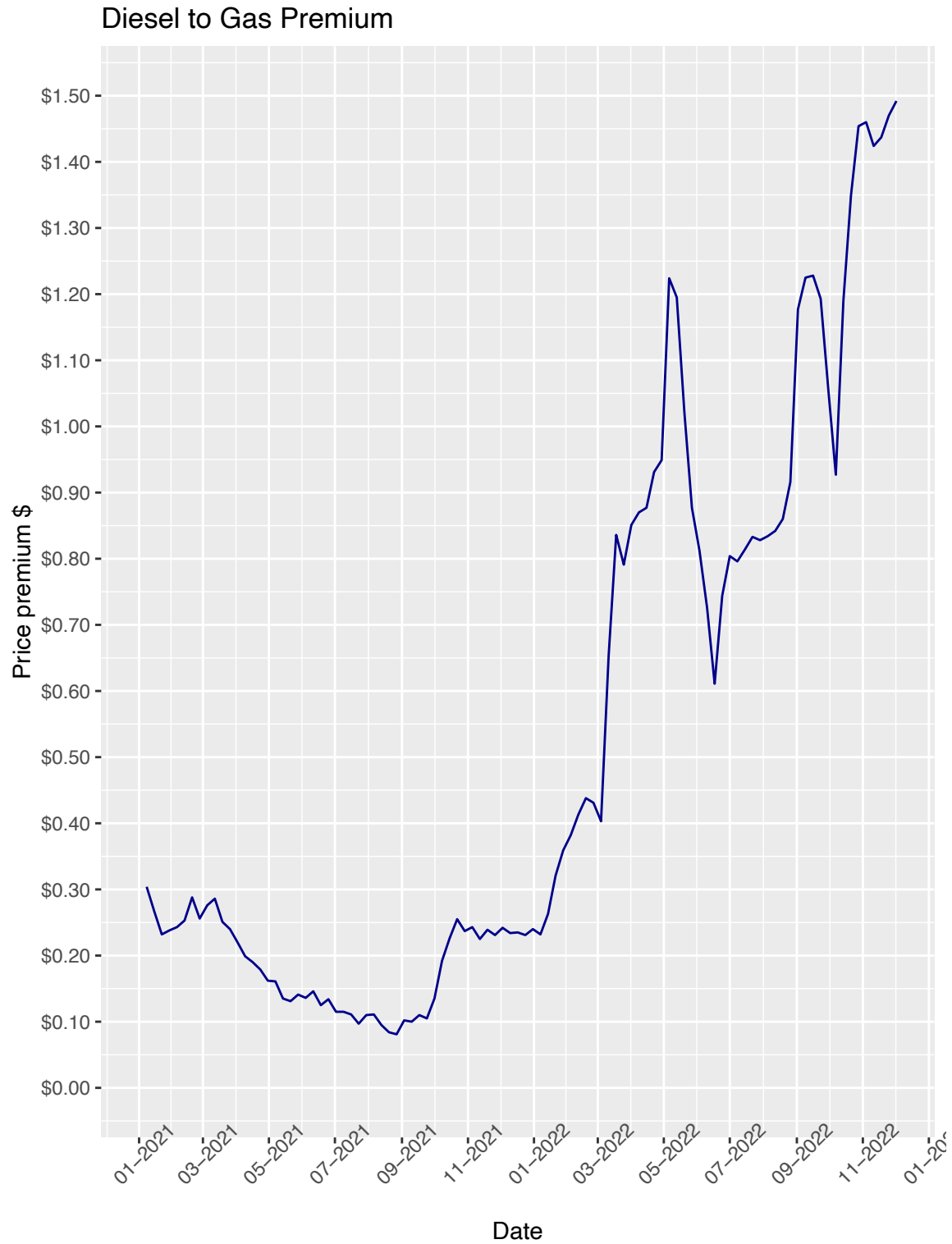


Figure 1. The Price Premium of Diesel to Gasoline

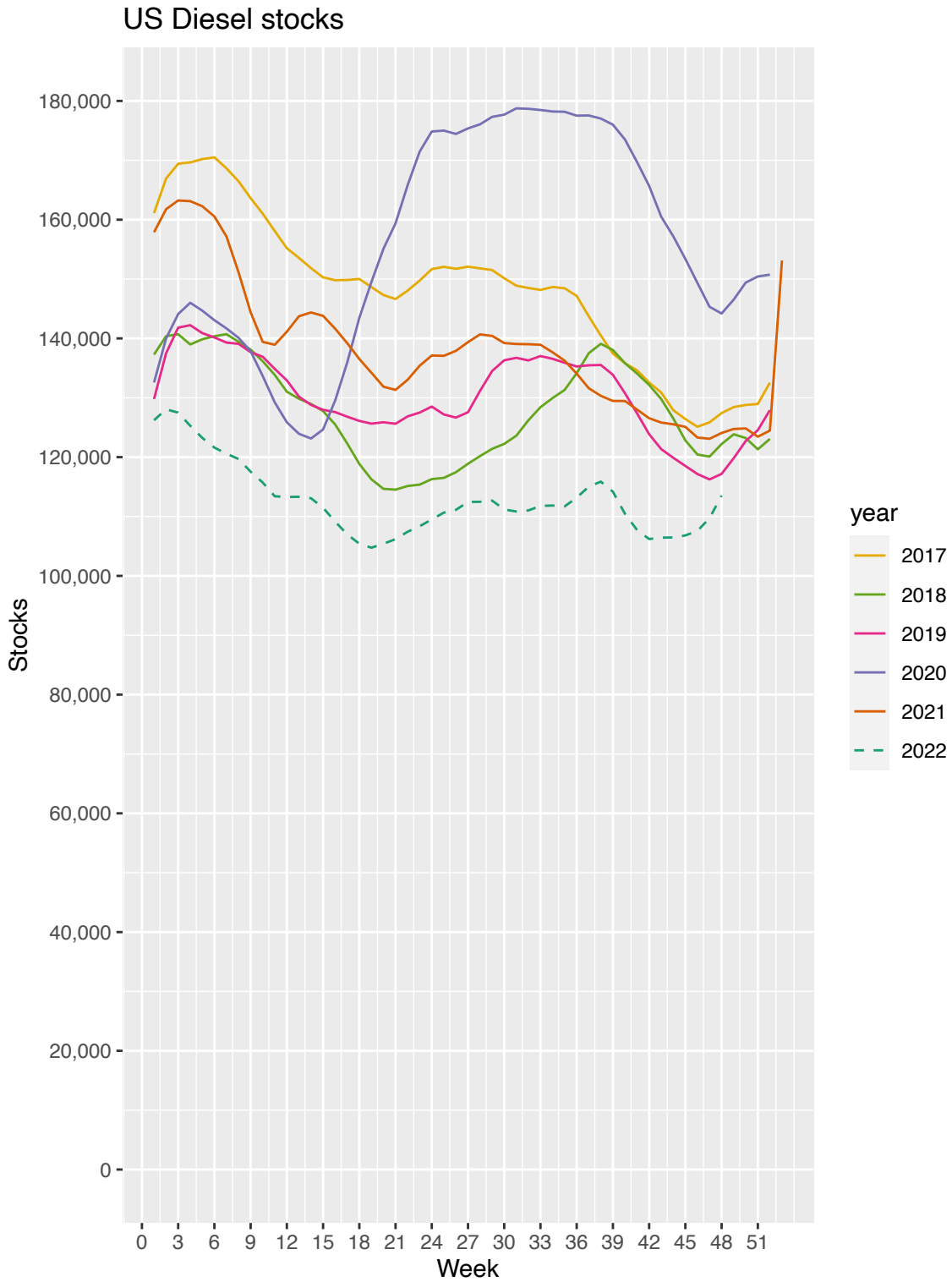


Figure 2. U.S. Diesel Stocks Since 2017 by Week

US Gasoline stocks

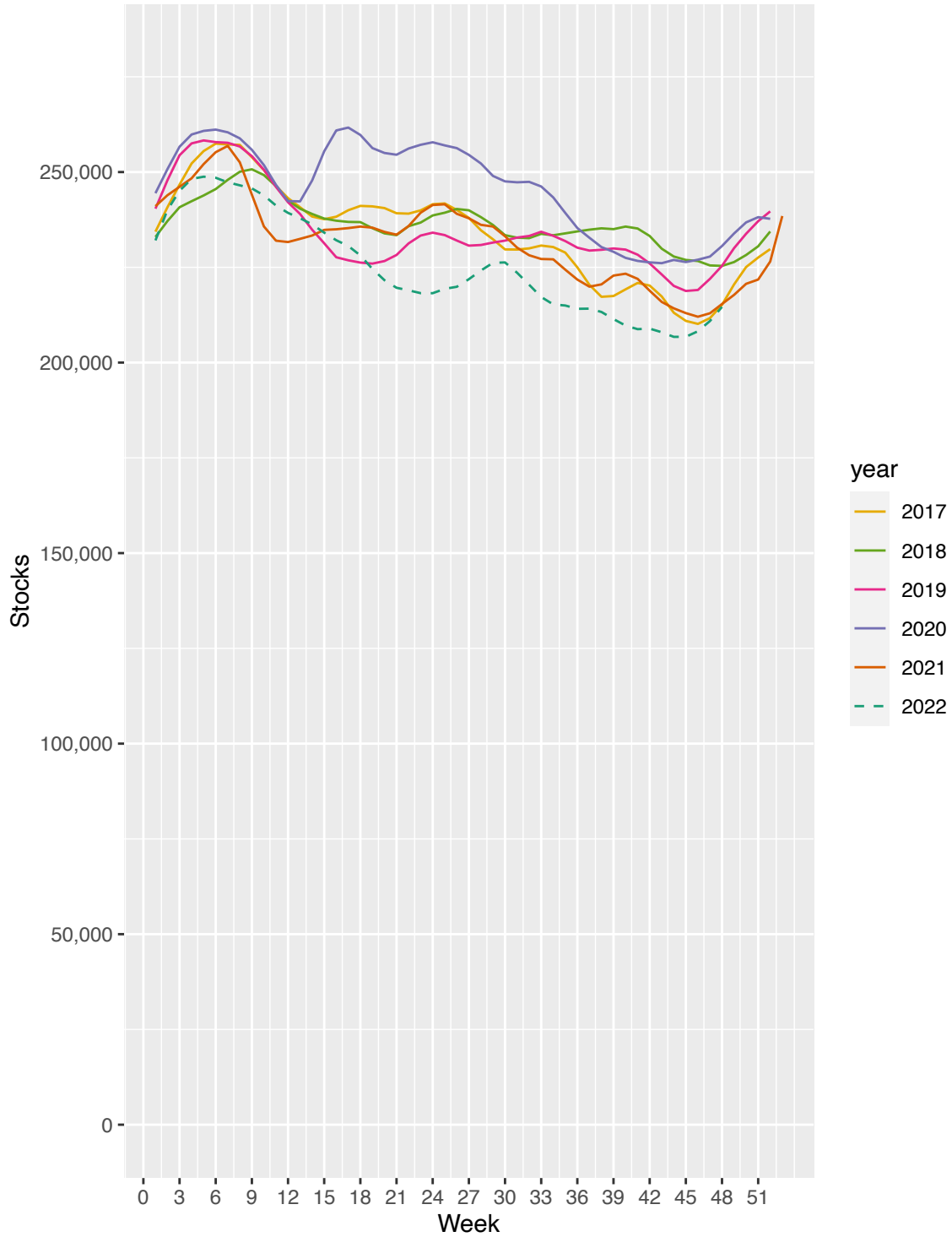


Figure 3. U.S. Gasoline Stocks Since 2017 by Week

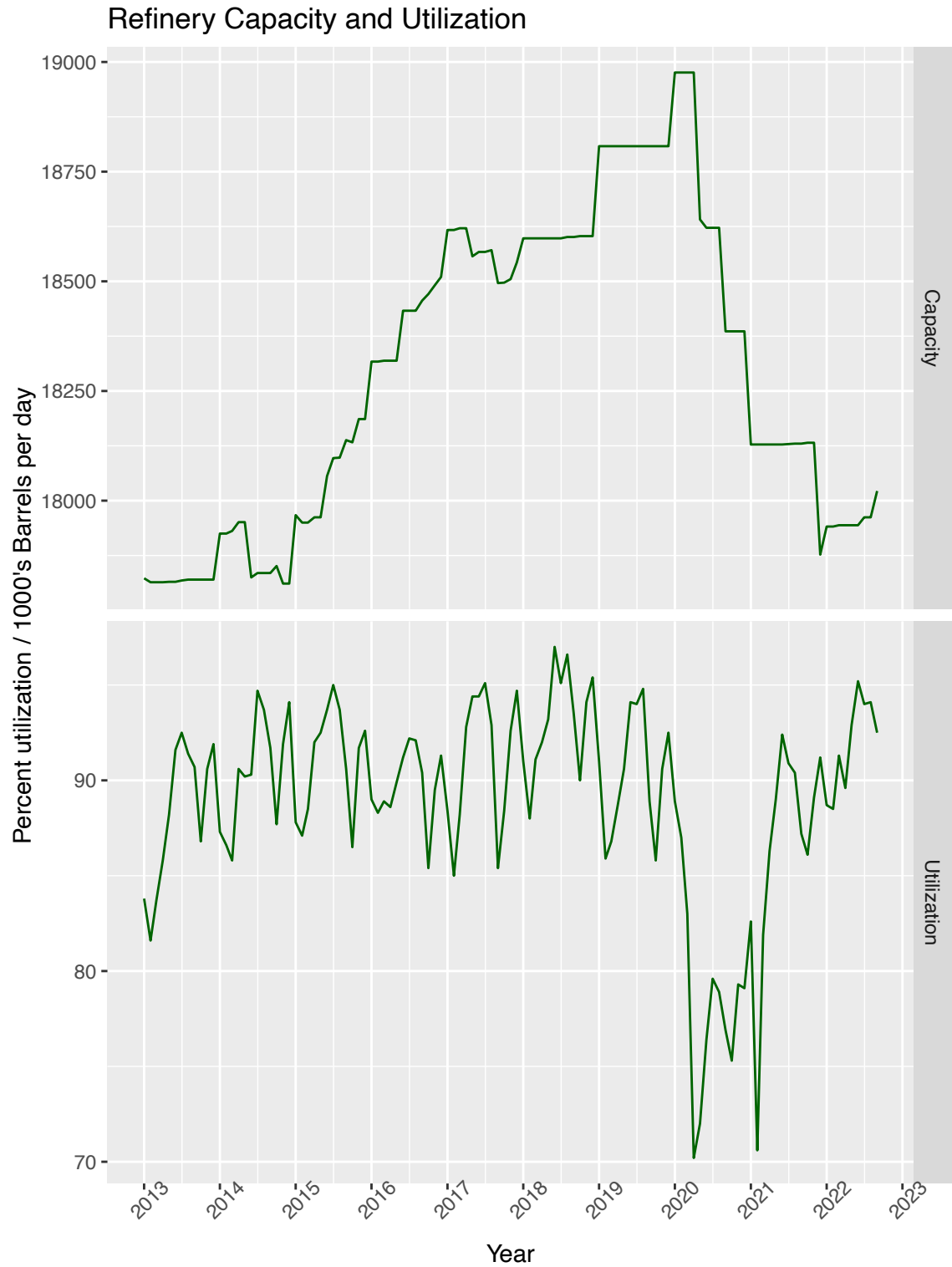


Figure 4. U.S. Refinery Capacity and Utilization Since 2013