

Diesel Fuel Price Outlook for 2024 - August Edition

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Introduction¹

This is part of a series of newsletters 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 are at the same price they were at the start of the year. Diesel prices did rise during the spring but came back down during the summer. Diesel is on track to exhibit its typical seasonality with higher than normal prices during the spring and fall. If diesel prices do follow this past seasonality, expect to see how diesel prices this fall with an increasing premium to gasoline.

Gasoline prices are about \$0.40 higher than the first of the year. Gasoline is also exhibiting its typically seasonality with higher than normal prices during the summer. Overall though, gasoline is at about the same price it was a year ago.

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 and 2023 but are still at the bottom range of normal supplies. 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. It may take several more years before diesel stocks are at a typical supply level.

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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 2023. In July of 2023, the price premium was actually below historical levels. However, the price premium rose from July 2023 to November 2023.

The price premium in 2024 is following a very similar pattern to last year. The premium has declined during the first half of the year and has started to rise again. The current price premium is low relative to the last two years. I expect both the price premium and diesel prices in general to rise during the fall.

Discussion

There are several factors driving diesel prices. The first is the world oil price. Despite conflicts in Russia/Ukraine and the middle East, oil prices remain in the \$70 range. The price of oil at the start of the Russian/Ukraine war reached \$130 but is now at levels below the start of the war. While traders may have over-reacted to the war in the beginning, they may now be underestimating the supply disruption potential.

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. While a move to more EV vehicles may help lower the price of gasoline, diesel demand is likely to remain more constant.

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 steady oil prices and the diesel premium is expected to follow the trend from 2023 where the premium declined until the summer and then starting increasing again. However, the oil market is very volatile and this forecast could change very quickly.

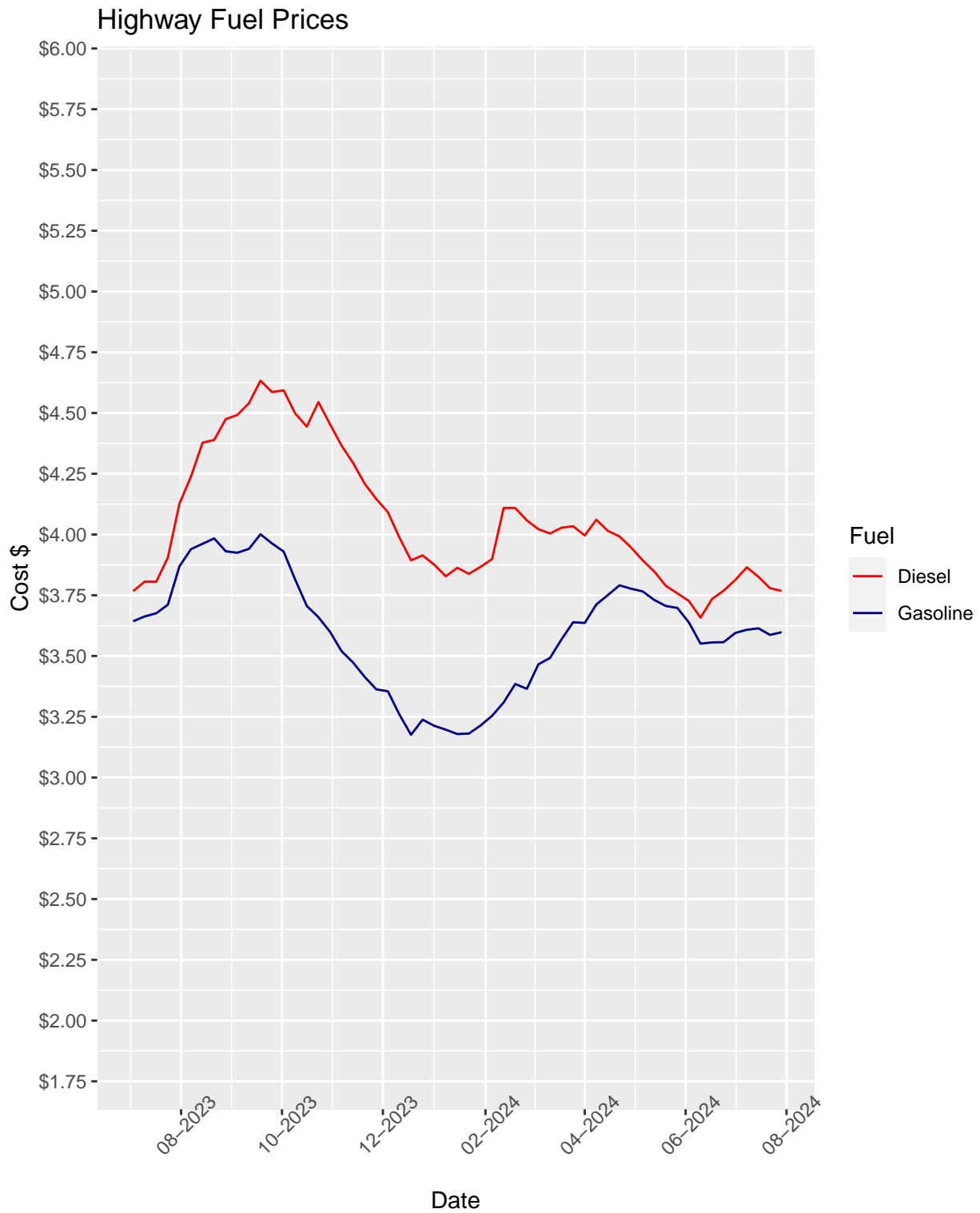


Figure 1: U.S. Highway Gasoline and Diesel Prices Since 2022

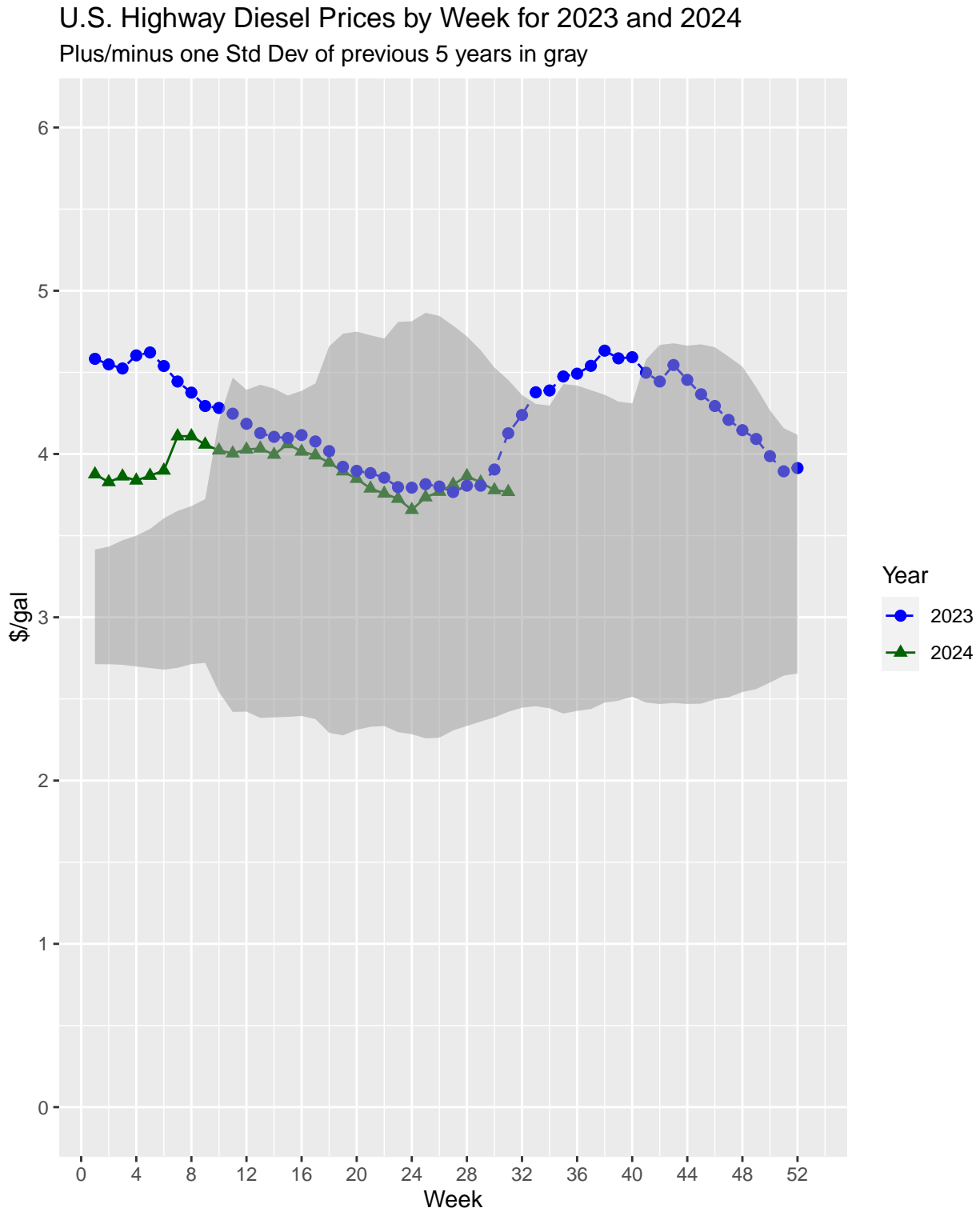


Figure 2: Diesel Prices Relative to the Last Five Years

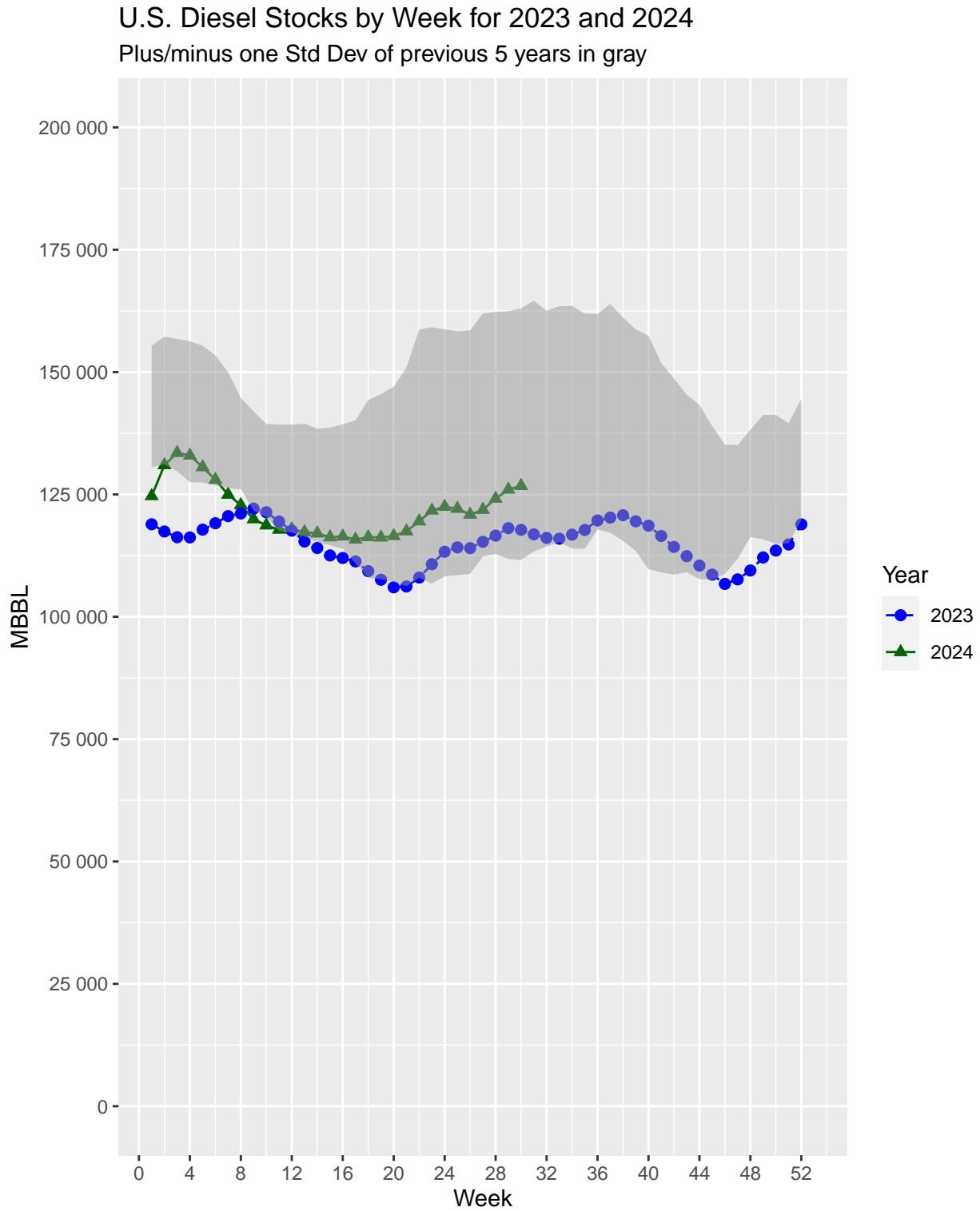


Figure 3: Diesel Stocks Relative to the Last Five Years

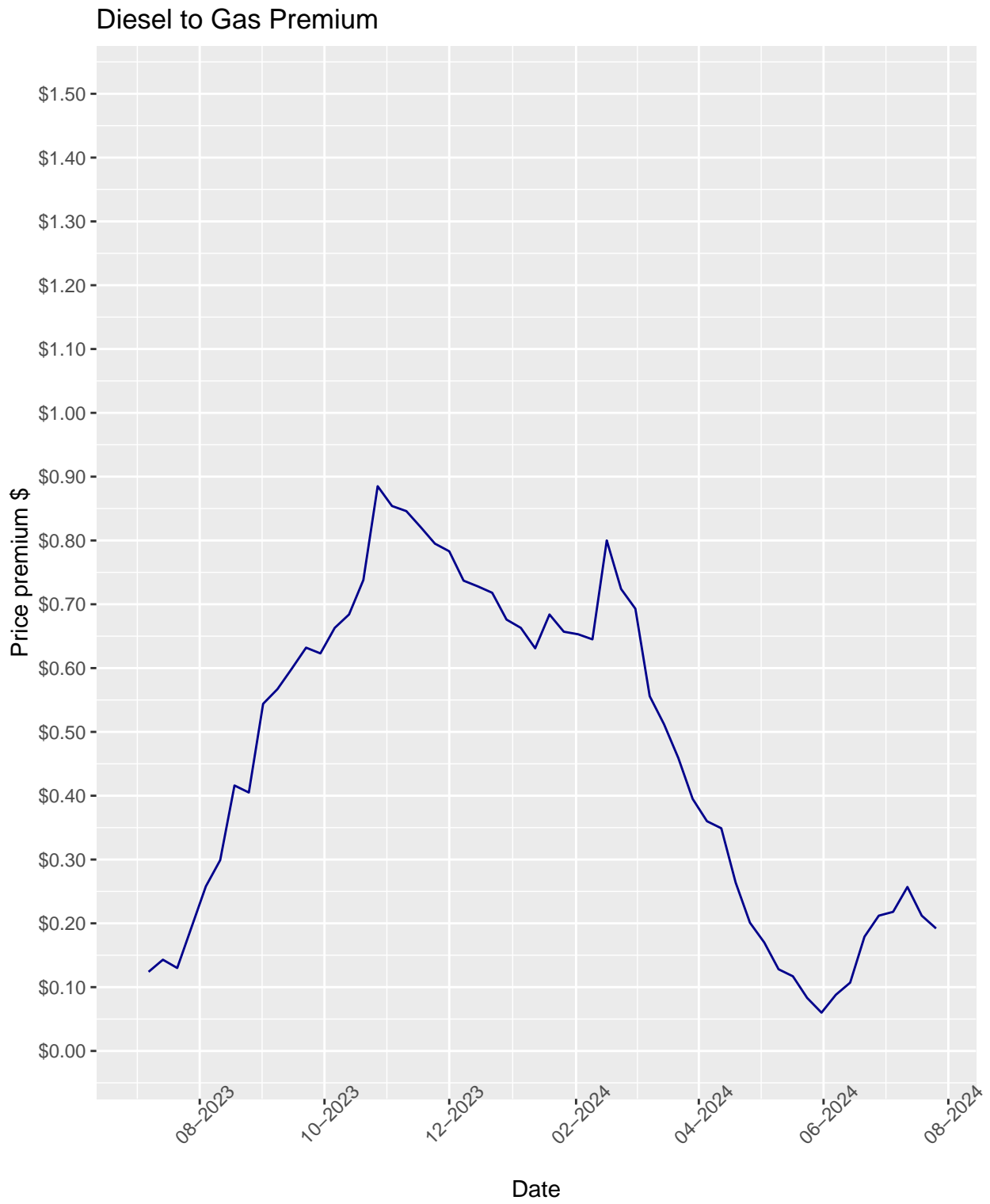


Figure 4: Diesel Premium to Gasoline

U.S. Diesel Price Premium by Week for 2023 and 2024
Plus/minus one Std Dev of previous 5 years in gray

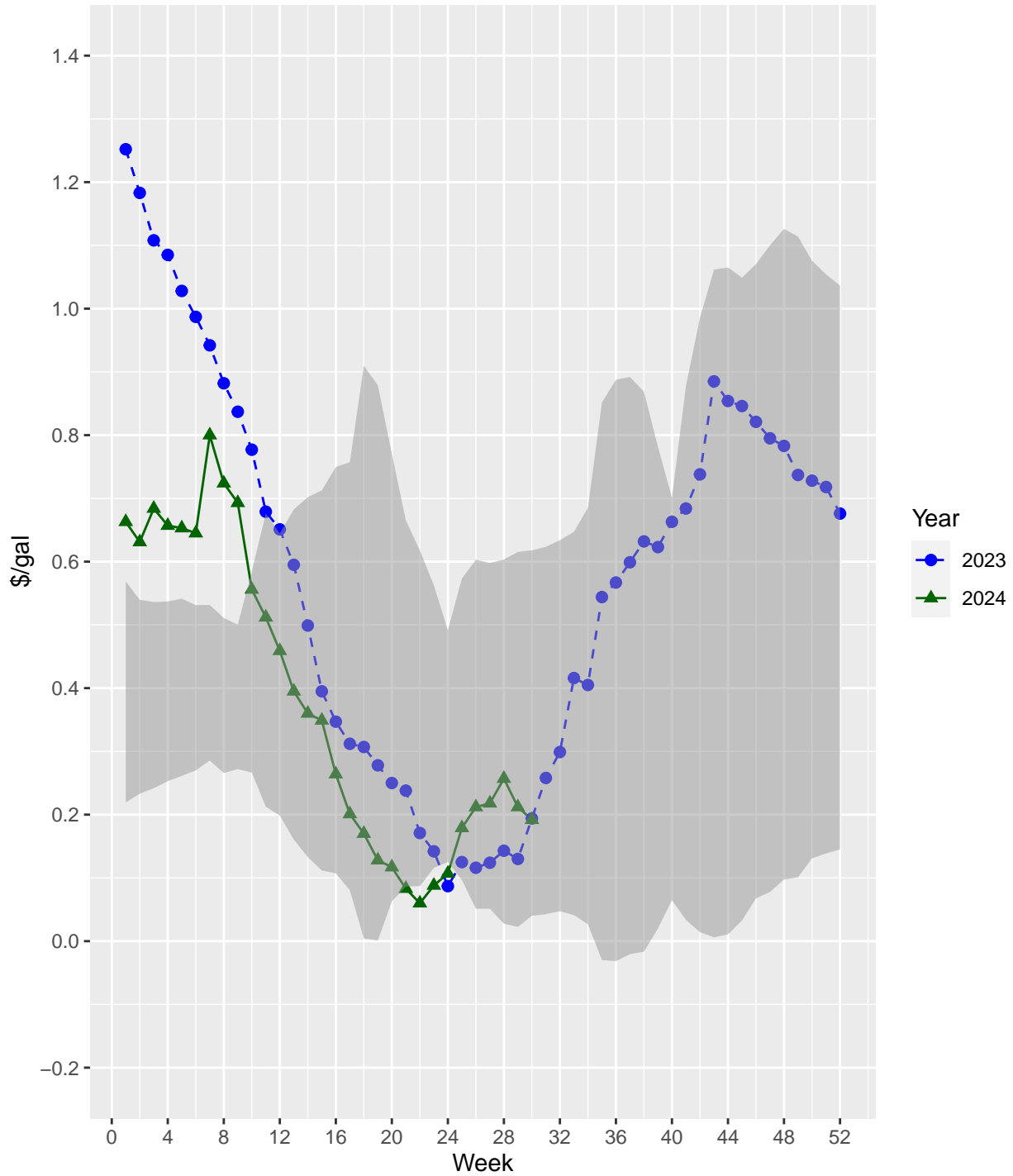


Figure 5: Diesel Price Premium Relative to the Last Five Years

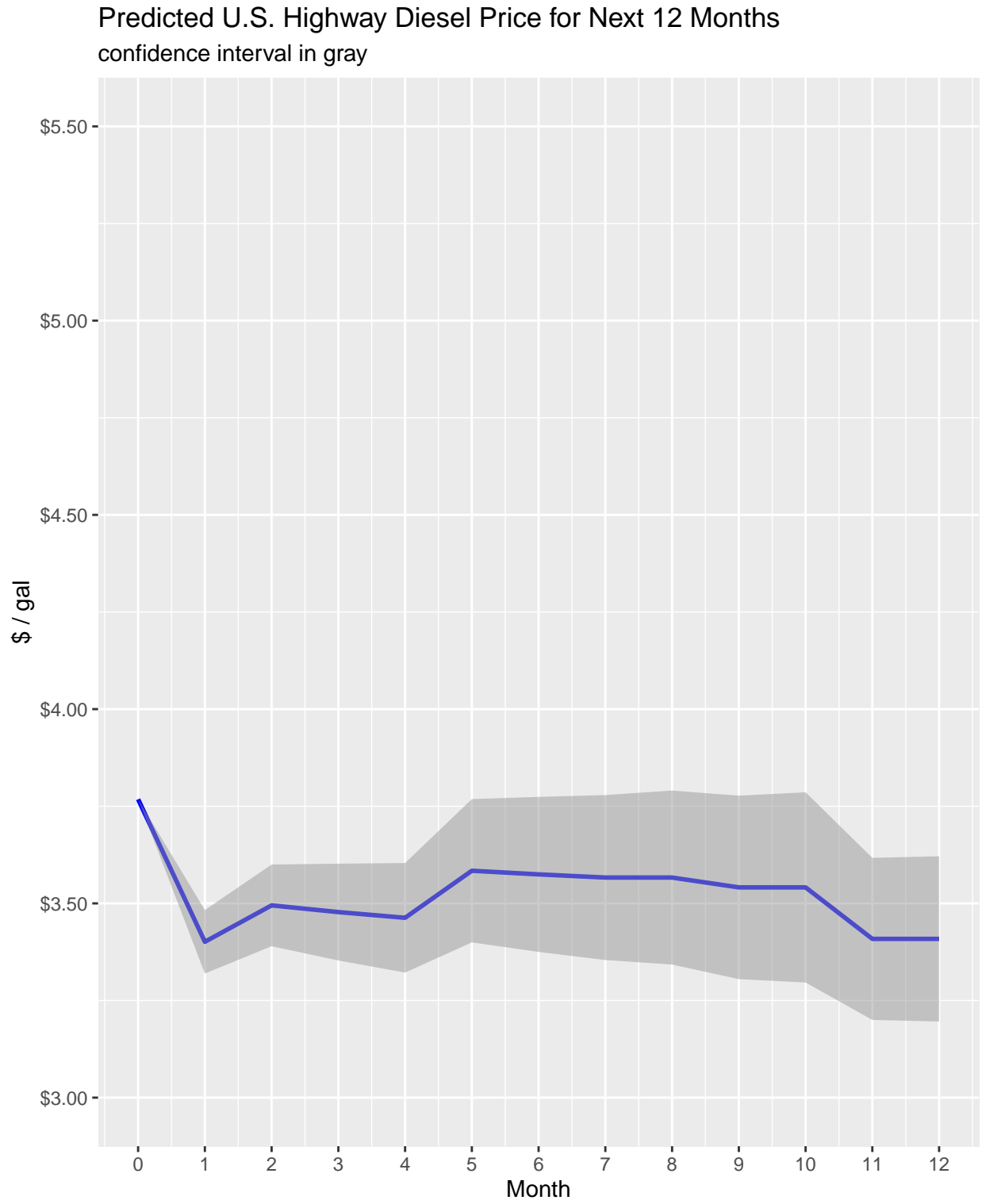


Figure 6: 12 Month Price Prediction for Diesel Fuel