GoldSquawk

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Diesel tightness is setting the marginal price across the oil complex

GoldSquawk Research

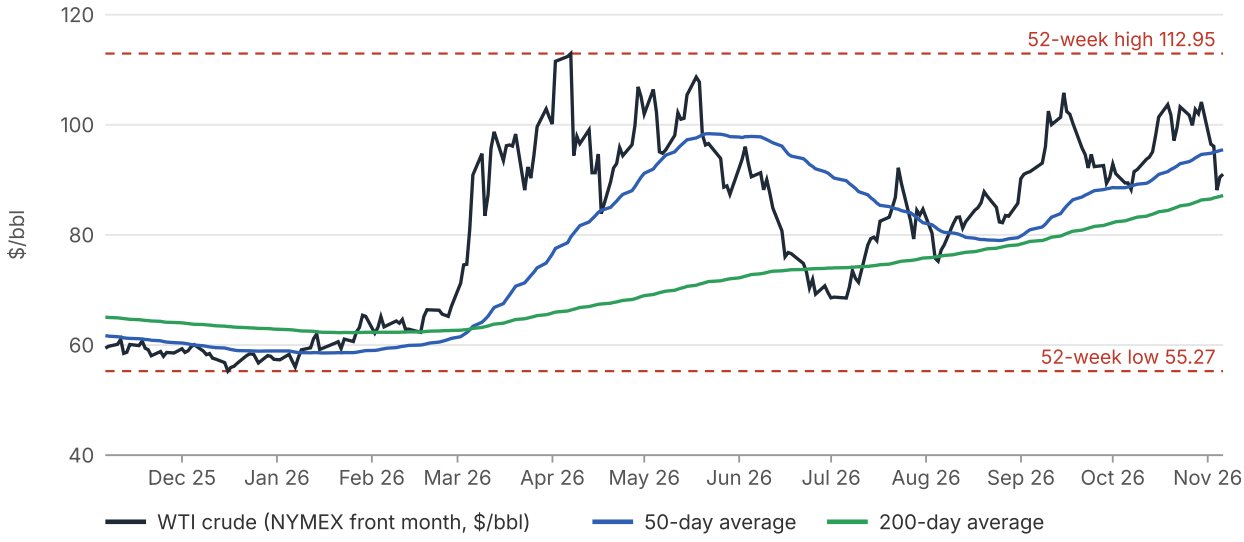
Key takeaways

- U.S. distillate inventories fell by 3.56 million barrels in the week to October 30 and stood at 99.259 million barrels, below 100 million for the first time since 2003, while crude and gasoline posted much smaller draws. That points to products, not crude, as the tighter leg of the balance.[1,2]
- Refiners have already responded aggressively: U.S. utilisation averaged above 95% from May through September, the highest for those months since 1998, while gasoline yields stayed below 45% through August as refiners shifted towards distillate and jet output.[3,4,5]
- Diesel margins and curve structure confirm product-led tightness. EIA said U.S. diesel cracks were expected to exceed $2/gal from August through November, while S&P Global reported record ULSD-WTI crack levels in September.[6,7,8]
- Potential balancing barrels are becoming less dependable. China's diesel exports for November are expected to ease amid record-low domestic inventories, while renewed Ukrainian strikes have disrupted Russian refining operations and complicated diesel supply management.[9,10,11,12]

U.S. distillate inventories are signalling the tightest constraint

- The latest weekly U.S. inventory data showed commercial crude stocks down 0.86 million barrels, gasoline down 0.22 million barrels, and distillates down 3.56 million barrels in the week ending October 30. Distillate stocks were reported at 99.259 million barrels, the first drop below 100 million since 2003.[1,2]
- EIA had already signalled this risk in its September STEO, stating that U.S. distillate inventories would fall below 100 million barrels and remain below the 2021–2025 five-year low through end-2026 and most of 2027.[6]
- The seasonal backdrop matters. EIA notes distillate demand peaks in the fall and winter, and refiners normally build inventories ahead of that period; in 2026, stocks still failed to rebuild despite very high runs.[3]
- The shortage is also more acute than in gasoline. EIA said late-August distillate inventories were 14% below the five-year average, versus gasoline at 6% below average.[13]

Figure 1: WTI remains firm, but product stress is the more acute signal



Source: NYMEX WTI crude futures daily closes via Yahoo Finance; GoldSquawk calculations, as of 06 November 2026.

Refinery behaviour shows the system is already defending diesel

- U.S. refinery utilisation averaged more than 95% of capacity from May through September 2026, the highest for those months since 1998. Even so, total refinery output was only the highest since 2019 because U.S. refining capacity is 4% lower than in 2019.[3]
- EIA's monthly data show refiners have deliberately shifted yield away from gasoline and towards middle distillates. From January through August 2026, gasoline yield averaged less than 45%, below the usual 45%–50% range and below the five-year low in every month.[4]
- The detailed yield data underline the adjustment: finished motor gasoline yield ran at 44.7% in March, 43.4% in April, 44.0% in May, 43.8% in June, 43.8% in July and 44.1% in August, while distillate fuel oil yield held around 29.6%–30.0% and jet fuel yield stayed at or above 12% from March through August.[5]
- This matters because refiners are already doing much of what the market would normally expect in response to diesel scarcity: high runs, lower gasoline yield and stronger distillate emphasis. If stocks still keep drawing, the bottleneck is product availability and conversion capacity rather than crude supply alone.[4,3]

China and Russia are tightening the global diesel buffer

- Reuters reported Chinese refiners had sold only around 500,000 metric tons of diesel for November loading so far, with total November exports preliminarily seen below 800,000 tons, while commercial diesel stocks fell to 11.1 million tons, or 83 million barrels, at end-October, the lowest since Oilchem records began in 2011.[9]
- Bloomberg, citing Energy Aspects, said state-run refiners are expected to reduce diesel exports this month and cut its estimate by 400,000 tons to 580,000 tons, although it noted exports could still be revised higher if domestic demand softens mid-month.[10]
- In Russia, Bloomberg said Ukraine struck a sixth crude-processing plant in a week and that YANOS halted all crude-processing operations after the November 3 attack. Reuters analysis also indicated Ryazan appeared to have been hit, compounding pressure on Russian fuel supply management.[11,12]
- These developments matter more for products than crude because refinery outages remove conversion capacity directly. Reuters said the latest attacks are complicating Russia's effort to

address domestic fuel shortages while continuing diesel exports to international markets.[14]

Scenarios

- **Product squeeze persists:** Further U.S. distillate draws from sub-100 million barrel levels, lower-than-expected Chinese diesel exports, and sustained outages at Russian refineries would reinforce the view that middle distillates remain the binding constraint across the complex.[2,9,10,11,12]
- **Refinery recovery eases pressure:** Quicker Russian refinery restarts, higher Chinese export flows, and a turn to U.S. distillate builds would suggest the current product tightness is beginning to relax, even if crude remains firm.[15,9,10,16]
- **Crude stays firm but products lead volatility:** If crude prices remain broadly supported while diesel cracks and refined-product backwardation stay elevated, the market signal would remain product-led rather than crude-led, with prompt product barrels carrying the main scarcity premium.[6,17,8]

Levels to watch

- WTI last close $91.02/bbl (06 Nov 2026)
- WTI 50-day moving average $95.47/bbl
- WTI 200-day moving average $87.16/bbl
- WTI 52-week high $112.95/bbl
- WTI 52-week low $55.27/bbl

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Glossary

Crack spread: The margin implied by the difference between crude oil and the price of refined products such as diesel or gasoline; a proxy for refining economics.[1][16][17]

Distillates: Refined oil products including diesel and heating oil, and often closely linked with middle-distillate supply-demand conditions.[3][5]

Backwardation: A market structure where prompt prices trade above later-dated prices, which tends to discourage inventory holding and reward nearby supply.[15]

Refinery utilisation: The share of operable refining capacity that is running; high utilisation means refiners are already operating close to practical limits.[5]

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