Our View: Will We See $10 per Gallon Retail Diesel, $300 per Barrel Spot Diesel, $2,000 MT Gasoil?

EU President Ursula von der Leyen as "Professor Harold Hill": The EU's Joke on Trump

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The global diesel market is on the verge of collapse due to inadequate supply, commonly referred to as a supply squeeze. Prices in the spot market are already near the peaks established three years ago following Russia's invasion of Ukraine. Prices will go much higher in the coming months if a hurricane forces the closure of US Gulf Coast refineries.

Several unrelated developments are converging to create the supply squeeze.

> The US produces the wrong type of crude. Crude oil from shale wells yields significantly less diesel than crude oil from the Middle East. The surge in US output has reduced the global diesel supply by as much as 1.2 million barrels per day.
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> Countries such as Mexico produce heavy crude oil that sophisticated refineries in the United States can convert to substantial quantities of diesel. However, tariffs adopted by the Trump administration have forced exporters to seek other markets, further cutting potential output and supply.
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> Sanctions imposed on Venezuela by President Trump have prevented US refiners from buying the heavy crudes it produces, oil that also yields substantial diesel volumes when processed by complex US refineries. Recent proposals to lift these sanctions while preventing producers such as Chevron from transferring funds to the Maduro government will not resolve the problem. Instead, the Venezuelan oil will go to China or India.
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> Chinese refineries could boost diesel production and exports to fill the supply gap. However, the Chinese government has limited product exports and wants refiners there to reduce their runs.
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> New sanctions imposed by the European Union on Russia ban EU marketers and retailers from importing diesel manufactured from Russian crude.
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> Exports of distillate-rich Nigerian crude may be reduced due to the opening of a major new refinery in the country.
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> Refinery shutdowns in Europe have reduced EU diesel production, prompting buyers to seek imports from countries such as the United States.

Today, global inventories of distillates, diesel, and gasoil are near record-low levels. The market is poised to move much higher. Prices of distillate-rich crude oils could be propelled higher, as they were in 2008. Retail prices in the United States are currently near $4 per gallon. They could easily double if a hurricane shuts down Gulf Coast refiners for several weeks, as Katrina did in 2005. That disruption shuttered 5.6 million barrels per day of refining capacity, forcing the United States to turn to Europe for fuel supplies.

Ursula von der Leyen as Professor Harold Hill

In the Broadway show *The Music Man*, Professor Harold Hill arrives in the mythical River City, Iowa, proposing to sell instruments and uniforms to create a "boys' band" and then teach them how to play. Hill, a con man rather than musician, had previously left other innocent Midwestern towns with uniforms and instruments but forgone any instruction on playing. In Scotland this week, the EU's president, Ursula von der Leyen, played a "Professor Hill" trick on Donald Trump.

The EU agreed to purchase $750 billion in energy imports from the US over the next three years. This agreement is a joke. As three Bloomberg writers noted, the US exported only $80 billion in energy to the EU in 2024. Furthermore, "total US energy exports were just over $330 billion in 2024." As one expert told them, "The huge figure for energy imports 'is meaningless, as it's unachievable not only because EU demand cannot grow that much, but also because US exporters cannot supply that much either!'"[1]

Going forward, EU refiners will not rush to purchase US crude oil because, as noted above, US crude oil is distillate-poor. The EU consumes substantial quantities of diesel, not gasoline, and US crudes are gasoline rich. The EU is also not likely to purchase large amounts of energy capital such as turbines because the deliveries would not arrive until after 2030. The EU is also going green as US producers of green energy capital such as solar panels and windmills are shutting due to the funding cuts in President Trump's "Big Beautiful Bill."

The EU can only satisfy the $750 billion commitment if oil and gas prices triple. Crude would need to approach $200 per barrel. This would take US gasoline prices to near $6 per gallon. One can only imagine the response of MAGA voters to such a hike.

In this case, the EU's Professor Hill, Ursula von der Leyen, knows how to play and the instrument turns out to be Donald Trump.

[1] John Ainger, Anna Shiryaevskaya, and Julian Lee, "EU's $750 Billion Energy Deal With Trump Looks Hard to Reach," Bloomberg, July 28, 2025 [https://tinyurl.com/56u87drz].