Our View

A More Severe Disruption?

Philip Verleger
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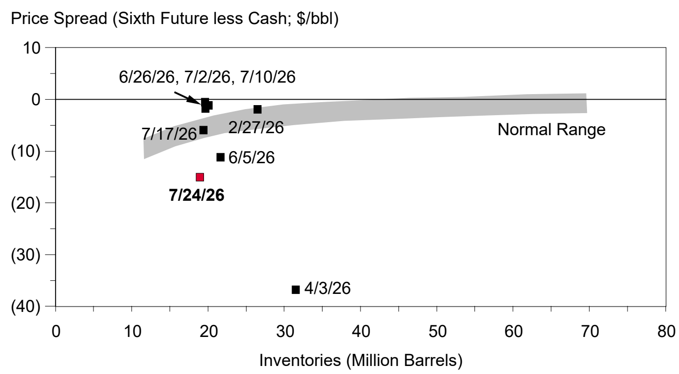
The two wars driving the oil market disruption have intensified. The increase in threats has prompted crude oil buyers to begin hoarding. Diesel and gasoil buyers are also starting to hoard, fearing further price rises. The real threat comes not from the Middle East but from Ukraine because the diesel market disruption could push diesel prices to $2000 per metric ton or $20 per gallon.

Crude oil prices have risen by as much as 20% in a short time. Prices of distillate-rich crudes have increased faster than those for light sweet crude. These trends will likely fall further as traders, refiners, and consumers realize that flows through the Strait of Hormuz or from the Red Sea may not normalize for weeks or months. The disruption will be compounded by Ukraine's increasing interdiction of Russia’s oil business.

Figure 1
Cushing Supply of Storage: 2/27/26, 4/3/26, 6/5/26, 6/26/26, 7/2/26, 7/10/26, 7/17/26, and 7/24/26



Source: PKVerleger LLC.

US refiners are also awakening to the new problems. Backwardation as measured via our supply-of-storage curve increased sharply last week. The WTI price spread also surged, as Figure 1 shows, although it did not reach the early April apex when the uncertainty over the war was at its peak.

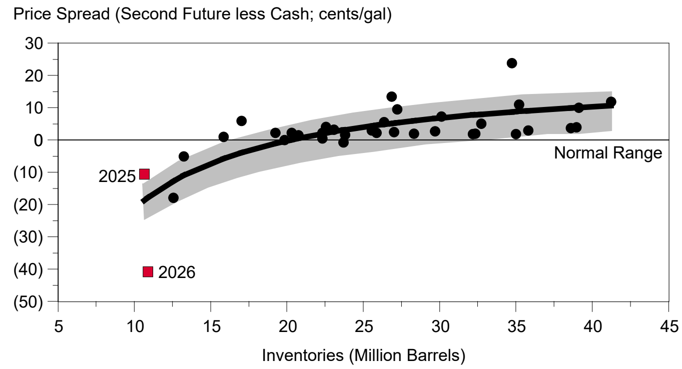
Chevron will be one victim of the latest developments. The company has a significant investment in Kazakhstan’s Tengiz field. That oil gets exported through a Black Sea port near Novorossiysk, which is also a key export location for Russia and thus a critical target for Ukraine. Chevron’s CEO approached the Trump administration for help last week, and the administration then warned Ukraine against attacking non-Russian vessels.[1] While Ukraine will likely try to avoid such ships,

[1] Collin Eaton and Costas Paris, “Chevron Is Trying to Keep Its Kazakh Assets Out of the Russia-Ukraine War,” *The Wall Street Journal*, July 24, 2026 [https://tinyurl.com/4dpu5bfk].

exports from Kazakhstan could stay constrained unless Russia stops using the country's export facilities.

Distillate markets are now reflecting the advent of shortages and hoarding. This shift is evident in the supply of storage for Mid-Atlantic distillate (see Figure 2). Price spreads had remained in the normal range until last week. As the graph shows, backwardation is now $0.41 per gallon, which is greater than would be expected absent the market disruption and will likely rise further.

Figure 2
US Mid-Atlantic Distillate Supply of Storage, End-July, 2025 vs. 2026



Source: US EIA; PKVerleger LLC.

We anticipate additional crude price increases and greater hoarding, given the escalating situation in the Middle East and eastern Europe.

Today, there is no room for error in the refining sector, as *Financial Times* noted:

> High refinery utilization has helped keep markets supplied and boosted groups such as Valero and Marathon Petroleum, whose stocks have almost doubled since the start of the year. But it has also left the world's largest oil consumer with little margin for error.
>
> An outage, either caused by a breakdown or natural disaster such as a hurricane, would hit consumers around the world already grappling with high energy costs, analysts warned.[2]

US refineries are operating at 96% of rated capacity, according to the US Energy Information Administration, as they try to meet domestic demand and boost exports. The incentive to maximize output is clear. Margins on gasoline and diesel are near record levels. Figure 3 shows that diesel margins now exceed $80 per barrel before adjusting for RIN obligations, while gasoline margins are around $60.

Margins will likely increase unless refineries in China boost operating rates and exports. China's refinery runs dropped to 58% of capacity in June, which means it could substantially boost gasoline and diesel fuel output. However, Chinese refiners are

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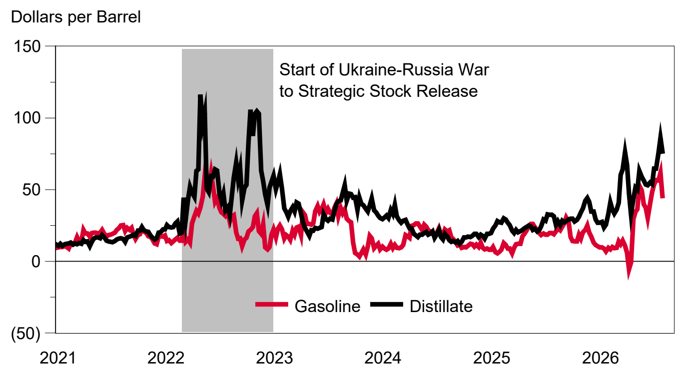
[2] Stephanie Findlay, "US oil refineries run at breakneck speeds as wars choke fuel supplies," *Financial Times*, July 23, 2026 [https://tinyurl.com/374d9a6b].

constrained by government limits on product exports. Thus, the global product market will continue to tighten, absent China allowing its exports to increase.

Figure 3
Distillate and Gasoline Refining Margins in New York, 2021 to 2026



Source: PKVerleger LLC.