

Our View

US Heating Oil Release from Reserves Could Lower Diesel Prices

Philip Verleger
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US Secretary of Energy Chris Wright announced on October 21 that the US would release 315,000 barrels from the United States' heating oil reserve. Analysts universally said the sales would have no impact. **As usual, the conventional view may be wrong because these commentators do not understand the market.**

Aruni Soni of *The New York Times* offered this assessment and quote:

But analysts said the announced release is unlikely to provide much relief to Americans worried about the soaring costs of heating their homes this winter.

"The volume is too small relative to consumption to significantly change supply," said William O'Neil, an analyst at S&P Global Energy.¹

O'Neil is correct: the volume is small relative to global demand. However, the release targets the heating oil market. The futures market that sets US, and perhaps global, distillate prices is also very small and designed to address demand for heating oil, not global demand for diesel.

The CME distillate futures contract usually sets US distillate (diesel and heating oil) prices across the country. Although the contract requires physical delivery of low-sulfur diesel or heating oil in New York Harbor, East Coast firms often negotiate deliveries to terminals in New England.

This focus means the additional 315,000 barrels could significantly impact US heating oil prices. Given the steep backwardation and high prices, open interest in heating oil has declined, especially in the November contract.

The numbers tell the story. According to Secretary Wright, the reserve release will be delivered by November 15. In effect, the US Department of Energy is delivering on 315 distillate futures contracts in November. This number may seem small, but open interest in the November contract on the last day of October trading has historically been less than 5,000 contracts. In addition, many contracts are held to the last day of trading. The table below shows the last-day open interest.

¹ Aruni Soni, "US to Tap Heating Oil Reserves Ahead of Midterm Elections," *The New York Times*, October 21, 2026 [<https://tinyurl.com/4freyyz>].

In effect, the DOE's action will boost the supply delivered into the market by 10% to 20%. Given the low price elasticity of demand, this could drive futures prices down sharply for the rest of October. That decline has already begun. Just prior to Wright's announcement, November futures traded at \$5.02 per gallon. Today, prices settled at \$4.76, down 5.2%. They could fall further.

Secretary Wright's focus on the geographically small distillate futures market illustrates how a narrowly defined commodity market can move the global market.

Those trying to predict the behavior of oil markets need to keep this in mind: often it just takes the flea on the dog's tail to "wag the dog."

**Open Interest in the November
Distillate Futures Contract on the
Last Trading Day of October,
2022 to 2025
(Contracts of 1,000 Barrels)**

Year	Open Interest
2022	1,208
2023	3,501
2024	3,909
2025	2,175

Source: CME.