The diesel squeeze: How WisdomTree's quantitative commodity strategy responded and what may come next

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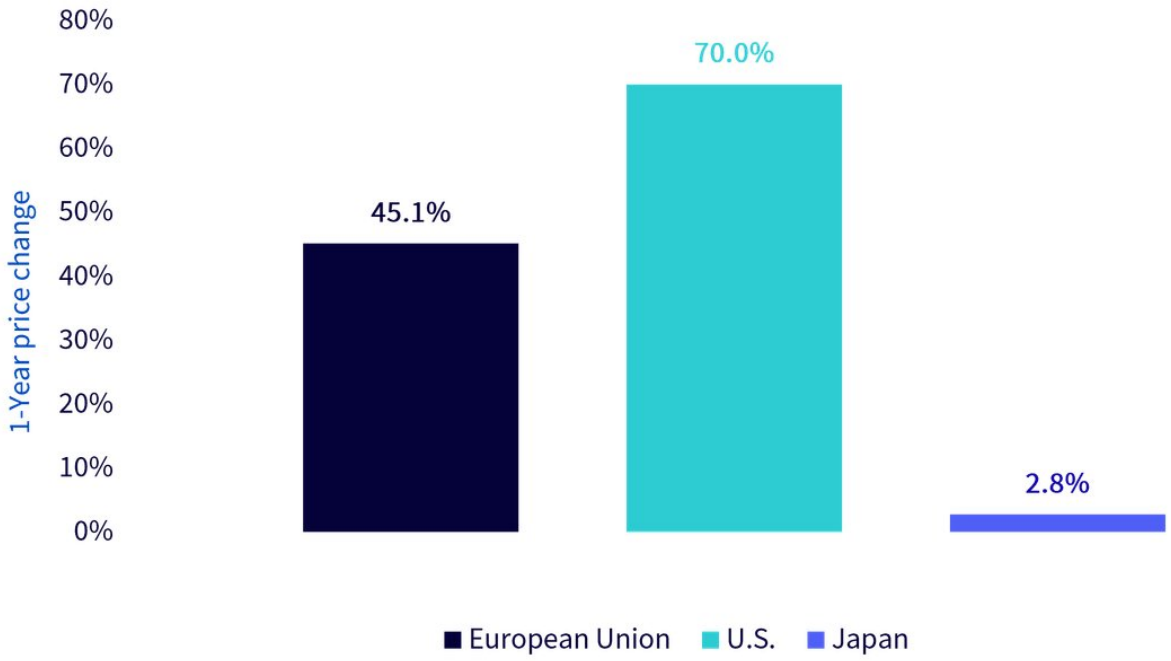
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Key Takeaways

- Refinery disruptions in Russia and the Persian Gulf, alongside reduced Chinese output, have squeezed diesel supply and driven prices higher.
- WisdomTree's quantitative commodity strategy responded with overweights in Gasoil and ULS Diesel, adding to performance relative to the benchmark.
- Crack spreads could narrow as stronger refinery demand lifts crude oil prices, while harvesting and winter heating demand keep diesel prices elevated.
- Potential US export bans and G7 strategic stock releases add uncertainty, supporting a broadly neutral allocation to middle distillates.

Diesel prices have reached painful highs globally. Some countries, such as Japan, have introduced expensive subsidies1 to keep a lid on prices; others, such as the USA, have allowed retail prices to increase dramatically to date (Figure 1).

Figure 1: Diesel gets painfully more expensive | One-year price change in retail diesel



Source: EIA, U.S. No. 2 diesel retail prices; European Commission, EU weighted average automotive diesel prices including taxes; METI, Japan national average diesel retail prices. One-year change from 29 September 2025 to 28 September 2026, measured in local currencies. **Historical performance is not an indication of future performance and any investments may go down in value.**

Let's start by revisiting the main reasons behind the dramatic price increases.

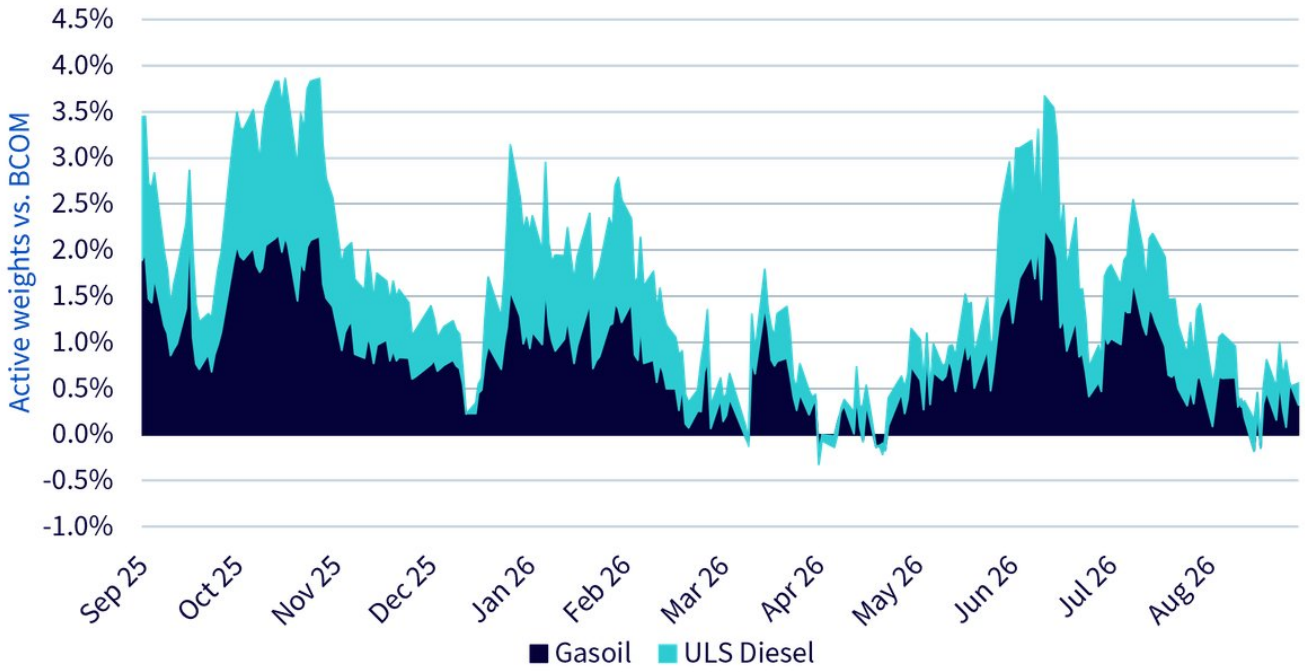
- Ukraine's aerial attacks on Russian refineries picked up significantly in 2026, reducing crude intake to 3.8 million b/d in June, significantly below the 5-6 million b/d seen in prior years. Diesel output, in particular, is estimated to have fallen by 30% compared to 2025.2
- The effective closure of the Strait of Hormuz has led to the shutdown of 3 million barrels per day of regional refining capacity, owing to attacks and unavailable export outlets.3 While some shipping has resumed, crude oil shipments have been prioritised, leading to an imbalance between crude and refined products.4
- China's reduction of crude oil imports has eased pressure on crude oil prices. However, as China is one of the major producers of oil distillates, the subsequent reduction in its refining output has reduced supply to the global market.5
- Existing refineries are producing at high utilisation rates, but their capacity can't easily be expanded further. US refining capacity peaked in 2020, the last new US refinery was built in 2021, and the number of active refineries has steadily declined since the 1980s.6

How WisdomTree's quantitative commodity strategy responded

Within our enhanced commodity strategy, the WisdomTree Enhanced Commodity UCITS ETF, we assess quantitative signals on curve backwardation, changes in the curve's shape, and price momentum on a

daily basis to inform active weights relative to the Bloomberg Commodity Index. These signals help us gauge the market's expectations of relative tightness. A tight market can be a strong indicator of potential future price increases.

Figure 2: The quantitative strategy's active weights reflected tightening distillate markets



Source: WisdomTree, from 29 September 2025 to 28 September 2026. Weight differences of the WisdomTree Enhanced Commodity Index and the Bloomberg Commodity Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

Over the past year, we overweighted Gasoil and ULS Diesel, both middle distillates, by an average of 0.9 and 0.7 percentage points, respectively, relative to the Bloomberg Commodity Index. As market conditions tightened during the Iran war, the strategy's quantitative signals drove the aggregate active weight in Gasoil and ULS Diesel to a maximum of 3.5% during July. These allocation decisions contributed 3.01 percentage points to performance relative to the benchmark, excluding the effects of differing futures contract selections.7

What's next for diesel?

"The cure to high prices is high prices." Generally speaking, high commodity prices incentivise new supply but also destroy demand. High refining margins could incentivise higher refining volumes, while high diesel prices could have a detrimental impact on demand.

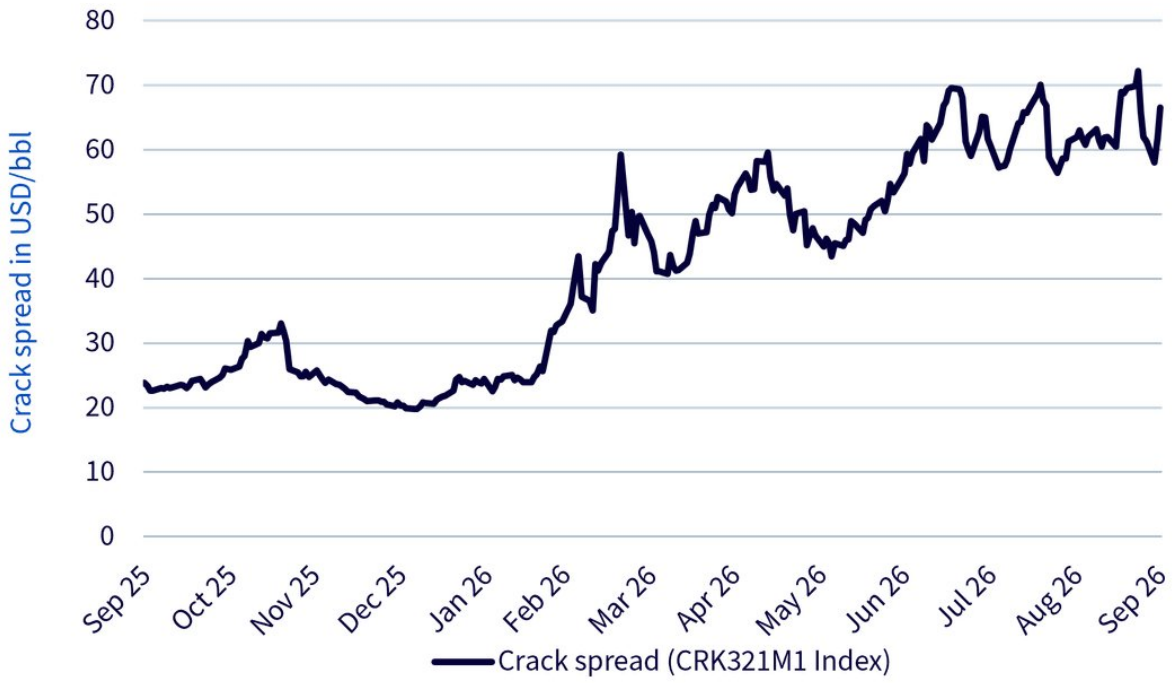
We note the following important developments:

- Ukraine's attacks on Russian refineries drew the attention of the US, with US President Trump asking Ukrainian President Zelensky to stop attacks on oil infrastructure.8

- Flows through the East-West pipeline, which feeds Saudi Arabia's refineries on its Red Sea coast and was struck by drones in early September, had been partly restored by the end of September.9
- China is staging a cautious return to the international crude oil market. With crude imports recovering, we may see higher refining volumes. At the same time, China's still-large onshore inventories allow it to remain sensitive to prices.10
- A potential ban on US diesel exports could lower prices for American consumers but also put further pressure on international markets by removing substantial US supplies. In August alone, the US exported 1.6 million barrels of diesel a day.11
- G7 countries have responded by seeking to increase refinery utilisation rates where feasible and releasing additional strategic stocks of crude oil and distillates. However, the amount of diesel alone to be released remains unclear.12

As such, with no solution for the Strait of Hormuz on the horizon and refining capacity adapting while drawing on limited crude oil supplies, we see potential for crack spreads (Figure 3) to narrow. The crack spread is the difference between the value of refined products and the cost of the crude oil used to produce them.

Figure 3: Refining margins are near historical highs



Source: Bloomberg Finance L.P., from 30 September 2025 to 30 September 2026. CRK321M1 Index is the Bloomberg 3:2:1 crack spread using first-nearby US futures contracts. It approximates the gross margin from refining three barrels of WTI crude into two barrels of RBOB gasoline and one barrel of heating oil. **Historical performance is not an indication of future performance, and any investments may go down in value.**

This narrowing is likely to come from crude oil prices catching up through higher refinery demand, rather than from falling distillate prices. At the same time, US diesel demand also typically strengthens towards the end of the year, with agricultural diesel demand peaking during the October and November harvest period, alongside demand from the upcoming winter heating season. With WisdomTree Enhanced Commodity UCITS ETF's current active weights in middle distillates moderating to 0.5%, the quantitative signals match the developments on the ground.

The threat of diesel export bans, alongside further, yet unspecified, G7 distillate inventory releases, adds uncertainty to the global market, supporting the neutral allocation to middle distillates.

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1 Source: Japan's Ministry of Economy, Trade and Industry (METI), "Press Conference by Minister Akazawa", 17 March 2026
2 Source: IEA, "Russian refining sector struggles amid intensifying Ukrainian attacks", 17 September 2026
3 Source: IEA, "The Middle East and Global Energy Markets"
4 Source: S&P Global, "Rerouting after Hormuz cuts clean tanker cargoes, yet fleet expands", 2 September 2026
5 Source: Bloomberg, "China Taps Commercial Oil Stocks to Help Weather Gulf Shock", 10 June 2026
6 Source: EIA
7 Source: WisdomTree from 30 September 2025 to 30 September 2026. Relative performance considering commodity weightings only, and as such ignoring effects from differing contract selections. **Historical performance is not an indication of future performance and any investments may go down in value.**
8 Financial Times, "Donald Trump presses Volodymyr Zelenskyy to stop hitting Russian refineries" 21 September 2026
9 Source: Bloomberg, "Saudi Arabia Has Restored Key Pipeline to Half Its Capacity", 28 September 2026
10 Source: Bloomberg, "China Oil Comeback Loses Steam as Iran War Drags On", 30 September 2026
11 Source: Bloomberg, "Trump-Backed US Diesel Export Ban Seen Cutting Prices — at First", 24 September 2026
12 Source: UK Government, "G7 Leaders' Statement on global energy security and market stability", 2 October 2026

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