The other half of the oil story: refined products, inflation, and real assets

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Key Takeaways

- Refined products have remained much closer to their peak than crude oil, reflecting tighter fuel markets.
- Disrupted refinery capacity and product-export flows have pushed refining margins close to all-time highs.
- Higher fuel prices add to inflation, increasing US long-term borrowing costs amid high public debt.
- Inflation and fiscal concerns can support demand for hard assets such as commodities. A broad allocation across the asset class may be the most prudent way to participate in the tailwinds visible today.

When looking at headlines about the US–Iran war, one gets the impression that the rise in crude oil is the main determinant of inflation, but this is only half the story. In the end, crude oil is not consumed directly. Crude oil is primarily processed in refineries, where it is transformed rather than consumed directly. What matters for most people around the world is the price of so-called “petroleum *products*” (or simply “products”), meaning the commodities produced from crude oil and much more familiar to consumers: gasoline, diesel, gasoil and heating oil.

Strictly speaking, this is a somewhat convenient simplification. Although the world does not consume crude directly, crude oil explains a large share of the variation in the prices of oil products such as diesel. And this makes sense. For example, crude oil typically accounts for around half of the pre-tax price of gasoline, and it is by far the most volatile component of the inputs that refineries use to turn it into fuel for your car’s combustion engine. That’s why crude oil and products often move in tandem.

Table 1: Refined products gave up much less of their gains from the peak

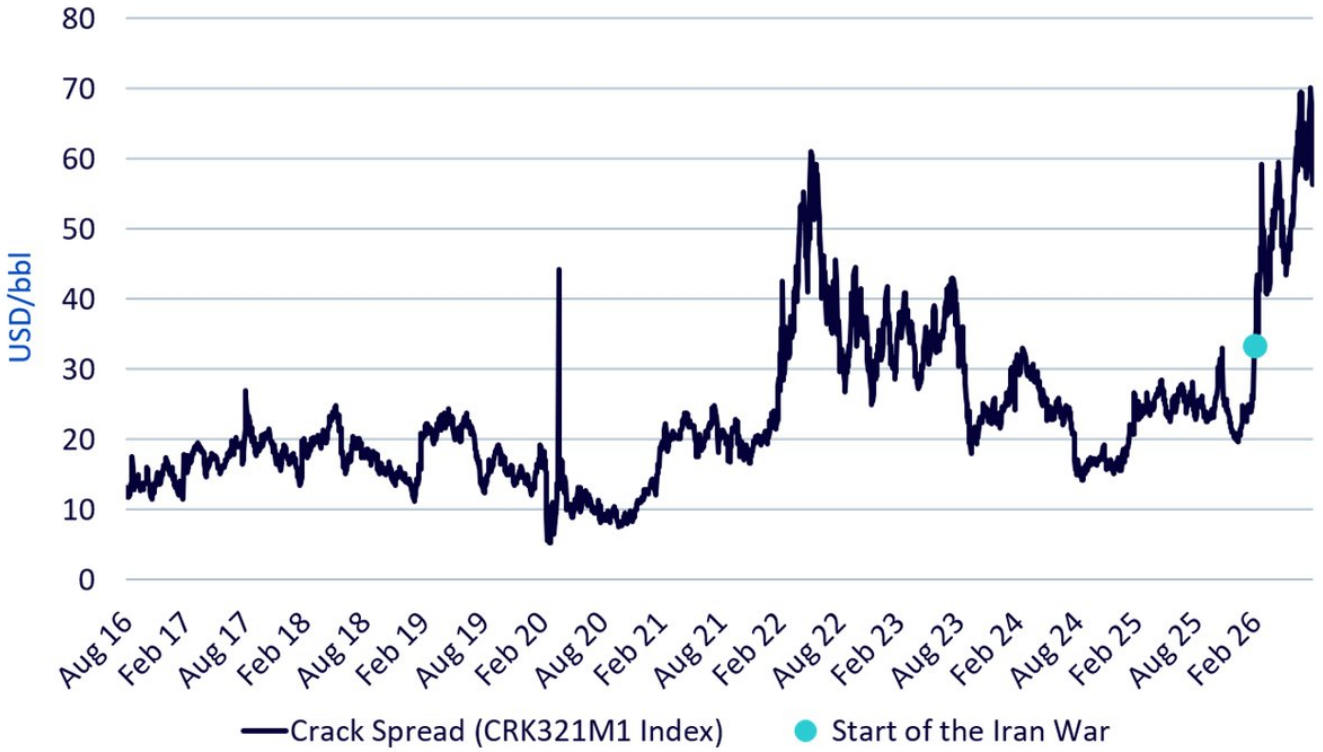
Commodity	Unit	Last price before onset of Iran war	Current Price	Peak Price	Return (Onset to Date)	Peak Return
WTI Crude	USD/bbl	71.2	82.3	113.0	15.5%	58.6%
Brent Crude	USD/bbl	77.7	88.3	118.4	13.6%	52.2%
Heating Oil	USc/gal	290.0	421.8	460.8	45.4%	58.9%
RBOB Gasoline	USc/gal	237.1	330.8	377.2	39.6%	59.1%
Gasoil	USD/mt	886.5	1228.3	1527.8	38.6%	72.3%

Source: WisdomTree, Bloomberg Finance L.P. from 27 February 2026 to 26 August 2026. 'Last price before onset of Iran war' refers to the settlement price on 27 February 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Markets can take unexpected turns. Table 1 shows the performance of oil-related commodities in the Bloomberg Commodity Index since the start of the war. The first two are crude oil, which is what makes the headlines. The others are products derived from crude oil. As we can see, peak returns have been broadly similar across the commodities, but spot performance since the start of the war is now much higher for products. In other words, refined products remain much closer to their peak than crude oil.

There is a convenient way to track this, shown in Figure 1. It is called the crack spread, and there are liquid futures contracts that trade it. The term comes from the process of "cracking", namely separating crude oil into refined products. The crack spread is the difference between the value of the refined products and the cost of the crude oil used to produce them[1]. It is built in a way to roughly proxy the gross profit that a refinery earns by converting crude oil into products. The chart shows that the prices of refined products have risen relative to the price of crude oil, causing the crack spread to widen. Currently, the spread is sitting close to the all-time high.

Figure 1: Refining margins (crack spread) approach all-time high



Source: WisdomTree, Bloomberg Finance L.P. from 29 August 2016 to 25 August 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The outperformance of refined products reflects a mismatch between the oil that was available and the fuels that end users actually needed. The disruption to the Strait of Hormuz affected both crude and product flows, but crude markets received some relief from higher Gulf production, alternative export routes, inventory releases and periodic hopes of a ceasefire. Product markets were less able to adjust. Refinery throughput remained well below last year's level, while attacks on Russian refineries and disruptions to Middle Eastern product exports reduced the supply of diesel, jet fuel and gasoline[2]. These shortfalls could not be easily replaced because refined products must be produced in specific refinery configurations and delivered to the relevant regional market. As a result, the availability of crude recovered more quickly than the availability of products, pushing refining margins sharply higher.

In addition, China, the world's largest refining system and normally an important marginal supplier of products to Asia, initially restricted exports of diesel, jet fuel and kerosene to protect its domestic market[3]. This removed a key source of flexible supply just as Middle Eastern product exports were disrupted and Russian refinery outages reduced diesel availability. Although Chinese restrictions were later eased[3], refined products had by then already developed a substantial premium over crude.

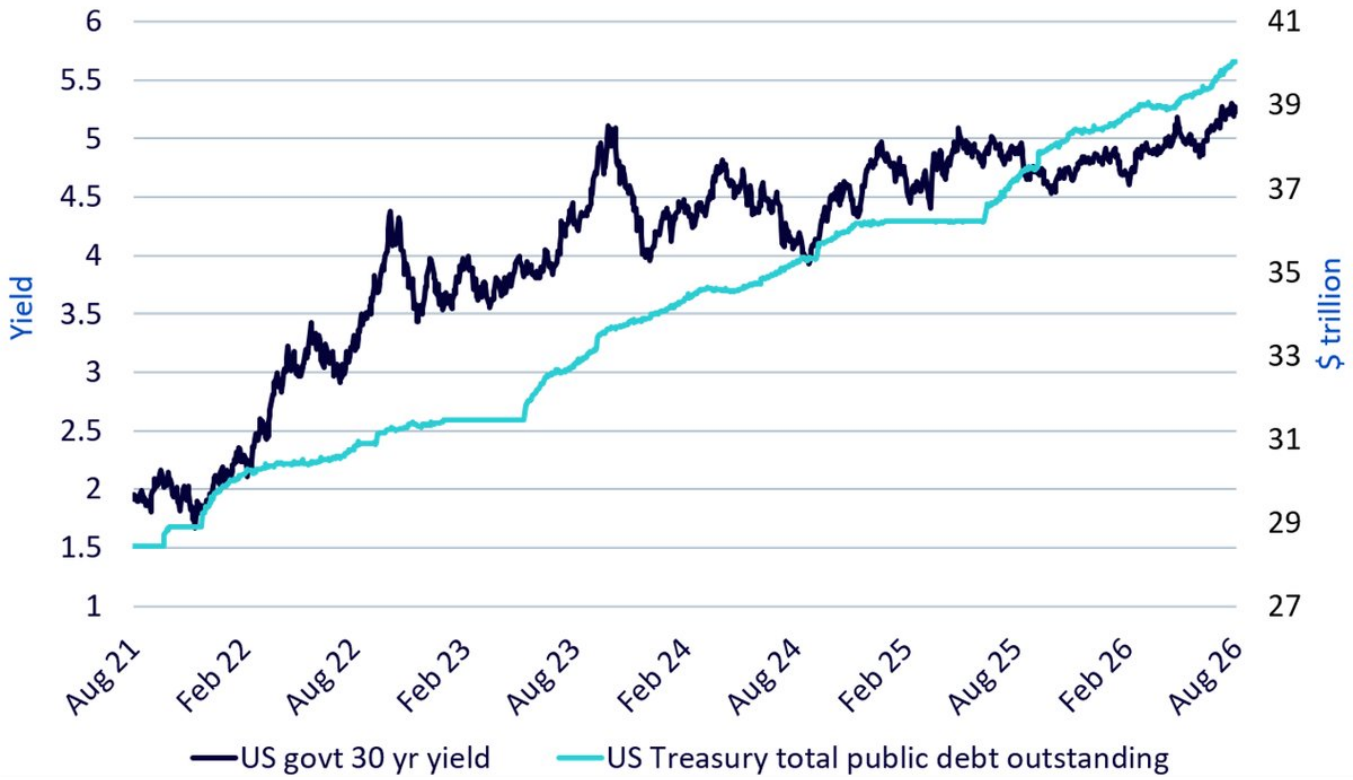
Higher product prices add pressure to US finances

High fuel prices are not supposed to be seen as a stand-alone problem for consumers. In fact, higher inflation directly creates a headache for the US government, too, through higher long-term borrowing costs. Here is why: With US public debt hitting $40 tn and a persistent budget deficit, the US government

is increasingly living off borrowed money. That itself isn't news for a developed country, but the scale has reached new levels.

Like any borrower, whether it be you checking the latest 30-year mortgage rates or the US government seeking to borrow long-term, they get their quoted interest rate from the market. That rate has kept moving up with higher debt levels (Figure 2), as well as higher expected inflation.

Figure 2: US debt and long-term borrowing costs have risen together



Source: WisdomTree, Bloomberg Finance L.P. from 24 August 2021 to 24 August 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Interest rates are paid to the lender to compensate for the service of lending, namely locking up capital for several years, the risk of default, and, most importantly, expected inflation. In other words, they make up for the loss of purchasing power of the dollar returned 30 or so years later.

Interest rates also don't live in a vacuum. They exist in the context of the supply and demand balance of capital to be lent and borrowed. Right now, we are seeing increasing borrowing from both the private and public sectors, driven by enormous financing needs for AI spending, as well as the increasing US budget deficit owing to lower tax income and spending on the Iran war.

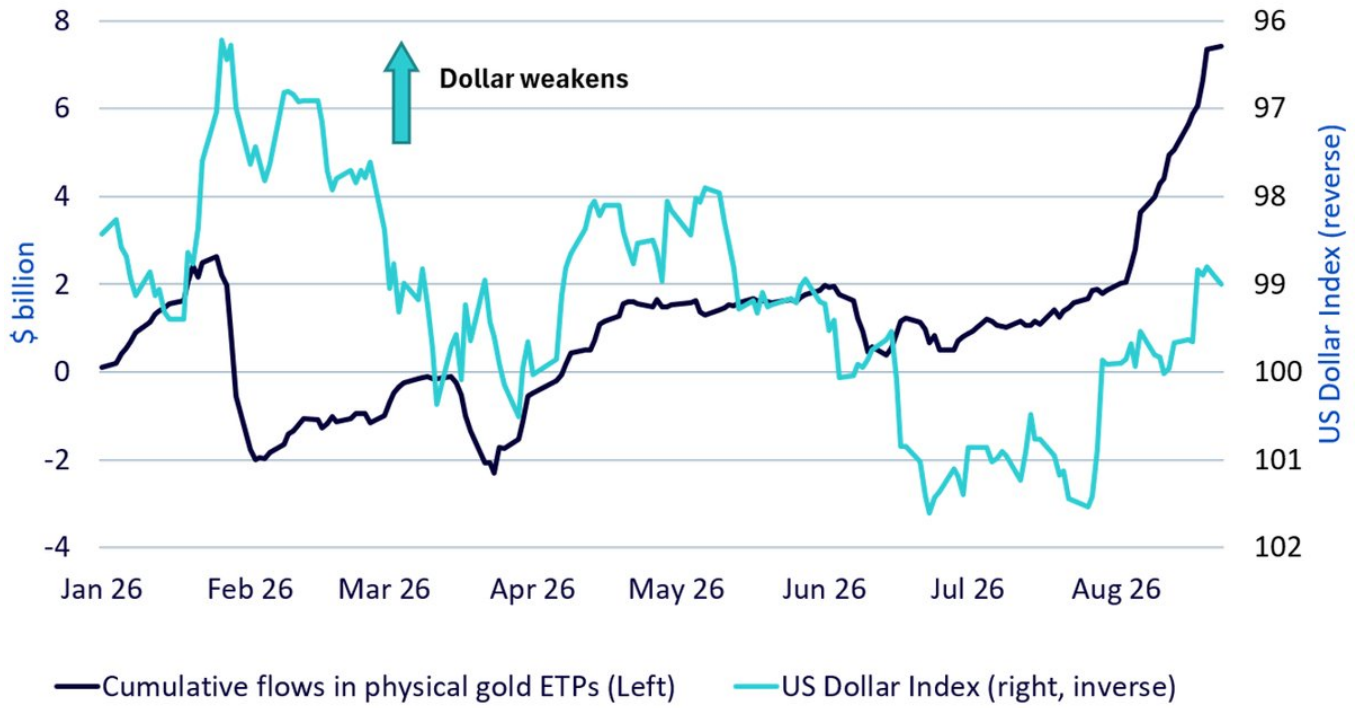
As such, higher diesel prices, through their inflationary effects, exacerbate the problem of an already high debt burden in an increasingly competitive debt market.

The return of the debasement trade

Much has been written about the US Treasury's late-August announcement to lower the yields on 30-year, long-term debt by intervening directly. We won't repeat it here, but in short, the intention was right: US borrowing costs are getting painfully high, but the action fell over in the face of market scepticism.

If anything, the unsuccessful intervention has reawakened the so-called debasement trade. The thesis is that the high level of US debt becomes unbearable and can only be resolved through a substantial weakening of the US dollar, as growth is insufficient to overcome the amount of debt. With the debt crossing $40 tn, and the failed effect of government action coinciding with it, the belief that the US government can lift itself out of its hole without devaluing its currency has taken a serious hit.

Figure 3: Dollar weakness coincides with renewed inflows into gold ETPs



Source: WisdomTree, Bloomberg Finance L.P., from 2 January 2026 to 24 August 2026. 'Cumulative flows in physical gold ETPs' aggregates the capital flows in and out of physical gold ETPs listed in Europe since the beginning of 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

As a result, investors rotated into hard assets, for example, gold (Figure 3). Intuitively, real assets such as commodities generally have an inverse relationship with paper currency. Paper currency can be deliberately printed and devalued, in which case commodity prices tend to rise when priced in that same currency.

Gaining exposure to real assets when pressure rotates through sectors

As we have seen, inflationary pressures can affect real asset prices across sectors through primary and secondary effects. The disruption of the Strait of Hormuz does not only lead to higher oil-product prices.

It also unsettles bond investors through higher sovereign debt and may revive the debasement trade, supporting gold prices.

Looking further ahead, the push to reduce dependence on Russian and Gulf-sourced fossil fuels calls for increased investment in renewable energy. Likewise, the effort to outgrow mounting sovereign debt calls for investment in future technologies. Both trends increase demand for industrial metals used in, for example, grid infrastructure and data centres. The list of effects could go on, but the main point remains: commodity prices may find support from several directions.

Acknowledging the volatile nature of commodities, a broad allocation across the asset class is one way to participate in the tailwinds visible today. The **WisdomTree Enhanced Commodity UCITS ETF** (Ticker: WCOA) tracks a basket of investable commodities diversified across energy, including crude oil and derived products, metals, and agricultural commodities. Starting from a weighting that emphasises economic significance and liquidity, the ETF systematically overweights commodities experiencing a tight or tightening supply-demand balance, as well as positive price momentum. In today's fast-moving market, this dynamic process can reposition quickly in response to the geopolitical and macroeconomic changes described in this blog.

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[1]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.

[2]Source: WisdomTree, IEA Oil Market Report - August 2026

[3]Source: China eases controls on fuel exports for a second month, sources say | Reuters

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