Portland Energy Market Report

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We know how clever the US President is, because he tells the world that "fact" fairly frequently. On his Truth Social platform in September, Trump declared himself a "STRONG AND SMART (High IQ!) PRESIDENT" and then at an October rally in Ohio, he confirmed that he was "a high IQ person. Among the highest IQ's anywhere in the world". Despite this superior cognitive ability, the current US President does seem to struggle with commodity markets and the basics of supply and demand.

As Americans are set to vote in November's midterm elections, one of the biggest issues on voters' minds is the spiralling cost of fuel. In particular, it is the cost of diesel that is dominating headlines, with a price of $6.50 per gallon (£1.25 per litre, so still cheap by European standards!) being 75% higher than before Trump's "little excursion" into Iran. Trump's solution to this problem was the proposal of an export ban on US diesel, the news of which was met with predictable horror by European powers. To be fair, this may have been what the President intended, as he was surely aware of just how dependent Europe is on American diesel (up to 20% of EU diesel currently comes from the USA). What Trump might not have expected though, was an immediate kick-back from his own beloved US Oil Industry.

The opposition from US Refiners was unreserved, as they pointed out that current American diesel production was greater than American diesel demand. They then highlighted the fact that any "excess" diesel production is centred on the Gulf Coast – logistically a very long way from the northern US States suffering from the diesel squeeze. Of course, those states could buy-in diesel from neighbouring Canada - but Trump has already tariffed Canadian oil products, so that is off the table! From a technical perspective, the export ban proposal also overlooks the basics of how refineries work. Diesel production goes hand in hand with gasoline and jet fuel, and to maintain current diesel output - without an export outlet - would leave refiners with more product than inland storage capacity. This in turn would force production runs to reduce for all products and thus drive prices further up on all grades of fuel. The final overlooked factor by the President is that diesel is a global commodity and priced as such. If the international market is willing to pay a premium for US diesel, then in the spirit of competition, US Refiners would also expect domestic buyers to pay that price. In short, the US oil industry was not willing to subsidise diesel sales to the US consumer.

Even Trump's own Energy Secretary Chris Wright (an oilman it should be noted) said that "the blunt tool of banning diesel exports definitely doesn't work", whilst other market economists were quick to point out that withholding diesel from global markets would indirectly accelerate inflation anyway. By proposing an export ban, global diesel prices would rise further, which would mean that the cost of food production outside of the US would also increase. Once those food products are re-imported into the US (which they will be because the US is a net importer of food – their agricultural trade deficit is $40bn), then the price of daily goods in the USA would be pushed up, and with that comes inflation.

Undeterred, the President quickly came up with a new proposal, again seemingly without any consultation outside of his own mind. The new suggestion involved the relaxing of sanctions on Russian fuel, with 3m barrels of diesel being supplied to the USA "very soon". If we put aside the unsavoury politics of this decision, the plan once again highlights a disconnect with oil market reality. The first stand-out fact is that Russia doesn't actually have any diesel to export, having sustained significant damage to its refineries as a result of Ukrainian drone attacks. Russia is already rationing its own domestic diesel consumption, so it is hard to see how they will be freeing up capacity for Trump's America. Secondly, Trump is almost certainly now too far behind the curve to bring prices down in time for the November midterms (3rd Nov). Whatever (if any) Russian diesel is made available, will take weeks to hit US markets and the volume itself is less than daily US consumption (3.7m barrels of diesel per day). On top of this, we have to once again remind ourselves how diesel is bought and sold. It is a global commodity, priced on the fundamentals of global supply and global demand. As long as there is a global shortage of diesel, the price will remain high and just like the US Refiners, Russia is not going to give US consumers a discount and sell their diesel below the global price.

All of this is almost certainly going to be academic, because the indications are that the Trump-Putin diesel deal will not go ahead. US law-makers have already introduced a bill to block the deal and unlike more partisan topics, opposition to the deal seems to enjoy broad support across both Republican and Democratic lines. No doubt those politicians are scratching their heads and wondering how a self-declared energy super-power now finds itself coming up with desperate, last-minute measures to offset the incredible damage done by Trump's war with Iran. The US has historically supported open markets and has viewed US energy exports as strategically important – now it just champions short-sighted policy and chaotic decision making.