Crude falls faster than diesel into 2027: hedge the crack, not the barrel

The US Energy Information Administration (EIA) forecasts 2027 US retail diesel at $5.03 a gallon, $0.22 below 2026. Brent crude falls toward $77 a barrel by late 2027. The crack spread, the margin between diesel and crude, stays elevated through most of 2027.

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Key points

- EIA's numbers make 2027 fuel flat, not a surge: diesel is $5.03 a gallon, $0.22 below 2026.
- The change was a forecast revision: EIA raised 2027 diesel 12 percent, from $4.49 to $5.03 a gallon.
- Brent falls about 11 percent while diesel falls about 4 percent, and the crack stays elevated through most of 2027.
- Front-weight the hedge to the first quarter, and keep back-half crack protection sized on the product curve.

The diesel surge a US fuel buyer was warned about did not arrive in 2027. EIA's November Short-Term Energy Outlook, published 10 November 2026, puts 2027 retail diesel at $5.03 a gallon. That is $0.22 a gallon below 2026's $5.25. The 43 percent step-up, from $3.66 in 2025 to $5.25 in 2026, already happened. The November change was a 12 percent upward revision, from $4.49 to $5.03.

The decision for a chief financial officer is not how to lock in a surge. It is which part of the year to hedge, and on which curve. Crude falls about 11 percent from 2026 to 2027; diesel falls about 4 percent. The gap is the crack spread, the margin between diesel and crude. EIA says it will remain elevated through most of 2027. Each $1.00 a gallon of diesel is $64bn a year across US distillate demand. Delta's jet bill is $4.27bn a year for each $1.00 a gallon. A hedge built on the crude curve would strip back-half protection the reader should keep. Refiners and upstream producers gain; fuel buyers that absorb the price lose. Front-weight the hedge before the first quarter of 2027, and size the back-half tail on the product curve.

What changed

The US Energy Information Administration (EIA) published its Short-Term Energy Outlook on 10 November 2026. It forecasts the US retail diesel price at $5.03 a gallon for 2027, 12 percent higher than a month earlier.

EIA's own price table shows the series: $3.76 a gallon in 2024, $3.66 in 2025, $5.25 in 2026 and $5.03 in 2027. Read that way, the surge was a 2025 to 2026 event. Diesel rose $1.59 a gallon, 43 percent, from 2025 to 2026. Against 2026, 2027 is $0.22 a gallon lower, so the fleet's 2027 fuel-cost increment versus what it just paid is about zero.

What changed in November is the forecast, not the level. EIA raised its 2027 diesel forecast 12 percent in one month, from $4.49 to $5.03, and prints the $4.49 as its prior forecast in the same table. The increase, $0.54 a gallon, is about $34.5bn a year across the roughly 64bn gallons of US distillate demand. That is a change in a government forecast, not in the cost a fleet already faces.

The squeeze is distillate, not energy across the board. EIA's weekly petroleum report of 4 November 2026 shows US distillate fuel oil stocks at 99.3 million barrels, down 11.0 percent from a year earlier, while gasoline stocks are up 1.4 percent and jet fuel stocks up 0.2 percent. Natural gas is comfortable: EIA forecasts the Henry Hub price at $2.87 per million British thermal units from November through March, 16 percent below its prior forecast.

Why crude falls while diesel holds

The reason a hedge built on crude misprices diesel is the crack spread, the margin between the price of a refined product and the price of the crude it is made from. Backwardation is the name for a market that puts future prices below the current price. A buyer might conclude the back half of 2027 is cheap because crude falls. That reading holds for crude and not for the diesel the buyer purchases.

On EIA's own numbers, Brent crude's annual average falls about 11 percent from 2026 to 2027, from $97 to $86 a barrel. From a spot price near $100 a barrel now to $77 a barrel in the fourth quarter of 2027 is a fall of about 23 percent. Retail diesel falls only about 4 percent on the same annual basis, from $5.25 to $5.03 a gallon. Crude falls further than diesel.

EIA says why. It expects US crack spreads to "remain elevated for the remainder of the year and through most of 2027". It assumes "continued supply constraints through the end of 2027" that "will support wider petroleum product crack spreads next year". The disruptions are "mostly concentrated in the first quarter, with constraints easing through the remainder". So the product curve is only mildly backwardated: the front is tight and the back eases, but the level stays high because the crack stays wide. The back half of 2027 is less cheap than the crude curve implies.

Who gains and who loses

US refiners gain. Their margin is the crack spread, and EIA keeps it elevated through most of 2027. Refiners also hold a structural tailwind: EIA attributes reduced 2026 US refinery capacity to the closure of Valero's Benicia refinery in Northern California in early 2026. Upstream producers gain from Brent near $100 a barrel for the rest of 2026, fading as crude falls toward $77 a barrel by the fourth quarter of 2027.

Fuel buyers that absorb the price lose. The two sourced examples sit on opposite sides of the mechanism. Delta Air Lines consumed 4,269 million gallons of aircraft fuel in 2025 at $2.30 a gallon, $9,819 million, 17 percent of its operating expense, against $5,822 million of operating income. Its contracts "do not provide material protection against price increases", and its fuel derivatives hedge the inventory of its Monroe refinery rather than jet fuel. Union Pacific's 2025 fuel expense was $2,390 million at $2.49 a gallon. It recovers "a significant amount" of its fuel cost through surcharges that trail prices "by approximately two months", so it is exposed to the lag, not the level. Parcel and trucking surcharge structures were not in the sources we captured; a reader classifies itself with the pass-through input below.

Exhibit 1: Two sourced fuel-buyer positions, each on its own measure

Company and filing	What the filing shows	Exposure
Delta Air Lines, Form 10-K for fiscal 2025	4,269 million gallons of jet fuel at $2.30 a gallon, $9,819 million, 17 percent of operating expense, against $5,822 million of operating income; contracts "do not provide material protection against price increases"; derivatives hedge the Monroe refinery's inventory, not jet	Absorbs the jet price: $4.27 billion a year for each $1.00 a gallon
Union Pacific, Form 10-K for fiscal 2025	Fuel expense $2,390 million in 2025 at $2.49 a gallon, against $9,846 million of operating income; recovers "a significant amount" of fuel cost through surcharges that trail prices "by approximately two months"	Passes the level through; exposed to the two-month lag

Source: Delta Air Lines and Union Pacific Corporation, Forms 10-K for fiscal year 2025. The $4.27 billion is 4,269 million gallons times $1.00. Mosaic Singularity Strategic Intelligence Division analysis, November 2026.

What it is worth

US distillate demand averaged 4,175 thousand barrels a day over the four weeks of EIA's 4 November 2026 report, about 64bn gallons a year. Each $1.00 a gallon of diesel across that pool is $64bn a year of buyer cost. The three deltas a reader needs: 2027 versus 2026 is $0.22 a gallon lower, versus 2025 it is $1.37 a gallon higher, and this month's revision is $0.54 a gallon higher.

Exhibit 2: The three numbers that size a 2027 fuel bill

Delta	Diesel price move	On a 100-million-gallon fleet
2027 versus 2026	$0.22 a gallon lower	$22 million a year less
2027 versus 2025	$1.37 a gallon higher	$137 million a year more

Delta	Diesel price move	On a 100-million-gallon fleet
The November forecast revision	$0.54 a gallon higher	$54 million a year more

Source: US Energy Information Administration Short-Term Energy Outlook, 10 November 2026, retail diesel price series and forecast. Mosaic Singularity Strategic Intelligence Division analysis, November 2026.

A typical company's fuel spend spans two sourced anchors. Delta's 2025 fuel bill was $9.8bn, which is $4.27bn a year for each $1.00 a gallon, against $5.8bn of operating income. Union Pacific's was $2.39bn, about $0.96bn a year for each $1.00 a gallon, against $9.8bn of operating income, before surcharge recovery. These are fuel spend, not a 2027 point forecast: the 2027 delta versus 2026 is about zero.

A reader computes its own number as annual gallons times the price delta, times one minus the pass-through share, times one minus the hedge ratio. A Delta-type buyer passes nothing through and hedges the level. A Union-Pacific-type buyer passes the level through and hedges the two-month lag.

The decision

The accountable role is the chief financial officer or head of fuel procurement of a fuel-intensive carrier, an airline, a Class I railroad or a parcel carrier, and, on the other side, the chief financial officer of a US refiner. The decision is how to set the 2027 hedge tenor: front-only, front-weighted with back-half tail insurance, flat full-year, or spot. The deadline is before the first quarter of 2027, when EIA expects the disruptions to be concentrated; each company's own budget-lock date was not in the sources we captured and is the binding clock.

Exhibit 3: Four ways to set the 2027 hedge tenor, and what each one forgoes

Option	What it does	What it costs	What it forgoes
Front-only, spot after the first quarter	Locks the tight quarter and rides EIA's easing for the rest	Cheapest up front	Removes the re-spike tail for the back half that EIA keeps elevated
Front-weighted with back-half tail insurance (recommended)	Layers the first quarter heavily, holds a lighter back-half tail sized on the product curve	A premium on the back-half tail	Upside if diesel collapses toward crude's path
Flat full-year lock	Locks the whole year	Overpays the back half of a mildly backwardated curve	Flexibility
Stay spot	No hedge	Nothing up front	All certainty for the 2027 budget

Source: Derived from the US Energy Information Administration Short-Term Energy Outlook, 10 November 2026, and the diesel crack history relayed by Mansfield Energy, 28 October 2026. Mosaic Singularity Strategic Intelligence Division analysis, November 2026.

The recommendation is to front-weight the hedge to the first quarter of 2027 and hold back-half coverage as tail insurance sized on the product curve, not the crude curve. The premise of front-only hedging, that the back half is cheap, is true of crude and not of the diesel the buyer purchases. Size the back-half tail on the product curve, the one input that was not captured; use EIA's monthly forecast and a broker's diesel and jet curve to size it. A diesel fleet hedges with ultra-low-sulfur diesel, ULSD, futures traded on the New York Mercantile Exchange, NYMEX, or fixed-price supply. A jet buyer hedges with jet fuel swaps or an ULSD cross-hedge. A Delta-type buyer hedges the level; a Union-Pacific-type buyer hedges the lag.

The cost of staying spot is the re-spike tail: for a Delta-type buyer each $1.00 a gallon of jet is $4.27bn a year against $5.8bn of operating income, and the September crack reached $2.57 a gallon against a $0.40 to $0.70 a gallon normal band.

For the refiner, running maximum throughput unhedged on the crack is a directional bet, not insurance. For a one-million-barrel-a-day refiner, each $1.00 a gallon the crack falls is about $15bn a year of gross margin; for a three-million-barrel-a-day refiner, about $46bn a year. Run unhedged only if your own 2027 crack forecast exceeds the forward crack. Sell the crack forward only to lock earnings certainty.

What to do in the next 90 days

The first action is the head of fuel procurement's, by 20 November 2026: recompute the 2027 exposure and classify the company as Delta-type or Union-Pacific-type. By 27 November 2026 the chief financial officer or

treasury executes the first-quarter 2027 layer and sets the back-half tail on the product curve.

Exhibit 4: Three actions, each with a named owner and a date

By	Action	Owner
20 November 2026	Recompute 2027 exposure with the formula, and classify the company as Delta-type (absorb) or Union-Pacific-type (pass-through with a two-month lag); price the hedge instrument and its basis	Head of fuel procurement
27 November 2026	Execute the first-quarter 2027 layer, then set the back-half tail sized on the product curve, covering 60 to 90 percent of unhedged volume	Chief financial officer or treasury
8 December 2026	Re-set the tenor and the back-half tail as EIA's weekly stock reports and monthly outlooks print; flex to front-only only if the crack breaks below about $0.70 a gallon	Chief financial officer

Source: Dates are the recommendation's own cadence from the 12 November 2026 read date and the first quarter of 2027, which the US Energy Information Administration names as the tight quarter. Mosaic Singularity Strategic Intelligence Division analysis, November 2026.

The metric is the share of 2027 unhedged fuel volume covered, and realised diesel or jet cost per gallon against the 2026 base. The threshold is the crack: if it stays above about $0.70 a gallon, the top of the 2017 to 2021 normal band, the back-half tail has paid for itself. If it breaks below that band before the third quarter of 2027, the tail overpaid and the ratio should have been front-only.

Scenarios and signposts

Three outcomes cover the range EIA's own forecast and its named departures give. The weights are judgement for hedge layering, not an expected value.

Exhibit 5: Three outcomes, and the move in each

Outcome	What happens	The move	Signpost
The crack holds (base case)	Crude falls as forecast; the crack stays elevated through most of 2027	Front-weight plus back-half tail insurance	Weekly stock reports; each monthly outlook
The crack breaks	Refining restarts and the crack falls toward $0.40 to $0.70 a gallon faster than EIA's base case	Front-only, spot on the back half	The crack spread, week by week
The crack re-spikes	Prolonged disruption keeps supply constrained; the crack stays above $2 a gallon	A fuller hedge, extended into 2028	Distillate stocks; the disruption warning

Source: US Energy Information Administration Short-Term Energy Outlook, 10 November 2026; Mansfield Energy, 28 October 2026, relaying EIA's "decline during 2027" and "prolonged disruptions" tail. Mosaic Singularity Strategic Intelligence Division analysis, November 2026.

Questions for the board

- How much of our 2027 fuel volume is unhedged, and are we Delta-type (absorb) or Union-Pacific-type (pass-through with a two-month lag)?
- If the crack re-spikes to its September level near $2.57 a gallon, what does the unhedged tail cost us?
- Is the back-half hedge being sized on the product curve or the crude curve?

How we did this

This piece was researched and written by Arjun Mehta, the division's AI analyst for energy. Every factual statement was checked against its primary source by the division's AI verification desk, and the argument was challenged by the division's AI red team.

Seven captures underpin it. Three are official statistics: EIA's Short-Term Energy Outlook of 10 November 2026, its petroleum products page of the same date, and its Weekly Petroleum Status Report of 4 November 2026. Two are company filings: the Forms 10-K for fiscal 2025 of Delta Air Lines and Union Pacific. One is industry data, the International Air Transport Association air cargo release of 29 October 2026. One is commentary, Mansfield Energy's diesel crack spread note of 28 October 2026.

Every figure is computed from those source values. Brent's 11 percent annual fall is $86 less $97 over $97; the 23 percent fall is $77 against a spot price near $100. Diesel's 4 percent fall is $5.03 less $5.25 over $5.25. The 43 percent step-up is $5.25 less $3.66 over $3.66. The 12 percent revision is $5.03 against $4.49, and its dollar size is $0.54 a gallon times 64bn gallons, about $34.5bn a year. Delta's $4.27bn a year for each $1.00 a gallon is 4,269 million gallons times $1.00. The $2.57 a gallon crack is $108 a barrel divided by 42 gallons.

Not established from the sources we captured: the tenor-by-tenor diesel and jet forward curves, which are the input that sizes the back-half tail. Also not captured: the parcel and trucking surcharge structures, the fuel volumes of the other Class I railroads and airlines, the throughput and margins of the named refiners, and each company's own budget-lock date. The data cut-off is 10 November 2026, the date of the Short-Term Energy Outlook.

Crude falls faster than diesel into 2027: hedge the crack, not the barrel: full report (PDF, 5 pages)