

Research @ Citi Markets Edition: Energy; Independence or Interdependence?

Recorded: March 16, 2026

Published: March 17, 2026

Host: Scott T. Chronert, Head of U.S. Equity Strategy, Citi

Guest: Anthony Yuen, Head of Energy Strategy, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Scott Chronert (00:03)

Hi, I'm Scott Chronert, Head of U.S. Equity Strategy at Citi Research. Welcome to Research @ Citi, Markets Edition, covering various topics at work within the U.S. equity markets.

With me today is Tony Yuen, the Head of Energy Strategy at Citi Research. I've invited Tony here today to talk about the price of oil and U.S. energy independence, if not interdependence.

Welcome, Tony, and thanks for taking the time today.

Anthony Yuen (00:28)

Thank you so much for having me.

Scott Chronert (00:30)

OK, so let's jump in. We've got about 10 minutes to cover a lot of ground here.

Obviously Iran is top of mind, and I know that events there are unfolding pretty quickly. Can you give us a quick, high-level view on how you and we sit here thinking about oil prices as a function of the Iranian conflict right now?

Anthony Yuen (00:46)

So the crude-oil price is actually one of a few energy commodities that can reflect the market's expectation of the duration and severity of the disruptions.

The other commodities are diesel, as well as Asian or European natural gas. And that's because the Middle East is a major exporter of crude oil, at roughly about 15% of global supply, or roughly about 20% global petroleum if we include petroleum products like LPG, diesel, and so on and so forth.

And the Middle East is also a major exporter of global LNGs, roughly about 20% global supply, and a major exporter of diesel, roughly about 5% of global supply. But since Asian refineries are not getting the crude oil from the Middle East right now, they are cutting their operating rates, and therefore cutting diesel production. And therefore, the effective reduction in diesel supply is more than 10% of global supply.

Now, crude oil looks to be pricing about six weeks of disruptions. Natural gas — Asian/European natural gas, not the U.S. natural gas, right? — is pricing roughly about six or seven weeks of disruption as well. But diesel is perhaps potentially pricing about roughly three months or thereabouts of disruptions. And the crude-oil number should have factored in how much oil can bypass the Strait of Hormuz.

But for both LNG and diesel, there are no diversion opportunities available. So, the market should be pricing maybe another four weeks to go in terms of disruptions based on two or three energy commodities. But wars are unpredictable, so who knows what will happen afterwards?

Scott Chronert (02:09)

On the diesel comment, Tony, does that play into what we're seeing on jet fuel as well?

Anthony Yuen (02:14)

Absolutely. So what happened in jet fuel is that one, jet fuel typically is priced very close to diesel because they're both categorized as so-called middle distillate, middle part of the barrel of the oil. And second is that Middle East is also a major exporter of the jet fuel. And along with the Asian refineries also making jet fuel, using a lot of Middle Eastern crude oil, that means that jet fuel is also getting affected in terms of supply.

But if you look at most of these disruptions — mostly around the Middle Eastern airlines, but other airlines — some of them are actually flying more, flying long distance to avoid some of the facilities that are around the Middle East. So demand is still pretty sticky, but then supply a little tough on that side.

In addition to that, storing jet fuel is a little more difficult because of certain requirements as well as airports and location. And that's why jet fuel prices have surged over the last two weeks.

Scott Chronert (03:05)

OK. So then a common question that comes up: There's been so much talk about the U.S. being more energy-independent at this point. How does that fit into this current discussion now and from the global scene?

Anthony Yuen (03:15)

I think roughly 10 or a dozen years ago, we worked on a report on the U.S. energy-independence issue because of U.S. shale-production surge. And I think the U.S. energy independence is certainly very helpful.

Now, granted, there's this supposed to be more nuanced answer because of number one, U.S. position as a net crude-oil importer and a net petroleum-product exporter, and second is the quality issue of crude oil, as well as the differences geographically within the U.S., say the East Coast and the West Coast not getting enough products from the Gulf Coast.

So here's how we think about it on these three levels, and why U.S. energy independence is still quite helpful. So first: On the import-export issue, yes, the U.S. is still a net importer of crude oil and a net exporter of petroleum products, on the whole. So therefore, U.S. is exporter, right, of gas and diesel. The U.S. is still supposed to be in the thick of the global oil market. But when push comes to shove, the U.S. is much more independent than many other countries.

For one, U.S. refineries are not cutting their operating rates like those in Asia. U.S. refineries typically process roughly about 16 to 17 million barrels of oil, and the U.S. separately produces roughly about 13.5 million barrels of its own crude oil, for a gap of roughly about 3 million barrels a day.

But the U.S. does input roughly about 3.6 million barrels a day of Canadian oil on net basis. And that Canadian oil has nowhere to go. So, Canada does have a small pipeline to export crude oil out of British Columbia, but it's too small. So at least U.S. does get the oil if you're actually in Canada.

Second, on the quality issue, it centers around the U.S. oil being very light and imported oil being heavy. So, if U.S. refineries run much more light oil, then the operating rates will come down, because U.S. oil tends to have more propane and butane, which are gases that tend to expand in volume inside the installation tower of a refinery.

So therefore, U.S. could produce more gassing, but less diesel from this perspective, because of light oil, but also lower operating run rates. So, the U.S. could be short diesel, but the shortage would be way less than the situation in Asia.

And third, on the geographical front, where the East Coast and the West Coast is not getting enough product supply, like gas and diesel from the Gulf Coast, what the U.S. historically had done was to waive the Jones Act, which is the ships have to be U.S. flag carriers. But then waiving the Jones Act would help, and so then at least the U.S. is actually faring much better than Asia and Europe on the front.

Scott Chronert (05:38)

OK, so I think the takeaway there is that type of crude matters. And then I think something that I've always learned is that we're only as good as our pipelines. So,

if you can't transit the oil from point A to point B — let's say in the case of California, for example — you're stuck, you're going to be forced down an importing path, whether it fits this macro net energy-independence framework or not.

Anthony Yuen (06:01)

Right.

Scott Chronert (06:02)

So now let's switch over on this refining topic, because what's going to come up in most every conversation is, “OK, so the events in Iran have been unfolding over the past two weeks, but my gosh, we've seen a big surge already in gasoline prices at the pump here in the U.S.”

Can you take us through what I would say is current refiner reality in terms of how pump prices are determined and what's really going on here?

Anthony Yuen (06:27)

Absolutely.

This is the crux of the issue for the U.S. economy and everyone, right? So, essentially there are two aspects. Number one is retail — gasoline, diesel prices, how they form and what are the timing of oil price increases, affecting retail prices.

And typically, some refineries may have weeks, maybe a month of inventory. And one would think that maybe because of that inventory, therefore higher oil prices may not necessarily translate into retail prices until maybe a month later because of the inventory. But then if you think about refineries and many other processes of commodities, it's about replacement costs, right? So if you use up that inventory, they have to replenish that inventory.

And so then for a lot of refineries and retail stations as well, what we have seen empirically when we look at crude-oil price moves, as well as the EIA — Energy Information Administration, which is a U.S. government department that reports on the retail gas and diesel prices — typically the strongest correlation in pricing is actually roughly about a week lag. Sometimes it might be a little delayed, sometimes it might be faster and what-not, but roughly about a week. And then if you think about the replacement cost timing, so oil price has gone up, right? And then for refineries, if they think that, well, certain disruption may not end until a month later, several weeks later, they still have to think about replacement. They know for certain that it's only disrupting for one week, then they could draw their inventory and then buy cheaper oil afterwards. But if it's uncertain, something more extended, then they price in their higher retail price.

Plus also, if you look at how the retail product prices come about, it comes with four components: crude oil, refining margins, distribution marketing costs, as well as taxes.

And typically, crude oil makes up roughly about 50%, roughly half of the retail product price, which means that, yes, crude-oil price risen to certainly affect retail prices. But then you have seen in your last question about jet fuel prices and diesel prices and what-not, those so-called crack spreads or the profit margin of gasoline, diesel, or jet fuel have also expanded a lot, right? And so then that also translates into higher prices.

Distribution marketing probably kind of stays stable and then taxes, of course, stable, right? So that's how you think through the retail product price. Therefore, let's say for the sake of argument, if oil price were double vs. let's say, some period ago, then that means that retail product price should increase by roughly about 50%.

So that's all how we think about retail product price translation.

Scott Chronert (08:53)

Got it. This has been really insightful. So, I think if I can summarize it real quickly, as we've been saying, sort of ad nauseum, duration of conflict really matters here. And that's going to be determinant at the very macro level where oil prices trend. But then importantly, the way it translates back to the U.S. is mixed according to grade, according to distribution dynamics, and this whole notion of how the refining infrastructure operates.

So this notion of energy independence certainly is relevant, but probably not the whole story is what it sounds like.

Anthony Yuen (09:24)

That's right. Yeah, that's right.

Scott Chronert (09:26)

And so a lot to ponder. Tony, I really appreciate your time. I think we're up against our limits. We could keep going for quite a while on this topic, but I think we'll bring this to a quick end.

This podcast was recorded on March 16, 2026. Thanks for joining today and be sure to be on the lookout for our next markets podcast featuring Dirk Willer, Citi's Head of Global Asset Allocation. Also be sure to watch for our other Research @ Citi podcasts, which you can also view on this same channel.

Thanks, and have a great day. And Tony, thanks so much for joining me today.

Anthony Yuen (09:55)

Thank you very much.

Disclaimer (09:57)

This podcast contains thematic content and is not intended to be investment research, nor does it constitute financial, economic, legal, tax, or accounting advice. This podcast is provided for information purposes only and does not constitute an offer or solicitation to purchase or sell any financial instruments. The contents of this podcast are not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product, security, or transaction. The information in this podcast is based on generally available information, and although obtained from sources believed by Citi to be reliable, its accuracy and completeness are not guaranteed. Past performance is not a guarantee or indication of future results. This podcast may not be copied or distributed, in whole or in part, without the express written consent of Citi. Copyright 2026, Citigroup Global Markets, Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup, Inc. or its affiliates and are used and registered throughout the world.