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Oil Is Hitting Its Highest Level in Months—Just in Time for Summer Driving Season

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Drone attacks in Russia, unrest in the Middle East and strong consumer demand have propelled oil prices to their highest level in months, setting the stage for what could be a summer surge in gas prices.

The rally in crude picked up speed this week after an Israeli strike on an Iranian diplomatic building fanned worries of a broader regional war. Undergirding prices: a relative lack of crude in global markets thanks to production cuts from OPEC and its allies.

Brent crude futures, the benchmark, have climbed 18% in 2024 to exceed $90 a barrel for the first time since October. That is feeding into gasoline, with average national prices measured by AAA up 15% this year at $3.57 a gallon.

“The market in general is only just waking up to just how…tight supplies will increasingly be,” said Paul Horsnell, head of commodities research at Standard Chartered.

Horsnell has been one of the few bullish oil analysts, forecasting that Brent will rise to $94 a barrel this quarter. The fact that prices started rising when many on Wall Street expected them to go sideways suggests they could keep heading higher—especially if investors crowd into the trade.

Gasoline supplies are a possible pinch point ahead of the busy summer driving season. Inventories in the U.S. are 3% below the recent average for this time of year, close to the lowest for this time of year in the past five years.

There is a possibility that a surge in gas prices is avoided. Gas prices have jumped relative to crude and diesel, enhancing profit margins for refiners to crank up output.

By the summer, U.S. refiners will churn through about 700,000 more barrels of crude each day than they were last month, said Janiv Shah, an analyst at consulting firm Rystad Energy—helping meet seasonal gasoline demand but potentially driving crude prices even higher.

analysts figure Brent prices could peak at $95 a barrel this summer, pointing to relatively low gasoline stockpiles in the U.S., Europe and Asia.

The rise in prices at the gasoline pump comes in the run-up to the presidential election. Prices topped out last summer at $3.88 a gallon on average and could tip over $4 depending on how the following months play out.

Higher crude prices complicate matters for the Federal Reserve. Consumer-price inflation in the U.S. has gotten stuck at about 3%, above the Fed's target. More expensive fuel can trickle into prices for other goods and services.

Higher prices for crude and other raw materials, including copper, to some extent reflect surprising strength in the world economy. The growing appetite for energy has also outpaced efforts to move toward cleaner sources of power, leaving fossil fuels to fill the gap.

Sold-out flight schedules have lifted demand for jet fuel, said Martijn Rats, head of commodity strategy at . Ships are burning more fuel to sail around the southern tip of Africa instead of braving Houthi missiles in the Red Sea. Freezing weather curtailed oil output in parts of the U.S. in January, while Brazil and Canada haven’t pumped as much crude as expected in recent months.

“Could Brent be $95 or $100? I think so,” said Trevor Woods, chief investment officer at Northern Trace Capital. The Ohio-based hedge fund is betting on higher oil prices by buying crude futures and call options.

The Organization of the Petroleum Exporting Countries and its Russia-led allies—collectively, OPEC+—have throttled production since the fall of 2022. An unknown for traders is whether the cartel will jack up output later in the year if prices keep rising.

One weak spot in the market is diesel demand, said RCMA Capital Chief Executive Doug King. The strong dollar is another reason why he doubts crude prices will keep climbing.

Even so, the International Energy Agency thinks the world will guzzle a record 103 million barrels of oil each day this year—up from less than 102 million last year and under 100 million in 2022.

Ukrainian strikes on Russian oil-refining facilities are another reason analysts have raised price forecasts. Shipping data show Russia’s massive diesel exports have dropped following the attacks, requiring refiners elsewhere to buy more crude to fill the gap.

Some of that will come from Russia itself. But analysts say logistical difficulties, as well as Russia's commitments under OPEC+, may mean higher crude exports don't fully offset the drop in refined-fuel shipments.

Tougher sanctions enforcement by the U.S. also appears to be curbing Russian exports, said David Wech, chief economist at commodities-data firm Vortexa. A large volume of Russian fuel is floating at sea, suggesting Russian exporters might be struggling to find buyers.

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