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WHEN INFLATION BITES

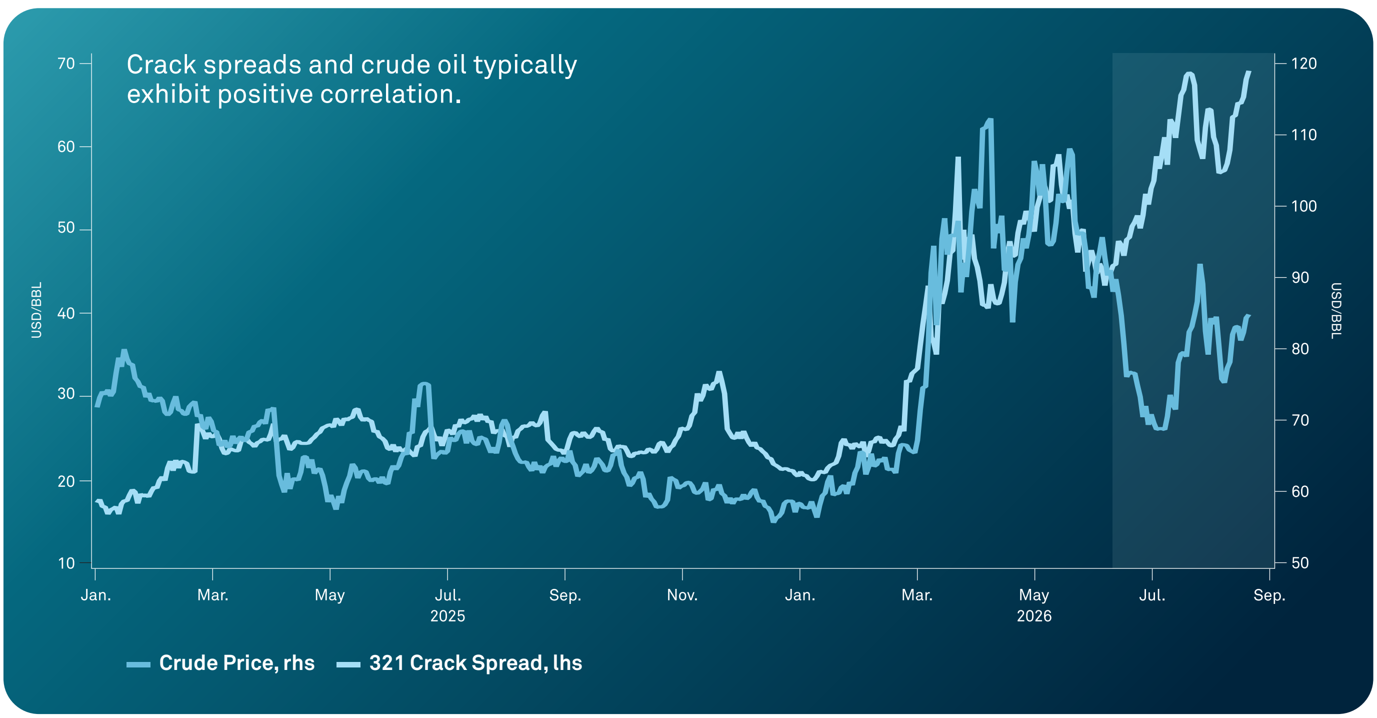
THE CRACK IN THE OIL STORY: UNPACKING INFLATION PERSISTENCE

September 2026

Energy inflation is no longer just a crude oil story. Crude oil prices have been volatile and elevated since the onset of the Middle East conflict, raising concerns that higher oil prices could keep inflation elevated for longer. But recent moves in energy markets suggest the inflation risk extends beyond crude oil.

An Unusual Divergence

While crude oil prices have eased from April highs, refined fuel prices such as gasoline and diesel have increased. The crack spread, or the margin refiners capture between the cost of crude oil and the price of the refined products they sell, has widened significantly. Historically, crude prices and crack spreads have tended to move together. But recently, that relationship has broken down.



Source: BNY Investment Strategy & Research Group, Macrobond. Data as of August 18, 2026. Crude price is represented by West Texas Intermediate (WTI) short-dated contracts.

This divergence suggests that inflationary pressure stems more from tight supplies of refined products rather than crude oil alone. Refinery disruptions and low inventories are contributing to stockpiling of finished fuels by certain countries and adding to demand for gasoline, diesel, and other refined products at a time when supply is already constrained. As a result, energy costs could remain heightened even if crude oil prices ease.

Potential Spillover

Higher fuel prices can have a direct impact on inflation through gasoline and other household energy costs. If elevated energy prices persist, the effects could spread beyond the energy sector as increased fuel and transportation costs put upward strain on prices across other parts of the economy. With inflation expectations already showing signs of becoming less anchored, persistent energy pressures could increase the risk that inflation remains higher for longer.

Positioning for Sticky Inflation

If energy prices keep pressure on inflation, at a time when trend inflation is above target, monetary policy could remain more restrictive in response. However, central bank actions are unlikely to be uniform as a weaker growth outlook in certain regions may allow them to take a more accommodative stance. We believe that diverging inflation and growth dynamics could create opportunities for active positioning across global fixed income.

3-2-1 crack spread is a refining margin benchmark that assumes 3 barrels of crude oil yield 2 barrels of gasoline and 1 barrel of distillate, measuring the gross profit per barrel from converting crude into these products.

Important Information

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