

The Rapid Jet Fuel Price Surge of Q1

Fascinating Insights!

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The content contained herein is based on my own professional and educational experiences and may contain personal opinions. Additional references are herein under “List of References.”

Overview:

On March 20th, 2026, according to Airlines for America (A4A) the average Spot Price of Jet Fuel for U.S domiciled airlines reached \$4.56 a gallon. For reference, on January 2nd, 2026, the Spot Price average was \$2.11 a gallon. Traditionally, U.S airlines have hedged their fuel, essentially purchasing insurance against the risk of rising prices. However, in recent years U.S. airlines in aggerate have abandon this practice, leaving them exposed to fuel price risk. Due to conflict in the Middle East, Crude Oil prices have risen significantly. For the purpose herein, we will use West Texas Intermediate (WTI) as our benchmark. WTI as of March 20, 2026, had a Spot Price of \$98.23 a barrel. Since Jet Fuel is refined from Crude Oil this benchmark may be adequate for our understanding of this going concern.

History of U.S Airline Fuel Hedging:

For years, U.S airlines elected to protect themselves against the risk of jet fuel spikes by hedging against Crude Oil through purchasing Futures on the New York Mercantile Exchange (NYMEX) or negotiating directly Over-the-Conter (OTC) with refineries through Forwards. Fuel hedging is the practice of locking in a “Spot Price” for a specific period. If the market price of fuel increases the airline will benefit by the ability to purchase fuel below the market Spot Price. However, if the market Spot Price falls, the airline may be obligated to pay the previously higher Spot Price. Due to the airline industry being volatile, highly leveraged, and a fast-paced business, accurate forecasting is hard to predict. Moreover, locking in a fuel price may be a solution to more accurately forecast future performance to investors, and especially during uncertain times.

A great success in fuel hedging is Southwest Airlines during the 2007-08 Oil Shock coinciding with the Global Financial Crisis (GFC). During the period, West Texas Intermediate (WTI) reached a staggering \$145.08 a barrel on July 11, 2008. Meanwhile, Southwest Airlines was roughly 70% hedged, saving hundreds of millions of dollars while other airlines suffered devastating losses. Southwest Airlines maintained its streak of 36 years of straight profitability before finally falling short to this outstanding achievement in 2020 due to Covid-19.

Why U.S Airlines May Have Elected Not to Hedge:

Why might an airline not have elected to hedge their fuel? The answer is mostly based on three logical reasons. (1) The airline believes the Spot Price of fuel will continue “as is” or may fall relatively soon (2) The airlines believes if the cost of fuel were to increase, the likelihood of management being able to pass this increase cost onto consumers through higher fares is strong. (3) The airline’s decision to participate in Fuel Hedging will be a significant burden on the cash flows and liquidity of an airline, as this practice often requires funds upfront to be allocated towards the hedging initiative.

Current Effect on the U.S Airline Industry:

As of Mid-March 2026, U.S airline management personnel in aggregate have announced that consumer demand remains strong, amongst the aggregate fare increases of about 15-20%. Over the past two years, airlines have shifted a large amount of focus towards premium offerings onboard their airlines, particularly as consumers value and have been willing to pay for high-end experiences. While many U.S Low-Cost Carriers (LCCs) have suffered in recent years, lower cost travel may be seen as a more attractive option if commoditized resources such as oil remain costly. How long will airlines be able to pass increased fuel prices onto the consumer, before leisure demand (travelers visiting friends and relatives) may begin to soften, forcing airlines to reduce prices to restimulate demand

Since the airline industry is a commoditized business, fares are never derived on a cost-plus basis, rather on the consumers willingness-to-pay. Leisure airline travelers are very price elastic and often choose whether to travel or not based off the fare offering. Revenue Management (RM) personnel must attempt to capture the “consumer surplus” by adjusting fare buckets based of the consumers’ willingness-to-pay. Furthermore, if demand falls due to higher economic prices, airlines may be forced to reduce their fares, resulting in losses from the drastically high price of fuel. Airlines with a strong balance sheet can likely weather such a storm, however, airlines sitting on a weaker balance sheet may be pushed into a liquidity crisis in this scenario.

As a young student fascinated with the airlines business, seeing this rapid increase in the cost of Jet Fuel for the first time has only fueled my great enthusiasm for studying this everchanging dynamic business!

Thank you to all who have taken the time to read this writing.

Max B. Fuller | March 21, 2026

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