

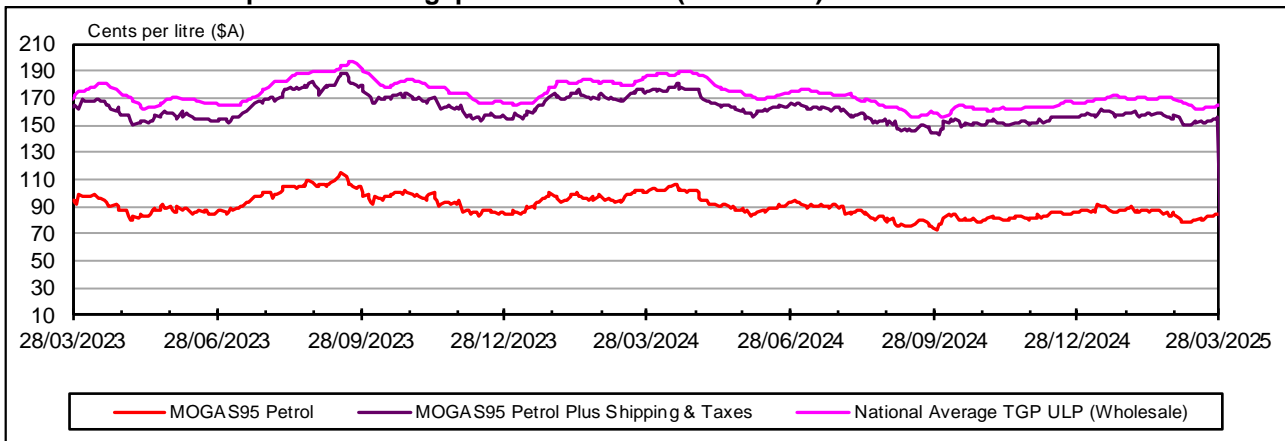
FACTS ABOUT THE SINGAPORE-WHOLESALE 'PRICE LAG'

Explaining the Time Lag between Changes in Singapore Prices and Changes in Australian Wholesale Petrol & Diesel Prices

Generally, there is a **short time lag** of 1-2 weeks between changes in Singapore prices and changes in Australian wholesale prices. The lag can be seen in **Figure 1** below.

- ⇒ See the slight delay in the peaks and troughs in the **pink line** (National Average ULP TGP) compared to the **purple line** (MOGAS95 Petrol plus Shipping & Taxes).

FIGURE 1: Comparison of Singapore Petrol Price (MOGAS95) with Australian ULP TGP



Note: MOGAS95 Petrol prices and shipping rates data are supplied by Argus Media Group (see www.argusmedia.com)

Importantly, this time lag occurs whether **prices are going up** (when the lag slows price rises to consumers) or **prices are going down** (when the lag delays price falls).

The time lag is a result of using a **rolling average** of Singapore prices.

- ⇒ Rolling averages are part of wholesale pricing methodology - very similar to that used by the ACCC when wholesale prices were regulated by government. This pricing methodology is called import parity pricing (IPP). Use of rolling averages **smooths day-to-day price volatility**.

Not accounting for this time lag, introduced by the rolling average, leads to incorrect conclusions about how Singapore prices flow through to prices in Australia.

The **very close relationship** between changes in MOGAS95 Petrol and changes in Australian TGPs can be seen by applying a rolling average to the MOGAS95 Petrol data (a 7 day rolling average is used in **Figure 2** to illustrate this).

FIGURE 2: Comparison of 7 Day Rolling Average of MOGAS95 Petrol with Australian ULP TGP

