Australian Institute of Petroleum

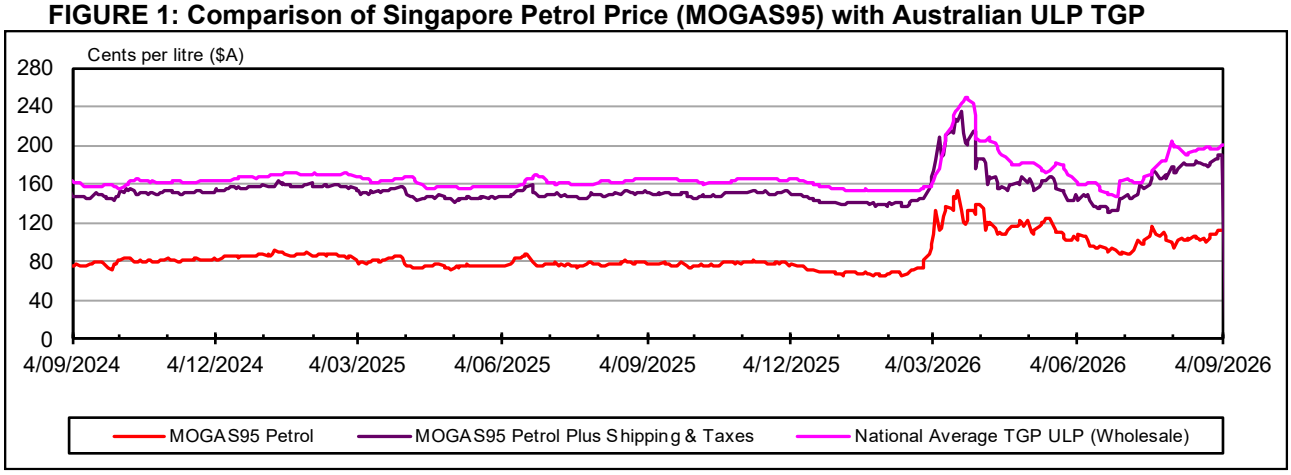
# FACTS ABOUT THE SINGAPORE-WHOLESALE 'PRICE LAG'

## *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).**

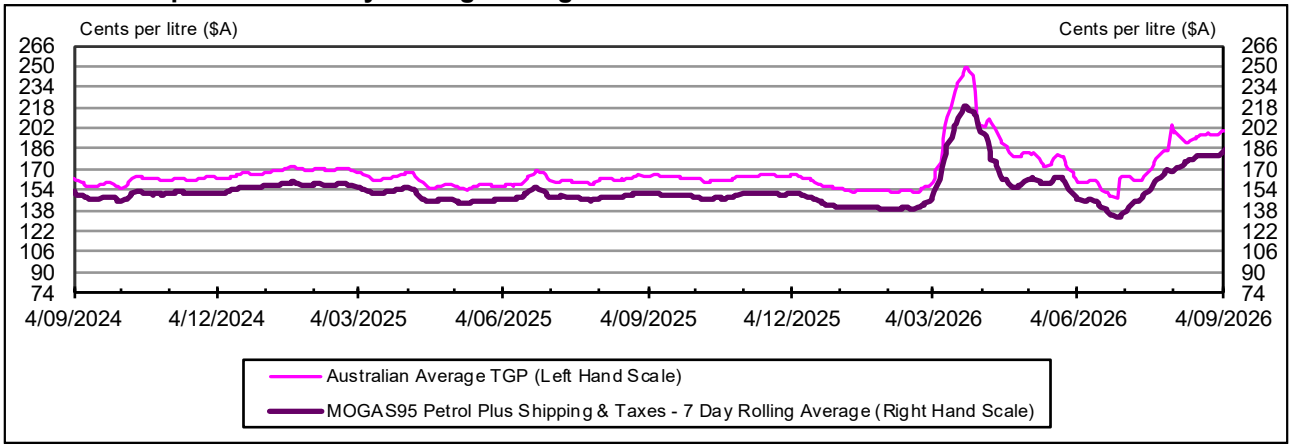



**FIGURE 2: Comparison of 7 Day Rolling Average of MOGAS95 Petrol with Australian ULP TGP**