Publication: The Straits Times, pA19
Date: 25 June 2025
Headline: How volatile oil prices affect consumers in S'pore

ST Explains

How volatile oil prices affect consumers in S'pore

Price increase could drive up cost of transport, electricity and overall inflation

Sue-Ann Tan
Business Correspondent

Oil prices surged in the past week over conflict in the Middle East, as hostilities came to a head after Israel launched a missile strike on Iran on June 13.

Iran retaliated the following day and on June 22, the US joined the war, bombing three of Iran's key nuclear sites overnight.

Brent crude prices responded by soaring from US$69.36 a barrel on June 12, before the missile strikes were exchanged, to as high as US$79 on June 23.

Analysts feared oil prices would shoot past US$100 a barrel. This was especially if Iran blocked the Strait of Hormuz, through which around 15 million barrels per day – or nearly a third of global seaborne crude oil exports – transits.

A full closure would have the most severe impact on Asia, which receives nearly 80 per cent of these flows, said Rystad Energy analysts.

But on June 23, US President Donald Trump said a ceasefire between Iran and Israel came into effect. Oil prices reacted by falling to around US$68 a barrel.

Still, it is clear that oil prices are likely to be more volatile moving forward, as the situation in the Middle East remains uncertain.

HOW WILL THIS AFFECT COSTS?

Oil forms the main variable component in air travel, energy and shipping freight, said Dr Aurobindo Ghosh, assistant professor of finance at Singapore Management University, although the exact impact differs according to the nature of each business.

"Oil prices are quite pervasive, as they invade all parts of our lives through the cost of energy and cost of food," he said.

"For example, petrol prices at the petrol kiosk will go up, which in turn can affect delivery costs. If these increased costs are passed through to consumers, there is a potential of increased prices or inflation."

Oil prices also affect electricity costs, as around 95 per cent of Singapore's electricity is produced using imported natural gas.

"As the cost of natural gas is tied to oil prices under commercial gas supply contracts, our electricity prices will be affected by global energy market volatility," the Energy Market Authority (EMA) said in response to queries from The Straits Times.

UOB associate economist Jester Koh also estimated that about 7.7 per cent of the overall consumer price index basket of consumer goods and services could be directly hit by oil and gas prices.

These include components such as electricity, petrol, point-to-point transport services, airfares, and bus and train fares. "The spillover effects of higher utility, transportation and input costs on both goods and services inflation could be significant," he said.

The consumer price index is widely used to measure inflation by tracking changes in the price of a fixed basket of goods and services commonly purchased by households.

Mr Koh projected that for every $1 increase in Brent oil prices per barrel, Singapore's core inflation year on year could rise by 0.05 per cent to 0.06 per cent.

Core inflation measures price changes of a subset of goods and services in the consumer price index basket, excluding accommodation and private road transport. It is seen as a closer gauge of the day-to-day price changes that affect most households.

AVIATION

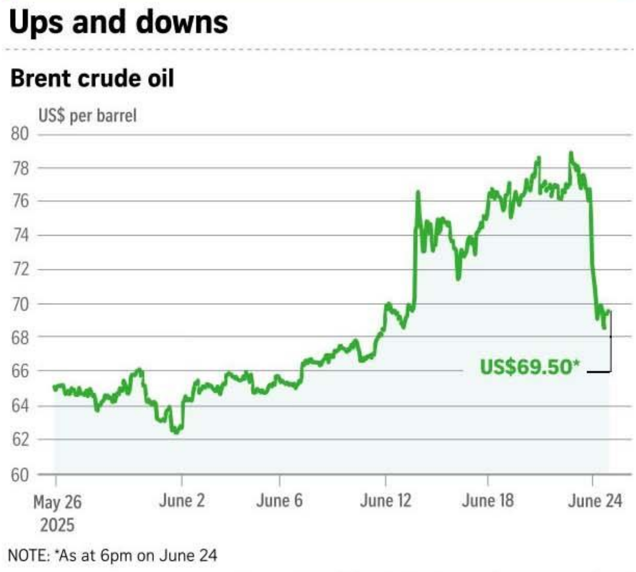
Oil prices will affect jet fuel, a big expenditure for airlines.

But Dr Ghosh noted most airlines enter into a futures contract with oil producers for jet fuel months or even years in advance, so that they can sell advance tickets based on a clearer set of costs. The short-term impact on airfares thus might be limited, he added.

But prices might rise for packages delivered through air freight, as package delivery costs are more flexible and not usually booked months in advance.

The International Air Transport Association said on June 2 that jet fuel is expected to average US$86 a barrel in 2025, accounting for 25.8 per cent of all operating costs of airlines. "Recent financial data shows minimal fuel hedging activity over the past year, indicating that airlines will generally benefit from the reduced fuel cost. It is not expected that fuel will be impacted by trade tensions," the association said then.

Singapore Airlines also uses a fuel-hedging policy to manage the volatility of oil prices. DBS Bank analyst Jason Sum noted that SIA remains "relatively insulated" from the rise in Brent crude and jet fuel prices, having hedged around 40 per cent of its near-term fuel requirements.



NOTE: *As at 6pm on June 24

Sources: TRADING ECONOMICS STRAITS TIMES GRAPHICS

ELECTRICITY

For energy, the increase in oil price may see a more immediate impact, said Dr Ghosh. "There might be some cushioning from wide fluctuations... However, most of the upside volatility might be passed on to the consumers," he added.

Electricity tariffs are regulated by EMA and revised quarterly to reflect the actual cost of electricity production.

National power grid operator SP Group buys electricity on behalf of customers and pays the generation companies, transmission licensee and other market players based on the rates of the cost components as approved by EMA, it said on its website.

An EMA spokesperson added that most consumers buy electricity from retailers under fixed price retail contracts, or from SP Services at the regulated tariff rate. "As such, they would not be immediately affected by oil price volatility," EMA said.

But it added that about 1 per cent of consumers buy electricity at wholesale prices, which fluctuate every half-hour depending on demand and supply in the Singapore Wholesale Electricity Market.

About 50 per cent of the regulated tariff rate is to recover the cost of fuel for electricity generation, which is calculated based on the average daily natural gas prices for a certain period. For example, the average natural gas price between April and June is used to set the tariff for July to September. This helps to smoothen out the impact of volatile oil prices, EMA said.

"Should oil prices continue to rise, this could lead to higher costs of electricity generation and in turn higher electricity prices. The Singapore Government provides U-Save rebates to help offset the utility expenses of HDB households," it added.

TRANSPORT

An oil price shock can make transport fares more expensive.

Maybank economists Chua Hak Bin and Brian Lee noted that transport services costs account for about 2.6 per cent of the consumer price index. But they excluded bus and train fares, which are government-regulated.

They also observed that a study in 2008 estimated that a 10 per cent rise in oil prices will increase inflation in Singapore by 0.2 percentage point in the first year, and dampen growth by 0.1 per cent.

But the impact today will likely be smaller, as the economy's dependence on oil has declined, they said. Hence, they project that the full-year core inflation forecast remains at 0.5 per cent for 2025.

When it comes to shipping and freight services, oil prices will also have an impact.

Dr Ghosh said shipping companies can enter into futures contracts with suppliers, but they remain sensitive to other costs and trade barriers like tariffs.

"It will also be affected by the demand and supply forces of economics. Higher freight costs will also be passed on to some extent to the consumers," he said.

suetan@sph.com.sg

A view of Pulau Bukom from Sentosa. An increase in oil prices as a result of conflict in the Middle East will impact the cost of shipping and freight services, an expert said. ST PHOTO: BRIAN TEO