



19<sup>th</sup> February 2016

2016/07

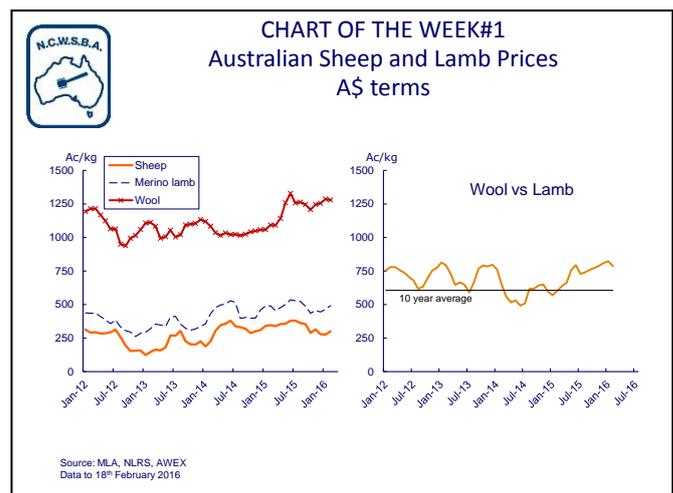
### From the desk of Chris Wilcox, Executive Director

- Wool prices up and down to finish flat
- Sheep and lamb prices and disposal update
- World economic growth and wool
- AWI Broker Briefing Day
- Other upcoming events



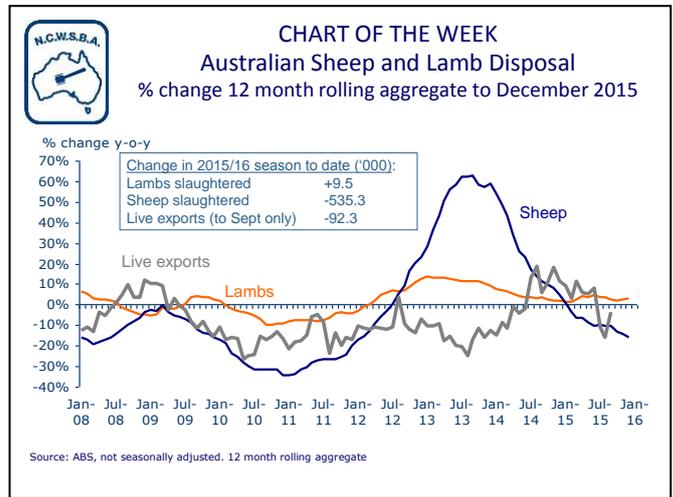
The **Australian wool market** bounced up and down this week at the two day sales in the three selling centres. Prices in Sydney and Fremantle jumped on Wednesday then fell back on Thursday. Prices in Melbourne were more stable. The wash-up saw the Eastern Market Indicator (EMI) closing at 1285 Ac/kg, up a slight 1 Acent for the week. The Northern Market Indicator was 4 cents higher at 1313 Ac/kg, while the Southern Market Indicator and Western Market Indicators both eased 1 cent to 1266 Ac/kg and 1355 Ac/kg respectively. There were ebbs and flows across the Merino Micron Price Guides, but the most significant changes were for broader Crossbred wool and for the Merino Cardings Indicator. Crossbred wool of 30 micron and broader fell by as much as 13 cents. In contrast, the Merino Cardings Indicator lifted by 16 cents in the eastern selling centres and by 26 cents in the west. There were 40,868 bales of Australian wool offered in the three centres, as well as 1,744 bales of NZ wool offered in Melbourne. The pass in rate for the week was 6.7%. The A\$ lifted a little against the US\$ and the Euro over the week. As a result, the EMI increased by 8 UScents to 921 USc/kg and by 19€cents to 825 €/kg.

As I pointed out in last week's edition, wool prices have lifted over the past 12 months in both A\$ and US\$. It is interesting to see what has happened with **lamb and mutton prices** over the same period. In A\$ terms, lamb prices currently are a bit mixed compared with a year ago in February 2015. According to data from Meat and Livestock Australia, saleyard prices for trade and heavy lamb are marginally lower now than in the same week last year. Light lamb prices are 2% higher than last year and Merino lamb prices are 7% higher. This compares with the EMI, which is 18% higher than for the same time in 2015. The first **Chart of the Week** shows the trends in prices for Merino lamb and sheep for slaughter as well as the trends in wool prices (as measured by the EMI). As a result of the stronger gain in wool prices compared with those for lamb, the price differential between wool and lamb has widened in the past 12 months. It is now well above the long-term average.



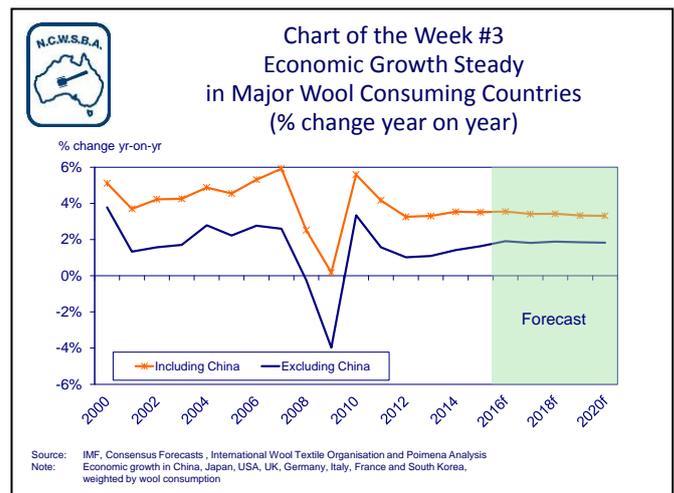
In the first six months of the 2015/16 season (July to December), a record number of **lambs were slaughtered** in Australia. According to the Australian Bureau of Statistics, a total of 11.52 million lambs were slaughtered, slightly higher than for the same period in 2014/15. At the same time, 4.43 million adult sheep were slaughtered, 0.54 million or 11% lower than for the same period in 2014/15. The latest data on the number of live sheep exported is only to September. For the first three months of the

2015/16 season, Australia exported 92,000 less sheep live than in 2014/15. The second **Chart of the Week** shows the trends in sheep and lamb slaughterings and live sheep exports since 2008. The chart shows the year-on-year change in the 12 month moving aggregate. After the strong surge in sheep slaughter in 2013/14, this has pulled back to be below year earlier levels. Lamb slaughterings appear to be settling at the current historically high levels. The drop in sheep slaughter (as well as lower live sheep exports) suggests that a further downturn in sheep numbers in Australia may be limited, which is encouraging for wool production in 2016/17. The Australian Wool Production Forecasting Committee will meet on 30<sup>th</sup> March and, among other things, consider its first forecast for the 2016/17 season.



In my view, economic growth (or, more precisely, consumer income growth) in the major wool consuming countries is a major driver of demand for wool and, ultimately, raw wool prices. As is regularly reported in the daily and financial media, the slowdown in China's economy is having a major impact on the demand for and prices of other industrial commodities (such as iron ore and coal, as I covered in last week's *Weekly Newsletter*). As well, while the US is growing solidly and the EU economies are recovering from the Euro crisis of 12 months ago, the growth rates in these areas are at a slower pace than in past. Finally, the Japanese economy continues to struggle.

The third **Chart of the Week** shows the trends in economic growth in the eight major wool consuming countries (in order, China, the US, Japan, the UK, Germany, Italy, France and South Korea) weighted according to the wool consumption in each country. The chart shows the historical trends and the latest forecasts from *Consensus Forecasts*. It also shows the weighted forecasts including and excluding China. The key messages are that economic growth is forecast to be steady in the countries excluding China over the next five years but at lower levels than in 2000-2007. When you include China, economic growth is predicted to ease a little, in line with the expectations of slower economic growth in China.



AWI is hosting a **Wool Broker Forum** on Friday, 18<sup>th</sup> March in Sydney. The main topic for discussion will be the Final Report from the Wool Selling Systems Review. There will also be an update on AWI's research and development and marketing programs. The event is by invitation and I understand that AWI has invited brokers from around Australia.

#### OTHER INDUSTRY EVENTS

The **ABARES Outlook 2016 Conference** will be held in Canberra on 1-2 March 2016.

The **Australian Wool Production Forecasting Committee** will meet on 30<sup>th</sup> March 2016 in Melbourne.

The **2016 IWTO Congress** will be held in Sydney on 4-6 April. Register at <http://www.iwto.org/events/upcoming-events/45/>

The **2016 AWIS Wool Week** will be held at the Crowne Plaza in Melbourne on 25<sup>th</sup> & 26<sup>th</sup> August. The NCWSBA AGM will be held on Thursday, 25<sup>th</sup> August 2016.

#### WOOL SALES WEEK BEGINNING 122<sup>nd</sup> FEBRUARY 2016 – week 35 (roster as at 11/2/2016)

<u>Sydney</u>	Wed, 24 <sup>th</sup> Feb; Thurs, 25 <sup>th</sup> Feb	13,064 bales
<u>Melbourne</u>	Wed, 24 <sup>th</sup> Feb; Thurs, 25 <sup>th</sup> Feb	24,947 bales
<u>Fremantle</u>	Wed, 24 <sup>th</sup> Feb; Thurs, 25 <sup>th</sup> Feb	11,807 bales

Information in the Weekly Newsletter is intended to provide general information only and is not intended to constitute advice for a specific purpose.