The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- **NCWSBA 2016 Broker Award – Applications Close TODAY!!**
- Australian wool prices lift
- Wool price movements in 2015/16
- Possible effects on the wool market from the Brexit vote
- AWTA tests drop in June and for the full 2015/16 season
- Good rainfall in June and outlook for more in July to September
- Upcoming events

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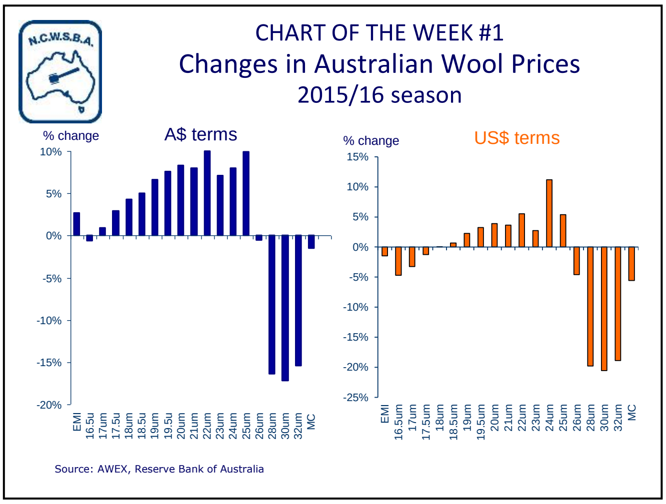
The **Australian wool market** showed no signs of being affected by the turmoil in the past week arising from the shock UK vote to leave the European Union. To some extent, this is no surprise as very little of Australia's wool is exported directly to the UK. The **Eastern Market Indicator** lifted by 6 cents to close the 2015/16 season at 1297 cents/kg. The most significant weekly increases were again seen for Merino wool between 20 and 23 micron, which rose by between 20 and 25 cents. Prices for finer Merino wool also lifted, by 5 to 10 cents. The Northern Market Indicator rose by 14 cents to close the 2015/16 season at 1317 Ac/kg, while the Southern Market Indicator rose by 11 cents to 1283 Ac/kg. Sales in Fremantle resumed after a week's break, and prices played catch-up. The Western Market Indicator jumped by 31 cents to 1393 c/kg. The A$ dropped back by a little under 1 UScents to 74.4 UScents. As a result, the EMI slid by 2 UScents to 965 USc/kg according to AWEX. The A$ was up a little against the Euro to 67.0 €cents and the EMI rose by 16€cents to 869 €cents/kg.

With the last sale of the 2015/16 season this week, it is interesting to see how **Australian wool prices moved over the season**. The first **Chart of the Week** shows the % change in prices for the EMI and for each Micron Price Guide from the start of the 2015/16 season to the closing price this week in both A$ and US$. As can be seen, prices in A$ for most Merino wools (24 micron and finer) increased in the 2015/16 season. The largest rises were seen for wool between 19.5 micron and 23 micron, with lifts of between 8% and 10%. Finer Merino wool also lifted over the season, with the exception being the 16.5 Micron Price Guide, which was slightly lower over the full season. In contrast, prices for Crossbred wool 26 microns and broader declined by up to 17%. Merino carding prices also eased back, by 1.5%.



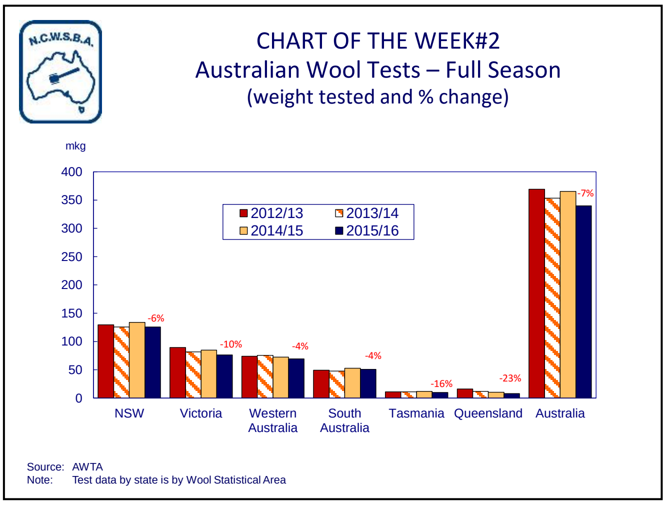
The closing levels this week for the Micron Price Guides between 20 and 23 micron were the season high, while the EMI was only slightly below the season high.

Over the 2015/16 season, the A$ fell against the US$ by a little more than 2 UScents or 2.9%. As a result, the EMI was slightly lower in US$ at the end of the season compared with the start of the season, as was 17 and 17.5 micron wool. Prices for other Merino wool price guides were higher over the season.

I have been asked what impact the **UK vote to leave the European Union** will have on the Australian wool market. In my view, the short term impact will be only come from the uncertainty and volatility that the decision creates in financial and currency markets. A week after the shock result, currency markets seem to have settled to an extent (with the Pound Sterling at long-term lows against the US$) and share markets recovering some of the initial losses. The wool market appears to be unaffected at this stage. It is also interesting to note that cotton prices have continued their recent upward rise in spite of the UK vote, and other commodity prices have rebounded. For Australian wool, the United Kingdom accounted for a mere 0.4% of Australia's wool exports in the 11 months of the 2015/16 season to May. The total was 1.14 mkg greasy worth $9.1 million. So, in the short term I doubt that there will be much if any discernible impact.

The medium term impact may be more significant and potentially negative. These effects will arise if the UK's economic growth drops as a result of the decision and also if it causes economic growth in other European Union countries falls, notably Germany, Italy and France. The UK is the world's seventh largest consumer of wool clothing at retail, while Germany, Italy and France are the fourth, sixth and eigth largest consumers of wool clothing. Collectively these four European countries account for around a quarter of world consumption of wool clothing. A pull back in economic growth in these countries could see clothing retail sales stagnate, affecting demand for wool clothing. This will need to be monitored over the next six to 12 months.

AWTA this morning released the **statistics on wool tested for June and for the full 2015/16 season**. The data shows a sharp 21% drop in the weight of wool tested in June across Australia compared with June 2015. This was expected after the 27% year-on-year jump in June 2015 and brought the weight of wool tested in June this year back to the levels seen in 2011/12 through to 2013/14. In total, AWTA tested 20.5 mkg of wool in June, compared with 26.1 mkg in June 2015 and 20.5 mkg in June 2014. For the full 2015/16, AWTA tested 7% less wool than in 2014/15. This is in line with the most recent forecast from the Australian Wool Production Forecasting Committee. It must be remembered, however, that the weight tested in 2014/15 was inflated by wool released from on-farm stocks as a result of the surge in wool prices in June 2015. The drop in wool tested this season may therefore overstate the actual decline in production. The second **Chart of the Week** shows the total weight of wool tested by state for 2015/16 compared with recent seasons.



Rainfall in June was well above average across many parts of Australia according to the **Bureau of Meteorology (BoM)**, except in the western half of Victoria and the south-east of South Australia (where rainfall was average) and in parts of the Great Southern in Western Australia. This June rainfall came on the back of good rainfall in May and has relieved the dry to drought conditions in a number of major sheep and wool producing regions. The BoM expects that most regions across Australia will see above average rainfall in July to September, which brings hopes for improved fleece weights in 2016/17.

INDUSTRY EVENTS

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

The **Nanjing Wool Market Conference** will be held in Wuxi on 23rd-27th September. Click here for details.

The **IWTO Wool Roundtable** will be held in Biella, Italy on 28th-29th November.

WOOL SALES WEEK BEGINNING 4th JULY 2016 – week 1 (roster as at 30/6/2016)

Sydney
Wed, 6th July; Thurs, 7th July — 13,716 bales

Melbourne
Wed, 6th July; Thurs, 7th July — 15,824 bales

Fremantle
Wed, 6th July; Thurs, 7th July — 8,725 bales