



2nd December 2016

2016/46

From the desk of Chris Wilcox, Executive Director

- Australian EMI hits five year high
- Now versus then: 2011
- US economic growth picks up
- AWTA wool tests jump in November
- Seasonal conditions and outlook
- Upcoming events



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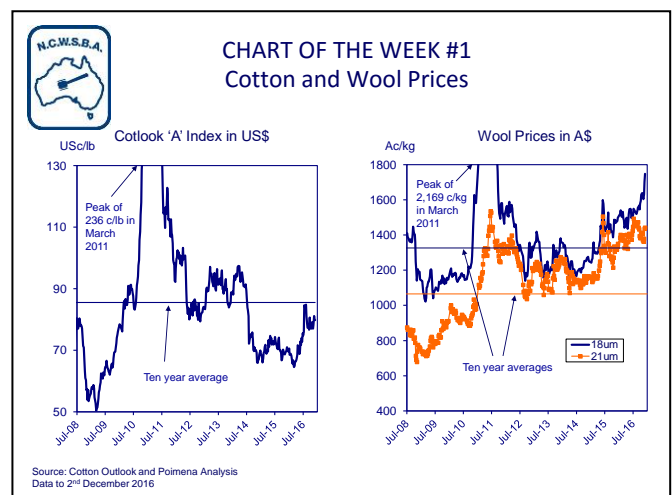
Superfine wool prices soared higher again this week in the **Australian wool market**. While fine and medium Merino prices rose, broader Merino and fine Crossbreds came under pressure. The **Eastern Market Indicator (EMI)** lifted by 15c/kg to finish the week at 1378 c/kg. This is the highest level since July 2011. The increase came mainly on Wednesday, with the market stabilising on Thursday. The continued lift in prices came even though there were almost 50,000 bales offered for the week, the second largest weekly offering for the season. There are over 100,000 bales rostered in the next two weeks before the Christmas recess, with offering for next week being raised to over 55,000 bales. These volumes will be a test for the market and could explain the pause on Thursday.

Superfine wool prices jumped by up to 60 cents, with ultrafine wool recording the best gains. The medium Merino wools lifted a little, but prices for broader Merinos were a little soft. Crossbreds experienced a mixed week, with some ups and some downs. The A\$ was up 0.4 UScents to 74.1 UScents and the EMI lifted by 17 UScents to 1021 USc/kg. The A\$ was again steady against the Euro at 69.9 €cents and the EMI increased by 10 €cents to 963 €cents/kg.

As I noted above, the current EMI is the highest since July 2011. But, there are **very different circumstances this time around compared with 2011**.

Back in the first half of 2011, cotton prices surged to the highest level since the US Civil War because of a short-term supply squeeze. Prices for all fibres, including wool, lifted as a result of the surge in cotton prices in 2011. At the same time, the A\$ was at just over US\$1, which added to the level of wool prices in US\$.

While wool prices have jumped in recent weeks, cotton prices have remained steady at around 80 USc/lb. Other fibres have also been steady in recent months. Therefore, the current rise in wool prices is all due to the demand for wool, helped by the lower A\$ which is at 74 UScents. The first **Chart of the Week** shows the trends in cotton prices in US\$ and in 18 micron and 21 micron wool prices in A\$. It illustrates how cotton prices have been steady in recent months at levels a little below the 10 year average. As well, 18 micron wool prices in A\$ have risen steadily in the past 12



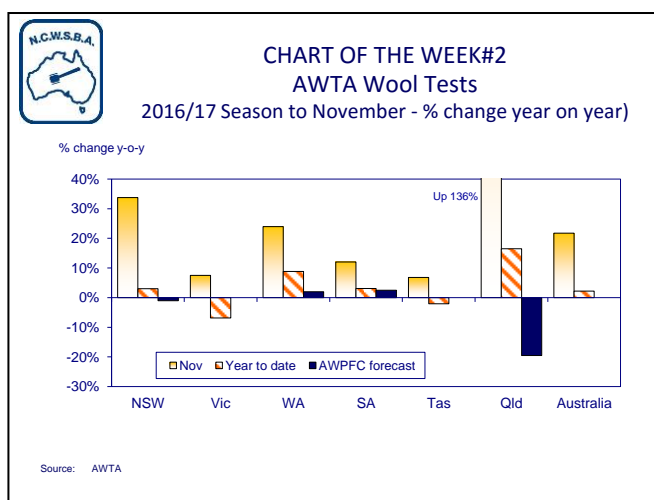
months, culminating in the recent surge, and are well above the 10 year average. 21 micron prices are also well above the 10 year average, but have been variable around a flat trend at high levels in recent months. All in all, it's a pretty rosy picture for Australian Merino woolgrowers.

AWTA released the **statistics on wool tests** for November and they show a significant surge in wool text volumes. This was to be expected given the hold-ups in September and October in eastern states due to rain. The total weight of wool tested by AWTA jumped by 22% in November, compared with a year earlier. All states recorded year-on-year increases in November, with the biggest increases seen for Queensland (+137%), New South Wales (+34%) and Western Australia (+24%). The weight of wool tested in South Australia lifted by 12%, in Victoria it was up by 8% and Tasmania increased by 7%. [Note that this data is on a Wool Statistical Area basis, which gives the best indication of the state of origin.] The increase in November resulted in the weight of wool tested in Australia being 2% higher for the season to November compared with a year earlier. This compares with the current forecast from the Australian Wool Production Forecasting Committee (AWPFC) for shorn wool production to be steady at 325 mkg for the full season. The second **Chart of the Week** shows the % year-on-year change for November and for the five months of the season (July-November) for each state and for Australia, compared with the current AWPFC forecast.

The changes by micron range were also significant, probably reflecting the improved seasonal conditions. The weight of 19-20 micron wool increased by 32% in November and there was a 40% increase for 21-24 micron wool. For the season to date, it was only these two micron categories that saw increased weights in the first five months, with volumes of superfine wool (18.5 micron & finer), Crossbred (25-28 micron) and Broad wool (29 micron & broader) all declining.

The majority of the sheep and wool producing regions across Australia recorded well **above average rainfall** in the April-November period, with the exception being Western Australia. This is very encouraging for increased wool production in the second half of the 2016/17 season. The latest **seasonal outlook** from the Bureau of Meteorology suggests that the next three months will be hotter and drier than usual across New South Wales and Queensland, as well as parts of Victoria and South Australia. Elsewhere will be cooler than usual with about average rainfall. Click [here](#) to see details.

The **AWPFC meets on 14th December** to review its current forecasts, with the state round of meetings starting next Monday. It will take into account the latest AWTA test data, as well as data from AWEX and the ABS and the seasonal conditions and outlook. It will be interesting to see if the Committee decides to revise its forecast.



INDUSTRY EVENTS

The **AWPFC meeting** will be held on 14th December, with a state round of meetings starting on Monday next week.

The **IWTO 2017 Congress** will be held on 3 to 5 May 2017 in Harrogate, North Yorkshire, UK.

The **Australian wool market** will be in recess from 19th December 2016 to 6th January 2017.

WOOL SALES WEEK BEGINNING 5th DEC 2016 – week 23 (roster as at 1/12/2016)

<u>Sydney</u>	
Wed, 7 th Dec, Thurs, 8 th Dec	14,557 bales
<u>Melbourne</u>	
Tues, 6 th Dec; Wed, 7 th Dec, Thurs, 8 th Dec	29,305 bales
<u>Fremantle</u>	
Wed, 7 th Dec, Thurs, 8 th Dec	11,195 bales

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