The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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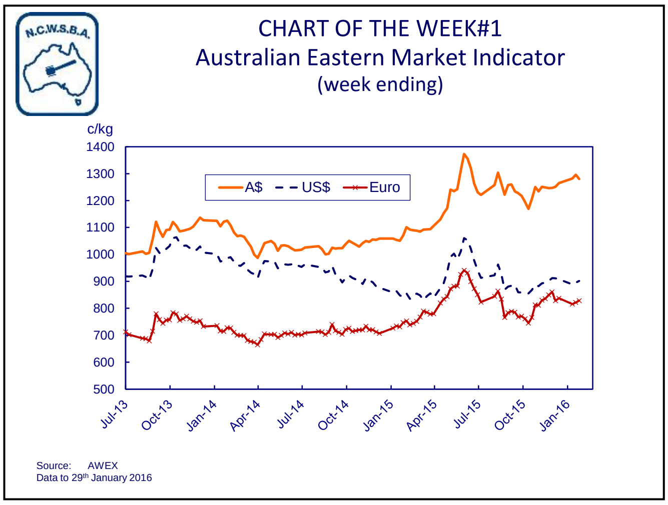
From the desk of Chris Wilcox, Executive Director

- Wool prices fall back as A$ lifts
- Wool prices in US$ diverging from A$ and Euro trends
- Oil prices and man-made fibre prices
- Wool's price competitiveness with other fibres
- Upcoming events

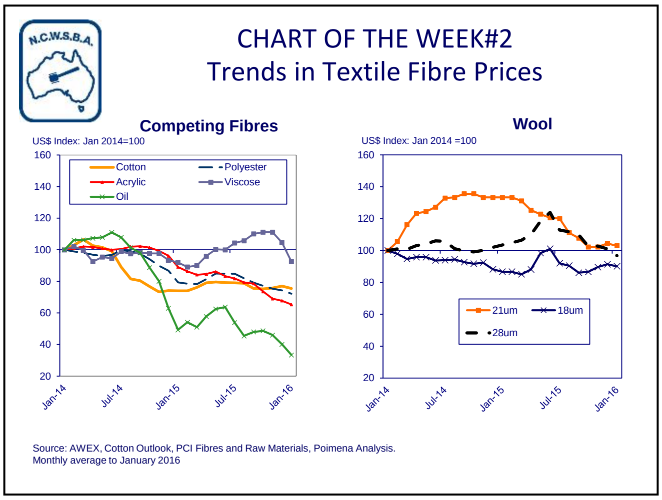
After five consecutive weekly gains either side of the Christmas recess, prices in the **Australian wool market** fell back this week, giving up all of last week's gains and more. The Eastern Market Indicator (EMI) fell by 16 Acents to close at 1280 Ac/kg. The Western Market Indicator (WMI) fell by 21 cents to 1351 c/kg. The price falls were felt most intensely for Merino wool, particularly 19 micron and broader Merino wool. Prices for wool between 19 and 22 micron fell by up to 27 cents/kg. Superfine wool prices (18.5 micron and finer) fell by between 14 and 18 cents/kg. The falls in the prices for Crossbred wool were more subdued, which is no surprise given that they have been falling in recent weeks. The Merino Cardings indicator performed best, declining by around 4 Acents for the week. As a result of the dip in prices this week, the pass-in rate jumped to 13.5%.

The main driver of the fall in A$ prices appears to have been the lift in the A$ against the US$ to above 70 UScents. The A$ increased by 1.4 UScents to 70.46 UScents. As a result, the EMI increased by 7 UScents to 902 USc/kg, in spite of the drop in the EMI in A$ terms. The A$ also lifted against the Euro to 64.74 €cents (up 1.34 €cents) and the EMI increased by 7 €cents to 829 €cents/kg. The first of this week's **Chart of the Week** shows the trends in the EMI in A$, US$ and Euro. As can be seen, there has been a divergence between the trends in wool prices in A$ and in US$ over the past 18 months. At the same time, the trends in wool prices in Euros has, largely, followed the trends in A$ prices (as it has throughout the period shown in the graph since July 2013). This highlights the fact that it is a story of the increased strength of the US$ against the A$ and the Euro, rather than a weakening of the A$ against all currencies. The current forecasts suggest that the US$ will maintain its strength over the next 6 months or more.

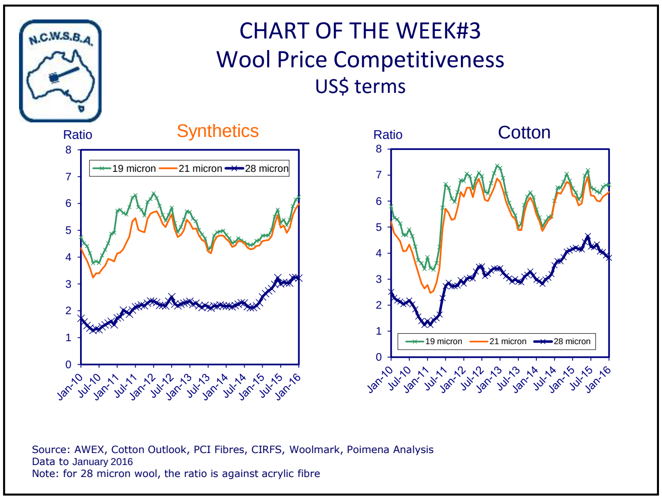


Much has been made in the metropolitan and financial press over the past month about the drop in **oil prices**. It has been a remarkable fall in the past three months. Since the early November, oil prices (as measured by the West Texas Intermediate) fell by 40% from US$47/barrel to US$28/barrel on 19th January. It has recovered a little to US$33/barrel today. There has been considerable comment about the impact this fall has had on volatility in financial markets and what it may mean for economic growth in the major economies (however, other things being equal, you would think lower oil prices will help boost economic growth in the major consuming countries as it reduces the cost of a significant cost item). But what does it mean for the **prices of synthetic fibres** such as polyester staple and acrylic fibres?

While oil is the major precursor to the key synthetic fibres, the connection between the movement in oil prices and the movement in synthetic fibre prices is not direct nor is it the full story. As PCI Fibres (a UK-based company which analyses the world synthetic fibre industry) says in its latest monthly report *"There is a surprisingly widespread view at fibre, textile and retail levels that textile pricing is somehow pro rata with oil prices – that is, if oil prices halve, so should fibre prices. This perception is absolutely fallacious but has caused heated debate up and down the [synthetic fibre] supply chain."* Each synthetic fibre has its own cost base in turning the oil precursor into that synthetic fibre and its own supply-demand dynamic.



This is evident from the second **Chart of the Week**, which shows the trends in oil prices since January 2014 and the trends for the major oil-based synthetic fibres which compete with wool – polyester staple and acrylic fibre. It also shows the trends in viscose fibres (which is a cellulosic fibre derived from wood pulp), cotton, and wool (18 micron, 21 micron and 28 micron). The charts are based on a US$ index as at January 2014. As can be seen, oil prices are at just 33% of the levels of January 2014, but acrylic and polyester staple fibre prices are at 65% and 72% of the January 2014 levels. Certainly the low oil prices have weighed on the oil-based synthetic fibre prices, but have not translated directly. Cotton prices are also down to around 75% of the levels in January 2014, affected by the large excessive stocks of cotton although they have also been affected by the lower synthetic fibre prices. Viscose prices have only recently dipped below the January 2014 levels. Wool prices, by comparison, have performed rather well. The price for superfine wool (represented by 18 micron wool in the chart) is at 90% of the January 2014 level, 28 micron price is 98% of the starting price level while 21 micron wool is slightly above the January 2014



As a result of these moves, wool has become **less competitive against synthetic fibres**. It has also become a little less competitive against cotton. The third **Chart of the Week** shows the trends in the price ratio for 19 micron, 21 micron and 28 micron against synthetic fibres and against cotton since January 2010. Wool's price ratio against synthetic fibres is at or near all-time highs. It is the highest ever for 21 micron wool and 28 micron wool, while for 19 micron wool it is at close to highest ever level which was in mid-2012.

Against cotton, however, the current ratios are below recent highs. While wool's price competitiveness has, in my view, become much less important than it was in the 1990s and even the 2000s, we will still need to monitor the oil price and synthetic fibre price levels.

INDUSTRY EVENTS

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

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 25th & 26th August.

WOOL SALES WEEK BEGINNING 1st FEBRUARY 2016 – week 32 (roster as at 28/1/2016)

Sydney
Wed, 3rd Feb; Thurs, 4th Feb — 14,350 bales

Launceston/Melbourne
Tues, 2nd Feb; Wed, 3rd Feb; Thurs, 4th Feb — 23,875 bales

Fremantle
Wed, 3rd Feb; Thurs, 4th Feb — 8,662 bales

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