



8<sup>th</sup> April 2016

2016/13

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

- Strong gains in prices in the Australian wool market
- IWTO 2016 Congress: Market Intelligence highlights
- Latest forecast from the Australian Wool Production Forecasting Committee
- Upcoming events

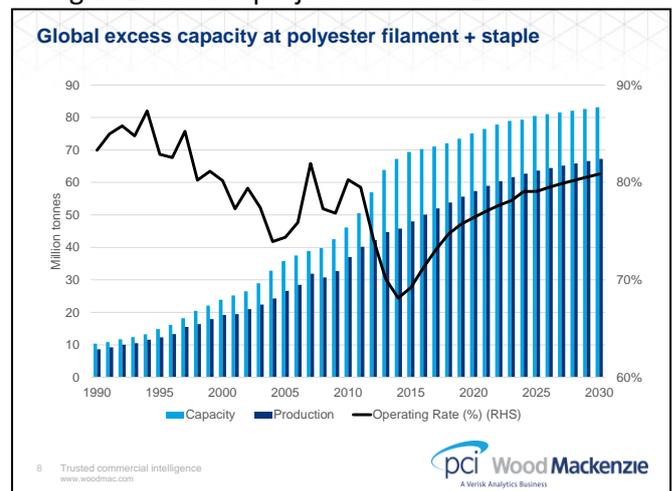


The **IWTO 2016 Congress** was held in Sydney this week and one of the highlights was the Sydney wool auction being held in the Congress hotel on Tuesday and Wednesday. It generated an enormous amount of interest among the 460 plus Congress delegates and partners. The good news was that the **Australian wool market** saw strong gains on both Tuesday and Wednesday, although the momentum stalled on Thursday. The **Eastern Market Indicator (EMI)** rose by 31 cents to finish the week at 1270 Ac/kg. The most significant gains over the week were for Merino fleece wool, so the Western Market Indicator performed best, lifting by 47 Acents to 1356 Ac/kg. The Northern Market Indicator was 37 cents higher at 1298 Ac/kg and the Southern Market Indicator increased by 28 Acents to 1252 Ac/kg. The A\$ was slightly firmer against the US\$ and has eased against the Euro (by 1.19€cents) to 66.8 €cents. The EMI lifted by 24 UScents to 968 USc/kg and increased by just 6€cents to 848 €c/kg.

The **IWTO Congress** started on Monday and finished on Wednesday. There was a very high attendance, with over 460 delegates and partners. There was an excellent contingent of Australians, as you would expect, including a large number of wool broker staff and also woolgrowers. The Congress was opened by the Federal Minister for Foreign Affairs, the Honourable Julie Bishop, who spoke about the Government's commitment to innovation.

The **Market Intelligence session**, which I chaired, followed the Opening session. The key note speaker was Bruna Angel from PCI Wood MacKenzie, a firm which specialises in analysing the global fibre market, with a focus on man-made fibres. Among other things, Bruna worked for a decade with the International Wool Secretariat in the 1990s so knows the wool industry. In her presentation, Bruna noted the large excess-capacity in man-made fibres, in particular in polyester. The first **Chart of the Week** is from Bruna's presentation, and shows global polyester capacity compared with global polyester production, and the operating rate (that is, the capacity utilisation rate) starting in 1990 and projected out to 2030. You can see the huge growth in both capacity and production levels since 1990. Capacity has risen from around 10 million tonnes to 70 million tonnes in 2015. By comparison, total world production of wool is just 1.15 million tonnes. Bruna told me that just **one** polyester mill in China has a production capacity equal to 2½ times the total world production of wool.

Global capacity utilisation fell to less than 70% in 2014 and 2015. This over-capacity, combined with low oil prices, has meant that polyester prices have been low. Bruna said, though, that in addition to the



low price for polyester, it was also its flexibility and diversity of uses that made polyester so pervasive. She went on to say that one of the major challenges for polyester and fibres in general was the issue of sustainability. She noted that the polyester industry has been working on recycling polyester bottles, carpets and so on into other products, such as running shoes, and had been arguing that this showed polyester's "sustainability".

I wonder, though, about this. Polyester is not biodegradable and lasts for years. A speaker later in the Congress noted the massive plastic islands that are floating in the world's ocean gyres (areas where ocean currents cause a whirlpool-like effect where discarded plastic aggregates). The speaker said that the largest in the Pacific Ocean is the size of Texas! This theme of sustainability recurred throughout the Congress. **I have attached Bruna's presentation as a supplement to this week's Newsletter.**

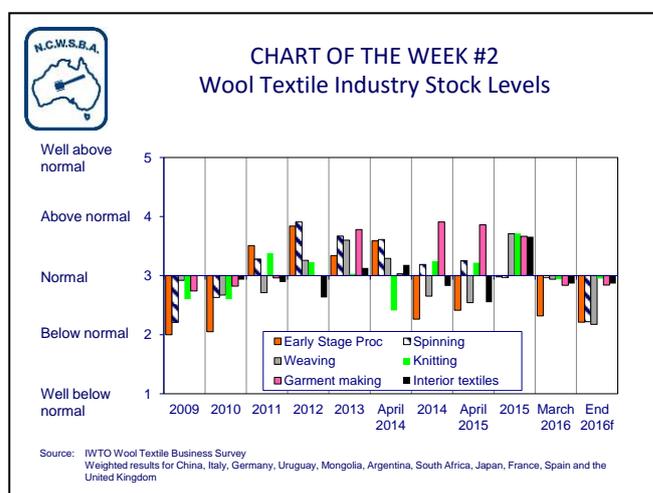
I also gave a presentation during the Market Intelligence session on the short term trends in global wool production and demand, and what that means for the prospects for 2016/17. I drew on **annual surveys** of the IWTO member countries covering **wool production and business conditions in the wool textile industries** in IWTO member countries. The IWTO survey of business conditions suggests that production activity levels in most sectors of the wool textile industry has moved back to more "normal" levels. Some sectors, such as early stage processing, are seeing an improvement in conditions over the past year, while others are moving back to normal conditions after a period of above normal activity levels.

More positively is that, excess stocks in weaving, knitting, garment making and interior textiles at the end of 2015 have been brought under control. Furthermore, stocks in early stage processing are currently reported to be below normal (see the second **Chart of the Week**). This suggests that demand for raw wool could be good in the next few months as mills aim to replenish stocks.

On the production side, world wool production is expected to fall by 1.5% in 2015/16 and remain low in 2016/17. The decline in 2015/16 is largely due to a 7% decline in shorn wool production in Australia. The **Australian Wool Production Forecasting Committee**

released its updated forecast for 2015/16 on 1<sup>st</sup> April, confirming the 7% decline in production for the season to 322 mkg greasy. It also released its first forecast for 2016/17, suggesting that production would be 320 mkg greasy. The low Australian and world wool production will provide a strong base for wool prices. **The Media Release from the AWPFC is attached in the email as supplement to the Newsletter, as is my presentation.**

The other speakers in the Market Intelligence session were Georgia Twomey from Rabobank, who spoke on the drivers in global agriculture, and Madam Yang Xiaoxiong from the Nanjing Wool Market who presented on the situation in the Chinese wool textile industry. **Contact me if you would like to receive their presentations.** I will report on other sessions at the Congress in next week's edition of the *Weekly Newsletter*.



#### OTHER INDUSTRY EVENTS

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.

The **Nanjing Wool Market Conference** will be held in Wuxi on 23<sup>rd</sup>-27<sup>th</sup> September. Click [here](#) for details.

The IWTO Wool Roundtable will be held in Biella, Italy on 28<sup>th</sup>-29<sup>th</sup> November.

#### WOOL SALES WEEK BEGINNING 11<sup>th</sup> APRIL 2016 – week 42 (roster as at 7/4/2016)

<u>Sydney</u>	Wed, 13 <sup>th</sup> Apr; Thurs, 14 <sup>th</sup> Apr	11,165 bales
<u>Melbourne</u>	Wed 13 <sup>th</sup> Apr, Thurs, 14 <sup>th</sup> Apr	21,611 bales
<u>Fremantle</u>	Wed, 13 <sup>th</sup> Apr, Thurs 14 <sup>th</sup> Apr	10,291 bales

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