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2016/03

From the desk of Chris Wilcox, Executive Director

- Wool prices gain ground
- Wool price differentials
- New forecasts from the global economy from the IMF
- What are the Leading Economic Indicators suggesting for wool prices?
- Wool Week 2016 – dates announced
- Upcoming events

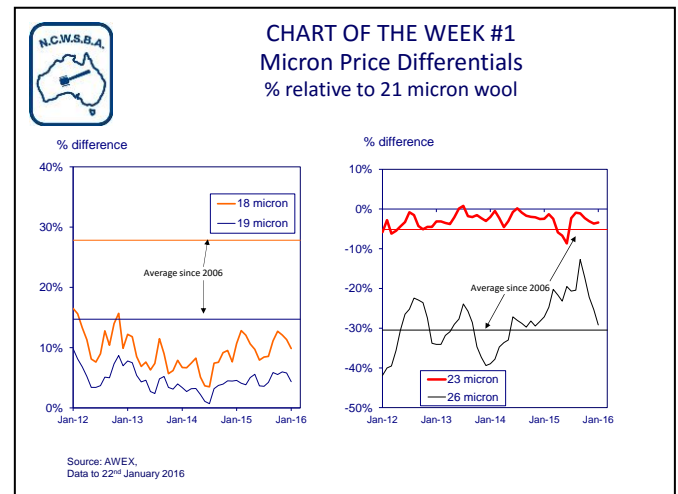


The **Australian wool market** recorded solid gains this week in spite of the highest weekly offering since November 2010, with strong buyer demand pushing prices for Merino wool higher. The Eastern Market Indicator (EMI) rose by 14 Acents to close at 1296 Ac/kg, the highest level since the price spike in June last year. The A\$ slipped a little against the US\$ to 69.05 UScents. Nevertheless, the EMI increased by 5 UScents to 895 USc/kg.

While the prices for all Merino wool rose, superfine wool lifted by the most this week. Prices for Crossbred wool were more mixed, with the finer microns increasing but the broader microns declining. The Merino Cardings indicator increased by 15 Acents to a new record level of 1153 Ac/kg. **Southern Aurora** reports that 21 micron forwards for March, April and May at around 1352-1380, while September and October forwards traded at 1310 cents.

Merino wool prices have been rising for the past couple of months while Crossbred prices have fallen back from the peak. There have also been some variable trends between micron categories for Merino wool. It is therefore interesting to see how the **price differentials between the different microns** have changed over the past few months since I last looked at this in the *Weekly Newsletter* (in September).

The first **Chart of the Week** shows the trends since the start of 2012 in the price differentials for 18 micron, 19 micron, 23 micron and 26 micron wool compared with 21 micron, on a month average basis. The charts also show the comparison with the ten-year average of the price differentials for each micron category. The key features are:



- In spite of the better performance at this week's auctions, the price differential for superfine wool (represented by the 18 micron price guide) has fallen back in the past couple of months. While it is still trading at a premium of around 10% (which is above the recent lows seen in mid-2015), it is still well below the long-term average premium of 28%. The same pattern can be seen for 19 micron wool.
- There has been a sharp increase in the discount paid for Crossbred wool (represented by the 26 micron price guide). The discount is at 29%, compared with the best level of 13% recorded in September when Crossbred prices were at record levels. The current discount is around the long term average

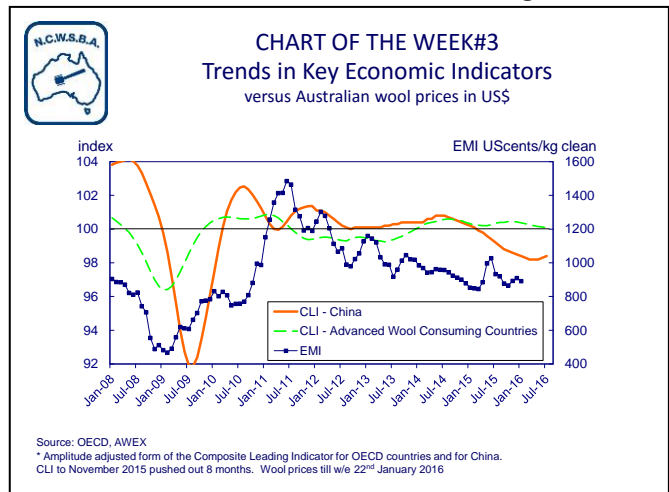
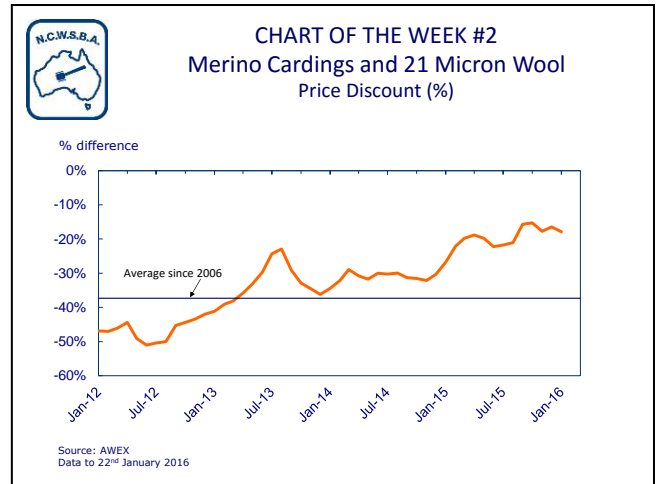
The second **Chart of the Week** shows the differential between 21 micron wool and the Merino Carding Indicator. As can be seen, the discount for Merino Cardings compared with 21 micron fleece wool has

narrowed steadily in the past two years. As I have reported in previous editions of the *Weekly Newsletter*, this is mainly due to the increased demand for Merino Cardings to be used in woollen fabric. The current discount is at 18%, much lower than the long term average of 37%, but greater the lowest discount of 15%. This is in spite of the Merino Cardings Indicator reaching record levels this week.

The **International Monetary Fund (IMF)** released its updated forecasts for the world economy in 2016 and announced its first forecasts for 2017. They were reported in the financial media as being bearish. While the IMF has indeed shaved its forecasts for some countries and the world economy, it is still expecting that the world economic will grow more quickly in 2016 and 2017 than in 2015. As well, the IMF predicts that economies of the US and in the Euro-zone will grow at the fastest rate since 2011, and will also be above the average growth rate seen in the period 2001-2008. The IMF notes the slowdown in China, predicting a growth rate of 6.3% in 2016 and 6% in 2017, but it has not adjusted its 2016 forecast compared with its forecast in October. It also notes that there is a risk of a sharper-than-expected slowdown in China, which would obviously hurt trade, commodity prices and affect global business and investment confidence. On balance these new forecasts from the IMF do not change the outlook for wool, unless the risk of a sharper slowdown in China is realised.

On the question of the outlook for wool prices, it is interesting to have a look at the trends in the **leading economic indicators**. The third **Chart of the Week** shows the trends in the OECD's leading economic indicators for both the advanced economies and for China, compared with the EMI in US\$. As I have commented previously, the EMI in US\$ terms has been on a downward trend for some time, leaving aside the price spike in June last year. It had been tracking the decline in the Leading Economic Indicators for China since 2014, although the decline has stabilised. The good news is that the Leading Indicators for China have begun to turn up. It is the turning point in the Leading Indicators that is the most relevant in terms of determining what might happen to wool prices. The upturn in China's Leading Indicators is a positive sign for a recovery in wool prices in US\$ terms.

AWIS announced the dates for the **2016 Wool Week**, the annual get-together of the Australian wool industry this week. It will be held on 25th and 26th August 2016 at the Crowne Plaza Hotel in Melbourne. As in the past, NCWSBA will hold its Annual General Meeting on the first day of Wool Week on 25th August. ACWEP, PTWMA and FAWO will also hold their AGMs on the 25th or 26th August. Please note the date in your diaries. I will provide more details when they become available.



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 25th JANUARY 2016 – week 31 (roster as at 21/1/2016)

Sydney

Wed, 27th Jan; Thurs, 28th Jan 11,215 bales

Melbourne

Wed, 27th Jan; Thurs, 28th Jan 25,107 bales

Fremantle

Wed, 27th Jan; Thurs, 28th Jan 9,729 bales