



22nd April 2016

2016/15

From the desk of Chris Wilcox, Executive Director

- Lift in A\$ drives Australian wool prices lower
- Recent movement in the A\$ against the US\$ and the impact on the EMI
- Australian wool exports to February
- Mulesing status data for first three quarters of 2015/16
- Upcoming events



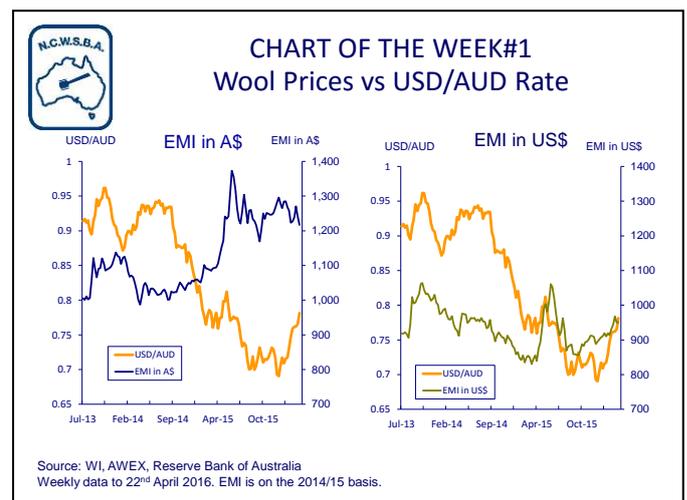
The **Australian wool market** saw prices fall again this week with the most significant declines seen on Wednesday before the market steadied a little on Thursday. The **Eastern Market Indicator (EMI)** closed the week at 1217 Ac/kg, a fall of 24 cents on last week, the lowest since October. The most largest weekly falls were for Merino cardings (which were down by 42 cents), and medium and broad Merino wool (20 to 23 micron) which fell by between 27 and 44 cents. Fine Merino wool and Crossbred wool prices also fell, but by smaller amounts. By region, the Northern Market Indicator fell by 26 cents to 1239 Ac/kg, the Southern Market Indicator was down by 24 cents to 1202 Ac/kg and the Western Market Indicator finished at 1278 Ac/kg, down by 34 cents.

It is often hard to know what causes these kind of weekly shifts, but the trigger this week seems to pretty clearly have been the sharp rise in the A\$ against the US\$. According to the Reserve Bank of Australia, the A\$ closed on Thursday night at 78.12 UScents the highest week-ending level since May last year. This was a jump of 1.56 UScents for the week. The A\$ also rose by 1.16 €cents to 69.14 €cents. As a result, the EMI rose by 1UScent to 952 USc/kg but fell by 2€cents to 841 €c/kg.

The first **Chart of the Week** shows the trends in the EMI in A\$ and US\$ since 2010 and the movements in the A\$ against the US\$ in that period. As I have commented before in earlier editions of the *Weekly Newsletter*, the relationship between movements in the EMI in either A\$ or US\$ and the movements in the exchange rate is not clear cut. However, as you would expect, there are some links.

As can be seen in the left hand graph, the rise in the EMI between September 2014 and June 2015 in part coincided with a decline in the A\$ against the US\$. However, the recent recovery in the A\$ since January this year hasn't obviously resulted in a declining trend in the EMI in A\$ terms. After the dip in the EMI this week, we will need to keep a close eye on this to see if the continued strength of the A\$ starts to really affect the EMI.

The right hand graph shows that there was a steady decline in the EMI in US\$ terms as the A\$ fell in value against the US\$. Leaving aside the price spike we saw in June last year (which seemed to be mainly due to the surge in demand for wool as a result of the double-faced woollen fabric craze in



Source: WI, AWEX, Reserve Bank of Australia
Weekly data to 22nd April 2016. EMI is on the 2014/15 basis.

China), the EMI in US started to recover before the A\$ started rising against the US\$. The recent strength of the A\$ has bolstered the rise in prices in US\$ terms. There are clear risks for wool prices brought on by the rise in the A\$. It also poses a risk for Australia's other export industries. It will be very interesting to see how the Reserve Bank of Australia responds to this rise.

The **Australian wool export** statistics for February were released during the IWTO Congress. These show that the volume of exports from Australia fell by 6% in February compared with February 2015. But, as has happened for many months this season, the value of exports in February rose compared with a year earlier, by 5%. While exports to China continued to fall in volume terms in February, exports to India, the Czech Republic and Malaysia all increased. For the eight months of the 2015/16 season to February, exports were down by 7% in volume terms but were 10% higher in A\$ value terms. In US\$ value terms, Australia's exports this season to date were 2% lower than for the same period in 2014/15. Of the major destinations, it is interesting to see that exports to India (the second largest export destination for Australia wool) was 11% higher than in 2014/15. Most of the other major export destinations recorded declines in the volume of exports.

The results for exports by micron category are interesting. As shown in the second **Chart of the Week**, the export volume of all micron ranges were below the levels in 2014/15. The smallest decline was for broad wool (28 micron and broader), a decline of 1%, and for fine and superfine wool (19 micron and finer) at a fall of 3%. There has been a significant 13% drop in the exports of both medium Merino wool (20-23 micron) and Crossbred types (24-27 micron).

However, the value of exports in all micron categories has lifted this year to date, with a significant 16% rise in exports of fine and superfine wool and 19% increase for broad wool.

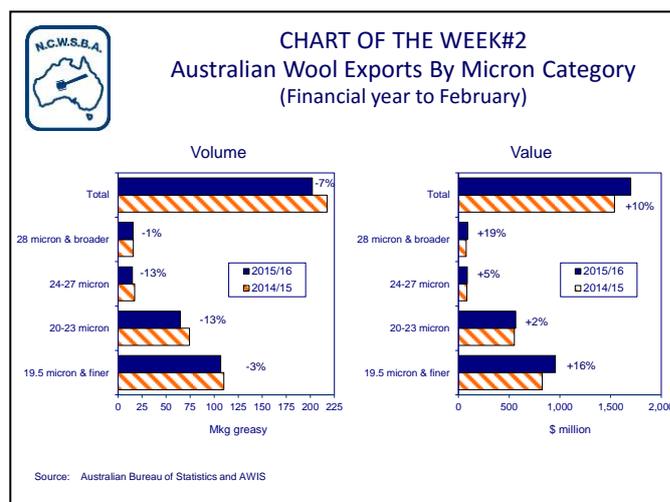
I was interested to see media reports this week saying that WoolProducers Australia are interested in seeing the mandatory use of the **National Wool Declaration (NWD)**. Certainly there was a push at the IWTO Congress from parts of the international wool textile industry for the NWD to be mandatory. The latest data from AWEX on mulesing status, which was released recently continues to show a solid increase in wool being offered with an NWD in March and for the first three quarters of the 2015/16 season. In the first three quarters of the 2015/16 season, the bales offered at auction with an NWD accounted for 53.9% of all wool offered. This is the highest ever proportion and compares with the share of 48.7% for the July-March period in 2014/15. This is the highest proportion achieved since the NWD was introduced in August 2008. As well, the proportion of wool offered with either a Non-Mulesing, Pain Relief or Ceased Mulesing declaration accounted for 33.3% of all wool offered, which is also a record.

OTHER 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 25th APRIL 2016 – week 44 (roster as at 21/4/2016)

Sydney

Wed, 27th April; Thurs, 28th April xxxxxx bales

Melbourne

Wed 27th April, Thurs, 28th April xxxxxx bales

Fremantle

Wed, 27th April, Thurs, 28th April xxxxx bales

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