



The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- Australian wool prices rally after a slide
- Merino price Supercycle
- Profitability of wool and sheep enterprises at record levels in Victoria
- Australian exports of fine and superfine wool down in 2017/18 to date
- Upcoming events



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While the world's share markets were racked by volatility this week as investors responded to the threat of increase rate rises, the **Australian wool market** roared back after three weeks of weaker demand and lower prices. The increased demand seemed to be sparked by a 2¼ UScent drop in the A\$. The **Eastern Market Indicator** closed at 1818 c/kg, up by 80 cents, equalling the nominal record set in the first week of sales in January. Merino and Crossbred wools all enjoyed a sharp lift in prices regardless of microns and AWEX reports that lower spec wools were in demand as much as the better spec wools. The 21 micron price guide hit the highest level recorded in my database, which goes back to 1976. The 18 micron price guide also hit the highest level (data goes back to 1999), as did the 17.5 micron price guide (data back to 2003). Prices for Cardings wool also bounced back after several weeks of decline.

The Western Market Indicator lifted the most, up by 102 cents for the week to 1921 c/kg. The Northern Market Indicator lifted 80 cents to 1909 c/kg and the Southern Market Indicator rose 79 cents to 1760 c/kg. The A\$ fell against the US\$, the Renminbi and the Euro. As a result, the EMI lifted to a smaller, but still significant degree, in these currencies: up 24 UScents to 1423 USc/kg; up 33€cents to 1158 €cents/kg; and up by 194 RMB to 8991 RMB/kg.

The rise in prices for Merino wool over the past 18 months has been spectacular, both in the size and the duration of the lift. As readers may know from previous editions of the *Weekly Newsletter*, the wool market experiences regular price cycles from trough to peak and then back to a trough. These cycles are driven by stocking and destocking decisions within the wool textile industry, reflecting a combination of: the length of the processing chain from raw wool to finished product in retail stores; purchasing decisions by garment makers, weavers, knitters, spinners and early stage processors in anticipation of orders from their customers and purchases by consumers; and the imperfect information for these companies about how much product will actually be sold at retail. In the past, these normal cycles are around 7-9 months between trough to peak.

But every so often we see a **Supercycle**, one which goes for much longer and involves a much greater increase in prices. In the past 30 years there have been four such Supercycles and I think the current market is the fifth such Supercycle. The first **Chart of the Week** shows the details for each Supercycle in the past as well as the current cycle. I have used the EMI as a not-quite-perfect proxy for Merino wool prices. The table shows the peak prices in both US\$ and A\$, the extent of the increase for each Supercycle in c/kg and in % terms, the number of weeks from the start of the upturn to the peak, and the underlying economic and industry conditions. As can be seen, the duration of the current Supercycle is in line with the

Date	Peak Price*		Price change - start to peak*		Weeks - start to peak	Comments
	UScents	Acents	UScents	Acents		
February 1986 to May 1988	1203	1582	+743 (+162%)	+925 (+140%)	111	Strong co-ordinated economic growth, Soviet Union buying, China begins, positive fashion styles
April 1993 to March 1995	707	949	+379 (+116%)	+496 (+107%)	97	World economic recovery, post Reserve Price Scheme collapse "bounce", China emerges
November 2001 to January 2003	709	1211	+350 (+97%)	+501 (+71%)	59	Last bale of the Australian wool stockpile sold - kicks off price rise
May 2010 to June 2011	1512	1434	+789 (+109%)	+564 (+65%)	57	Global economic recovery after GFC and cotton prices to 100+ year highs
April 2016 to February 2018	1439	1818	+540 (+60%)	+586 (+48%)	95	Solid economic growth in US & EU, general commodity price rise. Constrained Merino wool production.

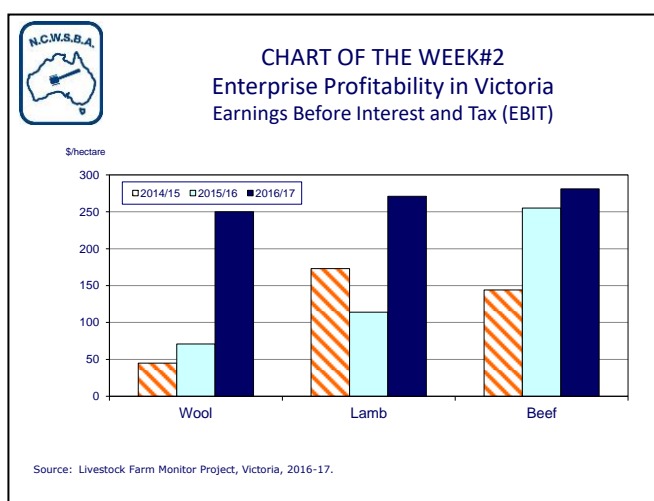
* Based on the Australian Eastern Market Indicator, 2017/18 basis

two Supercycles in the late 1980s and early 1990s. It is longer than the two others in the 2000s. Another thing to note is that the % increase for this current Supercycle is smaller than for previous Supercycles, mainly because the starting price was much higher. One further point is that it is impossible to discern at the time of the initial upswing of a cycle whether it is a normal cycle or the start of a Supercycle. It is also hard to know why a cyclical upturn develops into a Supercycle.

Of course, there is a downside to these Supercycles. The past three Supercycles have seen prices fall by around a third from the peak. But, each time the low after the Supercycle peak has been higher than the previous low. This reflects the steady upward rising trend we have seen for the EMI over the past 30 years.

It is not only Merino wool prices that have reached record levels in the past few months. Lamb and sheep prices in Australia have also been at or near record levels. This provides a great foundation for improved **financial performance for Australian sheep and wool producers**. This is highlighted by the latest results from the Victorian Government's Livestock Farm Monitor Project. This has been running for almost 50 years in one region of the state and for almost 10 years across the state. It provides detailed financial and technical information from 75 farms across Victoria. For the region in which the Survey has been running since 1971, profitability was at record levels in 2016/17.

The wool enterprise saw the greatest increase in Earnings Before Interest and Tax (EBIT) in 2016/17. EBIT for the wool enterprise jumped by 250% in 2016/17 to \$250 per hectare. The prime-lamb enterprise recorded a 138% increase in EBIT while the beef enterprise saw a more modest 10% lift in EBIT. However, the wool enterprise still had a lower total EBIT per hectare than did the prime lamb and beef enterprises. The second **Chart of the Week** shows a comparison of EBIT for these three enterprises over the past three seasons. It seems highly likely that given the increase in wool prices this season (the EMI is 19% higher than at the start of the 2017/18 season), the wool enterprise EBIT will lift again in 2017/18 even though seasonal conditions may not be quite as favourable as they were in 2016/17.



Australian wool export data for December was released on Wednesday. It shows that wool exports in December jumped by 20% in volume terms and 40% in value terms. As a result, the volume of wool exports in the first half of the 2017/18 season was 10% higher than in 2016/17. The value of wool exports was 27% higher in the first six months. China's share of Australian wool exports was at 77% in the July-December period, followed by the Czech Republic (6% by volume), India (5%), Italy (5%) and South Korea (2%). The Czech Republic's share has lifted from 5% in 2016/17 and India's share has fallen from 7%.

While the total export volume was higher in the first six months of the season, exports of 19 micron & finer wool fell by 14%. However, the value of exports of fine and superfine wool lifted by 6%, with the higher prices more than offsetting the fall in volume. The volume of 20-23 micron wool exported jumped by 41%, while export volumes of 24-27 micron and 28 micron & broader wool was also up, by 19% and 29% respectively.

INDUSTRY EVENTS

The **World Merino Congress** will be held in Montevideo, Uruguay on 12th to 14th April 2018. Click [here](#) for details.

The **IWTO 2018 Congress** will be held in Hong Kong on 14th to 16th May 2018. Click [here](#) for the draft program.

The **IWTO 2018 Round Table** will be held in Buenos Aires on 3rd to 4th December 2018.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

WOOL SALES WEEK BEGINNING 12th FEB 2018 – week 33 (roster as at 8/2/2018)

<u>Sydney</u>	Wed, 14 th Feb; Thurs, 15 th Feb	9,056 bales
<u>Melbourne</u>	Tues, 13 th Feb; Wed, 14 th Feb; Thurs, 15 th Feb	23,875 bales
<u>Fremantle</u>	Wed, 14 th Feb; Thurs, 15 th Feb	10,101 bales