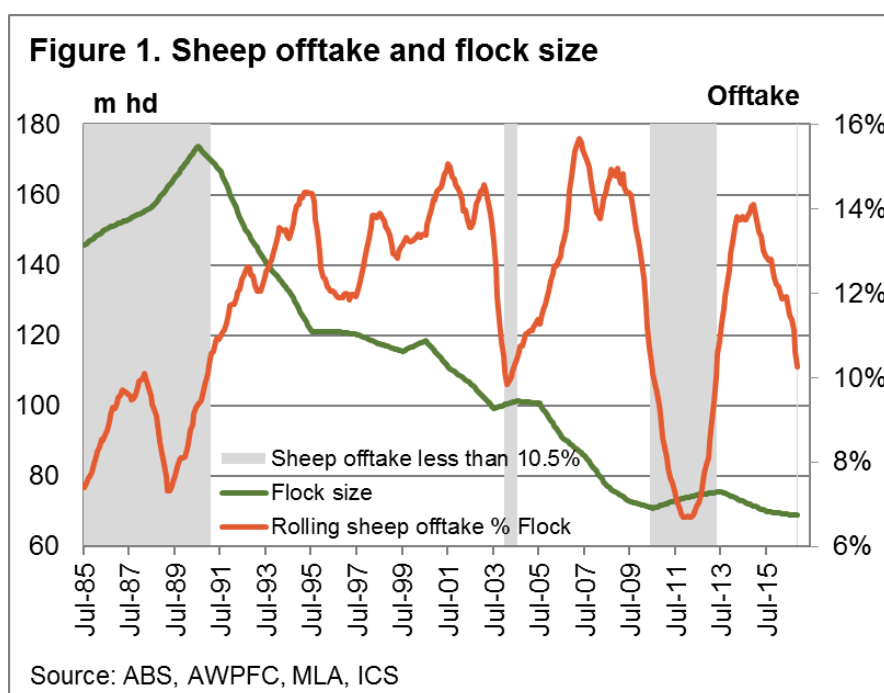


MECARDO – MARKET ANALYSIS ARTICLE

Date	2016-11-30
Title	Wool and merino sheep starting to shine
Commodity	Wool Sheep
Region	All
Author	Robert Herrmann
Sources	AWEX, ACA

2016 has been a water-shed year for Merino sheep and the wool industry. The most significant impact has been the breaking of the drought across the sheep grazing areas. This released pressure on farmers who had been steadily reducing sheep numbers to manage the long dry period.

There is strong evidence that the decline in the flock is over, and as Mecardo has reported the lower [sheep off-take](#) numbers are consistent with an expansion in the flock. Fig 1. This will be welcome news for both the wool and the sheep meat industries.



The wool market has performed well. To illustrate, the 19 MPG (which is now the median micron range for the Merino clip) began the year at 1450 cents posting steady improvement throughout the year to be above 1600 cents by the end of November. Importantly in US\$ terms the improvement also came; around a US 150 cents lift for the year indicating that demand is sound and improving. (See Fig 2 at end of article)

This drought has also impacted on wool supply with unusually high volumes of “hunger fine” wool as a percentage of the clip causing the fine wool premium to trade at record low levels for an extended period since 2012. (See Fig 3 at end of article)

The 18.5 MPG premium over 21 MPG began the year around 100 cents, and struggled with increased supply of fine wool for much of the year before breaking out above the 150-cent level in September. It now sits comfortably above 200 cents, and with wool to be shorn in the next 6 months having the full impact of the good season, we should see supply of fine wool reduce and premiums at the least retained.

The impact on fine wool producers of the twin impact of an improving general market as well as a lift in fine wool premiums has been significant. Across the fine wool categories an average of 200 cents has been the sum of the market improvement for 2016.

This is a most welcome outcome for fine wool producers improving prices by 12-15% over the year. Added to the fact that exporters have in fact increased their prices by 15-17% (in US\$ terms) and the evidence suggests that fine wool is in demand and has good prospects in the near term.

Another emerging factor in the merino world is the increased value of Merino lambs. This is being driven by genuine demand for the end product by meatworks.

AuctionsPlus report the average price for merino wether lambs over the 2016 Spring sales period sourced from Vic, S.A, NSW; 33 – 42 kg LWT (average 37kg) was \$95.17 per head. This is almost \$20 dearer than last year and \$45 higher than the same quote for 2013. Prices at these levels provide a valuable revenue source for merino flocks, and has focused merino breeders on the meat characteristics of their flocks to good effect.

Of further interest is the changing price relationship of Merino lambs to the supposed better quality Trade Lambs reported by Mecardo in "[Merino lambs becoming more valuable.](#)" Since 2008 the spread (or discount of Merino lambs to Trade Lambs) has tightened considerably, with the lowest spread each year post January (See Fig 4 – 6 at end of article). This pattern fits well with breeders or lamb traders purchasing in the Spring before shearing and finishing in the Autumn/Winter.

Not only are breeders the beneficiaries of this increasing demand; finishers and lotfeeders are also benefiting with the good season and low grain prices allowing good margins to be returned from trading Merino lambs.

For a complete explanation of our assumptions and modelling, have a look at the April article published in Mecardo "[Merino lambs to the slaughter](#)".

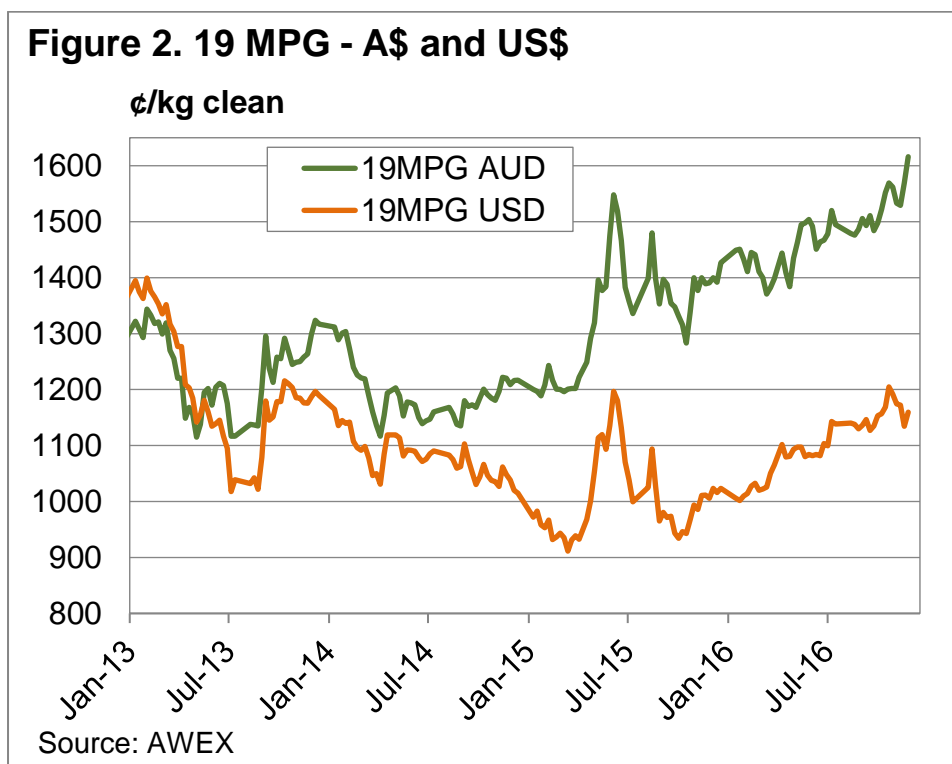
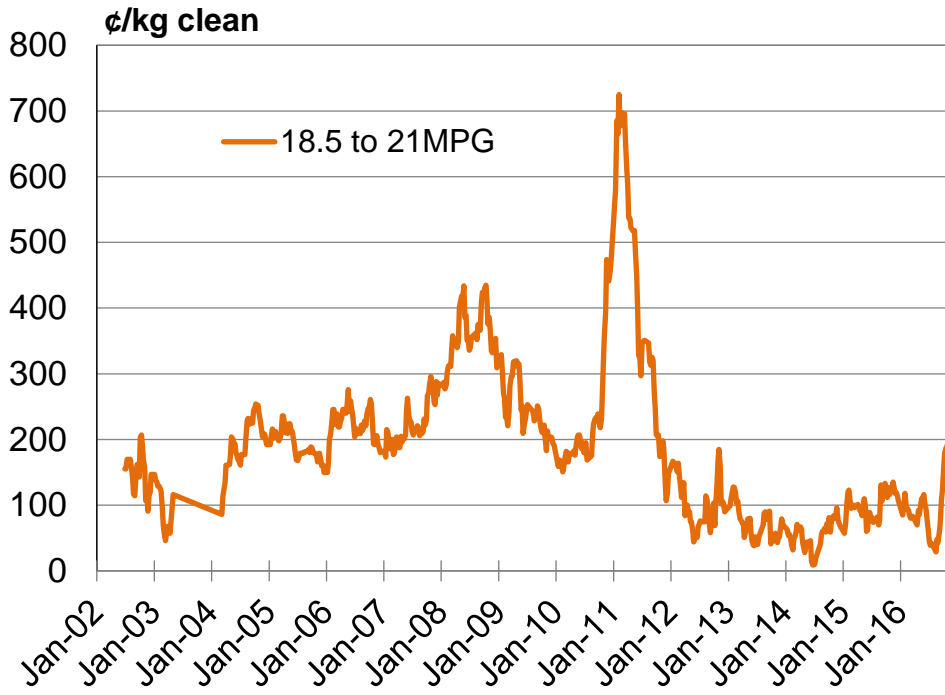
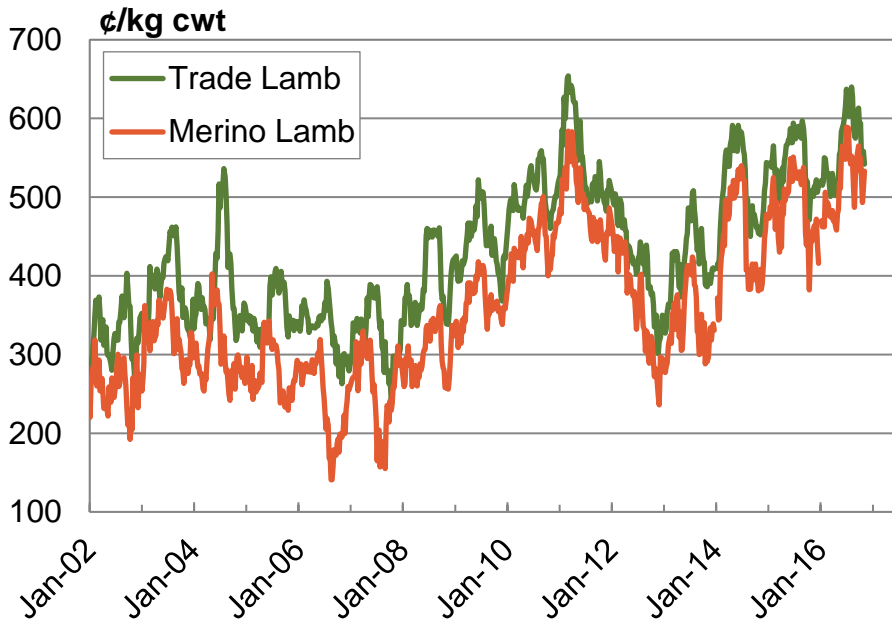


Figure 3. Fine wool premiums



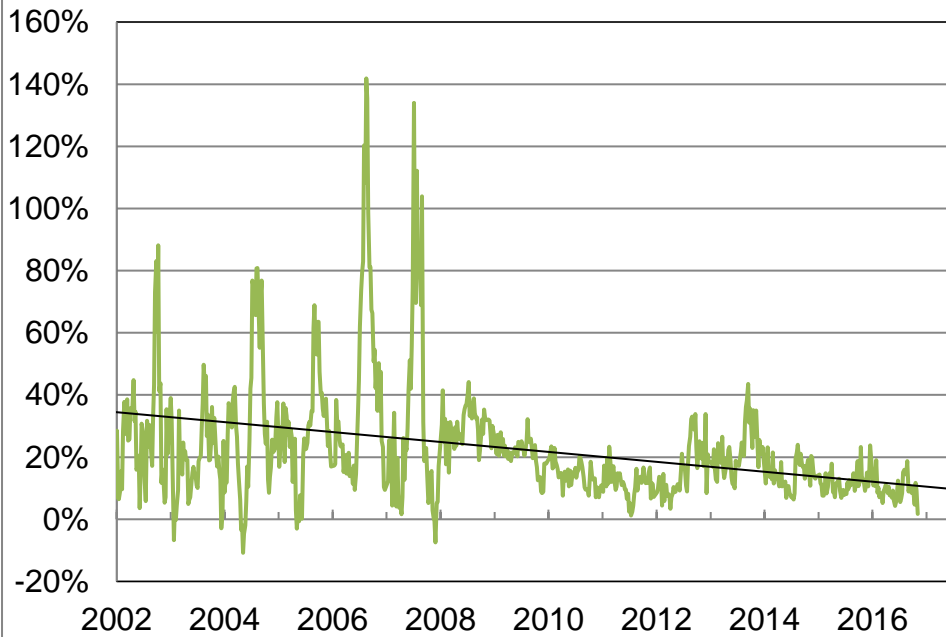
Source: AWEX

Figure 4. Trade and Merino lamb prices



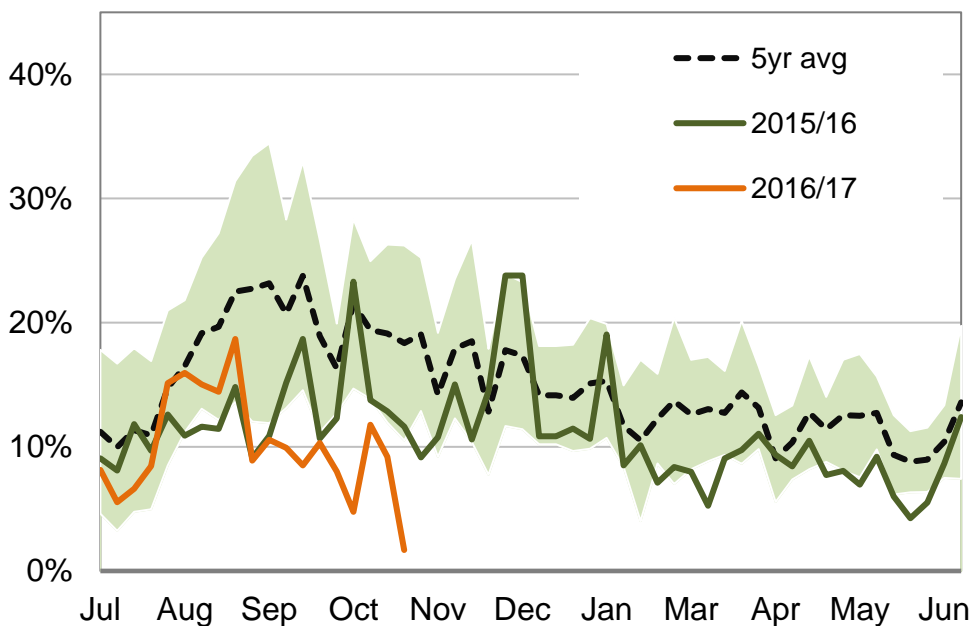
Source: MLA's NLRS

Figure 5. Trade lamb to Merino lamb spread (%)



Source: MLA's NLRS

Figure 6. Trade lamb to Merino lamb spread (%)



Source: MLA's NLRS, ACA

Key points

- **The wool market has had a steady and consistent improvement in price over 2016**
- **This is also reflected in our customer's prices indicating good demand**
- **Fine wool premiums are returning to attractive levels**
- **Merino lambs are providing significant additional income**

What does this mean?

The Merino flock over recent years has declined steadily, however the good season, improving wool prices (along with a resurgence in fine wool premiums) should see the flock at least stabilise with the potential to increase.

The “fight for acres” has favoured cropping over sheep since the early 1990’s however the recognition that sheep pose a significantly lower risk when seasons fail, plus the improved returns from Merino sheep will see this battle on a far more even keel. In fact, there are now wheat growers who are considering the re-integration of sheep into their crop programs as a supplement to grain income as well as a diversification of revenue.

Overall 2016 has set the scene for a positive outlook for Merino sheep and a reason for optimism for the sheep and wool industry.