

Key points:

- Merino lamb prices have reached a new record in recent weeks, despite Trade lamb prices not yet having hit that mark.
- The spread and relationship between Merino lambs and Trade lambs has tightened significantly in the last 8 years.
- Trade lamb prices are now a very good indication of Merino lamb prices, and the spread should remain.

Merino lambs have long been the poor cousin in lamb markets, generally trading at a discount to crossbred lambs. However, in recent times merino lambs have been in stronger demand, and with wool prices on the rise there is the spectre of tighter merino lamb supply. Here we take a look at the merino lamb market, and how it might track relative to crossbred lambs over the coming year.

Trade and heavy lambs have been getting all the coverage in the media, but it is merino lamb prices which have reached a new record in recent weeks. Figure 1 shows the National Trade Lamb Indicator (NTLI), and the National Merino Lamb indicator (NMLI) over the last 14 years, with the most interesting point seemingly the increasing merino price relative to the trade lambs, and the closer relationship, confirmed by figure 2.

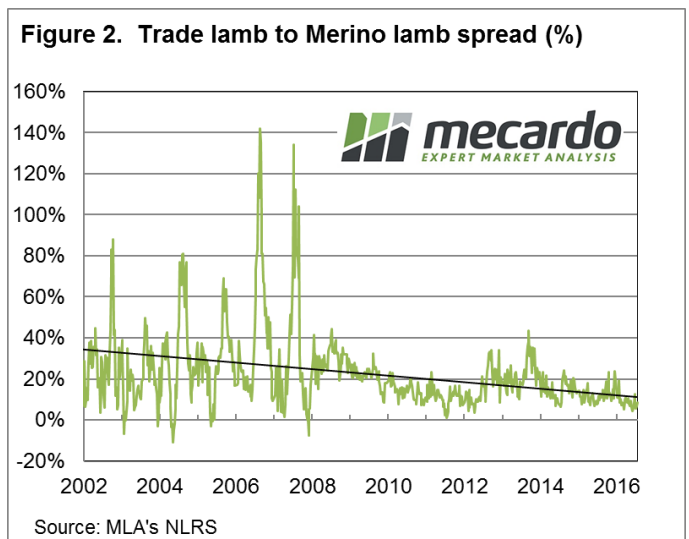
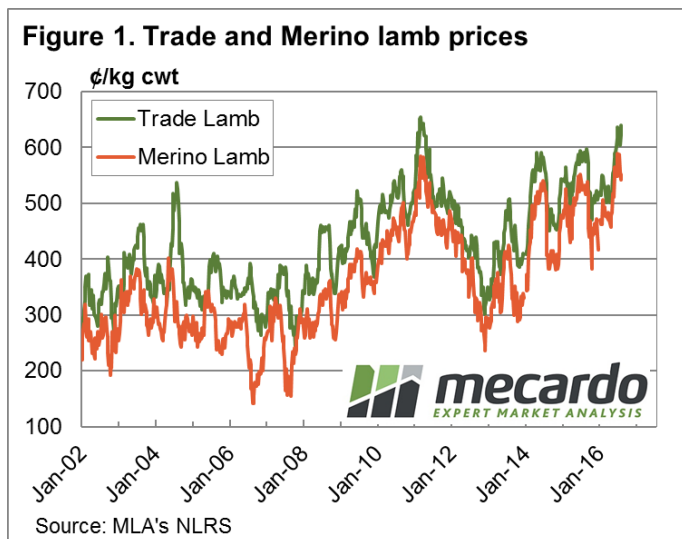


Figure 2 shows the NTLI premium over the NMLI in percentage terms. Prior to 2008 the NMLI saw some wild swings relative to the NTLI, having spent time at the same price, and at half the price, shown in the chart at a NTLI premium over 100%.

Since 2008 the largest discount has been 30-40% in August and September 2013, as Merino lamb prices tanked, while Trade lamb prices held their ground. In the last two years the spread has tightened even further, culminating in the recent 5-10% discount seen over the last 3 months.

The spread between the NTLI and NMLI is largely governed by the demand and supply of merino lambs, with the smaller discount for merinos over the last 8 years probably due to both. The merino flock has been shrinking, and light lambs demand has been improving, which has transformed the humble merino lamb from an opportunity to a sought after commodity.

More Mecardo analysis about Merino Lamb potential to feed on to market [here](#).

What does this mean?

We will find out over the coming six months whether Merino producers are holding Merino wether lambs in order to get more wool out of them as a response to stronger wool prices and better rainfall, or if systems are now largely set up to quit them as lambs and take what is now good money for them.

Figure 3 shows the seasonal trend of the NTLI premium to the NMLI. It shows that even during last year's dry spring Merino lambs didn't reach their average discount, and there is a good chance that this year the price spread might be even tighter. This is backed up by recent forward contract rates, which have Merino lambs at a 6% discount to crossbred lambs through the spring.

