

# Sheep and wool

## Lamb saleyard prices elevated ...

### Sheep: saleyard prices elevated

Saleyard prices for lambs reached an historic high, in nominal terms, of 502¢/kg in June. That compares with an average 2008/09 price of 424¢/kg. The combination of strong demand and reduced supply drove prices up 27% in 2008/09 from the year prior.

## ... but off highs as slaughter rates rise.

The outlook is for prices to be elevated in 2009/10 – albeit off their highs. This trend is already apparent, with prices moderating to around 400¢/kg in October as spring supply firmed. While high prices are encouraging producers to lift production, the overall supply constraint means that ABARE is forecasting lamb slaughtering to rise by just 1% to 21 million head. Production is also forecast to rise by only 1%. It is notable that opening lamb numbers for 2009/10 are smaller than 2008/09 because of high slaughter rates in 2008/09. Saleyard prices are forecast to average 410¢/kg for the year, a decline of 3%. The potential for spring seasonal conditions to prove less favourable in parts of eastern and southern Australia remains a risk.

## Exports on the rise to meet growing demand.

Lamb export volumes are forecast to rise by almost 4%. Supportive of greater volumes are rising international incomes, as well as reduced supplies of sheep meat from New Zealand, Europe and the US. These pluses should be enough to offset the negative of the rising Australian dollar, which makes our exports less competitive.

The live sheep export market is not performing as well as expected, with volumes now forecast to drop by almost 10% in 2009/10, to 3.7 million head. Australia was not awarded contracts to supply live sheep to the Middle East during the religious festival of hajj – typically involving around 0.5 million head.

## Wool prices break through A\$900¢ ...

### Wool: rising Chinese demand boosts prices

The wool market continues to benefit from the emerging global recovery. Wool prices have moved higher over the last three months, increasing from A800¢/kg back in June to be over A900¢/kg during October. That has prices now above the average of the last decade and a half, a good outcome considering that the Australian dollar has climbed more than US10¢ over recent months.

## ... boosted by rising Chinese demand and tight demand.

The themes shaping the wool market remain as they were in the middle of the year. That is, prices are moving higher on low supply in the wool processing pipeline and gradually increasing demand for wool from China. On the demand front, the key plus is increasing domestic demand for woollen apparel in China. The Chinese economy is the stand-out in 2009, defying the decline of the US consumer, with domestic expansionary monetary and fiscal policy igniting a strong recovery. Chinese demand for wool apparel is likely to be maintained.

## But European buyers remain on the sidelines.

The European economic recovery is a gradual one. Accordingly, retail demand for textiles and clothing is relatively weak. While the prospects for global growth have improved, the outlook for European demand for wool is unchanged. A significant increase in demand from European buyers is not expected until well into the second half of 2009/10 and the first half of 2010/11.

## Australian flock continues to decline.

Australian wool production continues its downward trend, with the national flock forecast to decline by around 5% to around 69 million head in 2009/10. This is expected to see shorn wool production and the volume of wool exports fall by around 8% in the year. The shift towards lamb production is a contributing factor.

ABARE forecast the Eastern Market Indicator (EMI) price for wool to average 840¢/kg in 2009/10, a rise of 6% on last season. That was on the assumption the currency would average US83¢, up from US75¢ in 2008/09. Even on this view, ABARE pointed to a higher Australian dollar as a potential constraint to a sharp increase in the EMI. So it is quite significant, as noted above, that the EMI has leapt to over 900¢/kg at a time when the Aussie has moved above US90¢. The flip side to the strength of wool prices is a loss of competitiveness for wool over the last eight months. While cotton and polyester prices have increased, these gains have been outstripped by wool.

# Sheep and wool

Chart 1.

## Lamb prices elevated

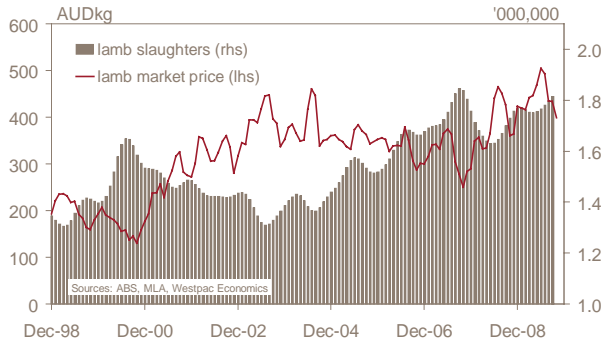


Chart 2.

## Australia's dwindling flock

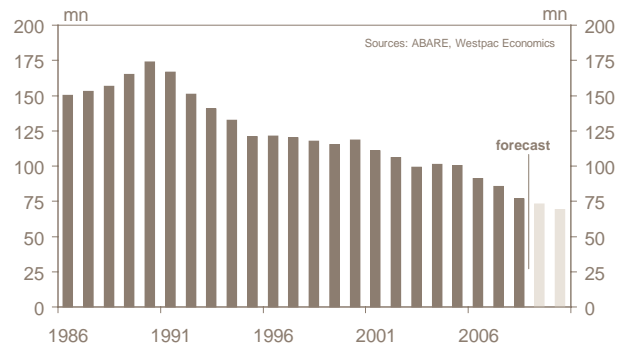


Chart 3.

## Wool prices move above trend



Chart 4.

## Wool prices tied to global demand

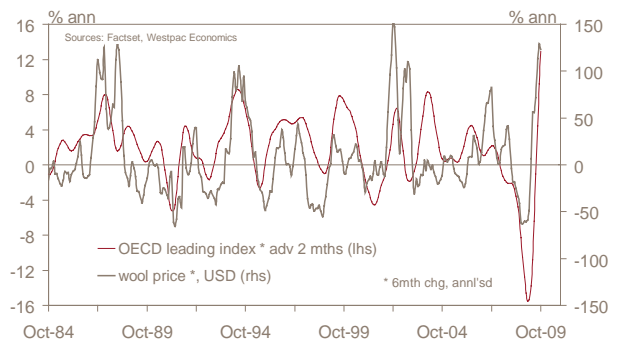


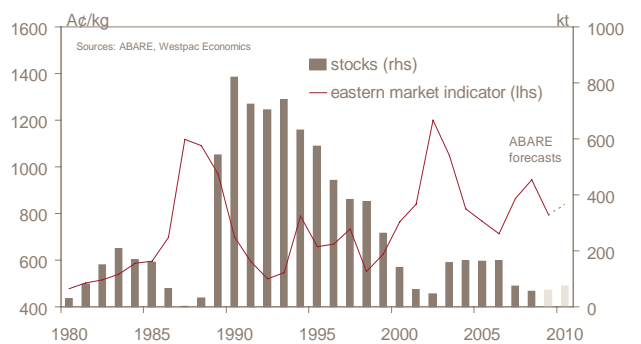
Chart 5.

## Wool less competitive with cotton



Chart 6.

## Wool stocks remain supportive of prices



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.