CLIPHEDGE COMMENT

Wool Sale Week 11 | **Weekly Wool Market Update** | **12 September, 2008**

The continued weakness in demand means that the chances of a cylcial upturn in wool prices, be they be fine or medium merino, are small at best. While the weaker exchange rate and falling supply (compared to year earlier levels) will help support prices, weak demand is likely to cap prices. Where does this leave the market? Increasingly it looks as though the price ranges we have seen since June are likely to continue through 2008, with the usual scares both on the upside (as the fall in supply becomes more evident in coming months) and on the downside (a bounce in the exchange rate?)

Fine Wool (14µ - 19.5µ)

Fine wool premiums remain near their freshly extended levels of 2008. For example at the start of 2008 the 18-MPG was trading at a premium around 20% to the 20-MPG. It is now trading at a premium around 50%, consistent with the levels of the 1990s. The extended period of low fine wool premiums of recent years has run its course as did a similar period (of four years) in the late 1970s.
Recent analysis of discounts for vegetable fault (VM) shows that higher VM (say 3% to 5%) effects higher staple strength fleece prices (plus 40 N/ktx) significantly more than the lower staple strength categories. The Team 3 calculations show that VM reduces hauteur (average length of fibre in the top) slightly and increase romaine (the short fibre waste in topmaking) by 0.68 of the VM level. Discounts for sub-40 N/ktx staple strength merino wool match the Team 3 expectations. However, once the staple strength rises above 40 the discount widens considerably, indicating that such high VM fleece lots are not considered for high prices, they are downgraded. As such the discount effect increases as fibre diameter becomes finer.

Suggested Strategies: *Given the falling supply firm reserves are a good idea at present, helping avoid the odd pothole in the market. Apart from that any cyclical upturn looks to be too far away (from the point of view of leading economic indicators and from the old three year cycle rule 1988,1991,1994,1997,2000,2003,2006 – 2009?) to start holding stocks.*

Medium / Broad Wool (20µ - 24µ)

Staple strength discounts for full length fleece have shrunk to negligible levels. As an example the median sub-20 N/ktx discount for 20-22 micron fleece wool during the past year was around 6-8%, whereas currently it is only 1-2%.

Suggested Strategies: *It is too early too start holding stocks, as some evidence of a cyclical upturn is required to be in place before leaving wool in the shed/store. It is time to start considering closing for hedge positions currently in place as the downside risk in the market looks to have run most of its course.*
As a guide the auction market looks to be too low to sell when the 21-MPG is around 830 or lower and good value selling when the 21-MPG is around 860 or higher.

The BKB Merino Cardings (MC) indicator in South Africa, which has traded near or well above our MC in recent years plunged to AUD264 cents this week, well below our MC of 448 cents. The South Africans report a lack of competition in the market (a significant South African cardings buyer closed two weeks ago) as the cause of the enormously discounted price.

Website: www.ic-s.net.au

AWEX MPG	17m	18m	18.5m	19m	19.5m	20m	21m	22m	23m	30m	MC	EMI
This Week	1592	1404	1269	1112	1002	901	856	830	815	400	448	881
Last Week	1545	1362	1227	1067	970	875	839	816	802	385	415	855
Last Year	1352	1234	1150	1089	1034	981	932	903	875	377	526	906
5 Yr Average	1302	1133	1064	1005	950	896	842	809	784	419	462	819

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Email ic-s@ic-s.com.au Phone: 02 69215 887 Fax: 02 69215998 Website: www.ic-s.net.au
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