The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

Gate 4
29 Frederick Rd
Tottenham Vic 3012

Phone: +61(0)419344259
E-mail: info@ncwsba.org
Twitter: @woolbrokersaus

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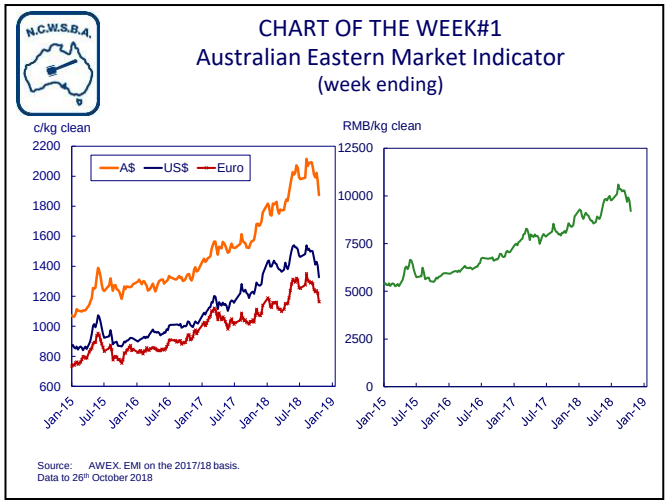
From the desk of Chris Wilcox, Executive Director



- Australian wool prices fall further
- EMI in user currencies
- China economic growth rate slows
- Mixed results for retail sales in the major wool consuming countries
- Wool Poll 2018 closes on 2nd November
- Upcoming industry events

It was another week of falling prices for the **Australian wool market** this week. The **Eastern Market Indicator** (EMI) dropped to 1874 c/kg, down by 96 cents (-4.6%) for the week. Prices for superfine Merino wool (18.5 micron & finer) fell by between 103 and 160 cents (4% to 5.2%). Medium Merino wool (21-23 micron) prices again saw smaller falls, with the 23 micron indicator down by 43 cents (1.9%). Crossbreds were also down significantly, with the 28 micron price guide falling by 61 cents (6.4%). Broad Crossbred wool prices were only down slightly. The Merino Carding Indicator was down heavily again, falling by 152 cents (-10%). The Northern Market Indicator fell the most, dropping by 107 cents to 1914 c/kg. The Southern Market Indicator was down by 89 cents to 1849 c/kg and the Western Market Indicator, with its smaller amount of superfine wool, fell by 61 cents to finish at 2033 c/kg. A positive was that wool prices in Fremantle, which sells later than the eastern states, were generally higher on Thursday. The fall this week comes despite the low auction supply levels.

The A$ was a little weaker against both US$ and Chinese Renminbi and steady against the Euro. The EMI fell by 78 UScents to 1327 USc/kg and was 535 RMB lower at 9,208 RMB/kg. It was 59€cents lower at 1162 €cents/kg. This week's falls in the EMI were the largest we have seen in the past three years, but the EMI remains historically high in **all currencies**. In most cases the EMI has only pulled back to the levels seen in May of this year. The first **Chart of the Week** shows the trends in the EMI in A$, US$, Euros and Renminbi over the past 3 years. The declines in recent weeks may be a signal that the Merino Supercycle is coming to an end after a record-breaking run.



The latest data on **Chinese economic growth** shows that the growth rate for the massive Chinese economy fell to 6.5% for the third quarter of 2018, down by an annualised growth rate of 6.7% in the second quarter. This is the slowest annualised growth rate that China has recorded since the Global Financial Crisis a decade ago. The growth rate was dragged down by weaker factory activity and lower infrastructure investment. Consumer spending also slowed, which is in line with the lower consumer confidence levels that I reported in last week's edition of the *Weekly Newsletter*. Car sales were much lower and are on track to be lower than in 2017. If that happens, it would be the first time in decades

that annual car sales fell. Note that the Chinese economy is still growing at a relatively strong pace compared with elsewhere around the world. The point is that this growth rate is much slower than the typical 7% to 10% (or more) seen over the past 20 years. Some financial commentators are saying that this is evidence that the US-China trade war is starting to bite. I don't agree. I think this slippage in the growth rate is due to the Chinese Government's crack-down on credit which started in the backend of 2017. The Government was concerned about debt levels becoming unsustainable and causing serious strain on the Chinese financial system. The impact of the US trade sanctions will be felt in 2019.

I thought I would follow up last week's article on consumer confidence by this week looking at the situation in the major wool consuming countries at retail, and how **retail sales of clothing** are tracking. The second **Chart of the Week** shows the latest data on the year-on-year growth in retail sales of clothing for 2018 in the eight major wool consuming countries. This is compared with the same period in 2017. The table also provides the annual growth rate in retail sales between 2012 and 2017. For the 2018 year-to-date column, the red shading shows where the growth rate is better or worse than the year earlier – green is better and red is worse.

As can be seen, retail sales growth in four of the eight countries is better than a year earlier, while the remaining four countries are seeing retail sales growing at a lower pace than in 2017. Interestingly, all four countries with slower retail sales growth are in Europe. You may remember that consumer confidence in Europe has dropped in recent months. On the other hand, retail sales of clothing is growing strongly in the US. For the year to August, clothing retail sales in the US was running at the fastest annual rate since 2015. This tallies, at least in part, with consumer confidence being at the highest level since the turn of the millennium.

CHART OF THE WEEK #2
Clothing Retail Sales

% change y-o-y	2012	2013	2014	2015	2016	2017	Year to date* 2017	Year to date* 2018
China	+17.7%	+11.5%	+10.8%	+9.3%	+6.8%	+7.0%	+7.1%	+9.7%
USA	+0.5%	+1.5%	+2.1%	+5.9%	+2.0%	+2.0%	+2.0%	+3.9%
Japan	-0.4%	-0.7%	-0.5%	-2.3%	-2.3%	-3.0%	-3.8%	-3.3%
Germany	-0.3%	+0.1%	+1.3%	+2.8%	+1.6%	+2.5%	+2.7%	+1.5%
UK	+1.5%	+3.1%	+5.2%	+1.5%	-2.6%	+6.4%	+6.4%	+0.4%
Italy	-2.3%	-2.1%	-1.3%	+0.8%	+0.3%	+0.7%	+0.5%	+0.3%
France	+0.6%	+1.1%	+1.2%	+3.4%	+2.8%	+3.8%	+3.6%	+3.2%
South Korea	+3.2%	+0.8%	+1.6%	+3.5%	+3.9%	+2.3%	+1.8%	+5.1%

Source: Government statistical bureaus.
Notes: Value of retail sales. China is for retail sales of garments, hats, footwear and knitwear. Japan is for major department stores. Germany, Italy, France and South Korea is total retail sales.
* Year to August except for China and the UK which is to September

The interesting point is that despite the signs of weakening economic growth and a general slowdown in consumer expenditure in China, retail sales of garments in China for the nine months to September was 9.7% higher than for the same period a year earlier. This is a strong result. I understand from my colleagues in the wool textile industry in China that this is not being reflected in their sales and orders. They are particularly worried about slowing domestic demand. This is one reason for the recent fall in wool prices.

Wool Poll 2018 closes next week. Woolgrowers who have paid $100 or more in wool levies over the past three financial years are eligible to vote on four options – 3%, 2.5%, 2%, 1.5% and 0%. As of today (26th October) 6,201 people have voted. Voting closes at 5pm (Australian Eastern Standard time) on Friday, 2nd November.

INDUSTRY EVENTS

The **Australian Wool Production Forecasting Committee** meets on 14th November 2018.

The **IWTO 2018 Roundtable** 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 29th OCT 2018 – week 18 (roster as at 25/10/2018)

Sydney	
Wed, 31st Oct; Thurs, 1st Nov	9,731 bales
Melbourne	
Wed, 31st Oct; Thurs, 1st Nov	22,145 bales
Fremantle	
Wed, 31st Oct; Thurs, 1st Nov	8,475 bales

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