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



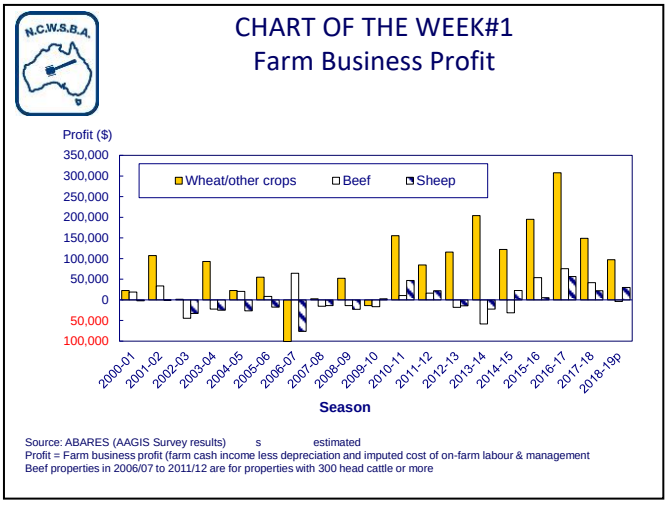
- Australian wool prices ease back
- Sheep industry farm business profit cut back by drought
- Value of Australian exports of fine and superfine wool jumps 50%
- Upgrade to the AWTA Analytics web page
- Upcoming industry events

The **Australian wool market** fell for the third week in succession, with a combination of softer demand and lower quality in the auction offering being the key contributors. As has been the case in the past three weeks, the most significant declines were for Merino wool which fell by between 18 and 55 cents, with the largest falls seen for superfine wool. The **Eastern Market Indicator** (EMI) declined by 29 cents to close at 1979 c/kg. The Western Market Indicator fell by 30 cents to 2127 c/kg, the Southern Market Indicator dropped by 27 cents to 1949 c/kg and the Northern Market Indicator closed at 2027 c/kg, 31 cents lower. The A$ was firm against the main currencies and the EMI fell by 29UScents to 1397 USc/kg, by 18 €cents to 1234 €cents/kg and by 122 RMB to 9375 RMB/kg.

As part of its annual Outlook Conference last week, ABARES (the Australian Government's agricultural commodity forecaster) released its estimates of **farm profitability of various broadacre enterprises** in Australia for 2017/18 and 2018/19. These estimates are taken from ABARES' annual Australian Agricultural and Grazing Industries Survey (AAGIS). It is no surprise that ABARES says that the drought in south-eastern Australia is the dominant influence on the financial performance of broadacre farms in Australia in 2018/19.

ABARES expects that average farm cash income and average farm business profit will decline in 2018/19 in all broadacre industries in Australia, with the exception of the sheep industry. The high prices for wool and for lambs is offsetting the added costs of purchased feed and other inputs as a result of the drought. The other broadacre industries are under severe pressure because of the extensive drought. For example, in the wheat and other crops industry, average farm cash income is expected to fall by almost $100,000 per farm in 2018/19 compared with 2017/18. This is due to much lower crop production in south-east Australia as a result of the drought.

The first **Chart of the Week** shows the average annual farm business profit per farm for cropping, beef and sheep properties between 2000/01 and 2018/19. (Farm business profit is cash receipts less cash costs plus the change in trading stocks less depreciation less imputed labour cost for the operator and family.) As can be seen, ABARES' projected farm business profit for sheep farms for 2018/19 is around the same as in 2017/18, but both are lower than in 2016/17.



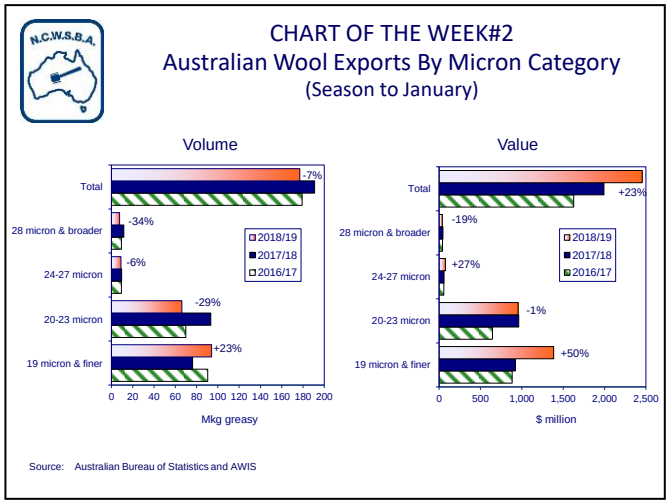
At first, this is a surprise given that both wool, lamb and sheep prices have been so high in 2017/18 and 2018/19, but it reflects the impact of the drought

in south-eastern Australia. New South Wales (NSW) is the largest wool producing states (accounting for 37% of Australian wool production in 2016/17) and has the largest sheep population. Average farm business profit for sheep farms in NSW fell sharply in 2017/18 and 2018/19 and was negative in both years. It was down by over $54,000 in 2017/18 to -$17,000 and by a further $22,000 in 2018/19 to -$39,000. This has dragged down the national average for farm business profit, although it has been offset by increases in Western Australia, South Australia and Tasmania.

While the Australian-average farm business profit has been solid for sheep farms, it fell sharply for cropping and beef farms. As can be seen, there was a precipitous drop in the average farm business profit for cropping farms in 2017/18 and 2018/19. Average farm business profit for beef properties is estimated to be negative in 2018/19. You can see more details from ABARES Farm Financial Performance analysis in the latest Agricultural Commodities publication.

The latest data on **Australia's wool exports** show that the volume of exports lifted in January compared with a year earlier. This is the first year-on-year monthly increase seen this season. All of the top ten export destinations recorded an increase, with the exception of India which saw a 5% decline in exports. For the 2018/19 season to January, the volume of exports from Australia was down by 15.4%, but the value of exports was 4.3% higher. There are some significant differences between **the exports by micron category**. The second **Chart of the Week** shows the exports by micron category for 2018/19 to January compared with 2017/18 and 2016/17 in both volume and value terms.

As can be seen, there has been a 50% increase in the value of exports of 19 micron and finer wool. This is in part due to a 23% increase in the volume exported, which reflects the increase in production of this wool as a result of the drought. However, the much larger lift in the value of exports of this wool demonstrates clearly that there has been an increase in demand for this wool this season. As expected, other micron ranges have seen declines in the volume of exports. The value of exports of 20-23 micron wool is essentially steady, suggesting that demand has been maintained. In contrast, the value of exports of 24-27 micron wool has increased by 27%, pointing to stronger demand this season.



For those of you with an analytical interest, **AWTA** has upgraded its **Analytics website**. The website provides updated information on the wool tested over the season, including the number of lots, bales and total greasy weight, as well as the test results. It also includes details on the average test results, including yield, micron, length, strength and mid-break. You can look at national figures or by state and compare it with the previous season, either by month or for the season to date. Until now, the year-on-year comparison was not very useful when a month was in progress because it compared the month- or year-to-date figures in progress with the completed month for the year before. The upgrade now allows you to compare it with the year to the equivalent date. Click here to go to the AWTA Analytics website.

INDUSTRY EVENTS

The **Australian Wool Production Forecasting Committee** meets on Monday, 1st April 2019 at AWTA in Melbourne.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

Wool Week is on 22nd-23rd August 2019 in Melbourne.

WOOL SALES WEEK BEGINNING 18th MAR 2019 – week 38 (roster as at 14/3/2019)

Sydney	
Wed, 20th Mar, Thurs 21st Mar	10,966 bales
Melbourne	
Wed, 20th Mar, Thurs 21st Mar	22,821 bales
Fremantle	
Wed, 20th Mar, Thurs 21st Mar	10,350 bales

Information in the Weekly Newsletter is intended to provide general information only and is not intended to constitute advice for a specific purpose.