The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director



- Wool prices fall in the Australian wool market despite lowest A$ in 3 years
- China removes ban on imports of wool from South Africa
- US-China trade war reignites – but no wool clothing products on the hit list (yet)
- IMF winds back its economic growth forecasts
- Wool's price remains very high against cotton and synthetics
- Upcoming industry events

Wool prices in the **Australian wool market** fell across the board in all three sale centres this week despite the A$ falling below 70 UScents for the first time since January 2016. Very large falls of over 100 cents were seen for Crossbred wool after the recent spike in prices. Merino wool prices continued their recent decline, falling by between 45 and 85 cents. The **Eastern Market Indicator** (EMI) fell by 59 cents to 1893 c/kg, the lowest level in six months. The Western Market Indicator recorded the largest fall, down by 67 cents to 1995 c/kg, the Southern Market Indicator fell by 63 cents to 1864 c/kg and the Northern Market Indicator was down by 52 cents to 1937 c/kg. The fall in prices this week came despite another ½ UScent fall in the A$ to 69.16 UScents, the lowest level in three years. The A$ was also weaker against the Euro but was stronger against the Chinese Renminbi. The EMI fell by 52 UScents to 1309 USc/kg, by 49 €cents to 1168 €cents/kg and by 263 RMB to 9003 RMB/kg.

There were two significant events over the past week, the first directly related to the wool market and the second potentially affecting the global economy.

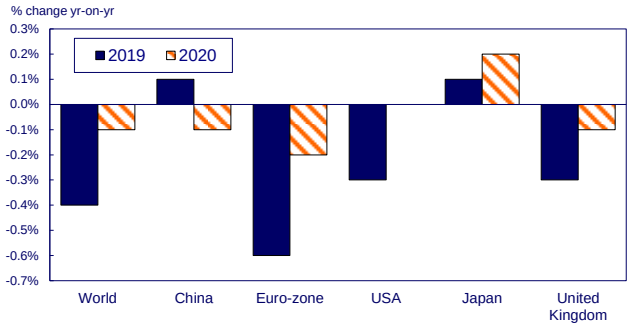
The first issue is the decision by **China to lift its ban on wool imports from South Africa**. As most of you will know by now from the information that has been circulated around the industry (including from me on Sunday), China has lifted the ban on imports of wool from South Africa which had been imposed as a result of an outbreak of Foot-and-Mouth Disease in South Africa late last year. It seems that China will import scoured wool from South Africa without any restrictions, but imports of greasy wool from South Africa will be subject to certain conditions, notably specific storage temperature conditions (the FMD virus dies over time, with the time dependent on the temperature – the higher the temperature, the faster the virus dies). This means that there is an additional supply of wool available to China's mills. Volumes in South Africa are much smaller than Australia. For example, there were 5,686 bales offered this week in auctions in South Africa compared with 33,153 bales offered in Australia.

The second issue was the flare-up of the **trade dispute between the US and China**. The Trump Administration surprised most observers late last week by announcing that 25% import duties would be imposed on around US$200 billion of imported products from China (an increase from the existing 10% duty), effective immediately. On investigation, the products on which the 25% will be imposed are essentially the same set of products the US announced last September. The US didn't impose the higher duties at the time as China came to the negotiation table. Those negotiations have now apparently broken down. The list of products includes wool products including greasy and semi-processed wool, wool yarn and fabric, as well as wool carpets. The list does not include wool clothing. Almost all the wool products that the US imports from China is wool clothing and wool carpets. For Australian wool, the key products are wool clothing items which are not included at this stage. China retaliated by announcing a matching 25% increase in duties on a list of products it imports from the US. The China list is mainly targeted at US agricultural products. The Trump Administration has said that it will lift import duties to 25% on an

additional list of products, which will be determined over the next few months. We need to keep a close eye on this to see if it includes wool clothing.

While the flare-up of the US-China trade war doesn't directly affect wool, it does add to the uncertainty for **the global economy**. It is also likely to reduce the economic growth rate in China and, perhaps, the US. In April, the International Monetary Fund (IMF) released its new economic forecasts for the world and each country. Even without the latest escalation of tension between the US and China, the IMF cut-back their forecasts of economic growth. It noted that a year ago economic activity was accelerating around the world but now much has changed, including the escalation of US-China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the car sector in Germany, tighter credit policies in China and rising interest rates in many countries. So, it has lowered its economic growth forecasts for 70% of the world's economy. The first **Chart of the Week** shows the change in the latest forecasts compared with the forecasts in October 2018. There have been significant reductions in the economic growth forecasts for the Euro-zone and the UK, as well as for the US in 2019. The economic backdrop for the global wool industry will be more difficult than in the past two years.

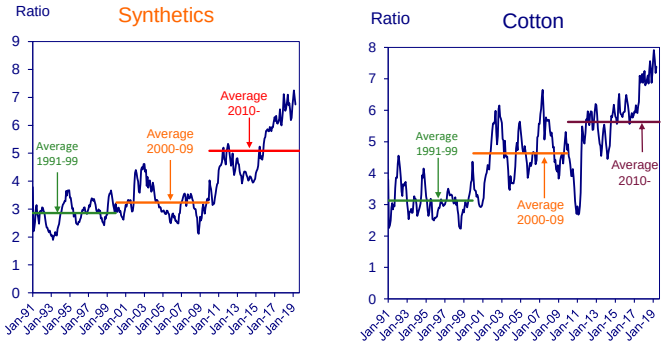
CHART OF THE WEEK#1
Weaker Economic Growth Forecasts
(change in forecast compared with October 2018 forecasts)



Source: IMF, World Economic Outlook, April 2019

It has been a while since I looked at **wool's price relativity** against the major competing fibres – cotton and synthetics. While Merino wool prices have been rather up and down in the past eleven months and are lower than at the start of the season, prices for cotton and synthetics have also been volatile and, generally, weaker. For example, cotton prices are down by 10% since June 2018. Overall, wool prices (as measured by the EMI) remain high relative to both synthetics and cotton, as shown in the second **Chart of the Week**. This continues the trend seen throughout most of the past 5-6 years.

CHART OF THE WEEK#2
Wool Price Compared with Other Fibres
(based on the EMI)



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to April 2019

INDUSTRY EVENTS

The **NCWSBA AGM** will be held in Melbourne on 23rd August 2019 in Melbourne, as part of the Wool Week events.

The **Nanjing Wool Market Conference** will be held in Qufu, Shandong on 20th to 23rd September 2019.

The **2019 IWTO Round Table** will be in held in Queenstown, New Zealand on 2nd to 3rd December 2019.

The **2020 IWTO Annual Congress** will be held in Tongxiang, China on 18th to 20th May 2020.

WOOL SALES WEEK BEGINNING 20th MAY 2019 – week 47 (roster as at 16/5/2019)

Sydney	
Wed, 22nd May, Thurs 23rd May	7,100 bales
Melbourne	
Wed, 22nd May, Thurs 23rd May	14,032 bales
Fremantle	
Wed, 22nd May, Thurs 23rd May	4,505 bales

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