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

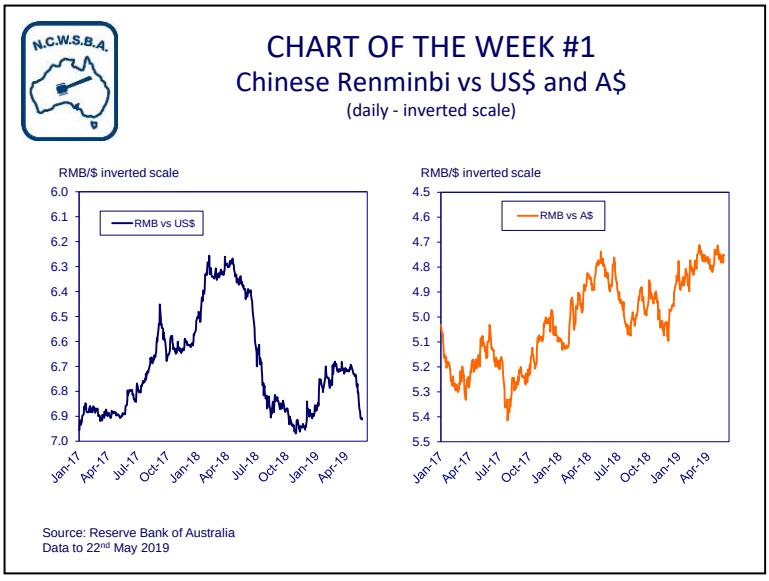


- Australian wool prices fall sharply again
- Chinese currency pushed lower against the US$ in response to the US trade dispute
- China by far the largest supplier of wool clothing to the US
- Dry outlook for much of Australia over winter
- Upcoming industry events

It was another week of sharp declines in wool prices in the **Australian wool market** this week. The **Eastern Market Indicator** (EMI) fell by 60 cents to 1833 c/kg. After significant falls on Wednesday, the declines on Thursday were more moderate. The fall in prices this week came even though a significant volume of wool was withdrawn from sale, notably in the Southern and Western regions. No micron was spared the price drops, although Crossbred wool again experienced the largest declines of up to 100 cents. The Northern Market Indicator recorded the largest fall, down by 68 cents to 1869 c/kg, the Southern Market Indicator fell by 54 cents to 1810 c/kg and the Western Market Indicator was down by 52 cents to 1937 c/kg. It wasn't only the wool prices which fell this week – the A$ also dropped again following comments from the Governor of the Reserve Bank of Australia clearly indicating that official interest rates in Australia will be cut very soon. The A$ fell by 0.4UScents to 68.77 UScents. The A$ was also weaker against the Chinese Renminbi and was steady against the Euro. The EMI fell by 49 UScents to 1261 USc/kg, by 37 €cents to 1130 €cents/kg and by 289 RMB to 8714 RMB/kg.

The trade dispute between the US and China seems to be contributing to a slowdown in the Chinese economy and a dip in Chinese consumer confidence. This is, in turn, contributing to the recent reluctance of Chinese mills and buyers to buy wool at auction. [As an aside, another reason for the recent hesitation from Chinese mills is that stocks of garments, fabric and yarn in the Chinese wool textile industry are reported to be rising]. The Chinese Government has responded to this slow-down in the Chinese economy by loosening monetary policy. Media reports point to lower interest rates on consumer debt (notably mortgages) this year.

As well, the Chinese Government has orchestrated a **devaluation of the Chinese currency, the Renminbi**, against the US$. The first **Chart of the Week** shows the day-to-day movements of the Renminbi against both the US$ and the A$ since the start of 2017. As the first graph shows, the Renminbi has fallen sharply against the US$ in the past two weeks, coinciding with the new 25% tariffs on a range of imported products from China. This will make China's exports cheaper in US$. The second graph shows that the Renminbi has held against the A$ in recent weeks, so mills won't see the benefit of the fall in in A$ against the US$.



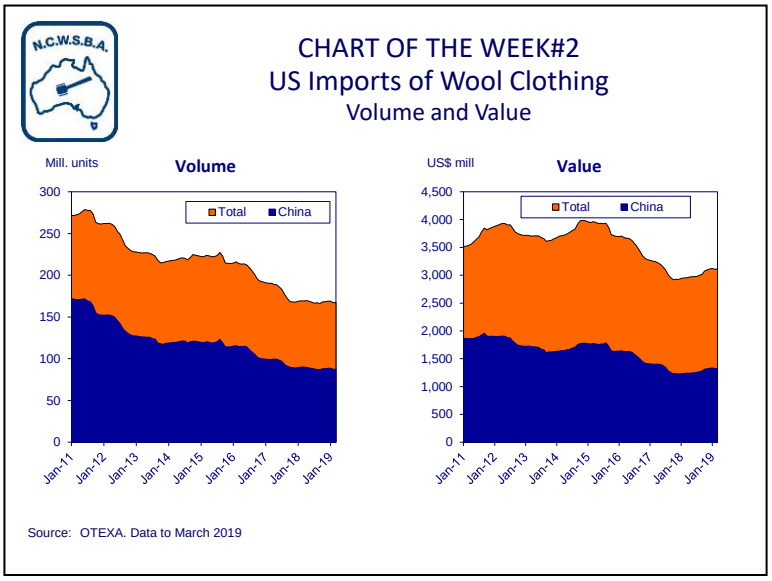
As I said in last week's edition, there are no wool clothing products that have yet been included in the punitive tariffs imposed by the US on imports from China. The questions are: how important for **wool clothing is the US to China's exports and how important is**

China to the US imports? Put simply – very, on both counts, particularly for US imports of wool clothing. The relative shares based on data for 2018 are:

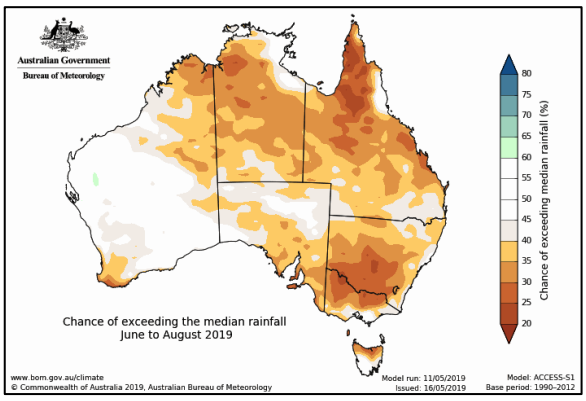
- The US accounts for around 14% of China's exports of wool clothing (by volume), although this share has fallen in recent years – in 2015 the US share was almost 17%. The US is the third largest destination for China's exports of wool clothing, behind the European Union and Japan. Not that around 40% of China's imports of raw apparel wool is exported as finished wool product (clothing or interior textiles.
- China is the largest supplier to the US of wool clothing, accounting for 52% of US imports of wool clothing (by volume) and 43% of US imports by value. The next largest source by value is Italy with an 18% share and the next largest source by volume is Vietnam with a 7% share. Almost all of the US retail sales of wool clothing is supplied by imported products from various countries.

China's importance for the US' imports of clothing isn't restricted to wool. China accounts for a similar share of the US imports of synthetic fibre clothing, with a 51% share by volume and a 38% share by value. China has a large but smaller share of US imports of cotton clothing, at 29% in volume terms and 26% in value terms.

Overall, US imports of wool clothing have been relatively steady in the past two years (in volume terms) and has lifted somewhat in value terms, following a significant and steady decline. The second **Chart of the Week** shows the trends in the US imports of wool clothing in volume and value. If the US imposes a 25% duty on imports of wool clothing from China, that will flow-on back to Australian wool growers given that Australia supplies around half of China's raw wool requirements. Of course, as China has a 75% share of Australia's exports, any reduction in China's demand will hurt in the Australian wool market.



However, I wonder whether one reason why the Trump Administration hasn't yet included clothing products on the list for a 25% import duty is because China is such an important supplier of all clothing, regardless of fibre. I imagine if there was a 25% import duty, that would hit US consumers pretty hard, particularly in low price–high volume stores such as Walmart. The political risk may be too great.



The Bureau of Meteorology has released its **latest rainfall and temperature outlook** for the next three months. Unfortunately, it is not very encouraging. As the map shows, the Bureau outlook for the below average rainfall across the eastern half of Australia and significant parts of the sheep producing areas of Western Australia.

INDUSTRY EVENTS

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

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 27th MAY 2019 – week 48 (roster as at 22/5/2019)

Sydney	
Wed, 29th May, Thurs 30th May	8,984 bales
Melbourne	
Wed, 29th May, Thurs 30th May	17,696 bales
Fremantle	
Wed, 29th May, Thurs 30th May	4,784 bales

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