The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director



- Big drop in Australian wool prices as negative global sentiment hits home
- President Trump moderates his import duties, but wool still in the firing line
- Australian shorn wool production forecast to fall by 5% in 2019/20
- Australian wool exports down in 2018/20
- NCWSBA Wall Chart for 2018/19 – now available
- Upcoming industry events

Wool prices in the **Australian wool market** dropped alarmingly this week, continuing the disappointing trend from last week. The Eastern Market Indicator (EMI) slumped by 163 cents/kg to 1513 c/kg, the lowest level for the EMI since June 2017 when the Merino wool price Supercycle was on the way up. On a cents/kg basis, this is the largest one week decline in the EMI since March 1991. In % terms, the decline was 9.7%, the biggest percentage weekly decline since 2 May 2003 when the EMI fell by 10.8%. All microns were affected by the price nosedive, with wool between 19.5 micron and 22 micron seeing the largest falls of around 200 cents/kg. The A$ was steady against main user currencies. The EMI fell by 109 UScents to 1026 USc/kg, by 92 €cents to 921 €cents/kg and by 789 RMB to 7,212 RMB/kg.

Clearly the negative sentiment in the wool market triggered by the Trump Administration's announcement of 10% import duties on the remaining imports from China two weeks ago and the subsequent devaluation of the Chinese Renminbi has continued. The decline in the EMI since the peak exactly one year ago (including the sharp falls in the past fortnight) follows the pattern we have seen for **all five Supercycles** over the past 30 years. That is, there is a strong rise in wool prices which lasts longer than expected and which reaches a peak, before a price downturn, triggered by an outside event but with conditions in the wool textile industry that have reached a state ripe for a decline in wool prices. Prices then retrace a significant portion, but not all, of the price gains seen in the Supercycle.

The table in the first **Chart of the Week** shows the change in the EMI from the peak of each of the five Supercycles, the low in the EMI after each Supercycle and the geo-political and wool textile industry context during each decline. As can be seen, prices have fallen by around a third from the peak for each of the past three Supercycles. So far, prices for the current Supercycle have dropped by 28% in A$ terms and 33% in US% since the peak in August 2018. The other thing to note from this table is that for each of the past four Supercycles, the low point was higher than the low point for the previous Supercycle. The current level of the EMI in both A$ and US$ is above the low point in the 2011-2012 Supercycle. History therefore brings us hope that we are nearing the end of the current price decline.

CHART OF THE WEEK #1
Merino Wool Price Supercycles – the Downside

Date	Price change – peak to low*		Low Price*		Weeks – peak to low	Comments
	UScents	Acents	UScents	Acents		
May 1988 to March 1991	-666 (-55%)	-1045 (-66%)	418	537	111	Soviet Union falls apart, Tiananmen Square incident Reserve Price Scheme collapses
March 1995 to May 1996	-232 (-33%)	-343 (-36%)	475	606	97	Market adjusts to massive stockpile in Australia after 'dead-cat' bounce post-collapse of Reserve Price Scheme
January 2003 to December 2005	-229 (-32%)	-562 (-46%)	480	649	59	Economic slowdown, excess stocks in wool textile industry, SARS outbreak in China triggers price fall
June 2011 to September 2012	-549 (-36%)	-501 (-35%)	963	933	57	Global cotton prices drop as China builds up massive cotton stockpile, causing drop in all fibre prices. Excess stocks in wool textile industry
September 2018 to August 2019 (on- going)	-513 (-33%)	-603 (-28%)	1026	1513	52	China-US trade tensions, other geo-political tensions, global economy weakens. Excess stocks in wool textile industry. Very low production levels of Merino wool

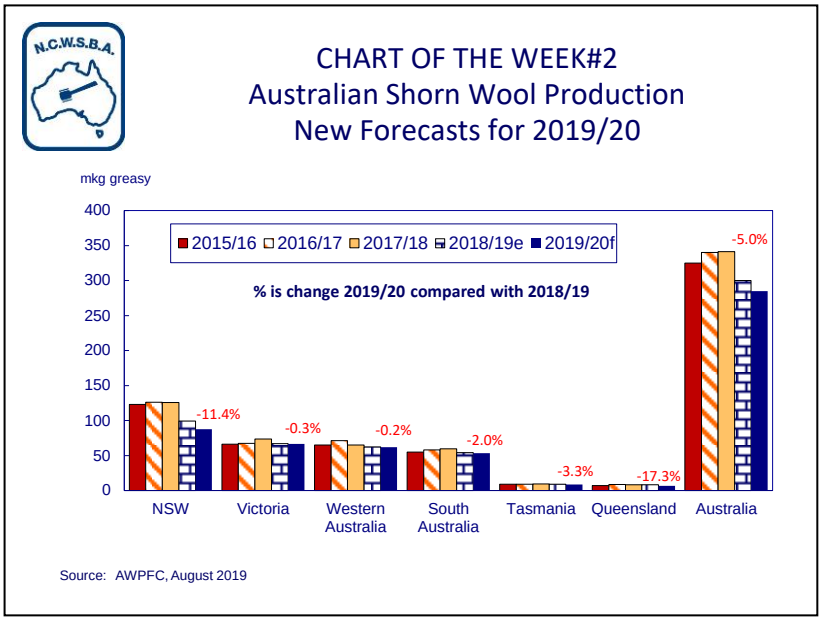
* Based on the Australian Eastern Market Indicator, 2017/18 basis

President Trump this week 'walked back' on some of his threats to impose the higher duties the remaining products imported from China that don't already have increased tariffs. He announced a delay in the **new duties on a number of consumer products** following pressure from US retailers who fear the significant impact on US consumers and their businesses. I have reviewed the list of products that will have a 10% duty imposed as of 1st September and the list of products that will have the 10% duty imposed as of 1st December. Disappointingly, it appears that the key wool clothing products imported by the US from China (such as men's wool suits, men's wool trousers, men's wool jackets and wool sweaters) will have the 10% duty imposed as of 1st September. This, no doubt, has added to the concerns of the China wool textile industry about orders for the coming Autumn/Winter in the Northern Hemisphere.

There is considerable **global geo-political and economic uncertainty**, including the upheaval in Hong Kong, the news this week that Germany's economy went backwards in the last quarter, the increasing tensions between Japan and South Korea, and rising anxiety about recession in some of the major economies. These have all come on top of the US-China tensions. Unfortunately, these events as well as the current difficult conditions for wool textile mills, notably in China, are likely to prevent a reversal of the downturn in the near term despite the forecast of lower wool production in Australia in 2019/20, although we may see some steadying in the wool market in coming weeks.

The Australian Wool Production Forecasting Committee (AWPFC) met on Wednesday to review its forecast for **shorn wool production in Australia for 2019/20**. The new forecasts were released today and show that the Committee now predicts that shorn wool production will be 285 mkg greasy, down 5% on the estimate for 2018/19 (which is 300 mkg greasy). The main driver for the decline in shorn wool production is a lower number of sheep shorn as a result of the increased turn-off of adult sheep in response to drought in key regions, notably in New South Wales, and record prices for sheep for slaughter. As well, lamb marking rates are reported to be low in the drought-hit areas, reducing the ability for wool growers to lift flock numbers.

The second **Chart of the Week** shows the new forecasts of shorn wool production for Australia and each state. As can be seen, the Committee expects that shorn wool production in New South Wales (NSW) will drop by 11.4% in 2019/20. This comes after a 21.2% decline in 2018/19. As a result, NSW's share of Australian wool production will fall from 37% in 2017/18 down to just 31% in 2019/20. NSW remains the largest wool producing state in Australia, but its gap over Victoria and Western Australia has narrowed significantly.



The decline in NSW is due to the prolonged dry and drought conditions in many regions of the state which are showing no real signs of abating. In contrast western Victoria, south-east South Australia and Western Australia are all experiencing more normal seasonal conditions in recent months. As a result, shorn wool production in those states will be similar to or only a little less than in 2018/19. This has moderated the decline for Australia in total. Further details of the AWPFC's estimates for 2018/19 and forecasts for 2019/20 are given in the Media Release which is attached to the email with this *Weekly Newsletter*.

The latest data from the Australian Bureau of Statistics on **Australia's wool exports** shows that the volume of exports dropped sharply in June compared with a year earlier, down by 29%. The value of wool exports fell by even more, down by 33%. Exports to a number of the major destinations for Australian wool recorded significant declines in June, led by China. The decline in wool export volumes and values in June

is in line with the falls in both wool tested and in wool offered at auction, as well as the falls in wool prices. For the full 2018/19 season, the export volumes were down by 14%, to 298.9 mkg, in line with the AWPFC's estimate of wool production for the season. The value of exports was 2% lower year on year, but still totalled $3.82 billion.

The table below shows the changes in the value and volume of wool exports in total and by major destination for June and for the full season. As can be seen, there were some significant increases in exports to certain destinations for the season, notably Thailand and South Korea. Exports to 'other' countries have also increased significantly. All of the other major export destinations recorded declines in volume terms and, mostly, in value terms as well.

Table: Australian wool exports by major destination country

% change on year earlier	June 2019		Season to June 2019		Total for 2018/19 season	
	Volume	**Value**	**Volume**	**Value**	**mkg greasy**	**$million**
Total	**-29%**	**-33%**	**-14%**	**-2%**	**298.9**	**3,816.7**
China	-26%	-30%	-15%	-3%	225.6	2,859.9
India	-58%	-63%	-16%	-6%	17.2	237.8
Italy	+33%	+37%	-1%	+9%	14.3	250.7
Czech Republic	-42%	-53%	-41%	-33%	10.5	119.2
South Korea	-44%	-47%	+24%	+33%	10.8	112.6
Thailand	-21%	-44%	+108%	+84%	3.9	49.2
Egypt	+14%	+22%	-24%	-12%	2.7	44.7
Malaysia	+12%	+65%	-40%	-32%	1.8	19.6
Taiwan	-63%	-61%	-28%	-5%	1.9	26.6
Others	+2%	+1%	+26%	+23%	10.2	96.4

REMINDER: The 2019 Wall Chart from NCWSBA is now available. This A2 printed Wall Chart is free to NCWSBA members. ***Send me an email at chris.wilcox@ncwsba.org with your delivery address and the number of Wallcharts you would like.***

INDUSTRY EVENTS

The **NCWSBA AGM and Forum** is on 22nd August at the RACV Club in Melbourne.

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 19TH AUGUST 2019 – week 8 (roster as at 15/8/2019)

Sydney
Tues, 20th August; Wed, 21st August 11,194 bales

Melbourne
Tues, 20th August; Wed, 21st August 22,502 bales

Fremantle
No sale

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