The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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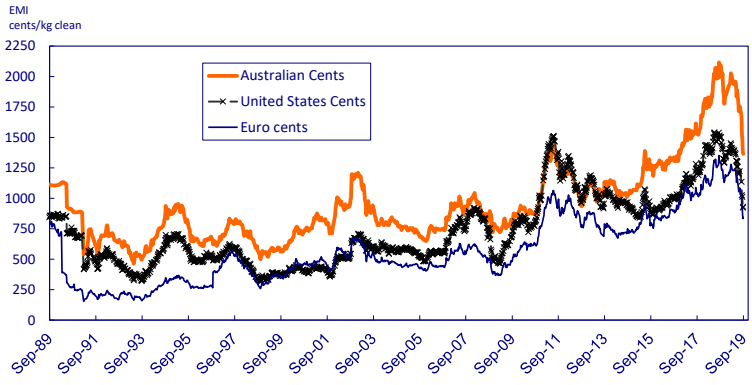
From the desk of Chris Wilcox, Executive Director

- Australian wool prices steady a little after horrid August
- US imposes 15% duty on wool clothing imports from China
- AWTA wool tests fall by 19% in August
- NWD uptake lifts as supply falls
- Low rainfall continues in August for drought-affected areas
- Upcoming industry events

Wool prices in the **Australian wool market** showed some signs of steadying this week, even if it was a bit tentative. Merino wool prices fell sharply again on the first sale day on Wednesday in all three selling centres, but then rebounded on Thursday in Sydney and Melbourne (there was no auction in Fremantle on Thursday). As a result, the **Eastern Market Indicator (EMI)** was down by only 10 cents to 1365 c/kg by the end of the week. While Merino wool prices were all lower over the week, Crossbred prices were generally a little higher. The Northern Market Indicator rose by a slight 3 cents to 1408 c/kg while the Southern Market Indicator was 18 cents lower at 1338 c/kg. The Western Market Indicator (which did not have the benefit of the rebound in Merino prices on Thursday) fell 33 cents to 1383 c/kg. The A$ was a little stronger against the main user currencies over the week. As a result, the EMI was up by 6 UScents to 931 USc/kg, by 10 €cents to 844 €cents/kg and by 16 RMB to 6,640 RMB/kg.

August was an awful month for Australian wool prices, as you would all know. From the start to the finish of the month, the EMI fell by 322 Acents (or 22%). It was a similar percentage drop in US$, Euro and Renminbi. This is one of the largest monthly % declines since 1991, with a similar % decline seen (for example) in May 2003 after the SARS outbreak in China. The **Chart of the Week** shows the trends in the EMI in A$, US$ and Euro over the past 30 years.

CHART OF THE WEEK
Trends in Australian wool prices in A$, US$ & €
EMI – 1989 to 2019; weekly



Week ending prices to 6th September 2019
Source: AWEX, Reserve Bank of Australia
Note: EMI is on the 2017/18 basis

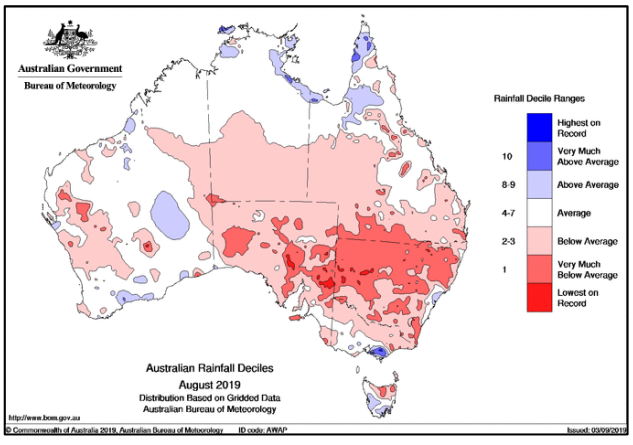
Because prices for wool (and all other commodities as well as equities) reflect a mix of emotion, ingrained biases of buyers and sellers and their response to available (often imperfect) information, prices can, and frequently do, overshoot the underlying fundamentals of supply and demand. This overshooting happens on both the upside and downside. The problem of overshooting is amplified for a product like wool, which has a long processing chain which takes time to buy, ship and deliver raw wool for processing, then convert it to the end product for consumers who are often in a different location to the manufacturers of the end product. This overshooting means that prices can recover quite quickly to better reflect the supply and demand fundamentals. I would not be at all surprised if we are seeing such a situation now for Merino wool.

The decline in Merino wool prices over the past month comes amid the backdrop of the **US Government introducing a 15% additional duty on imports of wool clothing from China**, effective from 1st September 2019. This is higher than the original additional 10% duty previously advised. The higher level was announced by the Office of the US Trade Representative on 30th August after China had itself announced new additional duties on a range of products imported from the US. These additional duties on wool clothing imports by the US from China are included in a list of a range of products imported from China. You can see the full list here. Because the additional duties are applied as of 1st September, it directly affects the US imports of wool clothing imported in time for the crucial Autumn/Winter season in the US. Around 45% of the annual total of US imports of wool clothing from China is imported in the September-December period. And, over half of the US imports of wool clothing each year is supplied by China. A second batch of products imported from China will have the additional 15% duty imposed on 15th December, although this list appears to contain little or no wool products.

While the demand-side risks and issues have pushed wool prices lower, the supply of wool continues to decline. According to data released by AWTA earlier this week, the **weight of wool tested** in August was 19.5% lower than in August 2018. All micron categories were down for the month, led by a 32% drop in the weight of wool tested in the 21 to 24 micron range and a 27% drop in the 29 micron & broader range. The 19-20 micron range was down by 21% and the 25-28 micron range was 20% lower. The 18.5 micron & finer range was down by 11%. For the first two months of the 2019/20 season, the total weight of wool tested was down by 14%. This is a smaller decline than the decline in the weight of wool offered at auction in the 2019/20 season to 6th September, which was down by 23% according to AWEX.

AWEX also this week released the data on the volume of first hand offered wool with the various **mulesing status** for the first two months of the 2019/20 season. While the total volume offered was down by 25%, the declines for Non-Mulesed (NM), Pain Relief (PR) and Ceased Mulesed (CM) wool were lower. There was a 20% fall in the number of bales declared as NM, a 19% fall in the number of bales declared as CM and a 15% fall in the number of bales declared as CM. Allowing for the number of bales deemed as Mulesed, there was a 22% decline in the number of bales with a National Wool Declaration (NWD). There was a 31% drop in the number of bales without an NWD. As a result, 72% of the wool offered in the first two months of the 2019/20 season had an NWD. Over 54% of wool offered was PR, NM or CM.

Hoped-for rain failed to materialise in August across the drought-affected areas of Australia. As the map shows, **rainfall was very much below average** across large parts of New South Wales, much of South Australia and the north of Tasmania. Western Australia, the southern half of Victoria and southern Tasmania fared better. Unfortunately, the outlook from the Bureau of Meteorology for the October-December (released yesterday) does not auger well for a breaking of the drought. The Bureau expects rainfall to be below average for the remainder of 2019.



INDUSTRY 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 9TH SEPT 2019 – week 11 (roster as at 5/9/2019)

Sydney	
Wed, 11th September	6,289 bales
Melbourne	
Wed, 11th Sept; Thurs, 12th Sept	16,237 bales
Fremantle	
Wed, 11th Sept; Thurs, 12th Sept	5,397 bales

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