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 stabilise
- Report from the 2019 Nanjing Wool Market Conference
- Upcoming industry events



Prices in the **Australian wool market** this week continued their recovery from the brutal dive in August, rising strongly. Prices for all microns rose strongly in all selling centres, although prices fell back in Fremantle on Thursday. Being the last selling centre to sell for the week, this weak finish may herald a slow start to auctions next week. The **Eastern Market Indicator (EMI)** rose by 67 cents for the week to 1609 c/kg. The EMI lifted by 234 cents in September which is a good recovery after the large 379 cent fall in August. The Southern Market Indicator rose the most, up by 69 cents to 1593 c/kg, while the Northern Market Indicator lifted by 65 cents to 1635 c/kg. The Western Market Indicator was 59 cents higher to 1702 c/kg, although it fell by 29 c/kg on Thursday. The A$ was a little weaker against the US$ and the Renminbi, but was stronger against the Euro. The EMI rose by 40 UScents to 1087 USc/kg, by 43 €cents to 992 €cents/kg and by 306 RMB to 7,742 RMB/kg.

I attended the **Nanjing Wool Market Conference** held in Qufu last weekend. I was struck by the pessimistic mood of many of the attendees and of the presenters. Their concerns stem from the US-China trade war and its effect, not just directly for the wool textile industry in China, but also on economic growth and consumer confidence in China, as well as the impact on other economies. In talking to those at the Congress and in Zhangjiagang before the Conference, it seems that demand through the wool textile industry has slowed, not just in China but around the world, and stocks have built up. Mills have responded in various ways, including closures of mills and mothballing of others. Some have cut back the shifts in their mills and have shaved their margins to compete. Others have put into stock the higher cost wool that they purchased earlier in the year and are operating based on current purchases. One of the problems in the early stage processing sector is that there is excess combing capacity, with little sign of the permanent removal of this capacity.

I gave a presentation on the global wool market, with a focus in the Merino sector. I noted the current negatives facing the industry, which has led to lower raw wool demand from the major wool producing and exporting countries. While the card now seem to be stacked against the wool industry, I cautioned that it is very easy to become too pessimistic, resulting in a deeper decline than is warranted by the fundamentals. This is the opposite of what we experienced 12 months ago, when everything was going well for the industry and prices were at near record levels. I concluded by saying that I believe the next few months will see volatile prices before a more sustained, if modest improvement in 2020.

Madam Yang Xiaoxiong, Chairwoman of the Nanjing Wool Market, gave a presentation capturing the key concerns for the Chinese wool textile industry, including how stocks have risen. The **Chart of the Week** is taken from Madam Yang's presentation. It shows the annual supply and demand/usage of wool in China's early stage processing industry from 2016. It also shows the starting and finishing inventory levels each year, as estimated by the Nanjing Wool Market. As can be seen, stocks of wool in the Chinese early stage processing industry rose rapidly in 2018 and in the first six months of 2019. As of June 2019, stocks were

more than double the level seen at the start of 2016. These stocks will need to clear before we see a solid foundation for raw wool demand. Madam Yang then went through a case-study of the evolution of the double-faced coat market from the euphoria of 2015/16 to the 'winter' of the current market. She also looked at the more recent rise of the 'fake' fur coat market. If you would like a copy of Madam Yang's presentation, send me an email at chris.wilcox@ncwsba.org.

CHART OF THE WEEK
China Wool Inventory
Estimated by Nanjing Wool Market

Million tonnes		2016	2017	2018	Jan to Jun 2019
Supply	Import Volume	319,082	347,934	368,379	163,875
	Chinese domestic supply (fine wool for apparel)	51,666	51,168	47,156	23,084
	Other supply (Skin wool, Slipe wool etc)	25,057	26,035	28,243	15,250
Demand	Domestic Consuming Volume	351,874	395,523	381,684	152,112
	Export Volume (Scoured wool and wool tops)	39,214	35,893	37,966	17,991
Inventory	Starting inventory	40,596	45,313	39,034	63,162
	End inventory	45,313	39,034	63,162	95,268

Data sources: Chinese National Bureau of Statistics, Chinese Customs, Nanjing Wool Market

Madam Peng Yanli from the China Wool Textile Association also gave a presentation on the state of the China wool textile industry, providing detailed (if inconsistent) data on the industry. But the key message from her presentation is the very difficult conditions being faced by the Chinese industry, particularly on the export market. She said that while China's exports to the US had lifted in the first six months of 2019, exports to the other major export destinations of the European Union and Japan had fallen sharply. Overall, China's exports of wool and wool products fell in the first six months.

Despite the prevailing negative sentiment at the Conference, Australian exporters reported that there had been very good interest for immediate raw wool purchases by the Chinese clients. This led to the sharp lift in prices in the Australian auction market this week, particularly at the start of the week. It seems that early stage processing mills have little greasy wool stock to feed their machines.

In addition to extensive discussion about the economic and industry conditions in China, one other topic of interest was a drive by the Chinese Government towards a **'Green' platform by 2025**. This includes controlling pollution and meeting Chinese domestic consumer demand for 'green' products. It is the first time that I can recall this being discussed at the Nanjing Wool Market Conference.

Isaac Staats of BKB in South Africa reported on the current situation with **South Africa's wool exports to China**. Exports have resumed but any wool exported must have been stored under strict temperature controls. BKB, by far the largest wool broker in South Africa, has spent a large amount of money insulating their wool stores and installing heating equipment to bring the wool stores up to 38^{o}C to store the wool for seven days prior to shipment. This will deactivate any Foot & Mouth Disease virus that may be present in the wool bales. The South African Government then issues certificates stating that the wool has been stored at this temperature and satisfies the Chinese Government requirements. Ed Storey (President of WoolProducers Australia) gave a presentation about the **Australian wool industry's extensive preparations** for an outbreak of Foot and Mouth Disease.

The **China-Australia Joint Working Group on Wool** met on the Friday before the Conference and then Australian members of Joint Working Group (including me) gave presentations to the Mill Technician training course on Monday. This included a mock auction.

INDUSTRY EVENTS

The 2019 AWTA Annual General Meeting will be held in Melbourne on Friday, 18th October 2019.

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

The **NCWBA Centenary Auction and Cocktail Reception** will be held in Melbourne on Thursday, 20th February 2020.

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

WOOL SALES WEEK BEGINNING 30th SEPT 2019 – week 14 (roster as at 26/9/2019)

Sydney
Wed, 2nd Oct; Thurs, 3rd Oct — 10,464 bales

Melbourne
Wed, 2nd Oct; Thurs, 3rd Oct — 21,758 bales

Fremantle
Wed, 2nd Oct; Thurs, 3rd Oct — 8,777 bales

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