The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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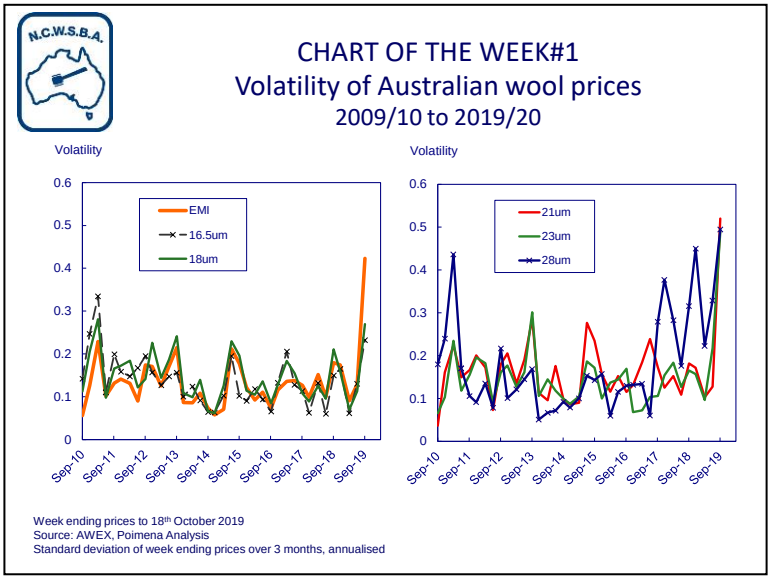
From the desk of Chris Wilcox, Executive Director



- The yo-yoing of wool prices continue
- Price volatility at highest level in 20 years
- No clear progress in US-China trade dispute
- IMF predicts slowest world economic growth since the GFC
- AWTA reports a strong financial result for 2018/19
- Upcoming industry events

Wool prices in the **Australian wool market** slid back this week after the gains of last week, continuing the weekly yo-yo pattern. The **Eastern Market Indicator (EMI)** fell by 26 cents to 1517 c/kg, as prices for all microns declined, with both Merino wool and Crossbred wool losing ground. The losses were recorded on Wednesday, with prices stabilising or lifting on Thursday. The Western Market Indicator fell by 32 cents to 1621 c/kg, the Southern Market Indicator slid by 27 cents to 1500 c/kg and the Northern Market Indicator was 22 cents lower at 1545 c/kg. The A$ was stronger against the US$ and the Renminbi, but was a little weaker against the Euro. The EMI closed 12 UScents lower at 1030 USc/kg, was 18 €cents lower at 929 €cents/kg and fell by 101 RMB to 7,305 RMB/kg.

While we have had periods of significant volatility in wool prices over the past 20 or 30 years, the current level of volatility feels rather extreme. My analysis of the **price volatility** since 1998 confirms this impression and shows that the current price volatility exceptionally high. Price volatility can be assessed by looking at standard deviation of the weekly change in prices, annualised. I have chosen to look at the volatility over a quarter at a time before annualising the standard deviations. The first **Chart of the Week** shows the results of the analysis for the EMI, superfine, medium and broad Merino wool prices and for Crossbred wool prices.



As can be seen, the volatility of the EMI (the orange line on the left-hand chart) has leapt in the past few months after a period of relatively low volatility between 2016 and 2018. Volatility of the EMI is currently at the highest level for the ten years shown on the chart and is at the highest level in at least the past 20 years (I have only analysed the data back to 1998).

The extreme volatility of the EMI is being driven by extremely high volatility of Merino wool between 19 and 23 microns, and for Crossbred wool. The right-hand graph shows the sharp jump in volatility for 21 and 23 micron wool prices in the past six months. The current level of volatility is the highest in the 20 years that I have analysed. As well, prices for Crossbred wool have been very volatile in the past two years, with some clear peaks and troughs in volatility over this two-year period, reflecting the very seasonal nature of demand for this wool in recent years.

In contrast, the volatility of superfine wool prices (as represented by the prices for 16.5 micron and 18 micron wool on the left-hand chart) is elevated but not to the extreme extent for broader Merino wool prices. It is hard to imagine this volatility abating in the next few months, given that there is no clear direction in the demand fundamentals and supply at auction is constrained.

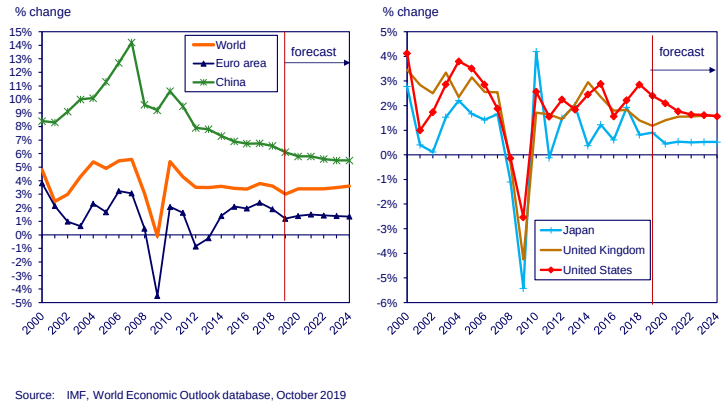
You may have seen that **US and Chinese Government negotiators** met at the end of last week to begin discussing a resolution of the **trade war** between the two countries. After some initial positive reaction about agreements arising from the meeting, I have seen nothing at all that helps the wool industry. The 15% additional duty on imports of wool clothing from China introduced by the US Government remains in place, adding to the cost for US clothing wholesalers and retailers. This contributes to the subdued sentiment throughout the wool textile chain.

The International Monetary Fund (IMF) earlier this week released its new forecasts for **world economic growth** in 2019, 2020 and beyond. They are not very encouraging. The IMF now forecasts that world economic growth in 2019 will be just 3%, the lowest since 2008/09 at the height of the Global Financial Crisis. Growth is expected to pick up to 3.4% in 2020, due to better economic growth in Latin America, the Middle East and central Europe. The IMF predicts that economic growth will slow in 2020 in the US, Japan and China, and improve slightly in the UK and in the Euro zone.

The second **Chart of the Week** shows the trends in economic growth since 2000 and the latest IMF forecasts to 2024. The IMF's forecasts for China is particularly striking – it predicts that China will only grow at 5.8% in 2020, the lowest since 1989.

Given that the economies shown in the chart are the major wool consuming countries (they account for around 60% of wool apparel sales at retail), these subdued forecast provide a downbeat backdrop to wool demand from retail back through the wool processing chain.

CHART OF THE WEEK #2
Trends in Economic Growth Rates



Source: IMF, World Economic Outlook database, October 2019

AWTA Ltd (the Australian Wool Testing Authority) held its **Annual General Meeting** earlier today (18th October) and officially released the financial results for 2018/19. John Colley (NCWSBA President) attended as the Member Representative for NCWSBA. I also attended as the NCWSBA-appointed Director on the AWTA Board. The company reported a net profit of $7.391 million for the financial year, higher than the $4.11 million profit recorded in 2018/19 despite the sharp decline in wool test volumes. The result was due to increased income from AWTA's investment portfolio, with profit from operations being about the same as in 2018/19. Even the Raw Wool Division performed well despite the lower volumes due to efficiency savings. Further details can be found on the AWTA website at https://awta.com.au/index.php/en/.

INDUSTRY EVENTS

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 21st OCT 2019 – week 16 (roster as at 17/10/2019)

Sydney	
Wed, 23rd Oct	5,425 bales
Melbourne	
Wed, 23rd Oct; Thurs, 24th Oct	19,371 bales
Fremantle	
Wed, 23rd Oct; Thurs, 24th Oct	8,174 bales

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