The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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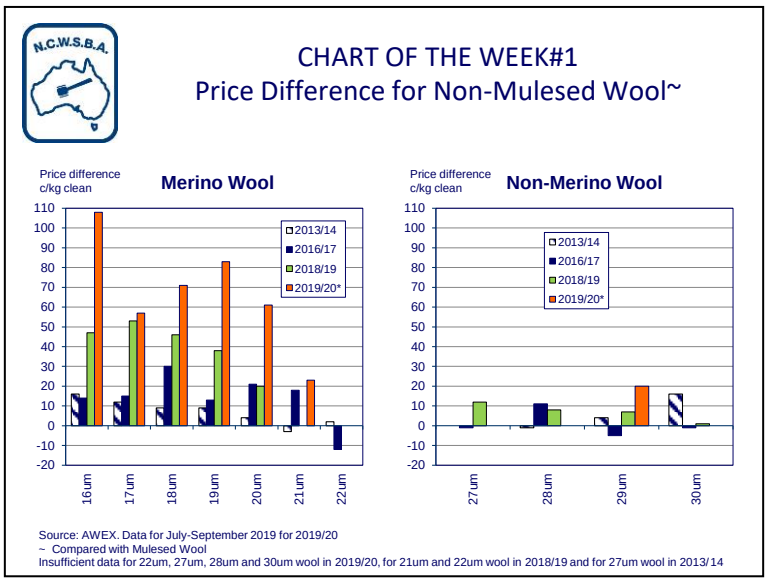
From the desk of Chris Wilcox, Executive Director

- Wool prices bounce back
- Premiums for non-mulesed Merino wool jump to record levels
- Cotton prices remain under pressure
- Upcoming industry events



Like a rubber ball, prices bounced back up this week in the **Australian wool market (**I am almost out of metaphors for the volatility in the wool market!)**.** Prices for all microns lifted on both days, continuing the recovery which started last Thursday. The largest gains for the week were seen for Merino wool, across the micron range from 23 microns and finer. The **Eastern Market Indicator (EMI)** rose by 28 cents to 1545 c/kg. The Western Market Indicator saw the largest gain of 51 cents to finish at 1672 c/kg, while the Southern Market Indicator rose by 27 cents to 1527 c/kg. Sydney only hosted a one-day sale on Wednesday and so missed the gains of Thursday. The Northern Market Indicator was 15 cents higher at 1560 c/kg. The A$ was stronger against the US$, the Euro and the Renminbi. The EMI closed 28 UScents higher at 1058 USc/kg, was up by 20 €cents to 949 €cents/kg and rose by 166 RMB to 7,472 RMB/kg.

I sent out a Media Release from NCWSBA earlier in the week with the data on the average **price differences paid** in the first quarter of the 2019/20 season for wool with the various **mulesing statuses**. The AWEX-sourced data shows that the average premiums paid for **non-mulesed Merino wool** at auction in the July to September 2019 period soared and were higher than at any time since the analysis was begun in 2013/14. This can be seen in the first **Chart of the Week**, which shows the premium paid for non-mulesed wool by micron for 2019/20 to September compared with the average premiums paid for the full season in 2018/19, 2016/17 and 2013/14. Care needs to be taken with the results as the data for some types is limited. Even so, the results are statistically sound for the microns shown (AWEX did not report the price difference for 22, 27, 28 and 30 micron wool this season due to lack of data).

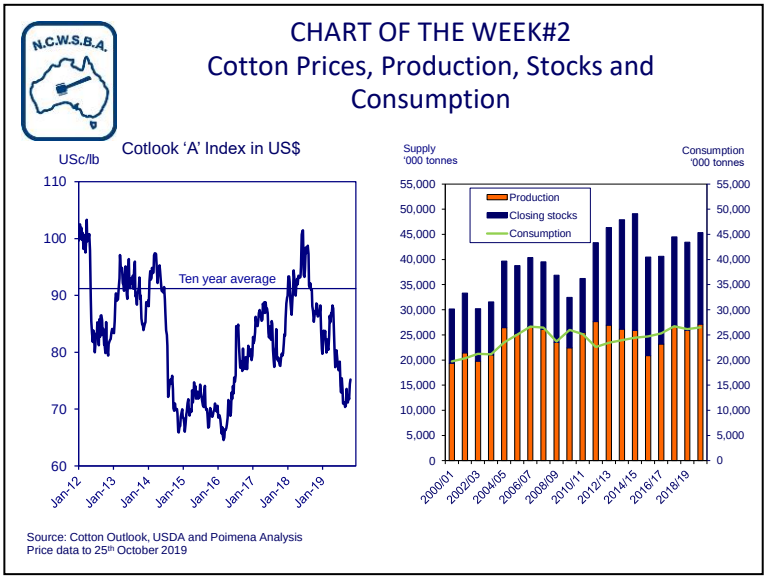


As the chart shows, there has been a surge in the average premiums paid for non-mulesed wool between 16 micron and 21 micron wool. For 18 micron wool, the average premium has lifted the least this season. The highest premium was paid for 16 micron wool at 108 cents/kg, but the premiums for wool from 20 micron and finer were all above 50 c/kg. Of course, the average masks some of the much higher premiums that have been achieved for fine non-mulesed Merino wool this season. There is also non-mulesed fine Merino wool that is sold directly from growers under contract with some companies which I understand attract even higher premiums.

The data from AWEX also shows that there are premiums being paid for wool from properties that have ceased mulesing, with premiums of up to 47 c/kg for fine Merino wool. As well, the analysis shows premiums for wool from sheep that have been mulesed with pain relief. For the first quarter of the 2019/20 season, the premiums for this Pain Relief-declared wool was as much as 14 c/kg. The market is also demanding wool be declared with a National Wool Declaration (even if it is declared a Mulesed), with discounts paid on wool without an NWD. In the July-September 2019 period, these discounts compared with Mulesed wool were as much as 26 c/kg for crossbred wool and 15 c/kg for Merino wool.

Further details can be seen in the NCWSBA's Media Release, which is attached to the email with this week's edition of the *Weekly Newsletter*.

It has been a while since I looked at the **cotton market**, one of the major competing fibres for wool. Cotton prices, as judged by the CotLook A Index (a global benchmark indicator for cotton), have fallen sharply since mid-2018, despite a brief respite at the start of 2019. From a high of 101.5 USc/lb (or 223.7 USc/kg) in June 2018, prices fell by 31% to a low of 70.4 USc/lb (or 155.1 USc/kg) in August. Prices have since recovered a little to 75.2 USc/b (165.8 USc/kg). The left-hand graph in the second **Chart of the Week** shows the trends in cotton prices since 2012.



The fall in prices over the past 15 months is the result of the rise in cotton production outstripping the growth in consumption combined with weak demand and prices for polyester (the major competitor fibre to cotton). This close link to the polyester sector is seen by the lift in cotton prices in mid-September immediately in the wake of the attack on Saudi Arabian oil fields and petrochemical installations.

However, the lift in cotton prices is likely to be short-lived given the supply-demand balance for cotton. The latest estimates and forecasts from the US Department of Agriculture (USDA) show that global cotton production is expected to increase by 4.8% in 2019/20, rebounding after a sharp decline in 2018/19. At the same time, the USDA predicts that global cotton mill consumption will only rise by 1.2% in 2019/20 (after having fallen in 2018/19). As a result, global cotton stocks are expected to rise in 2019/20. In total, stocks at the end of 2019/20 will be equal to 69% of the annual mill consumption. A rule of thumb among commodity analysts is that if stocks are about a third of consumption, then prices are likely to be steady, but if the stocks:use ratio is higher than a third, then there is downward pressure on prices.

Therefore, a sustainable rise in cotton prices seems unlikely. That means that Merino wool's price relativity against cotton will remain high – it is currently sitting at 7.21:1, compared with the average since 2010 of 6.11:1 and the average of 4.57:1 between 2000 and 2010.

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 28th OCT 2019 – week 18 (roster as at 25/10/2019)

Sydney	
Wed, 30th Oct; Thurs, 31st Oct	9,577 bales
Melbourne	
Wed, 30th Oct; Thurs, 31st Oct	21,461 bales
Fremantle	
Wed, 30th Oct; Thurs, 31st Oct	8.408 bales

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