The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director



- Prices continue to fall in Australian wool auctions
- Wool prices and world macro-events – double whammy for wool
- South African wool industry resumes business
- Australian wool production forecast to fall again in 2020/21
- AWTA wool tests down 8% in April
- Excellent seasonal conditions and outlook
- Upcoming industry events

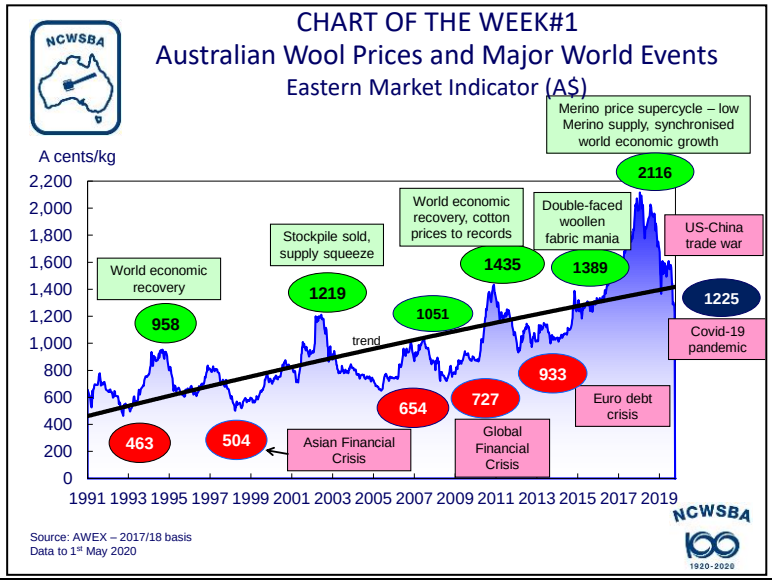
It was another tough week in the **Australian wool market** this week. There was a low offering again, but prices fell across all three selling centres and across all microns. Demand has really dropped, and it is not being helped by a large portion of the offering being lower yielding, poorer quality, drought-affected wool. The **Eastern Market Indicator** (EMI) fell by 47 Acents to 1225 Ac/kg, the lowest week ending level since October 2015. The A$ rose strongly against the US$, the Renminbi and the Euro, up by 2.2 UScents and 2€cents for the week. This meant that the fall in the EMI was much smaller in the main user currencies than in A$. The EMI fell by just 2 UScents to 800 USc/kg, was only 3€cents lower at 738 €cents/kg and fell by just 26 RMB to 5671 RMB/kg.

Obviously the **Covid-19 pandemic** has had a huge impact on demand for wool, as it has on demand for many commodities and raw materials, as well as products around the world. The market for wool used in clothing has been hit by a double whammy over the past 18 months or so. First came the US-China trade war (remember that?), which triggered a sharp fall in Australian wool prices from the supercycle peak. There was a resultant 24% drop in the EMI in A$ terms from the supercycle peak in August 2018 to January 2020. The fall was more in US$, Euro and Renminbi, down by around 28%.

It appeared that the downturn in wool prices had stabilised by the start of 2020, but then the spread of Covid-19 started in China. We now have the global pandemic and the associated shut-down of swathes of the global economy. *The Economist* magazine is calling it the 90% economy. This has hit raw wool demand hard, with the EMI falling by 21% in A$ terms since the end of January to this week. It is down by between 22% and 23% in US$, Euro and Renminbi terms.

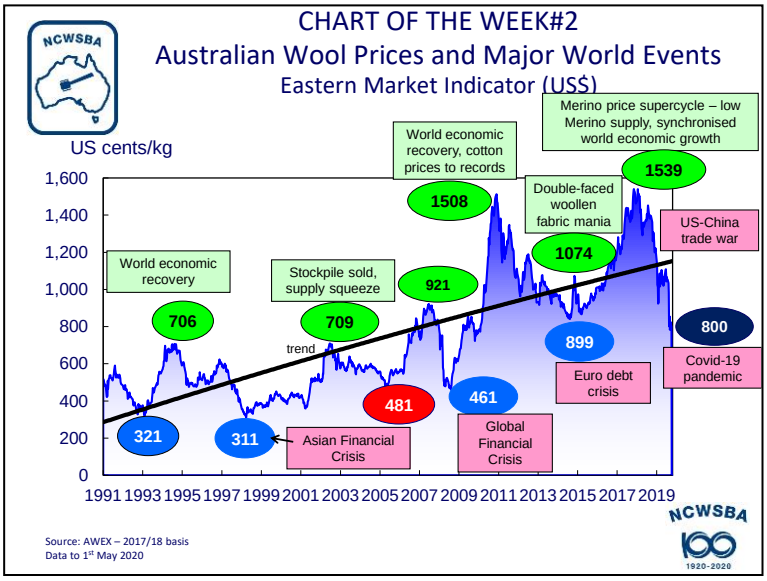
This double whammy is the most severe challenge that the wool industry has faced for many years. The two **Charts of the Week** show the ups and downs of the EMI in A$ terms and in US$ terms since the start of the 1990s, with the major global macro-events that have influenced prices.

As can be seen by the first chart, the current A$ level of the EMI is below the long-term trend, but remains well above the most recent low points during the Euro debt crisis and well above the low during the Global Financial Crisis (GFC). In contrast, the current US$ level of the EMI

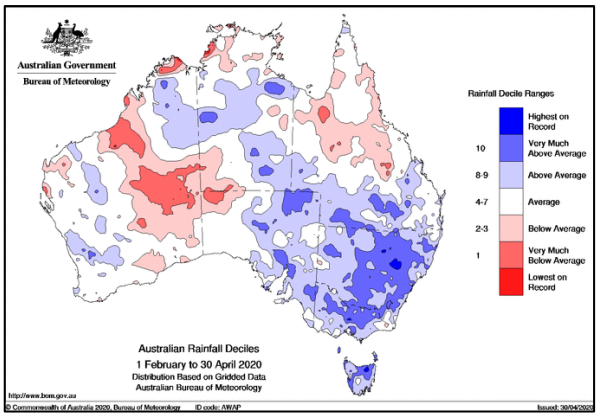


at 801 UScents/kg (as shown in the second chart), is well below the long-term trend and below the low plumbed in 2016, but above the 461 USc/kg level during the Global Financial Crisis.

Cape Wools SA announced overnight that under new South African Government regulations **the wool industry in South Africa** is permitted to resume normal business as of 1st May as Covid-19 restrictions erase. This includes transport, wool testing and open-cry auctions. Cape Wools said that it will be a phased return to normal business. There will be a return to open-cry auctions next week.

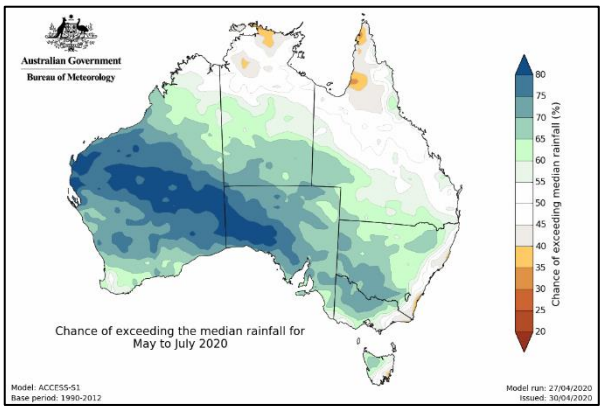


The Australian Wool Production Forecasting Committee (AWPFC) met on Wednesday and reviewed its forecast of **Australian shorn wool production for 2019/20**. It also decided on its **first forecast for 2020/21.** The Committee revised its forecast for 2019/20 to 281 mkg greasy. This is a 6.3% decline on shorn wool production in 2018/19. It is higher than the 272 mkg greasy that the Committee forecast in November, in line with the AWTA test data to end March. The Committee's first forecast for the **2020/21 season** is that shorn wool production will decline again despite the extensive rainfall across eastern and south-eastern Australia in recent months (see the first map – blue is above average rainfall). While wool cuts over the 2020/21 season will improve, the Committee expects that lower sheep shorn numbers will push production lower. The Media Release with the new AWPFC forecasts is included in the email with this week's *Newsletter*.



AWTA released the data on wool tests for April today. The weight of wool tested in April was down by 8%. For the season to date, the weight of wool tested was down by 5.7% for the ten months of the 2019/20 season to April. I will cover more details in next week's edition.

After the excellent rainfall over the past three months, the Bureau of Meteorology's **latest seasonal outlook for the next three months** is for above average or average rainfall expected across all of the major wool producing regions in Australia (see the second map - the green/blue is above average rainfall).



INDUSTRY EVENTS

The **IWTO 2020 Congress** will be a digital event on 21st to 23rd May 2020. See www.iwto.org for details.

Wool Week is scheduled for 27th and 28th August 2020. The NCWSBA Annual General Meeting is scheduled for Thursday, 27th August.

The **Nanjing Wool Market Conference** will be held in Haining, Zhejiang on 18th to 20th September 2020.

WOOL SALES WEEK BEGINNING 4 MAY 2020 – week 45 (roster as at 30 /4/2020)

Sydney	
Wed 5th May	5,475 bales
Melbourne	
Tues, 4th May; Wed 5th May	16,701 bales
Fremantle	
Tues, 4th May	4,748 bales

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