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2018/16

From the desk of Chris Wilcox, Executive Director

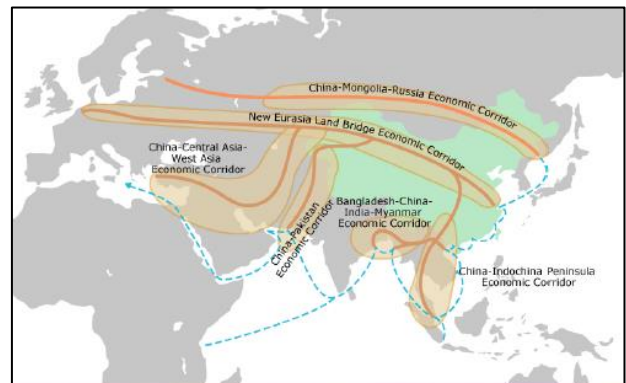
- Australian EMI bursts through 1900 – on the way to \$20?
- Highlights from the IWTO 2018 Congress in Hong Kong
 - Market Intelligence
 - Wellness
 - Sustainability
- Upcoming events



There seems to be no stopping the demand for Merino wool in the **Australian wool market** as prices again surged on the back of strong buyer competition on both sale days. The **Eastern Market Indicator (EMI)** rose by 52c/kg to finish the week at 1943 c/kg, easily breaking through the 1900 c/kg level. This week's lift took the supercycle into new, uncharted territory being the 112th week of the upward cycle. This breaks the duration of the previous longest supercycle in the late 1980s. There were large increases for Merino wool as well as fine Crossbreds. 36,398 bales were offered for the week, of which 2.3% were passed-in. The A\$ rose by 0.5 UScents and the EMI lifted by 49 UScents to 1462 USc/kg, the highest since July 2011. The A\$ also lifted against the Euro and the Renminbi. The EMI increased by 49 €cents to 1238 €cents/kg (a new record) and by 337 RMB to 9318 RMB/kg.

The **87th Congress of the International Wool Textile Organisation** was held in Hong Kong this week. Around 260 attended the Congress from around the world, with a strong Australian contingent. Brett Smith, the winner of the 2017 Broker Award, was among the attendees as part of his Award. Among the Australians there were also a number of wool broker representatives.

One of the common messages coming from a number of speakers was the growing importance of China's Belt and Road Initiative. **Stephen Wong (formerly of the Hong Kong Trade Development Council)** gave a very good briefing on the extent of the initiative and the amount of infrastructure investment by the Chinese Government through Asia and Europe. He noted that the initiative, which was first announced by China's President Xi in 2013, has already resulted in a train line from Chongqing in central China to Duisberg in Germany which delivers a massive amount of product into Europe. The map shows the various transport corridors that are being developed by China as part of the Belt and Road Initiative. This will be a huge feature of China's trade and diplomatic efforts in coming years, extending its influence throughout the region and beyond. The impact was brought to life by



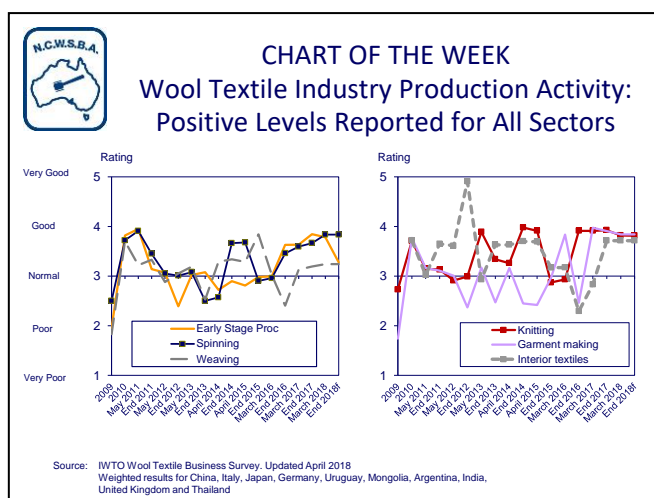
Madam Chen Lifen (Chair of Jiangsu Sunshine) in her presentation in the Market Intelligence Forum (which I chaired). Sunshine is the world's largest vertically integrated wool textile company. She explained in her presentation that Sunshine is building an extensive mill in Ethiopia, taking wool top imported from China through spinning, weaving, finishing and garment making. The mill will begin operation later this year. Ethiopia has preferential access into the European Union and the US. Sunshine plans that 50% of its total production will come from the mill in Ethiopia. The China-based operation will focus on supplying the China domestic market.

Madam Peng Yanli (President of the China Wool Textile Organisation) reported that China's exports of wool textiles and products to Belt and Road countries and to Africa increased the most of all destinations in 2017, although exports to the European Union also lifted strongly, helped by the new transport corridor through Eur-

Asia. She also noted the large increase in clothing retail sales in China via on-line sales platforms (+22%) compared with an 8% increase in retail sales via the traditional department stores. The growth in sales via online platforms (including Taobo and T-Mall) is phenomenal and the domestic China market is likely to be larger than generally thought. This was highlighted by a presentation from **Richard Chen of Heng Yuan Xiang** on the second day of the Congress. He reported that 61% of its sales of wool products of his company are now sold via these online platforms. In 2011, all of its sales were via traditional bricks-and-mortar retail shops.

I gave a presentation at the Market Intelligence session on the **global wool market**. I reported that world wool production over the next two years will remain at the low levels seen for the past decade, with little evidence of an improvement in the near future. Merino wool production will remain low and is likely to dip a little next season due to the forecast lower production from Australia. This dip comes despite the very high Merino wool prices and is due to a combination of poor seasonal conditions in Australia and South Africa and high sheepmeat prices. In contrast, supply of broad wool is higher, in part due to excess stocks held in New Zealand.

On the demand side, global economic conditions are very good and consumer confidence levels are high (as I have previously explained in recent editions of the *Weekly Newsletter*). I reported the results from the annual survey of wool textile conditions from the IWTO. These are positive right through the wool textile industry, including for interior textiles. The **Chart of the Week** shows the trends in production activity levels as reported by the Survey. As can be seen, each sector is seeing above normal activity levels and better than last year. Each sector also reports that activity levels should remain above normal levels to the end of the year. Furthermore, the Survey results suggest that stock levels at each stage are at normal levels. In the case of the early stage processing sector, stock levels are reported to be well below normal. These good results suggest that raw wool demand will be strong for the next few months at least.



There was a strong emphasis in other sessions of the Congress on **sustainability**. Stephen Wiedemann (Principal Scientist and Chair of the IWTO's Wool Lifecycle Analysis Working Group) provided an update on the scientific research that the industry is funding to demonstrate wool's sustainability. He (and others during the Congress) commented that the industry needs to keep up this research effort as international groups which report on the sustainability of various textile fibres are heavily influenced (and funded) by the chemical fibre industry and their supporters. A common theme in the presentations on sustainability was the impact of plastic waste pollution and in particular microplastic pollution of our oceans, which is entering the food chain, from planktons into fish and into animals. Scientific evidence is now being reported that these microplastics (and nano-particles) have negative health effects on humans.

The session on **wool's contribution to wellness** was interesting, with Angus Ireland (AWI) reporting on the research work being done to demonstrate wool's beneficial impacts on human skin health (notably eczema in babies and toddlers) and for sleep health (notably in older people). The Congress presentations will be available in the Members area of the IWTO website (www.iwto.org). My presentation will also be available on the NCWSBA website, www.woolbrokers.org. *Please send me an email if you would like me to send you a copy.*

INDUSTRY EVENTS

The **2018 AWIS Wool Week** will be held in Melbourne on 23rd & 24th August. The NCWSBA AGM will be held on Thursday, 23rd August 2018.

The **Nanjing Wool Market Conference** will be held on 11th to 13th September 2018 in Nanjing.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

WOOL SALES WEEK BEGINNING 21st MAY 2018 – week 47 (roster as at 17/05/2018)

<u>Sydney</u>	Wed, 23 rd May; Thurs, 24 th May	9,548 bales
<u>Melbourne</u>	Wed, 23 rd May; Thurs, 24 th May	17,845 bales
<u>Fremantle</u>	Wed, 23 rd May; Thurs, 24 th May	4,573 bales

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