



21<sup>st</sup> September 2018

2018/33

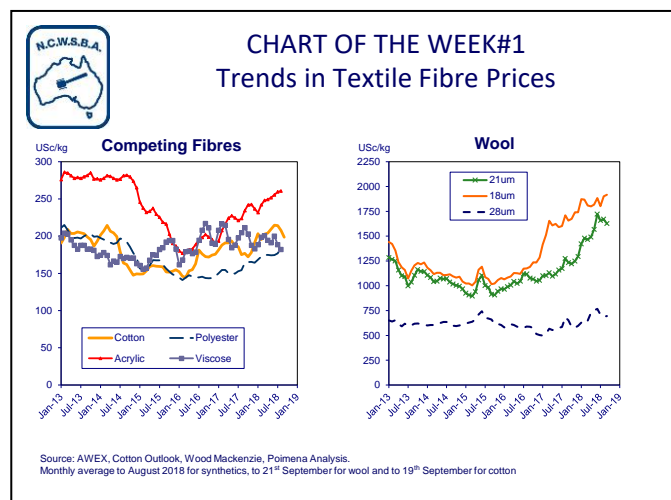
### From the desk of Chris Wilcox, Executive Director

- Australian wool prices soften
- That's not a trade war - this is a trade war! China-US trade dispute hits wool products
- ABARES' latest forecasts for wool and sheep
- AWI Review of Performance implementation portal
- Mulesing ban in NZ
- Upcoming industry events



Prices in the **Australian wool market** weakened this week as the A\$ lifted against the US\$ and other currencies. The **Eastern Market Indicator** fell by 27 cents to 2067 c/kg. All Merino wool categories in all three selling centres were affected by the drop prices, as were most crossbred wool prices. The exception was 30 micron and broader wool in Melbourne which recorded higher prices. The Western Market Indicator fell the most, down by 34 cents to 2222 c/kg, the Southern Market Indicator dropped by 29 cents to 2022 c/kg and the Northern Market Indicator was 22 cents lower at 2140 c/kg. The A\$ was higher against the US\$, the Renminbi and the Euro. As a result, the EMI only slid over the week by 3 UScents to 1500 USc/kg. It was down by 9 €cents to 1284 €cents/kg and 21 RMB lower at 10,780 RMB/kg.

While Merino wool prices have risen throughout 2018 (and actually since the first half of 2016), prices for **competing fibres** have been more variable. **Cotton** prices had risen strongly since a low point in mid-2017. However, cotton prices have dropped by 10% since the end of July. One reason is the increasing trade tensions between the US and China. Data on synthetic fibres is only available to the end of August. This shows that prices for **polyester staple** and **acrylic** have lifted by 5% and 2% since June, probably because of higher oil prices and lower production capacity in China. **Viscose** prices have dropped by 9%. The **Chart of the Week** shows the trends in textile fibre prices since the start of 2013.



The big news this week is the escalation in the trade war between the US and China. As you would be well aware, the **trade tensions between the US and China** have been rising steadily over the past few months. It broke out into a full-scale trade war this week as the US announced a third round of import tariffs on goods from China. This latest batch imposes a 10% import duty on US\$200 billion of goods from China (effective from 24<sup>th</sup> September). The first two rounds earlier this year imposed 25% tariffs on US\$50 billion of goods imported from China. China retaliated each time with its own punitive import duties on US products, such as cotton, soybeans, wine, fruit and beef. The latest round of US duties means that around 44% of China's exports to the US now have excess duties imposed. President Trump has warned that if China retaliates, then the US would impose new import duties on US\$267 billion of goods. This would mean

virtually all of China's exports to the US would have excess duties as a result of the trade war. President Trump seems to be channelling Crocodile Dundee "That's not a trade war. THIS, is a trade war!!"

Until now the products included in the first two rounds of import duties by the US did not include many, if any wool products. However, this week's list includes a range of wool and wool-related products, including lanolin, sheep skins, greasy wool, scoured wool, carbonised wool, noils, carded wool, wool tops, worsted and woollen wool yarn (pure and wool blend), worsted and woollen woven wool fabric (pure and wool blend), worsted and woollen knitted wool fabric (pure and wool blend), wool and wool blend carpets and wool hats.

Thankfully, the list does not include any finished wool or wool blend clothing, such as suits, jumpers, trousers, coats, overcoats and so on. From Australia's perspective, these are critical. These products make up the vast majority of US imports of apparel-related wool products from China. China accounts for 53% of all US imports of wool clothing (knitted and woven). So, an extra duty would hurt the trade by pushing the price paid by US consumers higher. From China's perspective, the US is not as important as China is to the US for wool clothing. The US has an 11% share of China's total exports of wool clothing. The European Union is more important, taking around a quarter of China's exports. The Australian wool industry will need to monitor the situation between the US and China very closely.

In its latest *Agricultural Commodities* quarterly (released on Tuesday), the Australian Government's agricultural commodity forecaster, ABARES, says that the US-China trade tensions are a risk to the medium-term outlook for Australian agricultural exports, although it could provide some opportunities. ABARES comments that a number of agricultural products on which China has imposed tariffs for US products are available from Australia, including beef, dairy, fruit and wine. But US product will be diverted to other markets PLUS the US has provided subsidies to US producers which may drive global prices down.

ABARES also included its **latest forecasts for 2018/19** in the publication. It predicts that the EMI will average 1990 c/kg in 2018/19, a 15% increase on the 2017/18 average of 1723 c/kg. This new forecast average for 2018/19 is the same as ABARES predicted in June. One feature of ABARES new forecasts is that it now predicts that sheep numbers will fall by 2.3 million head by the end of 2018/19, following a 700,000 drop over the 2017/18 season. Needless to say, this will make it very difficult for a recovery in wool production in 2019/20, even if the drought breaks and seasonal conditions improve significantly. You can see the full report from ABARES, which includes its forecasts for the sheep industry, at <http://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/sept-2018> (when the page opens, scroll down to the bottom and click on the link to the PDF document).

AWI has launched a website which reports and tracks their progress on implementing each of the 82 recommendations made by Ernst & Young in its **review of AWI**. You can see full details at <https://www.wool.com/about-awi/how-we-consult/review-of-performance/>.

You may have read in the media that **mulesing of sheep** will be banned in New Zealand next month after a new animal welfare Act. Breaking the ban will carry a criminal conviction and a NZ\$5000 penalty for an individual offender and NZ\$25,000 for a body corporate from 1 October. The New Zealand sheep industry is dominated by meat-producing crossbred sheep producing broader wool. These breeds typically do not require control of flystrike, including mulesing.

#### INDUSTRY EVENTS

The **AWTA Annual General Meeting** will be held in Melbourne on Friday, 19<sup>th</sup> October 2018.

The **IWTO 2018 Roundtable** will be held in Buenos Aires on 3<sup>rd</sup> to 4<sup>th</sup> December 2018.

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

#### WOOL SALES WEEK BEGINNING 24<sup>th</sup> SEPT 2018 – week 13 (roster as at 20/9/2018)

##### Sydney

Wed, 26<sup>th</sup> Sep; Thurs, 27<sup>th</sup> Sep 10,451 bales

##### Melbourne

Tues, 25<sup>th</sup> Sep; Wed, 26<sup>th</sup> Sep 17,671 bales

##### Fremantle

Wed, 26<sup>th</sup> Sep; Thurs, 27<sup>th</sup> Sep 6,722 bales

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