



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 dive as US-China trade tension rises
- South African wool buyers withdraw from next week's auction
- Wool Week luncheon speakers announced
- NCWSBA Wall Chart for 2018/19 – available from 16th August
- Upcoming industry events



Hopes for a solid resumption for the **Australian wool market** after the three-week recess were dashed by the unexpected ramping up of the US-China trade war in the past week. Wool prices fell sharply almost across the board, with all Micron Price Guides falling by as much as 139 c/kg on the east coast and by 176-180 cents in Fremantle. The one exception to the carnage was the Merino Cardings, which bucked the negative trend and lifted by between 30 and 66 c/kg. The **Eastern Market Indicator (EMI)** fell by 78 cents for the week to 1,676 c/kg. This is the lowest level for the EMI since December 2017 when wool prices were on the rise.

The EMI fell despite there being just 41,543 bales offered for sale (which is low for the first sale after the July recess) and with 28.6% passed-in (the highest rate in over a decade according to AWEX). As well, the A\$ was almost 2 UScents lower compared with the levels prior to the recess. At just 67.74 UScents, the A\$ is at the lowest level in more than a decade (at the height of the Global Financial Crisis). The A\$ is also sharply lower against the Euro at 60.4 €cents (down 1.4 €cents). However, the A\$ is only marginally lower against the Chinese Renminbi after the Renminbi dropped sharply at the start of this week (see below for more commentary). As a result of these currency moves, the EMI was down by proportionately more in the US\$ and Euro - falling by 87 UScents to 1135 USc/kg and by 72 €cents to 1013 €cents/kg. It was down by 394 RMB to 8,001 RMB/kg.

The news dominating the wool market this week (as well as dominating the world equity and commodity markets in general) was the ramping up of **trade tensions between the US and China**. Late last week, President Trump announced that his administration would impose a new 10% import duty on the remaining imported products from China that have not had higher tariffs imposed in the past nine months. These new import duties on these remaining products would begin in September. These additional products would include imported clothing (including wool clothing) from China, which is the first time these higher duties have directly affected products made from Australian wool. This will be making mills in China a rather nervous.

Seemingly in response to this threat, the Chinese Government allowed the Chinese Renminbi to depreciate against the US\$ to above the 7:1 mark. This is the first time the Renminbi has been above the 7RMB to 1US\$ level since 2008. Until this week, the Chinese Government had been propping the Renminbi up. Note that the depreciation of the Renminbi was not forced by the Chinese Government, but was actually the result of market forces after the Government removed its support.

Fears of a currency war, in addition to a trade war, swept the world markets. This has added to the already subdued demand conditions for wool, notably among Chinese mills, and has been the key factor in the fall in wool prices this week. The first **Chart of the Week** shows the trends in the Chinese Renminbi against the US\$ and the A\$ since 2007. The sharp drop in the Renminbi against the US\$ at the start of this week is

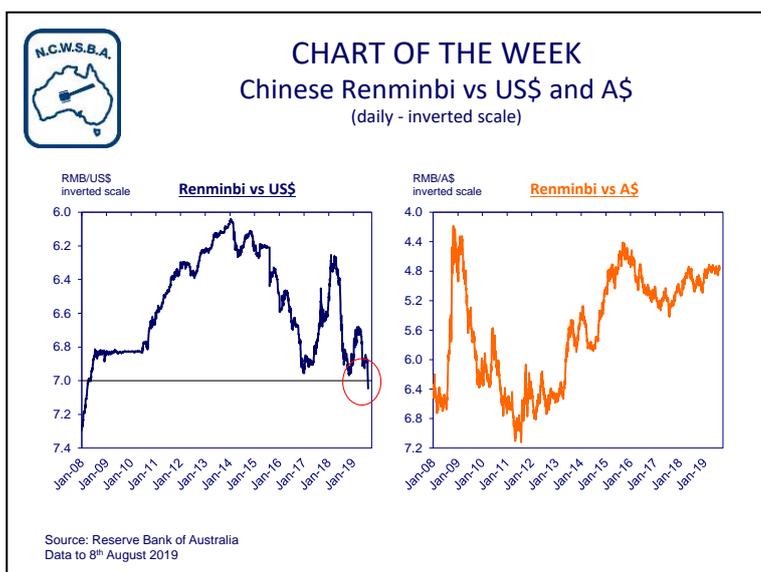
highlighted. At the same time, there has been little movement of the Renminbi against the A\$. This means that mills in China will not benefit from the lower A\$ against the US\$ in their purchasing of Australian wool. Chinese garment makers who export to the US will, however, be aided by the lower Renminbi against the US\$. It will offset some of the added cost due to the new 10% import duty if and when it is applied from September.

The effects of the **outbreak of Foot and Mouth Disease (FMD) in South Africa** in late 2018/early 2019 continues to be felt in South Africa. Overnight, the South African Wool & Mohair Buyers' Association (Sawamba) announced that it will not attend the wool auction next week in South Africa.

The notification explains the reasoning, which stems from the outbreak of FMD and how it is being managed between South Africa and China. This revolves around a new health certificate which must be issued before the export of wool from South Africa to China. The health certificate is provided by South African Government officials and incorporates time and temperature restrictions to ensure the deactivation of any FMD virus. Under these restrictions, wool must be stored from date of receipt for 4 months at 4°C, for 4 weeks at 18 °C and for 8 days at 37 °C. Sawamba advised that given the low ambient temperatures in South Africa at the moment, wool will need to be stored for up to 4 months. This means that payment to buying houses will be delayed for 3-4 months after the date of purchase. Chinese clients are not prepared to take the market risk of buying wool now but not receiving it for several months during which time prices may have fallen substantially. As a result, Sawamba has decided that the buying businesses cannot be put at risk, and have withdrawn from next week's auction. This highlights the damage an outbreak of FMD in Australia could have on the Australian wool industry and why the work by the Federation of Australian Wool Organisations to prepare the Australian industry is so vital.

The **speakers for the AWIS Wool Week luncheon** on 22nd August were announced this week. The Hon Bridget McKenzie, the Australian Minister for Agriculture will speak at the luncheon, as will Kieren Perkins OAM (NAB General Manager, Enablement). Most of you will know Kieren Perkins as a dual Olympic Gold and Silver medallist representing Australia in swimming. The luncheon will follow the NCWSBA Annual General Meeting and Forum. **Registration closes next Tuesday, 13th August.** Full details and the registration form are attached to the email with this week's *Weekly Newsletter*.

REMINDER: The 2019 Wall Chart from NCWSBA will be available from 16th August. This A2 printed Wall Chart is free to NCWSBA members. **Send me an email at chris.wilcox@ncwsba.org and tell me how many you would like for your office and the delivery address.**



INDUSTRY EVENTS

The **AWPFC** meets on Wednesday, 14th August in Melbourne.
 The **NCWSBA AGM and Forum** is on 22nd August at the RACV Club in Melbourne.
 The **Nanjing Wool Market Conference** will be held in Qufu, Shandong on 20th to 23rd September 2019.
 The **2019 IWTO Round Table** will be held in Queenstown, New Zealand on 2nd to 3rd December 2019.
 The **2020 IWTO Annual Congress** will be held in Tongxiang, China on 18th to 20th May 2020.

WOOL SALES WEEK BEGINNING 12TH AUGUST 2019 – week 7 (roster as at 8/8/2019)

<u>Sydney</u>	Wed, 14 th August; Thurs, 15 th August	13,984 bales
<u>Melbourne</u>	Wed, 14 th August; Thurs, 15 th August	21,231 bales
<u>Fremantle</u>	Wed, 14 th August; Thurs, 15 th August	8,388 bales

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