



# The National Council of Wool Selling Brokers of Australia Inc

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## NEWSLETTER

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

- Turbulent start to the new decade
- No joy for wool in the US-China Phase One trade agreement
- Superfine wool prices lift at the start of 2020
- Weight of wool tested in Australia jumps in December
- Upcoming industry events



Welcome to the first NCWSBA *Weekly Newsletter* for the new decade! It has been a turbulent start to the 2020s, notably the devastating bushfires across eastern and southern Australia, some of which are still going. We don't know yet the number of sheep that have been killed or injured, so it is hard to know what impact the fires will have on wool production. Our thoughts and best wishes are with all those who have been affected. The better news is that there has been rain across a wide area of eastern and southern Australia in the past week, which will help with both the fire and drought situation. Not all drought affected regions have benefited, however, and more rain is needed.

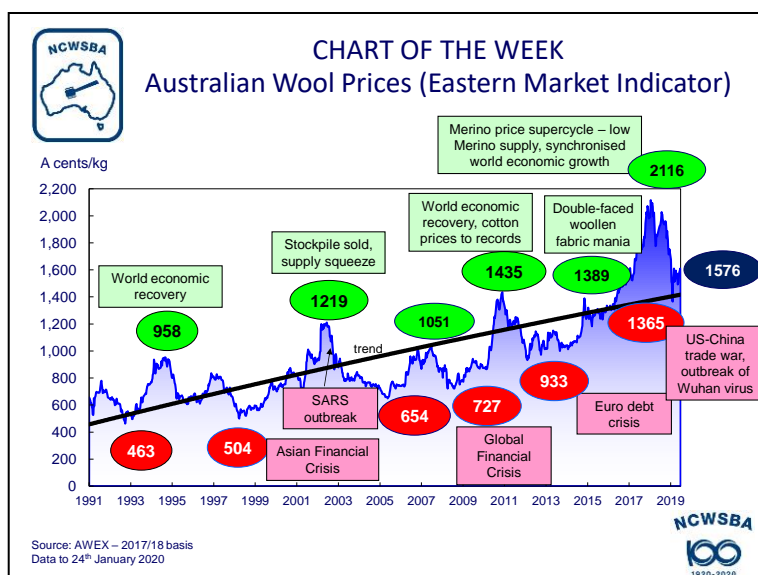
In addition to the fires, there is also the widening outbreak and spread of the new coronavirus emanating from Wuhan, which is causing some concern. The reports I have seen suggest that this Wuhan virus is less infectious than the SARS virus, which peaked in 2003/04 and caused a major disruption to travel, both international and domestic, and hurt the wool market.

As well, the **US and China signed the Phase One Trade Agreement** last week. I have gone through the text to see what impact this Phase One Agreement will have on wool. I am sorry to say that the additional 15% import duty that was imposed in September on US imports of wool clothing from China remains in place. That means that, for example, US imports of wool sweaters from China has the regular import duty of 16% PLUS the additional 15% duty, a total of 31% added to the import cost of the sweater from China. One other aspect of the Phase One Agreement is that China has agreed to import an additional US\$200 billion of products from the US over the next two years compared with the \$185 billion imported by China from the US in 2017. Greasy wool is included in the list of products that China can choose to import in this additional US\$200 billion. The US is not a large wool producer, producing about 10 mkg greasy of shorn wool (about the same as Tasmania). It exports around 4 mkg of greasy wool to China, valued at around US\$13 million. So, the scope for the US to increase its exports of raw wool to China is pretty limited.

There have been two weeks of auctions in the **Australian wool market** since the resumption after the recess, with prices lifting last week but dropping back this week. By the end of this week, the **Eastern Market Indicator** (EMI) was at 1576 c/kg, down 33 cents for the week but still 18 cents higher than the pre-Christmas level. Superfine Merino wool has been in demand, with prices up by 35 to 81 cents compared with the levels before Christmas. In contrast, Crossbred wool has struggled, with prices falling by between 39 and 77 cents in the past fortnight. The A\$ has been a bit up and down, but is a little stronger against the US\$ and the Euro than before Christmas. It is, however, weaker against the Chinese Renminbi. Overall, the EMI is now 16 USc higher than pre-Christmas at 1082 USc/kg and up by 18 €cents to 976 €cents/kg. It is a bare 19 RMB higher at 7491 RMB/kg.

Given the recent global events, it is interesting to see how the recent movements in the EMI stack up against the longer-term trends in the EMI and global events over the past three decades. The **Chart of the Week** shows the ebbs and flows of the weekly EMI since 1991 and some of the key major global events.

Wool prices have well and truly come back off the 2018 Supercycle peak. I think that the drop was triggered by the US-China trade war, although that was not the only reason that prices fell back. Other reasons include a slow-down in the Chinese economy and rising stocks of wool products had within China. The outbreak of the Wuhan virus may contribute to a longer period of softer prices, but unlike 2003/04 when the SARS outbreak came at the peak of a Supercycle and was the trigger for the drop, I don't think that prices will fall precipitously. I believe that we have already seen the low point from the 2018 Supercycle back in September.



There has been a lot of Australian industry data released over the recess period, including the wool test statistics for December and wool exports for November. I will look at the wool tests this week because supply is currently one of the major drivers of market conditions. I will cover the export data in more detail in next week's edition.

The AWTA data on **wool tested** in December was a surprise. It showed a 16.8% year-on-year lift in the weight of wool tested for the month. This follows year-on-year declines in all five of the previous months of this season. The increase was, however, compared with the very low level recorded in December 2018. All states except for Queensland recorded a significant % increase in the weight of wool tested in December (on a Wool Statistical Area basis).

As a result of the increase in December, the weight of wool tested across Australia in the first six months of the 2019/20 season was 5.3% below the total for the first six months of the 2018/19 season. Despite the improvement, the six-month aggregate is well below any year since at least 2000/01 (which is as far back as my databases go). The table below shows the weight of wool tested in the first six months of the 2019/20 season compared with same six months for the previous seven seasons.

**Table: AWTA weight of wool tested for July to December (mkg)**

	NSW	Vic	WA	SA	Tas	QLD	Australia
2012/13	69.059	44.687	34.888	27.766	6.044	8.305	190.749
2013/14	69.175	42.203	36.437	26.781	5.948	6.817	187.361
2014/15	70.565	42.910	35.133	29.060	6.148	4.745	188.561
2015/16	66.938	38.493	34.562	27.764	5.438	3.807	177.002
2016/17	67.101	37.325	37.236	29.406	5.059	4.534	180.661
2017/18	67.687	39.814	34.872	30.359	5.448	4.954	183.134
2018/19	56.472	37.242	30.732	26.81	5.127	4.801	161.184
2019/20	53.447	34.976	30.334	24.979	4.936	4.001	152.673
Change	-5.4%	-6.1%	-1.3%	-6.8%	-3.7%	-16.7%	-5.3%

#### INDUSTRY EVENTS

The **NCWSBA Centenary Auction and Cocktail Reception** will be held in Melbourne on Thursday, 20<sup>th</sup> February 2020.

The **2020 IWTO Annual Congress** will be held in Tongxiang, China on 18<sup>th</sup> to 20<sup>th</sup> May 2020. Applications for the **Young Professionals Program** closes on 24<sup>th</sup> February. Click [here](#) for details.

#### WOOL SALES WEEK BEGINNING 27<sup>th</sup> JAN 2020 – week 31 (roster as at 23/1/2020)

<u>Sydney</u>	
Wed, 29 <sup>th</sup> Jan, Thurs 30 <sup>th</sup> Jan	9,700 bales
<u>Melbourne</u>	
Wed, 29 <sup>th</sup> Jan, Thurs 30 <sup>th</sup> Jan	21,538 bales
<u>Fremantle</u>	
Wed, 29 <sup>th</sup> Jan, Thurs 30 <sup>th</sup> Jan	9,442 bales