



# 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

- Widening coronavirus emergency hits the Australian wool market
- Possible impact of the coronavirus on China's GDP
- Australian wool export volumes up in November
- NCWSBA Centenary event – 20<sup>th</sup> February 2020
- Upcoming industry events



The coronavirus outbreak, which started in Wuhan and overnight was declared a global health emergency by the World Health Organisation, dominated the **Australian wool market** this week. It has been amazing how quickly the situation has changed over the past few days. The Chinese Government has extended the Chinese New Year break which includes banks. There are also domestic travel restrictions. Given the uncertainty, Chinese wool importers held back on ordering. This resulted in sharply reduced activity in the auction rooms, notably on Wednesday, as Australian buyers worried about short-term demand and finance. Pass-in rates soared to 37% across the three selling centres on Wednesday (49% of Merino fleece passed-in) and prices slumped, particularly for superfine wool. Thursday saw some stability after 25% of the rostered offering was withdrawn from sale, constraining wool availability and pushing prices higher.

The **Eastern Market Indicator** (EMI) fell by 56 cents on Wednesday, then rallied by 28 cents on Thursday to finish the week at 1548 c/kg, down 28 cents for the week. Fremantle was the best performed auction centre, with the Western Market Indicator falling by just 2 cents for the week to 1683 c/kg following a very strong recovery on Thursday. The Southern Market Indicator was down by 20 cents to 1529 c/kg while the Northern Market Indicator fell the most, down 39 cents to 1578 c/kg. The A\$ fell sharply against all the key currencies, including a fall of 1.2 cents against the US\$. As a result, the EMI fell by 38 USc to 1043 USc/kg, by 29 €cents to 947 €cents/kg and by 249 RMB to 7242 RMB/kg.

Predicting what will happen from here is nigh on impossible. It is a moving feast, with the situation changing rapidly. The number of cases is rising exponentially, and the global response is only now starting, including bans on flights to and from China by some airlines. The only thing I think that anybody can say with any confidence is that it will get worse before it gets better, but how long before it gets better is anybody's guess. There will be a blow to **economic growth in China and on the world economy**, but the level and extent is, of course, unknown. The Economist Intelligence Unit commented overnight that, while they have not yet changed their forecast of economic growth in China of 5.9% in 2020, their initial calculations show a hit of between 0.5% and 1.5% to this growth rate this year if the virus spreads in a similar fashion to the 2002 outbreak of SARS.

Looking back at the impact SARS had on wool prices in 2003, the EMI fell by 119 Acents to 980 c/kg in the first week of May 2003 when the severity and extent of SARS and its possible effect on the Chinese economy and on the wool market was recognised. This compares with the 28 Acent decline in the EMI this week. But, as I said in last week's edition, the market circumstances were very different in 2003 with the SARS outbreak. The EMI had peaked in a supercycle in January 2003 and was overdue for a reversal, so the SARS outbreak was a trigger. As well, Australian shorn wool production was around 500 mkg. Now, the US-China trade war already triggered a decline in wool prices from the 2018 supercycle, and shorn wool production is far lower at a forecast 272 mkg for 2019/20, so the impact on wool prices may be less.

As I said in last week's *Newsletter*, data on **Australia's wool exports** in November were released a couple of weeks ago, but I held my reporting until this week. Despite the low auction and wool test volumes, the

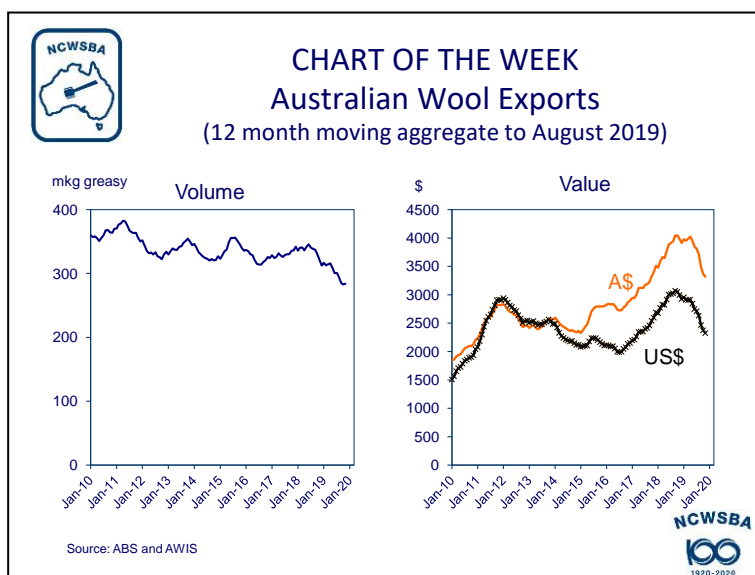
volume of Australian wool exports in greasy equivalent terms actually lifted by 5% in November compared with November 2018. This is the first monthly increase since April 2019. The decline in export volumes seems to have been arrested, probably only temporarily (see the **Chart of the Week**). Even so, the volume of exports for the five months of the 2019/20 season is 16% lower than for the same period in 2018/19, in line with the decline in wool sold at auction.

The main reason for the increase in November was an increase in the volume of exports to China, which were up by 27% year-on-year in November. For the season to date, exports to China were down by 12% compared with 2018/19 and they were also lower to most of the major destinations. The exceptions were Egypt (+20%) and Bulgaria (+23%).

In value terms, exports were 16% lower in November 2019 than in November 2018 and were 35% lower for the five months to November than for the same period in 2018/19. As the second graph in the chart shows, there has been a strong decline in the value of exports on a 12-month rolling aggregate basis in both A\$ and US\$ terms. This demonstrates the decline in demand seen in the past six months.

As you will know by now, the **National Council of Wool Selling Brokers of Australia** will celebrate its Centenary this year. The Centenary of NCWSBA will be marked by the **NCWSBA Centenary Auction on 20<sup>th</sup> February 2020**, followed by a cocktail reception. The auction will be a commercial auction called C34 with limited volumes from 12 broker members of NCWSBA. It will be held at 120 King St, Melbourne, with the first hammer no earlier than 4:30pm to allow the Melbourne buyers to wrap up the M34 sale and travel into the city. We have had great support from the Melbourne wool buying fraternity. The location of the Centenary auction was purpose built in 1914 for wool auctions and hosted the Melbourne Wool Exchange until 1972. It was also the location of the first NCWSBA Board meeting in January 1920. It is currently the Melbourne campus of the Australian Institute of Music.

The **cocktail reception** will be held in the Intercontinental Melbourne - The Rialto (the buildings have considerable historical importance for the wool broking industry). During the reception, we will hold a charity auction of fabric lengths, wool products and vouchers from our supporters and sponsors. All money raised from the charity auction will be donated to the Michael Manion Wool Industry Foundation. We have received great support from over 20 sponsors and NCWSBA members, to cover the cost of holding the event and to provide an additional donation to the Michael Manion Wool Industry Foundation. The Board and I would like to thank the sponsors, NCWSBA members and the buyers for their support. It should be a great event.



#### INDUSTRY EVENTS

The **NCWBA 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 3<sup>rd</sup> FEB 2020 – week 32 (roster as at 30/1/2020)

<u>Sydney</u>	Wed, 5 <sup>th</sup> Feb, Thurs 6 <sup>th</sup> Feb	10,410 bales
<u>Melbourne</u>	Wed, 5 <sup>th</sup> Feb, Thurs 6 <sup>th</sup> Feb	17,401 bales
<u>Fremantle</u>	Wed, 5 <sup>th</sup> Feb, Thurs 6 <sup>th</sup> Feb	8,038 bales

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