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NEWSLETTER

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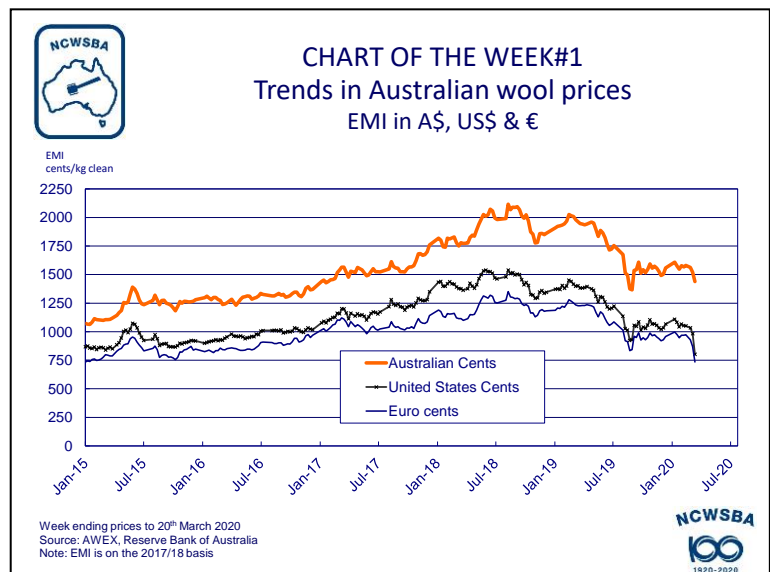
From the desk of Chris Wilcox, Executive Director

- Covid-19 upheaval hits the wool market hard
- Spread of Covid-19 will hurt the global economy, retail sales of clothing in China down by a third
- Farm business profit for sheep businesses decline as drought bites
- Call for nominations – Australian Wool Industry Medal
- Industry events



After putting up strong resistance, the **Australian wool market** finally succumbed to the hugely negative impact of the Covid-19 coronavirus pandemic. Despite the A\$ slumping by 9 UScents to the lowest level in almost 18 years, prices for Merino wool fell by up to 147 c/kg in the eastern selling centres. Crossbred wool prices recorded smaller price falls, or even increased for broader microns. The **Eastern Market Indicator** fell by 83 Acents for the week to 1423 Ac/kg, a decline of 5.5%. This is the largest weekly fall since October last year, but still better than equities.

However, it is prices in US\$ terms that have taken the biggest hit exacerbated by the drop in the A\$ to 55.7 UScents. The EMI in US\$ finished the week at 801 USc/kg, down by 181 UScents or a massive 18.1%. The closing level for the EMI is the lowest in US\$ terms in almost a decade (since September 2010). The A\$ also fell sharply against the Euro and the Renminbi. As a result, the EMI was down over the week by 134€c to 735€c/kg (the lowest since January 2015) and by 1180 RMB to 5667 RMB/kg (lowest since November 2015). The first **Chart of the Week** shows the trends in the EMI over the past five years in A\$, US\$ and Euro. The sharp fall in the EMI in the past two weeks can be seen very clearly from the chart.

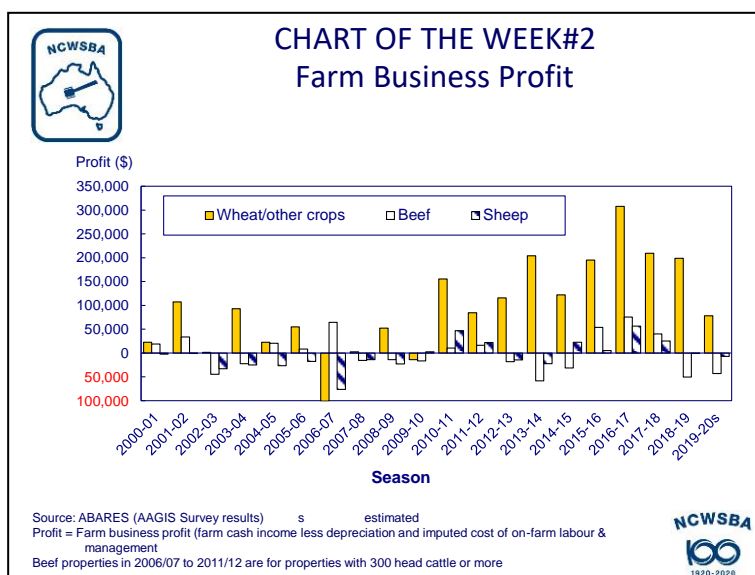


I have been talking to my contacts in China over the past week and they say that life is starting to return to 'normal' after **the Covid-19 epidemic** there. This 'normal' life includes mandated requirements to wear masks in public and in offices, no air conditioners and regular and constant temperature checking of everybody as they move around the cities. They also tell me that mills are coming back into production (including in Wuhan, the epicentre of the pandemic). This is good news and hopefully will bring increased orders from mills keen for raw wool. However, elsewhere around the world we are seeing the opposite as cities, states and countries close down. It is the longer-term economic impact that is of particular concern. Everything would need to go right with both fiscal and monetary policy for countries and the world to avoid a significant recession. For Australia, it would be the first recession in 28 years (the last was in 1990-91). We have more than a generation of working age adults who have never experienced a recession. It will change us.

Because of the speed of the change caused by the pandemic, we are not yet seeing the impact on **economic growth, retail sales** and so on in the official statistics for most countries. However, we can see indications of the impact by looking at the effect on **retail sales in China**, given that China has been dealing with the virus for more than two months. The data shows that retail sales of garments at the major retailers in January-February were down by 33.2% compared with January-February 2019. This massive decline is to be expected given the lock-down throughout China starting in late January. WE will see the same impact across the world as consumers stop buying clothing, among other things, and as countries enter lock-down (as in Italy now). These lower retail sales will feed through the wool textile industry, resulting in lower demand. There have been reports in the past week or so of reduced and cancelled orders from retailers, and there will be significant stress throughout the wool textile industry. It is hard to be optimistic.

As part of its annual Outlook Conference at the start of March, ABARES (the Australian Government's agricultural commodity forecaster) released its estimates of **farm profitability of various broadacre enterprises** in Australia for 2018/19 and 2019/20. These estimates are taken from ABARES' annual Australian Agricultural and Grazing Industries Survey (AAGIS). It is no surprise that ABARES says that the drought in eastern Australia continues to be the dominant influence on the financial performance of broadacre farms in Australia, particularly due to the high cost of purchased fodder.

The second **Chart of the Week** shows the average annual farm business profit¹ per farm for cropping, beef and sheep properties between 2000/01 and 2019/20. As can be seen, ABARES estimates that farm business profit for sheep farms was slightly negative in 2018/19 due to the impact of drought on sheep numbers and the cost of fodder. It expects business profit to be lower again at a loss of \$7,000 in 2019/20 due to lower wool prices and as the drought drags on. The beef industry is under severe pressure because of the extensive drought, with an average business loss in 2018/19 estimated at \$50,500 and another loss of \$43,400 expected in 2019/20. You can see more details from ABARES Farm Financial Performance analysis [here](#).



Wool Industries Australia has called for nominations for the **2020 Australian Wool Industry Medal**. The Medal recognises men and woman who have made an exceptional and sustained contribution to the Australian wool industry above and beyond what is expected in their normal paid employment. It is open to people from all sectors of the Australian wool industry supply chain and service organisations. It is the fourth year that the Wool Industry Medal will be awarded The nomination form can be found [here](#).

INDUSTRY EVENTS

The **Australian Wool Production Forecasting Committee** is due to meet on 29th April 2020. This will probably be a teleconference meeting.

The **International Wool Textile Organisation's 2020 Congress** is currently planned for Brussels on 21st to 23rd May.

WOOL SALES WEEK BEGINNING 23rd MAR 2020 – week 39 (roster as at 19/3/2020)

Sydney

Wed, 25th Mar; Thurs 26th Mar 9,446 bales

Melbourne

Tues, 24th Mar; Wed, 25th Mar; Thurs 26th Mar 29,043 bales

Fremantle

Wed, 25th Mar; Thurs 26th Mar 11,385 bales

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

¹ Farm business profit is cash receipts less cash costs plus the change in trading stocks less depreciation less imputed labour cost for the operator and family.