The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- Australian wool prices fall abruptly
- Auctions continue despite IT disruptions
- Excess cotton stocks hold back cotton prices
- Pessimistic outlook for the New Zealand wool industry
- Above average rainfall expected in next three months
- Upcoming industry events

After three weeks of sunshine and higher prices in the **Australian wool market**, this week turned stormy and prices fell sharply. Perhaps the large lift in wool prices last week caused buyers to pause which would not have been helped by the jump in rostered offerings for the week to 43,450 bales, the largest weekly offering since March this year. As well, the A$ was stronger this week against the US$. The drop in prices in Fremantle on the last sale day last week saw growers withdraw wool from this week's sales and, in the end, there were 37,432 bales on offer. Prices fell abruptly on Tuesday and, while they steadied to some extent on Wednesday, the pass-in rate soared to 26% of the offering. The **Eastern Market Indicator** (EMI) fell by 81 cents (giving up much of last week's gains) and closed the week at 1138 c/kg. Prices for all wool microns recorded large falls over the week. After the price fall in Fremantle on the last selling day last week, the Western Market Indicator this week saw the smallest declines, down by 38 cents to 1181 c/kg. The Southern Market Indicator fell by 78 cents to 1104 c/kg and the Northern Market Indicator was down the most, by 88 cents to 1190 c/kg. In user currency terms, the EMI fell by 50 UScents to 813 USc/kg, by 282 RMB to 5456 RMB/kg and by 38 €cents to 690 €cents/kg.

The weak demand wasn't the only cause of frustration this week. For the second time this year, the industry experienced frustration on the IT front, with the **industry's EDI network** going down on Monday afternoon. This was caused by a communications infrastructure breakdown in the suburb where AWTA, which runs the EDI network, has its head office and raw wool laboratory. Despite delays by Telstra in addressing and fixing the infrastructure problems, the EDI network was back up and running by Wednesday afternoon thanks to the efforts and urgency of the AWTA IT team. While the problem caused headaches as NASC worked hard to make alternative arrangements, the auctions went ahead on Tuesday and Wednesday. It was a great relief to all that we did not suffer a repeat of February when a cyberattack on Talman caused auctions to be cancelled in week 35. The industry has certainly been through the wringer this year.

It has been a while since I looked at the **cotton market**. Cotton prices, as judged by the CotLook A Index (a global benchmark indicator for cotton), have recovered strongly since the COVID-induced slump in March-April. After hitting a low of 60.75 USc/lb (133.9 USc/kg) in the first week of April, the CotLook A index has lifted by 28% to 77.75 USc/b (171.41 USc/kg) at the end of last week. Even so, this is well below the average of 88.2 USc/lb over the past decade.

Cotton prices have recovered in recent months due to better mill demand and lower global cotton production. As the **Chart of the Week** shows, mill consumption of cotton dropped sharply in 2019/20, down by 12% compared with 2018/19. The International Cotton Advisory Committee (ICAC) predicts that consumption will recover to some extent in 2020/21, by 6%. Even so, mill consumption will remain below the levels seen in the past decade. Cotton production lifted by 1% in 2019/20, despite the slump in demand, reflecting the lags of production of an annual crop. However, ICAC predict that global cotton production will fall sharply in 2020/21 (down by 5%) due to a combination of lower prices and significant declines in production in West Africa due to "…the COVID-19 demand destruction…[causing]…reduced plantings in almost all West African countries."

The abrupt decline in mill consumption and the higher cotton production, saw global stocks rise in 2019/20. Stocks at the end of 2019/20 equalled 95% of the annual mill consumption. A rule of thumb among commodity analysts is that if stocks are about a third of consumption, then prices are likely to be steady, but if the stocks:use ratio is higher than a third, then there is downward pressure on prices. ICAC predicts that stocks will fall in 2020/21 and the stocks:use ratio will fall to 90%. This is still uncomfortably high. Therefore, a sustainable significant rise in cotton prices seems unlikely.

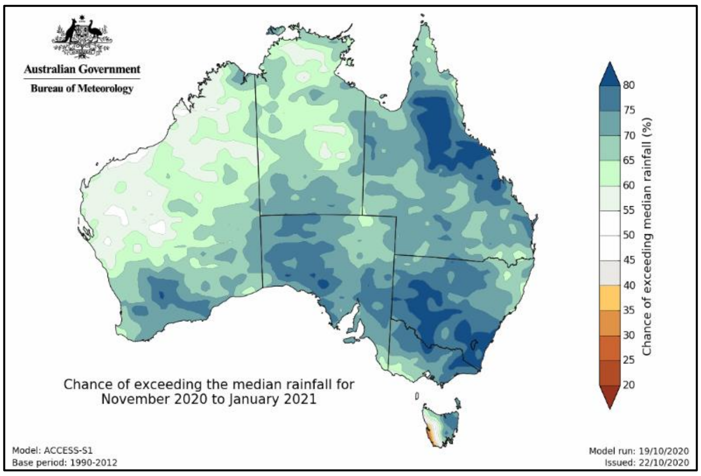
CHART OF THE WEEK
Global Cotton Supply-Demand Balance Sheet

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21f
Production (million tonnes)	21.02	23.08	26.87	25.74	26.02	24.61
Consumption (million tonnes)	23.81	24.52	26.38	25.99	22.87	24.34
Change in Stocks (million tonnes)	-3.10	-1.44	+0.49	-0.60	+3.00	+0.28
Ending stocks (million tonnes)	19.14	18.80	19.29	18.69	21.69	21.97
Stocks-to-use ratio %	80.4%	76.7%	73.1%	71.9%	94.8%	90.0%
CotLook "A" Index average USc/lb	70	83	88	84.4	71.3	70.9*

Source: International Cotton Advisory Committee
* To 15th October. Forecast for 2020/21 is not available

Beef+Lamb New Zealand released its **New Season Outlook 2020-21** last week. Beef+Lamb NZ says that "there is little optimism in the outlook for wool". Keeping in mind that NZ wool (30 microns and broader) is mostly much broader than Australian wool and is destined for very different markets to Australian wool, Beef+Lamb NZ predicts that the average auction price will fall by 20% in 2020/21, compared with the already depressed levels in 2019/20. It also notes that wool stocks are building in NZ due to the weak export demand most recently as a result of the impact of COVID-19 on mills in Europe. Beef+Lamb NZ forecasts that total wool production in New Zealand will fall by 2.8% due to a predicted 2.3% drop in the number of sheep to 26.2 million head. Total wool production in NZ is forecast to be 133 mkg greasy. Both sheep numbers and wool production are at the lowest seen for many decades.

The **latest climate outlook from the Bureau of Meteorology**, released late last week, suggests that there is a 60% to 80% chance of rainfall exceeding the median over the November to January period. The map shows the Bureau's outlook for rainfall. The green-blue shading shows the probability of above average rainfall – the deeper the green-blue, the higher the probability. Virtually the whole of the mainland and most of Tasmania is expected to receive above average rainfall in the next three months. The Bureau notes that a La Niña is underway in the tropical Pacific. La Niña increases the likelihood of above average rainfall across Australia during spring and early summer.



INDUSTRY EVENTS

The **2020 IWTO Round Table** will be held by Webex on 30th November to 2nd December.

The **Australian Wool Production Forecasting Committee** will meet on 16th December 2020 to review its current forecast of wool production for the 2020/21 season.

The **2021 IWTO Congress** is scheduled to be held in Kyoto, Japan in May 2021.

WOOL SALES WEEK BEGINNING 2nd NOV 2020 – week 19 (roster as at 28/10/2020)

Sydney
Wed 4th Nov; Thurs, 5th Nov 8,972 bales

Melbourne
Wed 4th Nov; Thurs, 5th Nov 20,013 bales

Fremantle
Wed 4th Nov; Thurs, 5th Nov 7,681 bales

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