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2018/32

From the desk of Chris Wilcox, Executive Director

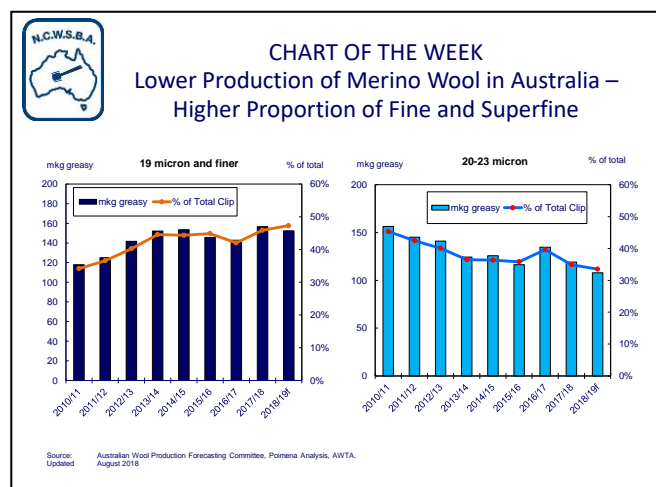
- Australian wool prices
- Nanjing Wool Market:
 - My presentation – “Unprecedented”
 - Sentiment among the China wool textile industry
 - Trade dispute between China and the US
- Upcoming industry events



The **Australian wool market** edged higher this week as supply and demand remain finely balanced. The **Eastern Market Indicator** rose by 6 cents to 2094 c/kg. Prices for 19 micron and finer wool lifted, with significant gains of up to 80 cents for ultrafine wool. Medium merino wool was a little softer while Crossbred wool prices were mixed. The Northern Market Indicator lifted the most, up by 9 cents to 2162 c/kg and the Southern Market Indicator was 4 cents higher at 2051 c/kg. AWEX reported that the Western Market Indicator only rose by 1 cent to 2256 c/kg, even though it also reported that all Micron Price Guides were higher by 8 to 29 cents, although the Merino Carding Indicator fell by 16 cents. The A\$ was a touch higher against the US\$ and the Renminbi and was steady against the Euro. The EMI was 6 UScents higher at 1503 USc/kg, 6 €cents higher at 1294 €cents/kg and 59 RMB higher at 10,299 RMB/kg.

I have been in Nanjing this week attending the 30th Nanjing Wool Market Conference. As usual it was very well attended, with around 400 people there. There was a good number of people from outside of China, including from Australia, South Africa, the UK, the US, Uruguay, Argentina, New Zealand, Canada, Japan and India. It was a very interesting Conference.

I gave a **presentation which I titled “Unprecedented”**. I noted that Robert Wang (from AWTA, who was also the on-stage interpreter with me) and I started working together in the wool industry around 25 years ago and we have never seen such an extraordinary combination of low Merino wool production and stocks, synchronised economic growth, high consumer confidence, good conditions in the wool textile industry and a broad-based lift in raw wool demand. This has led to the unprecedented level of Merino wool prices. One point I made was that while Merino wool production will decline in Australia in 2018/19, the more significant decline will be for 20-23 micron wool. The **Chart of the Week** shows my estimate of production of 19 micron and finer wool and of 20-23 micron wool. I concluded with the comment that even if Robert Wang and I work in the industry for another 25 years, I doubt that we will see such an extraordinary and unprecedented situation and prices. I have attached of my presentation to the email with this week’s *Weekly Newsletter*.



The **mood amongst the Chinese industry participants** is best described as nervous. Sentiment has clearly shifted since I was last in China in May. They are worried about three things: the fall in production of wool in Australia; the escalating trade dispute between China and the US; and the impact of the continued high

Merino wool prices. In May, the mills I spoke to were under some pressure from the high prices but were managing it, as were their clients. This has clearly changed with a number of mills expressing concern about the impact the continued high Merino price levels were having on their margins and the response from their downstream clients. They are also very concerned about the drought in Australia and wool production levels in 2018/19.

There are clearly some mills and segments which are finding it tough. The two big wool spinners, Sudwolle and Xin'ao, both reported that their production volumes have increased, which is encouraging. I was also told that yarn prices are higher than 12 months ago, but have not increased to anywhere near the same extent as the raw wool prices. Further price rises are being held back by excess spinning capacity. Spinners are concerned that if they raise their prices by more than smaller competitors will undercut them. The larger mills are able to continue expanding because of their high productivity levels. I think that there will be a shake-out in the worsted spinning industry in China over the next 12 months. I suspect that it is the same situation in the combing industry.

It was reported that the **woollen sector** is under pressure because the double-faced fabric sector is suffering from high finished stock levels, excess capacity (after the expansion two years ago during the frenzy for double-faced fabric), a requirement from retailers for more complicated products and generally subdued demand. As well, the fake fur segment is flat at best, after being sought after last year. There is no new product that has caught the same attention of manufacturers and retailers.

One positive sector is **the sport and activewear market**. Madam Yang, Chairman of the Nanjing Wool Market reported that this has been growing in its use of wool and offers real opportunity for continued growth in coming years, notably for the domestic market. This will help demand for superfine Merino wool.

Mr Sun Huaibin of the China National Textile and Apparel Council gave an excellent presentation on the escalation of the **trade dispute between China and the US**. He noted that about US\$4 billion of textile products are included in the US\$200 billion worth of imports from China that the US has imposed punitive tariffs so far. This is about 10% of China's exports of textiles to the US. At this stage there are no finished clothing products affected, although carpets are included in the list of products with the new high tariffs. He also noted that China has slapped a high tariff on imports of US cotton. China is the largest importer of US cotton, importing about 1 billion tonnes a year. The US cotton imports makes up about 10% of China's cotton usage. He said that China will buy cotton from other sources, notably from Australia (he said that "Australian cotton quality is not bad, but US cotton quality is very good").

He noted that eventually the cost of the high tariffs imposed by the US and by China on US cotton will be translated to the final product. He commented that he did not know where the trade dispute would end up but that the Chinese textile industry needed to be prepared for the worst. He said that if the escalation continues as seemed highly likely then:

- Some orders to China will move to south-east Asian countries.
- Some Chinese businesses will move out of China to south-east Asian countries and to the Belt and Road Initiative countries.

As I said in my presentation, I think that the escalating trade dispute between China and the US is the key risk and challenge facing the wool industry in the next twelve months.

INDUSTRY EVENTS

The **AWTA Annual General Meeting** will be held in Melbourne on Friday, 19th October 2018.

IWTO Roundtable will be held in Buenos Aires on 3rd to 4th December 2018.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

WOOL SALES WEEK BEGINNING 17th SEPT 2018 – week 12 (roster as at 13/9/2018)

Sydney

Wed, 19th Sep; Thurs, 20th Sep 8,401 bales

Melbourne

Wed, 19th Sep; Thurs, 20th Sep 22,318 bales

Fremantle

Wed, 19th Sep; Thurs, 20th Sep 5,842 bales