



# WOOL MARKET WEEKLY REPORT

Sale Week 01: 5th July 2019



Offering—Aust. only		Currency movements			Eastern Market Indicator (EMI)			
Bales offered	30,991	AUD:USD	0.7036	+ 0.63 %	AUD	<b>1722ac/kg</b>	<b>+ 8 ac/kg</b>	<b>+ 0.47%</b>
Passed-In %	6.3 %	AUD:CNY	4.8335	+ 0.49 %	USD	1212 usc/kg	+ 13 usc/kg	+ 1.10%
Bales Sold	29,046	AUD:EUR	0.6236	+ 1.28 %	CNY	83.28 ¥/kg	+ 0.79 ¥/kg	+ 0.96%
Season Sold	29,046	RBA close rates 4th July 2019			EUR	10.74 €/kg	+ 0.19 €/kg	+ 1.76%

AWEX EMI weekly closing rate as at 5th July 2019



## AWEX Auction Micron Price Guides.

Sales held Wed 3rd & Thurs 4th July 2019

MPG	Sydney	Melbourne	Fremantle
17mic	2133 +13	-	-
18mic	2107 +17	2099 +31	2031n +33
19mic	2024 +22	2047 +31	2020 +44
20mic	2009 +25	2037 +29	2013 +34
21mic	-	2022n	2008n +37
22mic	-	-	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1315n	-	-
28mic	1030n	1050 -10	-
30mic	-	835n =	-
32mic	-	589n	-
MCar	981 +20	939n +18	981n -25

## Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 02 08/07/2019	34,504 bales	40,544 bales
Week 03 15/07/2019	RECESS	RECESS
Week 04 22/07/2019	RECESS	RECESS

## AWI Commentary

This week saw the commencement of the new 2019/20 wool selling season and it was largely positive results. Nearly all types and descriptions of offer gained value and generally by a minimum of 20ac clean/kg. Whether or not this is a trend that is changing remains to be seen, but sentiment has clearly moved from gloomy to buoyant in the space of just the one week. Confidence is key to the wool market's fortunes and that is present at the moment, but conversion to fresh forward business in volume needs to be achieved for a complete stabilization of the supply chain.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) gained 8ac or 0.5% this week to 1723ac clean/kg. Whilst not much of a gain percentage-wise, it arrests the month long run of depreciation of that indicator. In US Dollar (USD) terms the results were indicative of an improvement in spot demand from overseas as the USD EMI gained even more by appreciating 1.1% or 13usc to close of 1212usc clean/kg.

As can be seen by the below AWTA key test data report, supply drops are well evidenced for last season, but the upcoming season is what really counts from here on. Current forecasts from the AWPFC sees the production levels falling a further 4.4% for next season but this will be re-evaluated in early to mid August when that committee next meets. Many wool selling brokers are already on the record stating that figure is likely to be well short of the decline in the current clip, with early shearing and drought continuing to cloud the real drop-off in supply they are seeing in wool producing regions.

Wool auction market activity this week witnessed strong competition between the Chinese top makers and local Australian based traders. Indent buying by the two big guns from China has not returned to normal and both those companies sit outside the top positions of buying lists, where they usually reside. It is unclear if the stronger buying intent from almost all traders is from the covering off of old sales or is indeed a pre-cursor to renewed buying interest from our overseas manufactures.

The Merino fleece sector saw gains of between 20 and 30ac being quoted across all microns, but this was made up of a wide average of types within the micron group. The best types showing good strengths and yield were more like 40ac dearer, the average types 15 to 20ac dearer whilst the very low drought-affected types showed the most gains and put on 50 to 60ac for the week. These very low types are probably not included in the price guides. Skirtings gained 30ac whilst cardings were a general 15 to 20ac higher as well. Crossbreds remained unchanged at best, and more often than not sold to the buyers favour.

Next week sees the last sale of the current sales roster before a three week recess. Just short of 35,000 bales is scheduled for sale. Auctions will then resume in the week commencing 5th August.

## Wool forwards report - SA (Southern Aurora) Markets

A better week all round for the wool market. A positive week at auction was pre-empted by more consistent bidding in the forward markets. A more constructive approach during the G20 trade meetings drew out some much-needed forward sales in the early spring. Processors continue to be more concerned about downstream demand than supply.

Exporters were keen to cover sales for the second half of the year. This provided some improved hedging levels with October 19.0 micron trading up to 1925 and 21.0 micron to 1900 cents. As both microns had dropped 200 cents during June at auction the forward discount demanded by processors of 80 to 100 below cash looks fair value for the four to six-month window.

Although we would all like to think the market is trying to form a base around the current level the risk to the downside is still evident. Analyst continue to highlight the current poor global economic conditions, Wool's current overvalued position in relation to competing apparel fibres and the historic cyclic nature of the wool market as indicators to a continued decline in prices into the new year.

When looking at a forward hedging strategy the key factor is not trying to predict the outcome the market in the future. It may be a factor in deciding the amount to hedge at certain levels, but the strategy should be relevant to all markets. The key is margin management and locking forward returns. If we look at wool data for the last five years 21.0 micron traded over 1800 cents only 30% of the time and 1900 only 25% of the time. Those prices should deliver varying levels of strong positive margins for a wool enterprise and can be locked in.

Should we see a change in the global outlook or the stimulus in the spring sparked by the elusive uniform order to counteract the increased supply all well and good. A negative return on a hedge (if less than 50% of the clip) is a positive outcome. Should the downward trend continue you are partial covered at positive margins. We hope to see a positive close the current wool season next week. This would give exporters an opportunity to sell into the early spring and summer at levels that will deliver good forward selling levels to growers.

## AUD Commentary - SA (Southern Aurora) Markets

Tuesday saw the Reserve Bank of Australia cut the Official Cash Rate by 0.25% to a new record low of 1%. Wednesday Australia's Balance of Trade figures for May surprised by hitting a new record surplus of \$5.75 billion. For the week the Australian Dollar hit a low was .6955 on Tuesday, rallied to a high of .7048 on Wednesday before easing back today (Friday) to .7024. Technically the AUD rebound is likely to extend further to .7120 resistance and a break of that possibly to the .7308 resistance. However we see the current rebound as temporary only, with the market likely to resume the fall and retest first support at .6942 then retest the .6831 low. For the moment the Aussie remains trapped within a large sideways trading pattern.

## AWTA Key Test Data Summary for June 2019

The monthly comparisons for the total weight tested for June 2019 compared with the same period last season show that there was 25.6% LESS wool tested.

The progressive comparison for total weight for July 2018 to June 2019 compared with the same period last season show that there was 11.8% LESS wool tested for the season.

AWTA Ltd tested 317.9mkg (million kilograms) for the 2018/19 season compared to the 360.4mkg for 2017/18 season.

as at JUNE 30 2019	2017/18	2018/19	mkg diff	YOY % diff
New South Wales	130,456	105,512	-24,944	-19.12%
Victoria	84,712	77,840	-6,872	-8.11%
Queensland	9,452	8,388	-1,064	-11.26%
South Australia	55,315	49,930	-5,385	-9.74%
West Australia	69,890	65,534	-4,356	-6.23%
Tasmania	10,192	10,559	367	3.60%
TOTAL	360,017	317,763	-42,254	-11.74%

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