

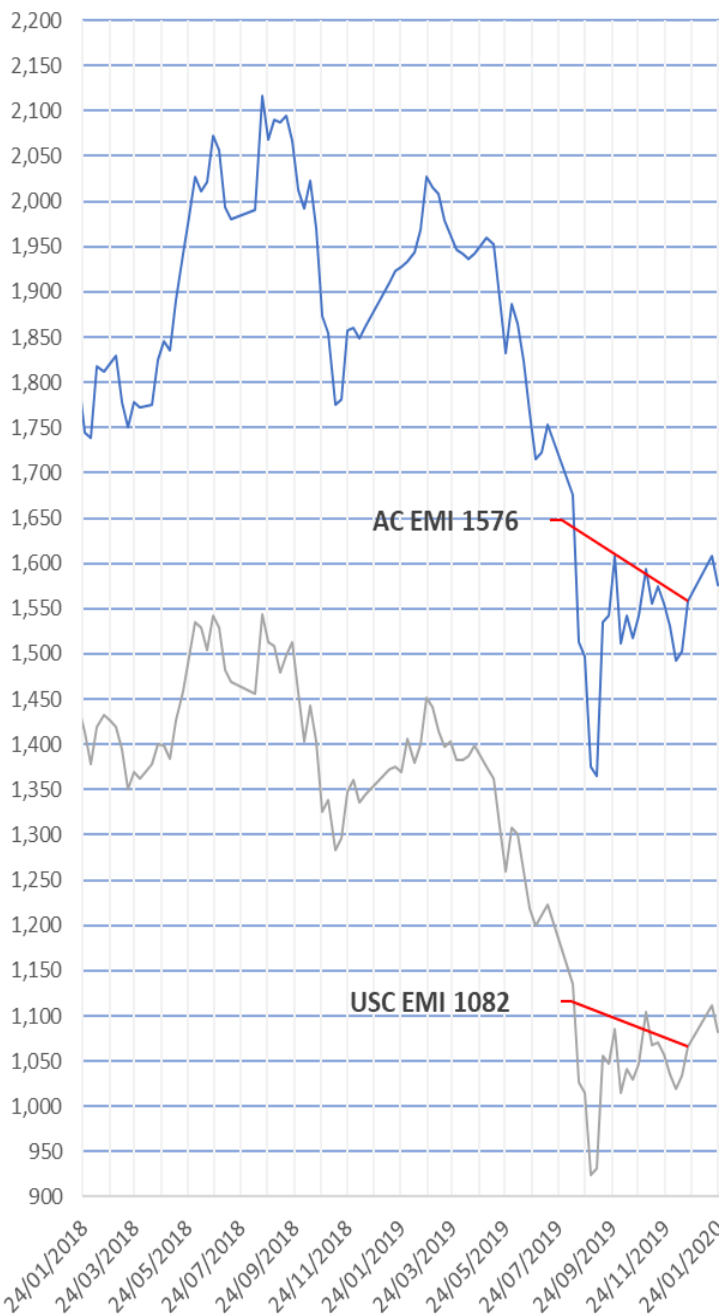
# WOOL MARKET WEEKLY REPORT

Sale Week 30:24th Jan 2020



Offering—Aust. only		Currency movements			Eastern Market Indicator (EMI)			
Bales offered	52,666	AUD:USD	<b>0.6867</b>	<b>-0.58 %</b>	AUD	<b>1576 ac/kg</b>	<b>-33 ac/kg</b>	<b>-2.05 %</b>
Passed-In %	15.9 %	AUD:CNY	4.7533	-0.04 %	USD	1082 usc/kg	-29 usc/kg	-2.62 %
Bales Sold	44,273	AUD:EUR	0.6195	+0.02 %	CNY	74.91 ¥/kg	-1.60 ¥/kg	-2.09 %
Season Sold	694,088	RBA close rates 23rd Jan 2020			EUR	9.76 €/kg	-0.20 €/kg	-2.04 %

AWEX EMI weekly close as at 24th January 2020



AWEX Auction Micron Price Guides.

Sales held 21st, 22nd & 23rd January 2020

MPG	Sydney	Melbourne	Fremantle
17mic	2082 -40	2073 -9	-
18mic	1917 -88	1922 -8	1889n -6
19mic	1809 -100	1803 -35	1795 +1
20mic	1778 -100	1776 -27	1772 -15
21mic	1766 -104	1758 -25	1759n -20
22mic	-	-	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1111n -84	1116n -50	-
28mic	838n -76	835 -30	-
30mic	-	690n -21	-
32mic	-	439n	-
MCar	1145n +22	1131n +42	1157n +25

Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 31 27/01/2020	40,680 bales	38,830 bales
Week 32 03/02/2020	38,586 bales	39,894 bales
Week 33 10/02/2020	44,330 bales	40,165 bales

## AWI Commentary

A much more sedate environment at the Australian wool auctions this week. Following the exuberance of last week that produced such dramatic price movements, this week's action was somewhat mundane in comparison.

Fluctuations this week were largely due to centres aligning themselves price-wise as two consecutive days of Sydney not selling with Melbourne had wild differences in levels which needed adjustment, but a softer tone was generally in play as buyers looked for more comfortable levels of trade.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) lost 33ac or 2% this week to move to 1576ac clean/kg. The EMI in US dollars (USD) was lower again as the 0.6% lower exchange rate helped depreciate that indicator by 2.6%. The USD EMI moved down to a 1082usc clean/kg close for the week, which was a 29usc loss, but should help extract more interest from overseas users.

A stand-alone Melbourne sale commenced proceedings this week on Tuesday. Initial softness was the order of the day with the 19 micron and finer Merino wools slipping 15ac, but 19.5 micron and broader Merino types lost 30ac. Fremantle joined in selling on Wednesday and the Merino price drops were larger than Tuesday's, purely to match Melbourne levels, whilst the Sydney market also commenced selling and had an even greater negative result as that centre had not sold since the previous Wednesday.

Crossbreds were largely softer by 40ac throughout the first two days prior to the wools finer than 27 micron bouncing back by 15ac. Cardings reacted to their own trend to be generally dearer. This was mainly on the back of all locks types appreciating in value by around 50ac in just two days.

The final day of selling produced a noticeable consolidation. Confidence was somewhat restored as a more stable and consistent pricing scenario had re-entered the marketplace. All wool types were very firm to 10ac dearer, with most attention drawn back to the merino fleece sector of 19 micron and broader.

Buying was again dominated by the local Australian-based traders, with the largest operator continuing confidently all week to follow last week's strong purchasing numbers. Of most significance though was an increase in top maker interest as prices retreated towards more pre Christmas levels. This was Chinese as well as European first stage processor interest.

Pass in rates continued at historically higher than normal rates again this week. Grower sellers have been steadfast in setting a level at which they require to move their product through the pipeline. Some trade attention should be taken from this as growers are probably in the best position to judge the upcoming prompt and mid-term supply of wool, or perceived lack there-of.

An official notice from a Chinese wool trade representative company was received this week warning wool traders of the current dangers of travelling to China. This is in relation to the coronavirus outbreak in Wuhan province that has reportedly spread, not only through China, but overseas. This is a very similar disease to the SARS virus that played havoc with the global economy in 2002/2003. Careful monitoring of the progress of this disease should be undertaken as many are warning of this outbreak having a similarly damaging potential.

Next week sees another reasonably large offering of over 40,000 bales offered for sale. Due to Monday being a public holiday in Australia, sales will only be held two days on Wednesday and Thursday. China is also basically on shut down for a week to celebrate their lunar New Year.

## Forward Markets Commentary—Southern Aurora

The rollercoaster spot market continued this week maintaining disruption along the pipeline. Forward price spreads began the week wide as buyers struggled to find off shore levels and indent orders remained irregular. Growers finding it difficult to make sense of the sawtooth nature of the market. Sell levels set during the Christmas break were raised early last week as most participants predicted a strong start to the New Year. The 100 cent rise on day one was quickly reversed and after a few lack lustre days this week we find ourselves back at pre Christmas levels.

Exporters seemed to gain confidence that a base would be achieved soon and have bid up the nearby forwards flat to cash and reduced the discount into the autumn to 20 to 30 cents. Considering the current erratic daily price movements although a discount it would appear to underestimate the risk.

We have had daily movements of greater than 30 cents (in the 21.0 Index) on more than 10 days in a calendar year on only six occasions during the last 25 years. Four of those in the last five years (and the two highest in 2018 and 2019). What is even more disturbing in that we have had already 3 such movements in the first two weeks of 2020.

This continued volatility is destructive to orderly marketing and fails to deliver accurate market signals. A strong commercial trade market leads to forward markets. This enables product to be carried forward and provide product availability to the supply chain when needed. Without a combined strong commercial market/forward market supply chains can be reduced to volatile, opportunistic and/or erratic behaviour. We are currently experiencing this at present in the wool market with volatility running at historical highs. A stronger forward market that shares the risk along the pipeline will mitigate some of the problems such as delay, defaults and renegotiations that have dogged the export sector over the last year.

## AUD Commentary—Southern Aurora

The Australian Dollar eased during the week from Monday's high of .6888 to Wednesday's low of .6826, before a sharp 52 point rally on Thursday at 11:30am to .6878 on the release of Australia's better than expected employment numbers.

The numbers also ease the pressure on the Reserve Bank to cut rates at its February meeting in two weeks, while Traders have cut the likelihood of a rate cut to 30% from 50% of yesterday. CBA said while the headline unemployment number improved, other measures of labour, such as underemployment and underutilisation remain high, and restrict wages growth.

Meanwhile Global Equities continue to surge and remain near record highs as U.S Economic data continues to impress, helped also by the relief in the signing last week of Phase One of the U.S/China Tariff Agreement. The strengthening U.S Economy has also helped lift the USD, and today (Thursday) Chinese stocks had their worst day in more than eight months as the coronavirus spread, impacting business and travel throughout China.

Technically the AUD has broken out of its long term "falling channel" and over the last 5 months has formed a large base after the low of .6670 in October last year. Currently we have short term support at .6810 and resistance at support at .6938. Stronger Commodity prices are supporting the AUD, however the threat of a rate cut hangs over the AUD, and for the moment it is volatile but also range-bound. We feel the AUD is likely to attempt another rally, but that is also likely to fail and the fall back to support.

Australian Wool Innovation Limited and its employees, officers and contractors and any contributor to this material ("us" or "we") have used reasonable efforts to ensure that the information contained in this material is correct and current at the time of its publication, it is your responsibility to confirm its accuracy, reliability, suitability, currency and completeness for use for your purposes. To the extent permitted by law, we exclude all conditions, warranties, guarantees, terms and obligations expressed, implied or imposed by law or otherwise relating to the information contained in this material or your use of it and will have no liability to you, however arising and under any cause of action or theory of liability, in respect of any loss or damage (including indirect, special or consequential loss or damage, loss of profit or loss of business opportunity), arising out of or in connection with this material or your use of it. © Australian Wool Innovation Limited All rights reserved. This work is copyright. Except as permitted under Copyright Law no part of this publication may be reproduced by any process, electronic or otherwise, without the specific written permission of the copyright owner. Neither may information be stored electronically in any form whatsoever without such permission.