



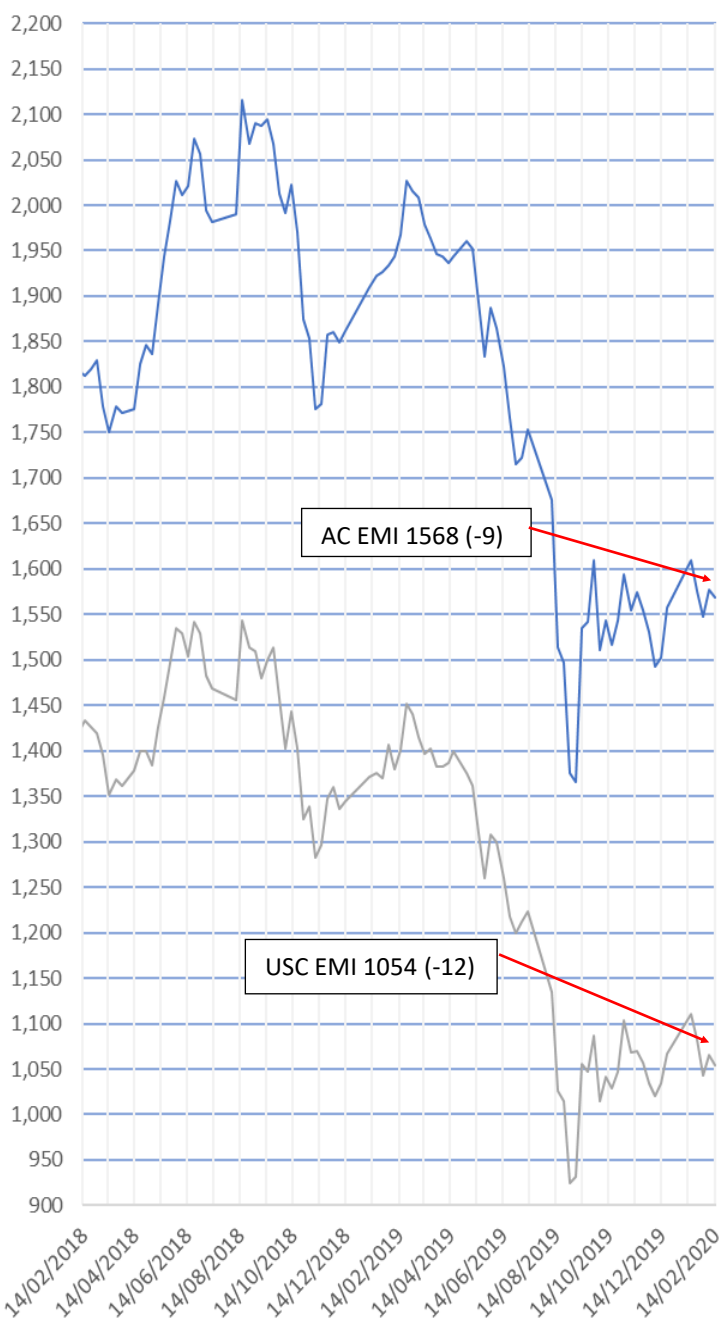
# WOOL MARKET WEEKLY REPORT

Sale Week 33: 14th Feb 2020



Offering—Aust. only		Currency movements			Eastern Market Indicator (EMI)			
Bales offered	40,176	AUD:USD	0.6719	-0.61 %	AUD	1568 ac/kg	-9 ac/kg	-0.57 %
Passed-In %	22.0 %	AUD:CNY	4.6905	-0.31 %	USD	1054 usc/kg	-12 usc/kg	-1.17 %
Bales Sold	31,326	AUD:EUR	0.6182	+0.55 %	CNY	73.55 ¥/kg	-0.65 ¥/kg	-0.88 %
Season Sold	775,571	RBA close rates 13th Feb 2020			EUR	9.69 €/kg	-0.01 €/kg	-0.02 %

AWEX EMI weekly close as at 14th February 2020



AWEX Auction Micron Price Guides.

Sales held 11th, 12th and 13th February 2020

MPG	Sydney	Melbourne	Fremantle
17mic	2063 -17	2048 -30	-
18mic	1928 -15	1947 +25	1871n -17
19mic	1833 -1	1830 +5	1791 -27
20mic	1803 +3	1779 -17	1778 -21
21mic	-	1773 -20	1751n -43
22mic	-	-	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1121n +30	1160n +56	-
28mic	-	866 +45	-
30mic	-	678n +15	-
32mic	-	415n =	-
MCar	1108n -10	1128n -29	1138n -30

Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 34 17/02/2020	42,950 bales	39,968 bales
Week 35 24/02/2020	38,105 bales	48,948 bales
Week 36 02/03/2020	35,190 bales	45,130 bales

## AWI Commentary

Wool markets continued to surprise with solid results arising from this week's Australian wool auctions. Merino lines dropped away just slightly along with the carding sector, but the crossbred wools managed to push upward with some large spikes at the finer end of the offering. The buying interest from outside China is very evident and has at times been dominant, particularly on the better style and specifications within the Merino fleece sector. This unusually strong purchasing intent from Europe has largely been the support mechanism for the Australian market over the past few weeks.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) drifted back by 9ac or 0.6% over the three days of selling this week to close at 1568ac clean/kg. The EMI in US dollars (USD) was harder hit as the AUD devalued against the USD. The result was a 1.2% or 12usc lower USD EMI of 1054usc clean/kg, which will help overseas users buying their wool in that currency.

As the world watches the progression of the coronavirus and postulate on the possible economic implications, the widely held expectations of a degradation of values of all global markets has largely failed to materialize as yet. Wool is no exception as our leading wool value indicator, the AWEX EMI has actually risen during the period since disease notification. The value of the EMI in Australian currency has gained 20ac clean/kg from 1548ac to 1564ac and in US currency the value has increased by 11usc from 1043usc to 1054usc. The current market values are holding pretty well true to the current season averages of 1553ac and 1059usc.

Large expenditure of capital by the major buyers has been maintained throughout the past three weeks. That expense is plain to see and easily calculated. If shipments are delayed significantly, the cash reserves of these buyers and exporters will surely be tested in coming weeks. Some of the wool selling brokers have offered a week extra grace period to pay for wool purchases but that good intent represents far less than half of the offered quantities each week. This is most helpful and appreciated by exporters with delayed contracts, but obviously not the panacea to the larger potential issue.

One of the major roadblocks on the horizon for wool export, will be the immediate lack of containers and vessels arriving from China. The shipment of wool relies on the import of goods from China into Australia to get the wool back to Chinese factories. This is relevant not just for the physical transfer, but also for the discounted cost. Ships heading back to China are usually very competitive for freight rates and if we use the comparative analogy of a "backload discount" we enjoy at times in Australia in the trucking industry, these shipping costs have been exceptionally low for years.

Full container load (FCL) rates are expected to have severe upward pressure placed upon them as well as the applicable port charges until the current China situation remedies itself. That's all of course subject to vessel availability as authorities work their way through the ability or not of the virus to live and transmit contagions on non organic matter. Information from the Journal of Hospital Infection indicates from initial studies that the virus is able to live for at least a week on surfaces. Whether vessels and the fcl's on board are allowed to enter Australia or have a withholding period remains unknown.

Merino fleece and skirting types were quoted generally cheaper on the price guides, but this was made up by the better specified sale lots being 5ac to 25ac dearer and poorer specs a minimum of 30ac cheaper. Cardings fell 25ac but crossbreds enjoyed strong gains of 45ac for lots finer than 29 micron. Once again the auctions featured a very high passed-in rate of 22% and 12% withdrawn prior to auction.

Next week again has around 43,000 bales scheduled for auction.

## Forward Markets Commentary—Southern Aurora

Buyers and sellers in the forward market retreated to the sidelines as continued uncertainty in the auction room kept players conservative. With bid/offer spreads wide there was little chance of any forward business being done as exporters were more focussed on dealing with the short-term impacts of delayed shipments and large pass in rates. Nevertheless, the auction room held up remarkably well given the price movements in some of the other internationally traded commodities.

For growers the thought process needs to be longer term. The macro conditions of global demand remain reasonably good – coronavirus aside. Recent rain will likely see a steadying of the local supply shrinkage assuming good follow up autumn rains. This will potentially flow through to the micron price relativities as supply moves down the micron curve. Sheep meat demand is unlikely to wane so wool prices will need to compete with the protein buyers - witness the significant jump in sheep prices in the last week. Short term there will be a build up of wool in brokers' stores from withdrawals and pass ins, balanced against a pipeline that will have supply gaps. Plenty of uncertainty...

A "normal" year would favour prices rising seasonally until Easter and then trailing off. We haven't had a normal year for some time. For growers the best action is to focus on the things you can control; forward sales being one avenue of risk reduction. Prices are likely to stay volatile in the short term which may provide some medium-term hedging opportunities. The only way to capture these moves will be to have orders in the market as opportunities may be short lived.

## AUD Commentary—Southern Aurora

Despite the Coronavirus concerns, the Australian Dollar rallied off Mondays low of .6662 to hit a peak Thursday of .6748 before easing Friday to .6720.

During the week RBA Governor said "it is quite likely that we are going to be in this world of low interest rates for years, if not decades, and we are conscious that when we cut interest rates it encourages people to borrow even more from an already high level of debt, he urged government and business to borrow and invest at the "lowest rates since Australia became a federation".

Global Stock markets are still near record highs, with U.S fourth-quarter reporting season nears the finish with 378 companies in the S&P 500 having posted results, of which 71.2% have surprised to the upside.

U.S. President Donald Trump said during the week that he spoke to the Chinese President Xi Jinping who told him the deadly virus should be gone by April as winter finishes and that was supported by Zhong Nanshan, the 83-year-old epidemiologist who won fame for combating the SARS epidemic who said the virus a hitting a peak and should be over by April.

During the week the USD rallied to a three year high against the Euro as U.S inflation data showed a modest increase of 0.2% for January after ticking up by 0.1% in December, while U.S Employment data also strengthened further.

Technically the AUD remains range bound within a broadening sideways pattern, support at .6660 and resistance at .6780. The market is oversold and a small bounce is likely, however the big picture remains negative and we expect a re-test of the lows in coming weeks.

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