



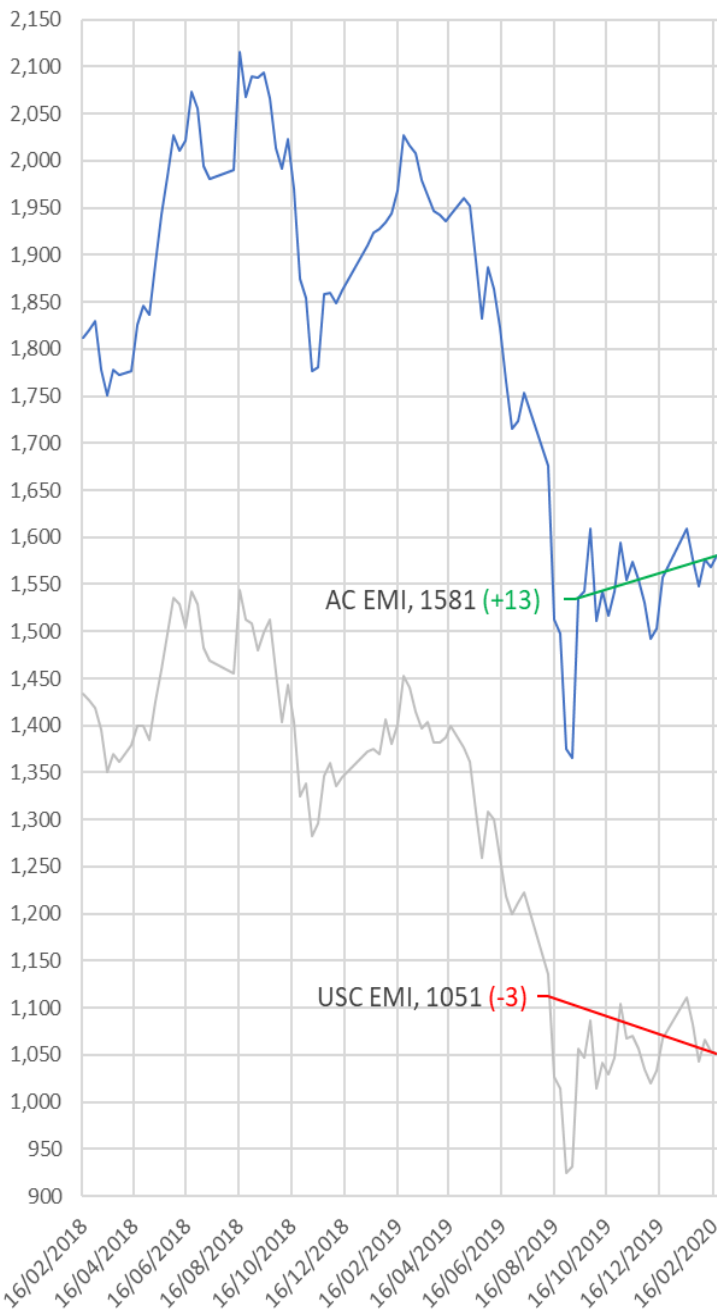
WOOL MARKET WEEKLY REPORT

Sale Week 34: 21st Feb 2020



Offering—Aust. only		Currency movements			Eastern Market Indicator (EMI)			
Bales offered	39,018	AUD:USD	0.6650	-1.03 %	AUD	1581 ac/kg	+13 ac/kg	+0.83 %
Passed-In %	11.3 %	AUD:CNY	4.6692	-0.45 %	USD	1051 usc/kg	-3 usc/kg	-0.21 %
Bales Sold	34,607	AUD:EUR	0.6158	-0.39 %	CNY	73.82 ¥/kg	+0.27 ¥/kg	+0.37 %
Season Sold	810,178	RBA close rates 20th Feb 2020			EUR	9.74 €/kg	+0.05 €/kg	+0.44 %

AWEX EMI weekly close as at 21st February 2020



AWEX Auction Micron Price Guides.

Sales held 19th and 20th February 2020

MPG	Sydney	Melbourne	Fremantle
17mic	2082 +19	2078 +30	-
18mic	1945 +17	1963 +16	1945n +74
19mic	1839 +6	1848 +18	1836 +45
20mic	1813 +10	1796 +17	1824 +46
21mic	1798n	1779 +6	1805n +54
22mic	-	1789n	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1151n +30	1145n -15	-
28mic	894n	881 +15	-
30mic	-	675 -3	-
32mic	-	408n -7	-
MCar	1105n -3	1125n -3	1148n +10

Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 35 24/02/2020	44,091 bales	48,948 bales
Week 36 02/03/2020	34,933 bales	45,130 bales
Week 37 09/03/2020	35,955 bales	40,785 bales

AWI Commentary

The Australian wool auctions continue to out-perform sentiment once more with prices appreciating across most of the offering. At first glance, it appears as though normal operations have resumed. The largest trading exporters to China, Chinese top makers and Chinese indent buyers have assumed their positions back at the top of the weekly purchasing lists. The Covid19 outbreak looks to be having a minimal negative influence for the time being on the major market operators. European interest remained in play also this week but their buying appears to have reduced in urgency and possibly some price sensitivity is appearing as the US dollar against the Australian dollar moved to the favour of the Asian operators.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) gained 13ac or 0.8% this sale series to close at 1581ac clean/kg. The EMI in US dollars (USD) headed lower as exchange rates went in favour of overseas buyers. The result was a 0.3% or 3usc lower USD EMI of 1051usc clean/kg and directionally influenced to the negative by a weaker AUD v USD of over 1%. That rate fell significantly further after the auctions had finished for the week, so a further advantage to those whom had purchased and not covered their US forex.

The potential for shipping issues or any financial stress to our wool auction buyers has failed to materialize publicly or impact the global wool markets negatively. Most participants had been expecting a retraction at some stage over the past four weeks, yet the auction competition has seen the opposite occur and prices steadily rise. In AUD terms, a 61ac or 4% gain in a month.

Close monitoring must be made of the shipping situation. If ships don't arrive and return, trade will be hampered. Without a B/L (bill of lading), the exporters L/C's (letters of credit) or TT payments cannot be made which will potentially freeze up the funds of those contracts indefinitely. Buyers have to pay for the wool locally without reimbursement from their customer at the other end until wool arrives at the local port or the destination discharge.

CNN reported yesterday, "The arteries of global trade are clogging up. Shipping companies that carry goods from China to the rest of the world say they are reducing the number of seaborne vessels, as measures to stop the spread of the coronavirus crimp demand for their services and threaten to disrupt global supply chains." About 80% of world goods trade by volume is carried by sea and China is home to seven of the world's 10 busiest container ports.

Merino wool of all types and descriptions attracted good interest from all buyers. This led to general gains of 20 to 30ac but the best yielding and specified sale lots fared significantly better and were up 50/80ac dearer for the week. The very few spinners descriptions sold to levels 160ac above the general price being offered. Average specification Merino wools were very solid to 10ac dearer but significantly were selling at the dearest point of the week at the close of selling in Fremantle. Generally a good indicator for the market fortunes of the following week.

At the other end of the Merino quality spectrum, the very low yielding, drought affected wools also came under rising price pressure. Three other buyer/exporters showed new interest and competed strongly against the usually dominant Chinese top maker. This operator has had this section of the market relatively to themselves and it certainly provided good price stimulus to these somewhat previously neglected types. Prices improved by a general 40ac for these wool descriptions, some of which had dry yields as low as 25 to 30 % on the fleece and backs lines. This boost provided a much needed additive to the clip returns for the growers still suffering the on-going drought.

44,000 bales is scheduled for auction next week over two days.

Forward Markets Commentary—Southern Aurora

The forward market traded at a premium to cash ahead of the spot auction opening Wednesday. This brought further selling interest from both growers and traders. Trade buyers covered the quantity out to May with over 50 tons executed flat to cash as they looked to reposition their forward books.

Both buyers and sellers remain wary of unprecedented volatility of the last twelve to eighteen months. Volumes going through the forward market remain light as the pipeline focuses on immediate and potentially more pressing issues. The challenges faced by growers of the ongoing drought and recent bush fires have been well documented.

The tension around the ongoing tariff saga between the USA and China has been replaced by the uncertainty than surrounds the coronavirus outbreak. Disruption on the wharves in China has caused delays in the supply chain and is adding pressure to the already stretched financial capabilities of the exporter fraternity. To date these recent disruptions to the supply/demand flows have yet impact the spot market.

The firming trend continued throughout the auction week with the Fremantle sale closing dearer than the eastern states. Forwards closed on their high with 21.0 for May trading at 1810. The 1800 index level represents a gross return of around \$2250 per bale for fleece and has been the trigger level for grower selling. Buyers have shown intermittent interest at and slightly above these levels but only in the near term. The pricing standoff into the new season spring and summer remains. Exporters are getting few pricing signals of shore while grower focus on the environment and stock management.

Predicting activity for the next few weeks is a challenge for all in the pipeline. The spot market remains firm but incredibly vulnerable. The conversation around build of domestic stocks and the potential impact of any changes to selling flows varies. The only consensus being that the market would be unlikely to meet the challenge of any major inflow of hitting the supply chain.

AUD Commentary—Southern Aurora

The Australian Dollar tumbled to an 11 year low overnight, as the USD surged higher. Australian employment numbers wages growth disappointed. After starting the week on the Monday high of .6732, the AUD gradually eased, before dropping nearly a 100 points Thursday, to an overnight low of .6609. While today, Friday the AUD has edged higher at .6618.

Overnight China announced fresh support for its economy to lower financing costs for businesses. CBA said they expect the RBA will likely cut interest rates by 0.25% rate in April. In the U.S, Stock Markets remain near record highs, the USD is off to its best start to a year since 2015 and rising to a three-year high against a basket of partner currencies. Data out from the U.S continues to impress, with a rise in employment, housing permits, and consumers demand, all pointing to an expanding economy. On top of that, manufacturing activity accelerated in the month of February.

Technically the AUD has broken key support suggesting the long term down trend has resumed, with a break of the large sideways trading pattern that has contained the AUD since August 2019. While the market could expect a weak bounce back towards .6700, the bias is now clearly negative. Support lies at .6600 then .6580, while resistance is at .6690 then .6750. We maintain the AUD will likely test new lows in the weeks ahead.

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