



WOOL MARKET WEEKLY REPORT

Sale Week 06: 9th Aug 2019



Offering—Aust. only		Currency movements			Eastern Market Indicator (EMI)			
Bales offered	41,543	AUD:USD	0.6775	-2.83 %	AUD	1676 ac/kg	-78 ac/kg	-4.45%
Passed-In %	28.6 %	AUD:CNY	4.7736	-0.25 %	USD	1135 usc/kg	-87 usc/kg	-7.15%
Bales Sold	29,641	AUD:EUR	0.6042	-2.33 %	CNY	80.01 ¥/kg	-3.94 ¥/kg	-4.69%
Season Sold	90,312	RBA close rates 8th August 2019			EUR	10.13 €/kg	-0.72 €/kg	-6.67%

AWEX EMI weekly closing rate as at 9th August 2019



AWEX Auction Micron Price Guides.

Sales held Wed 7th & Thurs 8th August 2019

MPG	Sydney	Melbourne	Fremantle
17mic	2117 -58	2070 -63	-
18mic	2075 -68	2040 -76	1877n -179
19mic	1923 -120	1920 -134	1864n -179
20mic	1909 -124	1909 -137	1860n -180
21mic	1900n	1898 -139	1858n -180
22mic	-	1904n -130	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1320n	1316 -57	-
28mic	1000n -45	994 -59	-
30mic	774n	793 -68	-
32mic	-	536n -52	-
MCar	1040n +30	1048 +58	1056n +66

Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 07 12/08/2019	43,603 bales	36,302 bales
Week 08 19/08/2019	30,645 bales	29,691 bales
Week 09 26/08/2019	34,781 bales	35,988 bales

AWI Commentary

Australian wool auction sales resumed this week, and the results were largely negative. Apart from the carding sector, all other wools on offer were hit hard and reduced in price by varying degrees of between 4% and 7%. The fine/medium (19 to 22 micron) Merino sectors suffered the greatest falls, which is indicative of the concern our manufacturers have of global demand as this type area is considered the predominant types of our largest customer - China.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) lost 78ac or 4.5% to 1676ac clean/kg. In US Dollar (USD) terms the results were significantly greater as the lower foreign exchange (forex) rate of the AUD versus the USD (-2.8%) combined with the lower AUD physical market cut 7.1% or 87usc off the US EMI to see that indicator close the week at 1135usc clean/kg.

Pre-sale expectations of a struggling market were sadly fully met. Exporters reported from the outset of the selling week almost zero business had been written over the three weeks of the recess in sales. Minimal quantities of better specification types were sold into Europe and carbonized and cardings descriptions into China was about the sum of what business was said to have been done for basically the past month.

Whilst prices remain in the top section of percentile bands for 5 and 10 year comparisons for a number of descriptions, the situation at present is somewhat unprecedented. The Australian wool prices are almost entirely being adversely affected by issues away from specific wool industry factors. The year-long fall from the record EMI of 2116ac last August to today's 1676ac has been steady with just the odd dead-cat bounce giving slight hope throughout that period.

The Sino-US trade imbalance dispute continues to be the most quoted cause as to why the demand for wool has so rapidly gone off the boil. The dispute is having widespread influence over the global economy and all to the negative. Consumer and manufacturer confidence has been pummelled and the utmost of caution prevails at present.

Risk-taking behaviour in the trading environment remains almost non-existent. Stock levels do remain extremely low throughout the greasy wool chain, but with the speed of the price demise, buyers will remain reluctant to enter into stock taking until clearer demand signals emanate from spinners, weavers and other manufacturers. On the supply side, the drought continues to bite hard across much of Australia's wool growing areas. Test figures from AWTA below show the initial downturn in production, with expectations of a far greater loss as the season progresses.

A Chinese top maker, Australia's largest two traders and the leading carbo and carding manufacturer dominated the auction scene this week. In fact almost 40% of the Merino fleece that was sold was purchased by the top two buyers.

Next week has 43,603 bales scheduled for auction.

AWTA Key Test Data for July 2019

- The monthly comparisons of the total weight tested for July 2019 compared with the same period last season show there was 5.3% less tested for the month.
- AWTA Ltd has tested 16.0 mkg (million kilograms) this season 2019/20 compared with 16.9 mkg for the equivalent period last season of 2018/19.

Wool forwards report - SA (Southern Aurora) Markets

Predictably the spot market was unable to withstand the global negativity and remains at the mercy of off shore events. This spilt over into the forward markets with the limited bids getting hit as the market failed to find a level.

Volatility is running at historically high levels. The challenge for the forward market and for all participants from grower to processor will be trying to find fair value levels to mitigate and spread some of the risk. Just where this level will be found is difficult to predict. As mentioned in our season closing technical analysis where looking at various retracement levels as the market had broken its long-term uptrend. On the key microns (19.0 and 21.0) the first retracement to 2180 and 2080 had been breached. This week's market fall has taken out the second support level of 2010 for 19 microns. 21.0-micron index currently sits right on support at 1900. The next technical level is 1735 for 19.0 and 1620 for 21.0 micron.

This technical analysis needs to be weighed against the current supply situation and the factors influencing demand. Drought induced tight supply will not improve in the short to medium and likely to be in the order of another 5 to 10 % year on year. Recent disease and subsequent financing issues out of South Africa will tighten short term supply further.

Our real concern when evaluating price risk at this point the assessment of demand. Current trade tensions, political instability and lack of confidence right through to the consumer is affecting all commodity markets.

The key now is to develop a risk strategy and be prepared for the volatility that is likely to occur over the season. Demand will ebb and flow, but supply will remain tight. This should present opportunities for growers to cover forward.

Next weeks levels will rely on the off shore reaction to this week's decline. At present there are no forward bids. Prices have fallen to 18th month lows but processors are quick to sight that they are still above the 80th percentile for the last decade.

AUD Commentary - SA (Southern Aurora) Markets

Plenty of action in global markets this week, with Equities around the world taking a beating, while closer to home the Aussie Dollar got crunched mid-week, skidding to a 10 year low of .6674.

During the week data confirmed that Australia's Construction Sector contracted at the steepest rate in six years in July, as the Construction Index dropped to 39.1 in July from 43.0 in June. In good news the ABS Data showed Australia's Merchandise Trade Surplus climbed to A\$8.036 billion in June, easily beating expectations of A\$6.0 billion.

Surprisingly China's Trade data also improved as exports rose 3.3% in July, Imports dropped -5.6%, and came on the back of Beijing letting its currency weaken to the lowest level since 2008. Overnight the European Central Bank confirmed European growth had weakened further, blaming global uncertainties and saying if needed the ECB will provide "highly accommodative" monetary policy stance for a "prolonged period of time". Today Friday, the AUD is trading at .6795, and not far from Monday's open of .6798

Technically the Aussie Dollar reversed sharply mid-week after the heavy-sell down which failed to break key support at .6674. The AUD is highly volatile, but likely to remain trapped within a broad sideways pattern, looking for direction. The bounce we now have, may extend to resistance at .6820 then .7010, however any rally is expected to be short lived. We still favour further downside.

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