



# WOOL MARKET WEEKLY REPORT

Sale Week 29: 18th Jan 2019



Offering—Aust. only		Currency movements		
Bales offered	51,703	AUD:USD	0.7152	-0.46 %
Passed-In %	6.7 %	AUD:CNY	4.8392	-0.84 %
Bales Sold	48,227	AUD:EUR	0.6283	+1.08 %
Season Sold	782,920	RBA close Thurs 17th Jan 2019		

Eastern Market Indicator (EMI)			
AUD	1923 ac/kg	+ 13ac/kg	+ 0.68%
USD	1375 usc/kg	+ 3 usc/kg	+ 0.22%
CNY	93.06 ¥/kg	- 0.15 ¥/kg	- 0.16%
EUR	12.08 €/kg	+ 0.21 €/kg	+ 1.77%

AWEX Weekly closing EMI as at 18th Jan 2019



### AWEX Auction Micron Price Guides.

Sales Tues 15th, Wed 16th & Thurs 17th Jan 2019

MPG	Sydney	Melbourne	Fremantle
17mic	2523 -34	2508 -16	-
18mic	2407 -28	2438 +23	2341n +4
19mic	2304 +8	2286 -5	2284 +5
20mic	2256 +16	2234 -20	2252 +22
21mic	2225 +25	2233 -7	2228n+23
22mic	-	2202n -2	-
23mic	-	2161n +16	-
24mic	-	-	-
25mic	-	-	-
26mic	133n +80	1341 +53	-
28mic	941n +55	954 +56	-
30mic	739n	719 +13	-
32mic	-	479n -9	-
MCar	1202 +23	1172n -6	1166n+30

### Scheduled Australian Wool Auction Sales

Sale week commencing	2018/19 forecast	2017/18 actual
Week 30 21/01/2019	41,503 bales	42,525 bales
Week 31 28/01/2019	37,995 bales	39,585 bales
Week 32 04/02/2019	37,005 bales	39,582 bales

## AWI Commentary

The good start to the 2019 year continued at this weeks Australian wool auction sales, with fine crossbred wools the recipients of the best price gains. Large volumes of drought affected super fine (<18.5u) Merino wools somewhat hampered the upward progress of that category and prices came off the boil there. Their broader counterparts of 19 to 22 micron Merino spent the week in consolidation mode as these descriptions tried to more closely align the values between the selling centres of similar wool brackets.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) gained 13ac clean/kg for the week to close at **1923ac**, a 0.7% rise. The EMI when expressed in US Dollars (USD) gained just 0.2% or 3usc to **1375usc**. The only significant movement in forex comparisons appeared in the Euro levels as the EMI appreciated by 1% in that currency.

Speculation is that supply concerns are currently the primary driving force of the market, despite the two very large sales that have commenced the New Year, which has presented almost 100,000 bales to the trade. Strong auction prices have seen very good clearances of over 93% of the wools offered weekly. Locally stored wool stocks are described as being at minimum levels.

What is perhaps the most telling factor affecting the auctions is the strength re-emerging of the bigger local trading companies who have been more willing to take on the Chinese indent operators and orders since the start of the New Year. Whilst it hasn't really converted into greater volumes purchased or percentage of the available wools, the price levels have certainly benefitted from their stronger competition.

The super fine types (finer than 18.5micron) were in abundance this week, with a high percentage of this sector being made up of drought fine wool types. Whilst AWTA figures are showing an overall reduction of 12% in the national wool clip, the volume of merino wool in the super fine category has actually increased from year to year. Of course this is a seasonal and supply versus demand scenario, but the reality is that our largest buyer, China, relies heavily on the 19.5 to 22.6 micron types, so interest in the finer than 19 micron types is heavily price-dependent rather than the more dominant product-demand that the broader wools usually command.

Some of the strongest gains over the past fortnight has been in the finer end of the crossbred sector (25 to 28micron). Some variety of reasons have been presented for the 100ac plus gains since Christmas but primarily, Australia is still the major global source of these wools in the "good white" category. They also provide a relatively cheap means of keeping machinery running as they are generally able to be processed (combed) at similar settings to Merino long wools without much adjustment.

At the other end of the wool market, the carding wools of all descriptions have come under competition pressure from the start of the calendar year and prices are slowly pushing upward. We are half way through the winter sales in the Northern Hemisphere and after a sluggish start to retail sales, consumer buying has shown signs of improvement. That positivity, in an otherwise uncertain environment at present is welcomed and the cheaper end of the market is recognizing the improving situation as garment manufacturers are clearing stocks, albeit at some rumoured losses.

Next week sees an offering of 41,500 bales. This is well down on the previous fortnight roster of around 50,000 weekly so good competition should see the levels maintained at least.

## AUD Commentary - SA (Southern Aurora) Markets

Global events saw some return to volatility this week for the Australian Dollar. After opening quietly on Monday at .7216 the Aussie proceeded to trade lower throughout the week, dropping to .7147 on Thursday before a sharp rally Friday saw a fresh high of .7232, then an ease to be now at .7195. This week global markets tended to focus on the defeat of the Theresa's May's Brexit vote, the U.S Trade And Government Shutdown and the ongoing China-U.S Trade stand-off. However there was also some good news as data from the U.S pointed to a strengthening Economy and U.S Stocks are reporting better than expected profits, which has also helped the Aussie Stock market hit a new two month high.

The Aussie also received some support from the continuing lift in Iron Ore prices which are up 30% since November at \$51.50/tonne. However for the Aussie it's still the same big issues affecting the local market with weak wages growth, lower than expected inflation and high personal debt levels suggesting no change to interest rates for at least 18 months. On to that we add falling house prices, with data this week confirming home loan approvals fell a sharp 4.5% in November, the lowest since June 2013. Westpac Bank says the fall likely reflects lower investor lending and tighter lending standards.

Technically AUD/USD's retreat from 0.7238 is still in progress with key support found down at .7108. We would need a break through the overhead resistance of .7412 to confirm a break higher. While the Aussie is likely to remain within a broad trading range for some time, our bias still remains to the downside.

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

A topsy turvy week for the spot auction with merino types, having been expected to be under pressure, finishing the week relatively unchanged. Crossbred were again stronger. This week's spot auction action highlighted the uncertainty that wool pipeline is going through at the moment. The current price structure has increased risk for all participants. As an example during the last year the 21.0 micron index has moved in a 503 cent range from a low of 1751 to the high of 2354. The 21.0 index opening level for the calendar year has risen each of the last four years 2015-1160ac, 2016 - 1380ac, 2017 - 1430ac, 2018- 1750ac and January 2019 - 2176ac.

This type of volatility is adding to risk of growers, exporters and processors. Exporters are shortening their exposure as the lack of volume in the forward markets limits their ability to commit to longer term export orders. The current cost is making it difficult to finance stock holding and hard to justify from a risk perspective. This environment will likely deliver a very bumpy ride for the spot market for the year ahead. Demand is being affected by the price and overall consumer confidence. This is somewhat balanced by the current tight supply.

Opportunities to hedge will be there for growers as exporters in particular will look to reduce risk as much as possible. Strategy should be to set targets at return levels that take advantage any short term supply/demand imbalances. The medium term (four year) uptrend in prices has meant that forward hedging has been viewed as a negative outcome. Hedging should be viewed as a long term margin management option. With the increased production costs bought on by the drought margin management is more important than ever.

With lower auction levels next week we expect to see tight market again. Forwards prices this week drifted higher with 21.0 micron trading to June at 2160. For trades visit [www.samarkets.com.au](http://www.samarkets.com.au)

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