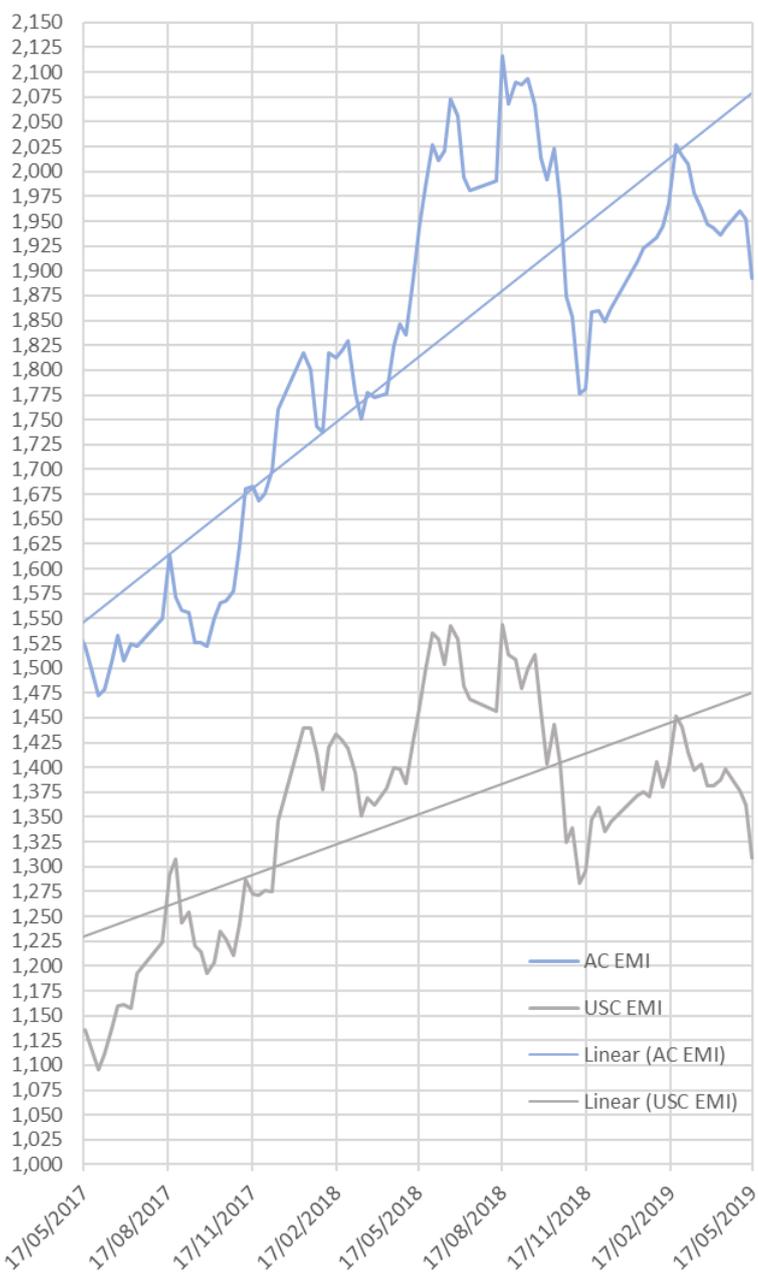




Offering—Aust. only		Currency movements		
Bales offered	33,153	AUD:USD	0.6914	-0.89 %
Passed-In %	21.7 %	AUD:CNY	4.7559	+0.19 %
Bales Sold	25,965	AUD:EUR	0.6168	-1.00 %
Season Sold	1,360,498	RBA close rates 16th May 2019		

Eastern Market Indicator (EMI)			
AUD	<b>1893 ac/kg</b>	<b>- 59 ac/kg</b>	<b>- 3.02%</b>
USD	1309 usc/kg	- 53 usc/kg	- 3.88%
CNY	90.03 ¥/kg	- 2.63 ¥/kg	- 2.83%
EUR	11.68 €/kg	- 0.48 €/kg	- 3.99%

AWEX EMI weekly closing rate as at 17th May 2019



AWEX Auction Micron Price Guides.

Sales held Wed 15th & Thurs 16th May 2019

MPG	Sydney	Melbourne	Fremantle
17mic	2418 -62	2302 -62	-
18mic	2365 -48	2299 -48	2215n -85
19mic	2231 -57	2218 -61	2186n -78
20mic	2189n -70	2189 -58	2171n -63
21mic	-	2200 -14	2157n -52
22mic	-	2177n -58	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	1455n	1413n -110	-
28mic	-	1180 -143	-
30mic	-	981 -24	-
32mic	-	626n -33	-
MCar	1056 -37	1039n -50	1048n -46

Scheduled Australian Wool Auction Sales

Sale week commencing	2018/19 forecast	2017/18 actual
Week 47 20/05/2019	25,637 bales	30,053 bales
Week 48 27/05/2019	32,610 bales	30,439 bales
Week 49 03/06/2019	21,928 bales	26,942 bales

## AWI Commentary

Prices at this weeks Australian wool auctions saw some drastic falls as buyer confidence appeared to desert the market. Heavy falls were recorded of the magnitude not seen for quite some time. The AWEX Eastern Market Indicator (EMI) depreciated 3% or 59ac to close at 1893ac clean/kg. This new basis level is practically equivalent to the average EMI (1882ac) of the entire October to December selling stage of 2018. The past six months has seen an average EMI of 1944ac, whilst the season average is sitting at 1958ac with six weeks of sales left before season end.

The EMI when expressed in USD experienced greater fallbacks than the AUD level. The cumulative effect of the lower AUD v USD forex rate (-0.9%) and the falls at auction saw the USD indicator 3.9% lower or 53usc to finish at 1309usc clean/kg. The USD indicator has not been at this level since Mid November 2018 and has since averaged 1385usc for the six months until now. The seasonal average so far is 1405usc, which is accentuated by the AUD v USD forex rate eroding from July 2018 level of 0.7378 to todays rate of 0.6914.

There was unanimous pre-sale sentiment this week that prices would fall. The lifting of the Chinese ban on imports of RSA (Republic South Africa) wool, albeit with caveats, and the imposition by the USA of import tariffs on Chinese goods produced a state of nervousness in trade. This hesitancy has not been seen since October 2018 when a general lack of business saw the market lose 5% or almost 100ac in just a week. Back then it took three weeks for the confidence to return and the market settled then moved to a positive trajectory and continued to slowly appreciate to fully recover the losses in three months.

It can be argued that the influences on the market this week were largely external factors away from specific Australian wool issues, but in this era of free global markets, business confidence pervades into all markets from all business segments. For purely Australian wool interests we are more concerned with the retail activity from domestic China and Europe. This is where our largest volume of middle class and high net worth consumers originate, so the implications these tariffs have on the Chinese economy, rather than the USA, have the majority of influence on the immediate prospects of our markets.

The passed-in rates had a significant part to play at sales this week, as wool growers resisted the lower prices being offered. 16.4% of the Sydney offering was eventually passed in, with Melbourne 17.5%, but in Fremantle, that rate escalated substantially to 40.6% with the Merino fleece segment in Fremantle recording a passed-in rate of 45.3%. The national passed-in rate was 21.7%.

In the Merino fleece segment, the decline (-30ac) initially in the opening Eastern markets on Wednesday was rather subdued against the pre sale expectations but later in the day in the Western Australian auction, prices fell 60ac. Subsequently Thursday saw another 30ac taken off the Eastern market which had prices matching the West at a general 60ac cheaper. Skirtings largely followed the same path. Crossbred types were savaged, and all wools in the 25 to 29 micron area reduced by 110 to 140ac. Cardings saw 50ac falls.

Perhaps giving some confidence to the trade was that as the market tracked backward, the two largest Chinese indent operators came back into the market and became progressively stronger as the price weakened. In fact the largest operator finished the week at the top of the Merino fleece buying lists and the other in the top four.

Next week has just 25,637 bales being rostered for auction. The following two weeks of selling after that average just 27,000 bales per week, so amidst the general gloom of this week, any slight shift up in demand will see the market turn positive due limited supply.

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

The spot auction had its largest decline since November 2018 this week. Offshore sentiment has soured on the back of continued trade tension and the signalling increased tariffs on Chinese goods exported to the USA. Forwards reacted in a similar pattern but still traded at historically strong levels. October 21.0 micron traded at 2130. The four year 75 percentile for 21.0 is 2015.

Crossbreds, having risen over 50% since Christmas (28.0 micron 865 to 1320), retreated 10% this week. Growers hedged out to August 2020 1000 cents, August 2019 at 1100 cents and June 2019 at 1200 prior to the most significant fall Thursday.

Where to from here is the question. Much will be driven by factors outside our control. Offshore sentiment and demand, already lowered by the current price structure, is being heavily impacted by the China/USA tariff battles and weak global growth. China still accounts for 75-80% of Australian wool exports. It consumes roughly half domestically but relies on exports of tops, yarn and finished goods for the other half and USA is a major consumer.

We expect a continued weakening on the spot market. Forward bidding is expected to be light as exporters look to find processor levels. Finding fair value for both buyer and seller in this high volatile environment will be interesting. Growers need to look at their cost of production and manage margin from there. Processors will be looking to estimate the likely end user re-entry point for new business and look to offset risk in the forwards.



## AUD Commentary - SA (Southern Aurora) Markets

The Australian Dollar fell this week, as global trade tensions increased and domestic data showing the local economy slowing further, with more analysts now predicting that the RBA will be forced to cut rates. On Monday the market opened on the weeks high at .70002, and fell the rest of the week hitting a new weekly and three year low at .6886 on Friday morning.

The AUD lost ground this week to a surging USD and also most other currencies. Rodrigo Catril, Senior FX Strategist at the National Australia Bank said "the conditions for the RBA to cut rates are now very close to being met, and the markets are now pricing a 75% probability of a June Rate Cut. Ironically Global Stock Markets have rebounded the last three days as President Trump said a deal seemed to be getting closer, and U.S Corporate profits again exceeded expectations, with Walmart reporting stronger sales.

Technically the AUD failed in its rally Monday at .7000 and quickly fell back to key at .6940, where it held before breaking lower again and is holding on new support at .6880. A break of that is likely to see a wave of selling that could see the AUD drop to key support .6722. The Aussie is oversold, a bounce is expected, and possibly may be inspired after the Federal Election. However we suggest any rally will be temporary and the bias is for a lower AUD.

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