Wool Market Weekly Report

Sale Week 47: 24th May 2019

Offering—Aust. only	
Bales offered	24,121
Passed-In %	28.2 %
Bales Sold	17,308
Season Sold	1,377,806

Currency movements		
AUD:USD	0.6876	- 0.55 %
AUD:CNY	4.7537	- 0.05 %
AUD:EUR	0.6167	- 0.02 %
RBA close rates 23rd May 2019		

Eastern Market Indicator (EMI)			
AUD	**1833 ac/kg**	**- 60 ac/kg**	**- 3.17%**
USD	1260 usc/kg	- 49 usc/kg	- 3.70%
CNY	87.14 ¥/kg	- 2.89 ¥/kg	- 3.21%
EUR	11.30 €/kg	- 0.38 €/kg	- 3.19%

AWEX EMI weekly closing rate as at 24th May 2019

AWEX Auction Micron Price Guides.

Sales held Wed 22nd & Thurs 23rd May 2019

MPG	Sydney	Melbourne	Fremantle
17mic	2380 -38	2248 -54	-
18mic	2317 -48	2240 -59	2134n -81
19mic	2163 -68	2146 -72	2121 -65
20mic	2149n -40	2144 -45	2116 -55
21mic	2129n	2137 -63	2104 -53
22mic	-	2131n -46	-
23mic	-	2007n	-
24mic	-	-	-
25mic	-	-	-
26mic	-	-	-
28mic	-	1071 -109	-
30mic	-	888n -93	-
32mic	-	573n -53	-
MCar	1019 -37	1036n -3	1007n -41

Scheduled Australian Wool Auction Sales

Sale week commencing	2018/19 forecast	2017/18 actual
Week 48 27/05/2019	31,464 bales	30,439 bales
Week 49 03/06/2019	20,949 bales	26,942 bales
Week 50 10/06/2019	31,680 bales	28,029 bales

AWI Commentary

Prices continued to fall at this week's Australian wool auctions but signs of a slowing to the slide were witnessed by the close of selling. Global economic confidence has filtered through to the wool textile industry with the China - US tariff dispute and gloomy retail conditions in mainland China and Europe cited as the major contributing factors. The ongoing impacts associated with the lifting of the South African wool import ban into China have largely been dealt with and accounted for, but still having a big effect on the market is the drought-affected wools the buyers are having to find a home for.

The AWEX Eastern Market Indicator (EMI) depreciated a further 3.2 % or 60ac to close at 1833ac clean/kg. representing a cumulative 6.2% fall in the past fortnight of sales. The USD EMI suffered again more than the AUD levels as the AUD v USD forex rate lowered again by 0.55% to see the USD indicator 3.7% lower or 49usc to finish at 1260 usc clean/kg. The USD EMI has fallen 7.6% in the past two weeks and these new levels surely must have many mills interested in securing some guarantee of supply at the more advantageous prices available.

Buyer focus this series was wholly focussed on the question of what price level to act? It was basically a given pre sale that prices would again deteriorate, but a willingness to re-enter the market and cover off sold contracts by exporters also became apparent as these lower prices became a reality. The markets' underlying strength was still being questioned as the large Chinese indents were absent from buyers lists once more, but as prices weakened most other buyers all became more steadfast and willing in their purchasing intent, taking advantage of the lack of the usually strong competition from these major buyers.

The week featured one of the highest pass-in rates in recent times of 28.2% nationally across all types and descriptions. Some significant numbers were registered as wool growers resisted the lower prices being offered. In the Western Australian market 53.8% of the Merino fleece and 44.3% of the merino skirtings types failed to meet grower reserves. In Sydney 39.6% of the crossbred types also failed to sell and were subsequently passed in. The only market sector which growers were happy to dispose of their product was in the oddment sector where relatively normal pass in rates occurred.

In the Merino fleece and skirtings segment, the majority of the losses were registered on the first day. General falls of 40 to 60ac were commonplace with the better wools not as affected to these levels, whilst the poorest edge were more greatly effected than the quoted ranges. Crossbred types were again almost completely neglected and savaged to large degrees of over 100ac in many cases. Cardings seemed to be finding a level, although 20 to 30ac falls were recorded on some types.

The final day saw a much better market. Whilst some price drop offs still occurred, these were largely restricted to the big offering of drought affected hard to place wools. The tone in which the auction was conducted in was significantly improved and the better edge of the merino offering advanced back into positive territory by a small 10 to 15ac. The Chinese top makers were a little keener and local traders and exporters appeared to use that, as well as a fear of supply and quality of that supply, as a lead to execute some of their short positions.

Next week has a touch over 31,000 bales rostered for auction followed by a week where just 20,000 bales are currently scheduled. South Africa has just two selling weeks left prior to their annual two month break in sales so a supply squeeze is on the horizon, but an injection of greater confidence and stronger demand is required.

Wool forwards report - SA (Southern Aurora) Markets

If the weekends election results taught us anything it is that even with all the predictive tools, surveys and polling it is difficult to foresee the future.

Most Wool Market pundits saw the easing tendencies off the historically price prices of the early autumn to continue through to the end of the season. Demand destruction caused by high prices matched by drought induced tight supply. This played out for 3 months with the Eastern Market Indicator (EMI) losing 4%.

The escalating trade tensions between China and the USA has dampened confidence across most commodities. This has impacted significantly the spot wool auctions with the EMI falling 120 cents (6.5%) in the last two weeks. Forward markets have been likewise affected. 2020 and 2021 bidding was lighter this week with trades in 19.0 micron going through at 2070 having peaked at 2155 a fortnight ago. These lower hedging levels still represent the 70th percentile of prices for the last 4 years.

The current volatility in the market should see exporters looking get cover into the spring to motivate off shore sales and alleviate risk. Grower response will be critical to restoring confidence along the pipeline. Growers need to set realistic price goals that value certainty and protect margins. This is no easy task in this current environment with production costs increasing and forward prices unstable.

We expect to see some forward demand to reappear around 50 cents below current spot levels for the spring. This would put 19.0 microns around 2050 to 2080. The forward market is factoring in a wider spread to develop between 19.0 and 21.0 as selection increases on the broader qualities. This would put early spring levels on 21.0 around 2000 cents.

AUD Commentary - SA (Southern Aurora) Markets

The Australian Dollar remained under pressure this week sliding to a new three year low on a combination of a stronger U.S Dollar, escalating trade tensions and the admission from the Governor of the RBA that the economy required stimulus via a rate cut, now widely expected on the 4th of June.

Early in the week the Aussie rallied to a high of .6934 before falling mid-week to a low of .6864, then rebounding a little on Friday (today) to .6902. Interestingly views from the Banks are now diverging on where the local economy will be heading into next year, with several quite bullish on prospects. Data this week from IHS Market showed the Manufacturing sector expanding, while the CBA Composite Index rose to 52.2 showing surprising growth in new business orders which increased at the fastest pace since January. Interestingly despite the trade wars Coal and Iron Prices lifted.

Technically the AUD is now consolidating in a new lower range, but the bias still remains negative, however there seems strong buying at the lower levels and the currency is oversold suggesting a near term rebound. Solid support is found at .6860, and below that at .6730, while overhead resistance is .7002, then .7090. We expect a small rally followed by a larger fall.