



WOOL MARKET WEEKLY REPORT

Sale Week 48: 31st May 2019



| Offering—Aust. only | | Currency movements | | |
|---------------------|-----------|-------------------------------|--------|----------|
| Bales offered | 28,273 | AUD:USD | 0.6929 | + 0.77 % |
| Passed-In % | 8.4 % | AUD:CNY | 4.7884 | + 0.73 % |
| Bales Sold | 25,901 | AUD:EUR | 0.6222 | + 0.89 % |
| Season Sold | 1,403,707 | RBA close rates 30th May 2019 | | |

| Eastern Market Indicator (EMI) | | | |
|--------------------------------|------------------|-------------------|----------------|
| AUD | 1887ac/kg | + 54 ac/kg | + 2.95% |
| USD | 1308 usc/kg | + 48 usc/kg | + 3.74% |
| CNY | 90.36 ¥/kg | + 3.22 ¥/kg | + 3.70% |
| EUR | 11.74 €/kg | + 0.44 €/kg | + 3.86% |

AWEX EMI weekly closing rate as at 31st May 2019



AWEX Auction Micron Price Guides.

Sales held Wed 29th & Thurs 30th May 2019

| MPG | Sydney | Melbourne | Fremantle |
|-------|----------|-----------|-----------|
| 17mic | 2409 +29 | 2286 +38 | - |
| 18mic | 2361 +44 | 2282 +42 | 2211n +77 |
| 19mic | 2211 +48 | 2228 +82 | 2191 +70 |
| 20mic | 2197 +48 | 2215 +71 | 2178 +62 |
| 21mic | - | 2214 +77 | 2169n +65 |
| 22mic | - | 2181n +50 | - |
| 23mic | - | 2035n +28 | - |
| 24mic | - | - | - |
| 25mic | - | - | - |
| 26mic | - | - | - |
| 28mic | 1125n | 1123 +52 | - |
| 30mic | - | 935 +47 | - |
| 32mic | - | 618n +45 | - |
| MCar | 1036 +17 | 1046n +10 | 1035n +28 |

Scheduled Australian Wool Auction Sales

| Sale week commencing | 2018/19 forecast | 2017/18 actual |
|-----------------------|------------------|----------------|
| Week 49 03/06/2019 | 23,619 bales | 26,942 bales |
| Week 50 10/06/2019 | 29,560 bales | 28,029 bales |
| Week 51 17/06/2019 | 19,610 bales | 20,904 bales |

AWI Commentary

The ingredients of greater confidence and stronger demand were added to the Australian wool auctions this week and the results were stark, positive and immediate. The price gains that eventuated almost halved the losses of the previous three sale weeks. Price gains of up to 80ac clean per kg were commonplace within the Merino sector, whilst many individual lots bearing the better specifications were over 100ac dearer. All other wool types and descriptions on offer were quoted dearer to varying degrees of 15 to 50ac by the end of the week.

The AWEX Eastern Market Indicator (EMI) appreciated by 2.95% or 54ac to close at 1887ac clean/kg. The USD EMI resisted the AUD v USD foreign exchange (forex) rate moving 0.77% stronger to outstrip the AUD gains as the USD EMI moved 3.74% or 48usc higher to close the week at 1308usc clean/kg.

The biggest change that came over the market was sentiment. Buyer confidence was buoyed by the writing of new business which was mainly into China, but smatterings of interest also appeared from across most of the global wool destinations. Exporters were said to be continuing their generally risk-adverse trading even in light of prices being put on the table that appeared “over the market”, which is rare indeed. The demand from overseas buyers remained on many occasions unfulfilled within the environment of swiftly rising auction prices.

As is prone to happen in any market when such a rapid shift in prompt demand occurs within low supply availability, the sale results accentuated beyond where the business was initiated. The follow up business then becomes harder to come by and decision making on both sides of the trade are then erring always to the side of caution.

The market movements of the past month though, probably signals the modus operandi of the industry at large presently. Rapid falls followed by immediate reactionary gains is generally indicative of supply winning over prompt demand. Demand for all wool types is still evident and is the key driver of wool price, but that demand has turned over the past 6 to 12 months to be being sporadic and softer than the peak demand seen in late 2017 and early 2018. The subsequent 10% loss of our national clip is now assisting in the maintenance of price levels.

Since August last year (EMI 2116ac) the trend has been of a softening market (EMI down to 1776 in Nov) then a rally (EMI up to 2027 in Feb 2019) and then drifting down again to last weeks low of 1833ac. As a high percentage of our wool is traded under a USD influence, the market price holding up relatively well in AUD locally can also be attributed to the USD during that period deteriorating from the August 2018 forex rate of 0.73 to 0.69 today.

Notably the auction buying was again dominated by trading export companies and ably assisted by some larger top makers. In what was a positive week for sellers, one slight negative was the relative inactivity once more of the larger Chinese indent operators who generally lead in setting the market. For the market to go up so strongly in the face of that weakness can be read as both positive and negative but more selling weeks are required to see if a change in trend is underway.

An historic week at Australian meat markets this week also as lamb averages hit A\$11/kg, mutton at near A\$8/kg and goat meat is over A\$10. This is significant for wool production as these prices put pressure on wool growers to make alternative uses of their land.

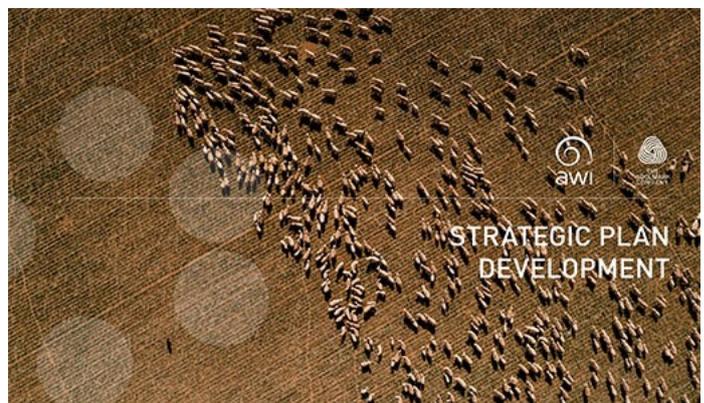
Next week has just 23,600 bales on offer as Fremantle sits out due to low volumes preventing a feasible sale being held.

Wool forwards report - SA (Southern Aurora) Markets

Another topsy turvy week for the spot auction saw better participation in the forwards. Activity was restricted to the 21.0 micron index with maturities spread from August to December. A total of 77t (approx. 620 bales) traded with prices ranging from 2165 cents in August to 2050 in December. These levels represent fair value considering the 21 micron traded down to 2133 last week. Although below the peak spring hedging levels achieved in February this year that ranged between 2100 and 2150 a price level of 2050 is in the 75 percentile band for the last 4 years.

Volatility will likely be our bed partner for the remainder of the season. Currently running at over 14% the balance of low supply and sporadic demand will see marked fluctuations in prices over the coming weeks. This should give growers opportunities to set attractive forward levels.

To date less than 1 percent of the volume anticipated to go through auction in the July to December period has been hedged forward. In the current high risk environment it is an issue for the wellbeing of the whole pipeline to address. Visit www.samarkets.com.au



In consultation with stakeholders, AWI is developing its Strategic Plan for 2019/20 to 2021/22. The plan outlines AWI's key investment priorities in research, development and marketing for the three years from 1 July 2019. As part of the development process a draft release (current at Wednesday 15 May 2019) can be found at:-

www.wool.com/about-awi/how-we-consult/

AUD Commentary - SA (Southern Aurora) Markets

The Australian Dollar traded a remarkably tight range this week despite offshore volatility, opening Monday on the weeks high of .6938 then easing into the week's low Thursday of .6898, before firming Friday to .6908.

During the week two Banks surprised local markets by saying the RBA will be forced to cut rates three and maybe four more times. Economist Sally Auld at JPMorgan said Wednesday the RBA would cut four times to 0.5 per cent by the middle of 2020, while Robert Rennie, Head of FX Strategy at Westpac said there is likely to be three rate cuts, and forecast the Aussie dropping .6600 cents by year end, saying also that the Aussie could slide further if the China and U.S Trade war escalates.

Technically the AUD is consolidating in a narrow band above the low and support of .6864 where buying at the lower levels remains strong. We expect to see a small bounce from here, however the bigger picture still remains negative. Overhead resistance is seen at .7020, then .7210, while support lies at .6860 then .6730.

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