WOOL MARKET WEEKLY REPORT

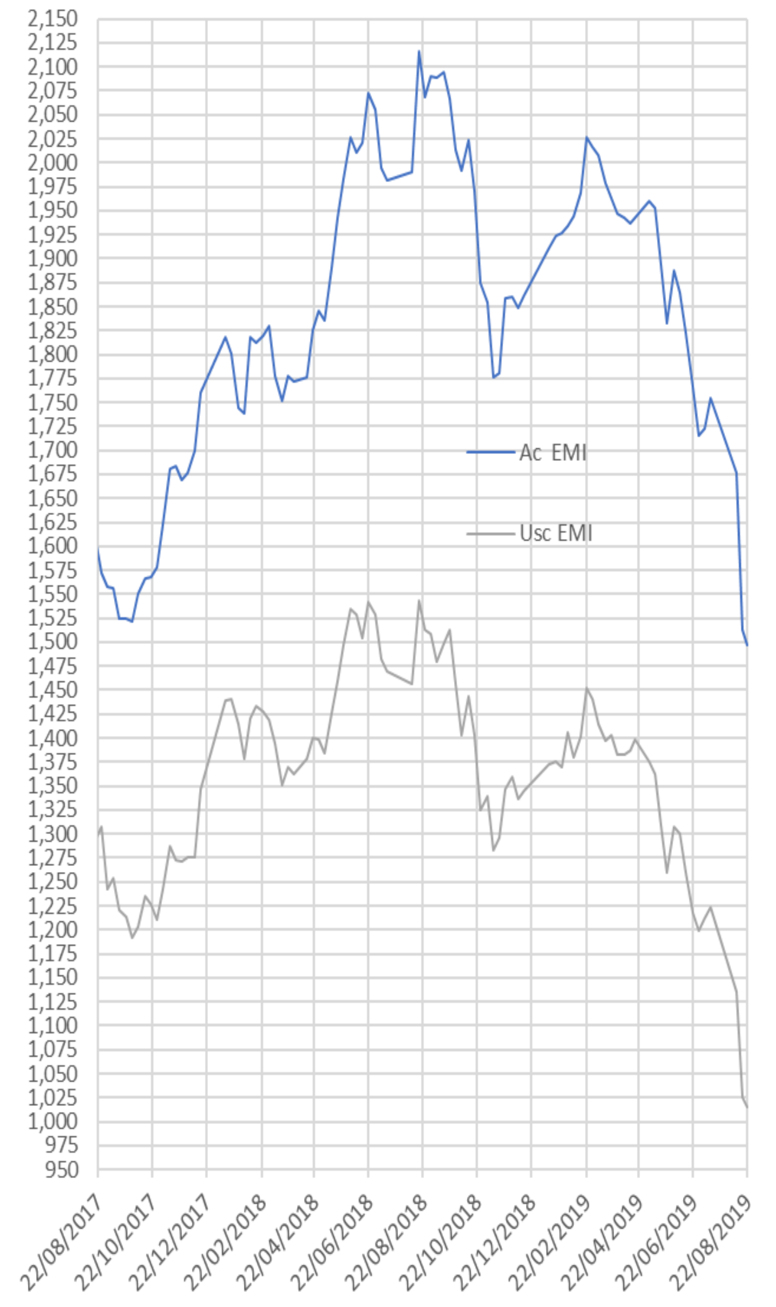
Sale Week 08: 22nd Aug 2019

Offering—Aust. only	
Bales offered	26,492
Passed-In %	16.1 %
Bales Sold	22,216
Season Sold	135,571

Currency movements		
AUD:USD	0.6781	- 0.03 %
AUD:CNY	4.7849	+ 0.38 %
AUD:EUR	0.6111	+ 0.44 %
RBA close rates 21st Aug 2019		

Eastern Market Indicator (EMI)			
AUD	**1497 ac/kg**	**- 16 ac/kg**	**- 1.06%**
USD	1015 usc/kg	- 11 usc/kg	- 1.09%
CNY	71.63 ¥/kg	- 0.49 ¥/kg	- 0.68%
EUR	9.15 €/kg	- 0.06 €/kg	- 0.62%

AWEX EMI weekly closing rate as at 22nd Aug 2019



AWEX Auction Micron Price Guides.

Sales held Tues 20th & Wed 21st August 2019

MPG	Sydney	Melbourne	Fremantle
17mic	1952 -48	1923 -40	-
18mic	1888 -44	1860 -63	**NO SALE**
19mic	1728 -38	1734 -19	**HELD**
20mic	1683 -28	1681 -17	**IN WA**
21mic	1667n-28	1675 -19	-
22mic	-	1675n-18	-
23mic	-	-	-
24mic	-	-	-
25mic	-	-	-
26mic	-	1148n	-
28mic	870n +35	855 +25	-
30mic	710n	701 +42	-
32mic	-	469n	-
MCar	895n -98	930n -90	-

Scheduled Australian Wool Auction Sales

Sale week commencing	2019/20 forecast	2018/19 actual
Week 09 26/08/2019	33,046 bales	35,988 bales
Week 10 02/09/2019	36,025 bales	38,037 bales
Week 11 09 /09/2019	33,766 bales	34,064 bales

AWI Commentary

The selling week at Australian wool auctions steadied the falls experienced over the past fortnight, yet still tracked negatively. Better signs were in evidence, with most exporter buyers showing willingness to participate back to near normal levels. The sentiment and tone of auctions was more animated yet still very cautious in purchasing volume and aggressive pricing.

The Australian Wool Exchange (AWEX) Eastern Market Indicator (EMI) lost 16ac or 1% to 1497ac clean/kg, almost matching the 5-year average EMI of 1496ac.

In US Dollar (USD) terms the weekly results on the USD EMI were the same with 1% or 11usc lost sending that indicator down to 1015usc clean/kg. In USD terms the Australian wool market is in general, trading at 111usc below the 5-year average.

Whilst physical demand for the raw wool product has dropped off suddenly and is the main concern behind the lack of confidence in the market at present, a few percent of that USD fall can be placed firmly at the foot of the devalued Chinese Yuan (CNY). It certainly doesn't help on the cross rates that one USD requires around 7.05 yuan to purchase compared to 6.88yuan just a month ago.

Thankfully the pre-sale sentiment had turned from the previous unanimously negative thoughts to this week where quite a few participants were expecting the auctions to perhaps steady. This talk was on the back of better enquiry and a little firm business having being done. But the talk was larger than the actual business written as trade talk had over-shot the truth, which is prone to happen when overseas interests are trying to extract cheaper buy-in prices to be "purchasing safe" in this period of erratic market movements.

The market may find it tough to level out quickly unless significant and widespread buy orders hit the market. At the moment both buyer and seller are extremely cautious as some heavy losses have been realized or still to be made by most players due to the rapid market devaluation. Wool trading is highly risky at present, and that risk is on both sides of the trade.

Auction results swung to the opposite this week across the Merino fleece sector as it was the superfine types 18.5 micron and finer that were the hardest hit taking losses of 40 to 60ac clean/kg. All types broader than 18.5 micron held up reasonably well and average prices received were around 15ac lower.

All skirtings types and descriptions though were in good demand and sold well throughout selling and traded upwards of 30ac dearer at times. The crossbred sector experienced similar gains of around 30 to 35ac whilst unfortunately the carding sector was hit hard and an average of 100ac was taken off their values, with some individual types hit far worse.

Seller resistance was still a factor at auctions as a hefty 16.4% of wool that was to be offered for sale was withdrawn prior to auctions commencing. In addition, 16.1% of those sale lots that did go to auction subsequently did not meet the reserve of the grower sellers. This means that around a third of the total wool available has failed to flow through the chain. Purchasing was again dominated this week by the largest Chinese top makers and two of Australia's local traders. With the Western Australian selling centre of Fremantle not in operation, this additionally reduced the flow of wool onto the market.

Next week sees all three selling centres are in operation with around 33,000 bales currently rostered to be offered.

Wool forwards report - SA (Southern Aurora) Markets

The 2019/20 Wool season has started with the largest retraction in prices since the cessation of the Reserve Price Scheme (RPS) in 1991. The Eastern Market Indicator (EMI) lost 17% of its value falling from a season opening level of 1754 to 1497.

The reversal of fortunes for the market has raised comments on the inherent risk of the wool grower. To put the current price falls in perspective the current level of 1497 is still in the top 25% of prices for the last decade. The average EMI for the last 10 years is 1295 and for the last five years 1494.

Wool prices peaked at 2116 in August last year as a result of a perfect storm in market fundamentals. Low supply and strong demand. The drought inducted low supply (down 12.1% to 300 million kilograms) combined with active marketing campaigns, technical innovation and general global consumers confidence saw prices double in a four-year period.

Such price pressure will always bring a degree of demand destruction. This began in the spring last year in the finer microns but was somewhat masked in the broader qualities with the continuing drought induced low supply 21.0 micron peaked in February this year at 2370. The build up of risk factors towards the end of the wool season in July put further pressure on the market. The ongoing trade tensions between USA and China, uncertainty in Europe over Brexit, declining global growth and consumer confidence have all contributed to the decline in prices.

Where to from here?

The answer is not "we've got not control over that, so you have to wear it in the wallet" as a grower was reported in the media this week.

The wool industry has risk products to enable growers to mitigate risk and smooth returns. This week a Monaro wool grower was able to add 30,000 dollars to his wool cheque on the maturity of his forward hedge contact.

The current Riemann Wool Forward trades only 1.5% of the underlying wool clip of 300 million kilograms. Although forward price reports are published weekly on the AWI website and disseminated by all major brokers penetration along the pipeline is lacking.

The need for better researched and funded extension of risk education is highlighted in the National Farmers Federation (NFF) 2030 Road Map where it has a goal of 90% of growers using some form of financial risk management by 2030. This will require a multi-industry approach.

This follows on the statement from AWI CEO Stuart McCullough after the volatility in the spot auction last week "It's important to acknowledge there are significant macro-economic factors, beyond the control of the industry, that have influenced the recent downward trend in the EMI - this price volatility is part of the market's cycle. What is also important during this period is to ensure due care is taken, to make certain woolgrowers are properly informed of factors influencing price and the price risk when selling and we hope this is being exercised with vigour."

With less than 2% of the national wool clip being hedged forward during a period of historically high prices it is evident that the strategic message and information is not being presented in a form that engages the grower. The reasons need to be identified and content adjusted to deliver the grower the best possible outcome.

Growers should be assessing their risk into the spring and beyond and setting margin management targets.