AWI
MARKET INTELLIGENCE
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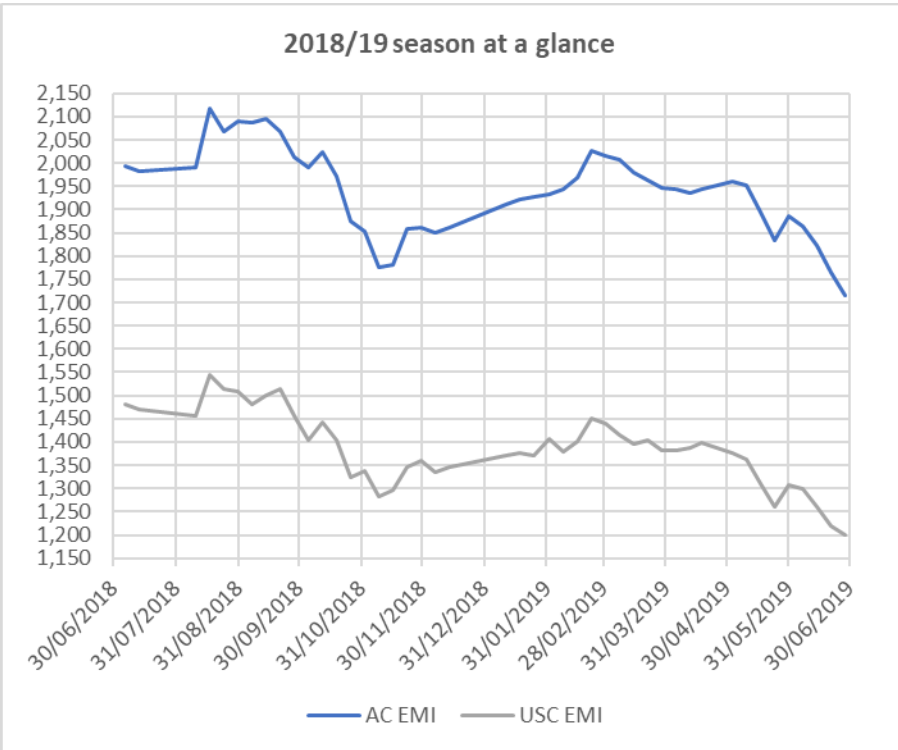
This month we look back at a record-breaking season in terms of price but also examine the reasons for the dramatic drop in demand and therefore price over the last month of trading for this season.

As the season came to a close last week, the wool market had fizzled out in the last month of sales and failed to replicate what had largely been a stellar, record setting year. The AUD EMI set an all-time high of 2116ac in August, nearly all individual micron categories broke their previous bests and the season average of 1939ac was the highest on record and indeed 200ac or 11.5% higher than the average price of 1739ac received in the 2017/18 season.

In USD terms, which is perhaps more indicative of reliable demand source scenario, the EMI moved 40usc or just 2.9% higher for the 2017/18 seasonal average of 1346usc to the 2018/19 season average of 1386usc. It is imperative to note though that the AUD v USD forex rate had actually reduced from the 2017/18 season average of .775 compared to the 2018/19 rate of 0.716 which is a 7.6% advantage to the favour of the AUD price.



The EMI closed the 2018/19 season at 1715ac clean/kg after opening at 1994ac back in July 2018. This result saw a loss of 14% or 279ac clean/kg. When the EMI is calculated in USD, the season opening price of 1482usc clean/kg had fallen to 1199usc clean/kg by seasons end. This is a substantially more relevant and significant measurement in the price decay that has occurred over the past 12 months. By registering a 19.1% or 284usc loss of the USD indicator, this is clearly indicative of the abrupt slowdown in demand from overseas manufacturers and markets that has transpired.

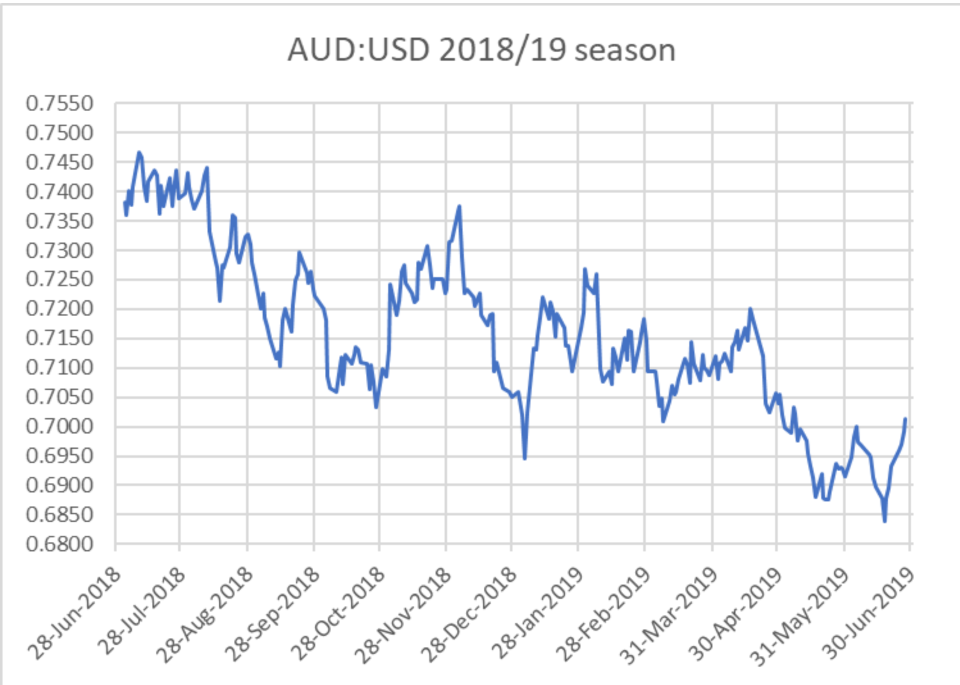
Supply concerns throughout the season were well founded, with the amount of wool sold through auction dropping by 296,326 bales year on year. This is a 16.6% decline. There were approximately 1.48 million bales transacted through the auction system. An additional weight was sold by private treaty and direct sales with a rough estimate of 177,000 bales sold this way based on the AWPFC figure of 298 million kgs of production. We estimate a total of 1.66 million bales was transacted for the year, with a raw wool value around the 3.7billion dollar mark.

It can be argued that the negative influences that were placed on the market this season were largely external factors away from specific Australian wool issues. In this current era of free global trade and markets, business confidence pervades into all markets from all business segments. For purely Australian wool interests we are more concerned with the retail activity trends from domestic China and Europe. This is where our largest volume of middle class and high net worth consumers originate, so the implications of the health of these two areas remain key to having the major influence on the immediate prospects of our wool markets.

Very negative global economic confidence has filtered through to the wool textile industry with the China - US tariff dispute and the generally gloomy retail conditions in mainland China and Europe cited as the major contributing factors. Overseas manufacturers have continuously waited out of the local market whilst prices headed all to their favour. This is not to say they are reaping a big bonus, as business for them out the other end of the chain is also being stymied by the unknown whims of consumer demands.

Uncertainty surrounds the case of South African wool imported into China during the foot and mouth case earlier this year. The outstanding contracts associated with this unknown volume of wool are still unresolved and looking more likely to meet a difficult resolution between Chinese and South African parties, through no fault of either side.

Tight trading conditions will be the reality for wool for the immediate term, where price sensitive overseas interest is offered. This sensitivity has arisen due to the above reasons but also thoughts from manufacturers regarding the predictions of the AUD lowering against the USD as have been a long-term trend now. Financing issues for our manufacturing customers are certainly a negative factor for demand at present. Tight cash flow situations in the middle of the supply chain are hampering fluidity of normal business practice.



An unhelpful but unavoidable influence on the cheapening market has been the almost non-existent competition on the numerous sale lots exhibiting low yields and strengths caused by the drought conditions that have existed for a few years now across much of Australia's wool growing regions. Individual sale lots showing a yield of around 55% dry and less were sold under hard auction conditions whereby just the single buyer was interested, and of course as a consequence, prices were ever cheapening. As the price levels dropped due to the sparse demand for such wools, this negative sentiment flowed through to most other types and descriptions dragging the market down with them.

Somewhat of a stalemate exists as far as forward contracts support of local wool markets go. Exporters are reticent to sell too much volume forward as this will expose them to high loss risk if the market turns, whilst the overseas buyers are unable to get set for the full amount of quantity they would like to get set for, which would in turn assist in underpinning the market. Quality of the offering going forward plays its part in this scenario as well.

The ongoing tariff wars, Brexit and the general decline of the global economy is playing a weakening game on almost all commodity and financial markets, and wool and textiles is certainly not immune to those whims. In fact, as a discretionary spend, apparel and general clothing items are used as a part of the general health check on the overall economy.

Renewed sales of wool tops, carbo and yarns through to fabric and out to garments on the shelf is now essential for a return to relatively predictable demand for the entire greasy wool sector. When this occurs, it will then assist to mobilize local buyers to accumulate the stocks necessary to supply their raw wool customer with steadier supply at a more stable price - in theory.