



The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- Topsy-turvy Australian wool market recovers from drop
- Global economic growth forecasts upgraded
- Australian wool production forecast for 2016/17 and 2017/18
- Astonishing lift in China's exports of woven wool clothing
- IWTO 2017 Congress starts next Wednesday
- Upcoming events



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The **Australian wool market** had a topsy-turvy week, as the recent price volatility continued. Merino wool prices dropped on Wednesday in Melbourne and Fremantle, as did broader Merino wool prices in Sydney. But fine and superfine Merino prices actually lifted a little in Sydney. Then, on Thursday Merino wool prices recovered some of Wednesday's losses. In the wash-up, the **Eastern Market Indicator (EMI)** fell by 11 cents to 1501 c/kg. Medium and broad Merino wool fell the most, down by up to 30 cents, while superfine and ultrafine wool prices were firm to slightly dearer. Crossbred wool prices were firm. Of the regions, the Western Market Indicator fell the most, down by 24 cents to 1508 c/kg, and the Southern Market Indicator fell by 14 cents to 1452 c/kg. The Northern Market Indicator fared best, declining by 11 cents to 1597 c/kg. The A\$ was a little lower against the US\$ at 74.8 UScents and the EMI fell by 10 UScents to 1123 USc/kg. The A\$ fell against the Euro following the results from the first round of Presidential elections in France last weekend, and was 2.5 €cents lower at 68.7 €cents, the lowest since October. As a result, the EMI was down by 35 €cents to 1031 €c/kg.

The International Monetary Fund (the IMF) released its **updated forecast for the world economy** last week and it is brighter than the previous forecasts in October 2016 and January 2017. The IMF commented that the buoyant financial markets and a "long-awaited cyclical recovery in manufacturing and trade" was underway, resulting in an uptick in the IMF's forecast for global economic growth. It now expects the world economy to grow by 3.5% in 2017 and by 3.6% in 2018. It noted that there are structural impediments and political risks which are holding back a stronger recovery. These forecasts are a little better than the IMF's previous forecasts for global growth. However, it is brighter news for the major wool consuming countries. As the first **Chart of the Week** shows, economic growth in China, the US and the UK are considerably better than previously predicted and better than growth rates in recent years. This is encouraging for providing a good base for consumer demand and for demand for wool. However, some commentators question whether this improvement is sustainable given the political and economic risks around the world.



CHART OF THE WEEK#1
Brighter Economic Growth Forecasts
(% change)

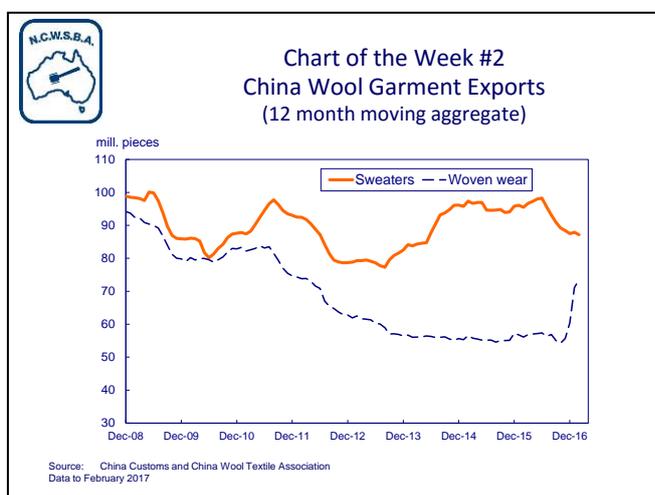
	2015	2016	Previous forecast*		April 2017 forecast	
			2017	2018	2017	2018
World	3.4%	3.1%	3.4%	3.6%	3.5%	3.6%
China	6.9%	6.7%	6.2%	6.0%	6.6%	6.2%
USA	2.6%	1.6%	1.6%	2.5%	2.3%	2.5%
Japan	1.2%	1.0%	0.5%	0.5%	1.2%	1.6%
Germany	1.5%	1.8%	1.7%	1.5%	1.6%	1.5%
Italy	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%
UK	2.2%	1.8%	1.8%	1.4%	2.0%	1.5%
France	1.3%	1.2%	1.3%	1.6%	1.4%	1.6%

Source: IMF, World Economic Outlook, April 2017
* Previous forecast is October 2016 for 2017 forecast and January 2017 for 2018 forecast

The **Australian Wool Production Forecasting Committee** last Friday released its updated forecast for 2016/17 and its first forecast for 2017/18. I emailed the Media Release announcing the new forecasts last week. The updated forecast for 2016/17 of 339 mkg greasy (up by 4.3%) is in line with the increase in AWTA

tests and AWEX auction offerings, allowing for some release of stocks from previous years' production from stocks held on-farm and in brokers' stores in response to the very good prices (notably ultrafine wool). The Committee's first forecast is for a very small increase in production in 2017/18 to 340 mkg. The Committee believes that continued low sheep numbers will hold back a stronger recovery at this stage. The full detailed report from the Committee is now available. I have attached the report to the email with the *Weekly Newsletter* as a supplement.

The latest data on **China's wool product exports** may provide some clues about what is driving the Merino wool market this year. At first look, the data on China's exports in February is not very encouraging, with significant year-on-year declines in China's exports of wool top, wool yarn, wool fabric and wool sweaters in February. The % declines were -43%, -18%, -28% and -39% respectively. For the financial year to date, China's exports of each of these products have declined: down 14% for wool top; down 15% for wool yarn; down 7% for wool fabric and -15% for wool sweaters. Nothing in these figures indicate why demand by China for Merino wool has risen. However, this doesn't account for the stunning lift in China's **exports of woven wool clothing** in the past two months. China's exports were up by 374% in January and were 107% higher in February. This has pushed the 12-month moving aggregate of China's exports of wool clothing to the highest level since the 12 months ending March 2012 – five years ago. The second **Chart of the Week** shows the trends in China's exports of wool sweaters and exports of woven wool clothing. As can be seen, China's exports of woven wool clothing had fallen steadily since mid-2011 before stabilising at the start of 2016. There were no signs that the exports of woven wool clothing would surge the way it has in the past two months. In terms of destinations, it is exports to the European Union (EU) and to 'Other' countries that has driven the increase. For the 12 months to February 2017, exports to the EU are up 23% while exports to 'Other' destinations are up 151%. Exports to the EU now account for 24% of China's exports of woven wool garments while exports to 'Other' countries account for 37%. The data I have doesn't identify which countries in 'Other' have driven the increase – I hope to find that out while I am at the IWTO Congress next week.



The **IWTO 2017 Congress** begins next Wednesday, 3rd May, in Harrogate, UK. For the 14th year I will chair the Market Intelligence session on 3rd May. I have lined up a number of interesting speakers, led by Dr Christian Schindler, the Director-General of the International Textile Manufacturers' Federation. I will also host a Panel session with representatives from China, New Zealand, the United Kingdom and Australia (Chris Kelly of Australian Merino Exports will provide the Australian perspective). The focus of the Panel session will be on what is driving the diverging directions for Merino wool compared with Crossbred wool. I hope that the session will be recorded so that I can share it. Other key sessions for the Congress include the session on Sustainability Through Wool Textiles, the presentations and panel discussion on the Digital Challenge, and a session on Product Wellness. I will report on the Congress in the next two editions of the *Weekly Newsletter*.

OTHER INDUSTRY EVENTS

The **IWTO 2017 Congress** will be held in Harrogate, UK on 3rd to 5th May 2017.

The **NCWSBA Annual General Meeting** will be held in Melbourne on 24th August, at the same time as **Wool Week**.

The **2017 Nanjing Wool Market Conference** will be held in Tongxiang, China on 17th to 18th September 2017.

WOOL SALES WEEK BEGINNING 1ST MAY 2017 – week 44 (roster as at 27/04/2017)

<u>Sydney</u>	Wed, 3 rd May; Thurs, 4 th May	9,220 bales
<u>Melbourne</u>	Wed, 3 rd May; Thurs, 4 th May	22,356 bales
<u>Fremantle</u>	Wed, 3 rd May; Thurs, 4 th May	9,209 bales