



# The National Council of Wool Selling Brokers of Australia Inc

## NEWSLETTER

Unit 9  
42-46 Vella Drive  
Sunshine West Vic 3020

Phone: 03 9311 0152  
Fax: 03 9311 0138  
E-mail: [newsba@woolindustries.org](mailto:newsba@woolindustries.org)  
Twitter: @woolbrokersaus

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### From the desk of Chris Wilcox, Executive Director

- Australian wool market rebounds as the A\$ falls
- Looming US-China trade war a risk for the wool market
- Mulesing status update
- Reminder: Applications for 2018 NCWSBA Wool Broker Award
- IWTO Market Information report edition 13 now available
- Upcoming events



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The **Australian wool market** this week regained some of the losses recorded in the past fortnight helped by a sharp fall in the A\$. By Thursday the A\$ was down by 1.3 UScents from last week, although it was 1.8 UScents lower on Tuesday. It then fell a bit more overnight to be trading at 77 UScents this morning. The **Eastern Market Indicator (EMI)** lifted by 27 cents to 1778 c/kg, with the gains all coming on Wednesday. Merino wool prices were up, although they did slip a little on Thursday. Crossbred wool prices rose on both days. The Western Market Indicator was 35 cents higher at 1869 c/kg, the Southern Market Indicator lifted by 27 cents to 1731 c/kg and the Northern Market Indicator was 26 cents higher at 1852 c/kg.

After the fall in the A\$ against the US\$, the EMI fell by 3 UScents to 1377 USc/kg. The A\$ also fell against the Euro and the Renminbi. As a result, the EMI was a marginally lower in Renminbi at 8702 RMB/kg but steady in Euros at 1114 €cents/kg. Next week's sale is the last before the one-week Easter recess. There are just over 47,000 bales rostered for sale, including 14,269 bales rostered for the Sydney Royal Easter Show feature sale.

President Trump announced overnight that the US will impose a 25% import duty (aka tariff) on US\$50-US\$60 billion worth of imports from China. The import duty will target 1300 products the US imports from China. The Trump administration complains about China's 'unfair trade practices' and 'intellectual property theft', pointing to a US trade deficit of US\$375 billion with China as evidence. This action, combined with the announcement two weeks ago of a 25% import duty on steel imports and a 10% import duty on aluminium imports, threatens to start a **trade war** which will impoverish the economies of all countries, most particularly the US. That is why the US stock market dropped by 3% overnight.

It is very poor timing, given that the US economy is now growing at a healthy clip (fast enough for the US Federal Reserve to again lift interest rates this week) and economic growth in the European Union is picking up. The much stronger economic growth is, I think, one of the key reasons for the Merino wool price Supercycle the Australian wool industry is now enjoying (see the *Weekly Newsletter* of 9<sup>th</sup> February for details).

I have not been able to find the list of 1300 products that the Trump Administration wishes to impose the 25% tariffs on. However, the trade war will be bad for the wool market, even if there are no products directly related to wool and wool clothing on the list. It will slow economic growth in both the US and China (and elsewhere), affecting demand. There may also be currency effects which will hurt wool. While the \$A fell on the news of the new import duties, in the longer run the US\$ is likely to fall against the A\$ as a result of a trade war between the US and China, pushing up the price paid in US\$ for Australian wool.

The downturn from three of the previous four Supercycles have been triggered by an event external to the wool industry. For example, in 2005 the SARS outbreak in China and restrictions imposed by the Chinese Government on movement of people and products was the trigger to the downturn from the 2003-2005 Supercycle. The announcement of these tariffs on imports from China and the possibility of China retaliating, leading to a trade war, could be the trigger for a downturn in the current Merino Supercycle.

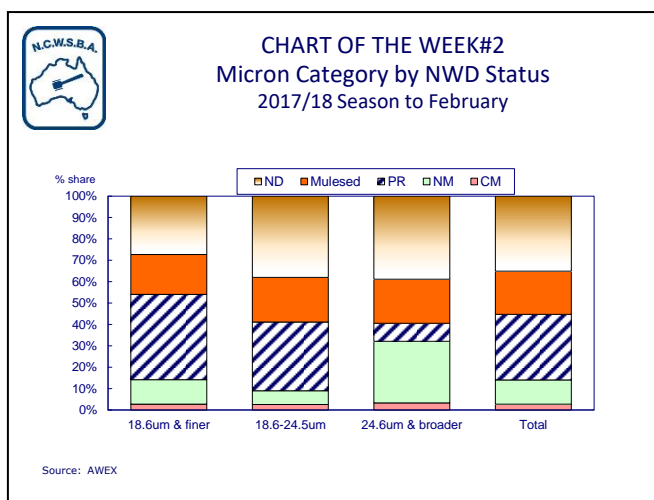
The first **Chart of the Week** gives further details about the downside to the Merino Supercycles in the past 20 years and the context of the decline from each Supercycle. This is the companion chart to the Chart showing the upside of the Supercycles which I included in the *Weekly Newsletter* on 9<sup>th</sup> February. The key triggers for each downturn as marked in red text. The chart also shows the extent of the decline from the peak of each Supercycle.

**AWEX** last week released the latest statistics from the **National Wool Declaration**. For the 2017/18 season to February, wool with a Ceased Mulesed (CM), Non Mulesed (NM) or Pain Relief (PR) declaration accounted for almost 45% of all wool offered. This compares with 39% for the same period in the 2016/17 season. CM-declared wool was 2.7% of the total, NM wool was 11.3% of the total and PR wool was 30.7% of the total in the current season. Wool offered with an NWD accounted for 65% of the total, compared with 50% for the July-February period in 2016/17.

It is interesting to see the split of each micron category by NWD status. The second **Chart of the Week** shows this break-up. For superfine wool (18.5 micron & finer), 73% of the wool offered this season had an NWD: 40% was declared as PR, 11.4% was declared as NM and 2.7% was declared CM. For the 18.6 to 24.5 micron category, only 62% of the offered wool came with an NWD. Of this, 32% was declared as PR, only 6.4% declared as NM and 2.6% declared as CM. For the broad wool (24.6 micron & broader), 61% came with an NWD, with 8.4% declared as PR, 3.3% declared as CM and a high 28.8% declared as NM. The latter % makes sense – Crossbred sheep don't need to be mulesed and growers should be encouraged to declare that.

Date	Price change – peak to low*		Low Price*		Weeks – peak to low	Comments
	UScents	Acents	UScents	Acents		
May 1988 to March 1991	-666 (-55%)	-1045 (-66%)	418	537	111	Soviet Union falls apart, Tiananmen Square incident Reserve Price Scheme collapses
March 1995 to May 1996	-232 (-33%)	-343 (-36%)	475	606	97	Market adjusts to massive stockpile in Australia after 'dead-cat' bounce post-collapse of Reserve Price Scheme
January 2003 to December 2005	-229 (-32%)	-562 (-46%)	480	649	59	Economic slowdown, excess stocks in wool textile industry, SARS outbreak in China triggers price fall
June 2011 to September 2012	-549 (-36%)	-501 (-35%)	963	933	57	Global cotton prices drop as China builds up massive cotton stockpile, causing drop in all fibre prices. Excess stocks in wool textile industry

\* Based on the Australian Eastern Market Indicator, 2017/18 basis



Don't forget that applications are now open for the **NCWSBA Wool Broker Award for 2018**. Sponsored by Fairfax Agricultural Media and AWTA, the Award recognises excellence in wool broking by a younger member of our industry. This year's Award winner will be granted an **all-expenses paid trip Venice, Italy to attend the 2019 IWTO Congress in April 2019**. Contact me for application forms.

Edition 13 of the **International Wool Textile Organisation's Market Information Report** has just been released. The definitive source of statistics on the global wool industry, it is free to IWTO Members and available to non-members at €500. **Please contact me at [chris.wilcox@woolindustries.org](mailto:chris.wilcox@woolindustries.org) or 0419344259 for details.**

#### INDUSTRY EVENTS

The **World Merino Congress** will be held in Montevideo, Uruguay on 12<sup>th</sup> to 14<sup>th</sup> April 2018. Click [here](#) for details.  
The **IWTO 2018 Congress** will be held in Hong Kong on 14<sup>th</sup> to 16<sup>th</sup> May 2018. Click [here](#) to register.  
The **Nanjing Wool Market Conference** will be held on 11<sup>th</sup> to 13<sup>th</sup> September 2018 in Nanjing.  
The **IWTO 2018 Round Table** will be held in Buenos Aires on 3<sup>rd</sup> to 4<sup>th</sup> December 2018.  
The **IWTO 2019 Congress** will be held in Venice on 9<sup>th</sup> to 11<sup>th</sup> April 2019.

#### WOOL SALES WEEK BEGINNING 26<sup>th</sup> MAR 2018 – week 39 (roster as at 22/03/2018)

**Sydney**  
Tues, 27<sup>th</sup> Mar; Wed, 28<sup>th</sup> Mar 14,269 bales

**Melbourne**  
Tues, 27<sup>th</sup> Mar; Wed, 28<sup>th</sup> Mar 22,794 bales

**Fremantle**  
Tues, 27<sup>th</sup> Mar; Wed, 28<sup>th</sup> Mar 10,028 bales

*Information in the Weekly Newsletter is intended to provide general information only and is not intended to constitute advice for a specific purpose.*