



27th July 2018

2018/25

From the desk of Chris Wilcox, Executive Director

- Signs that US Government's trade disputes starting to hurt
- Exports from the five major wool producing countries lift
- Broad-based rise in raw wool imports by the major processing countries
- Dry and drought conditions in major Australian sheep regions likely to continue
- Upcoming events



As many of you would be aware, the US Government over the past few weeks has imposed **punitive tariffs** on imports of over 800 products from China. It has also introduced extra tariffs on steel and aluminium from Europe and Canada. China, Europe, Mexico and Canada have all responded by imposing their own high tariffs on imports from the US. The response from these countries is very targeted, hitting products produced by the support base of the Trump administration, such as soybeans, automobiles and motor bikes. As I have said in previous editions of the *Weekly Newsletter*, nobody will win an escalating trade war, and there will be collateral damage of countries and products that are not directly involved. This includes the Australian wool industry even though (at this stage) there are no wool textile products targeted by the high tariffs. This damage will come from the effect the tariffs has on slowing the economic growth in the US, China, European Union and elsewhere. Disappointingly, there is no sign of any side pulling back from the brink.

There are signs that these increased tariffs are starting to bite in the real economy. For example, Harley-Davidson, the iconic US motorbike manufacturer, this week said that profits will be lower than expected, citing the higher tariffs in major export markets as a key factor. A month earlier, Harley-Davidson announced that it would be manufacturing motorbikes in the EU for the first time, citing the increased tariffs (up from 6% to 31% under the EU-announced tariff hike) as one reason for the move. Furthermore, Bloomberg reported this week that there are signs that manufacturing indices in the European Union and China have dipped in the past month, suggesting a link to the tariff increases. A slow-down in global economic growth now would be very disappointing as we are enjoying the best period of synchronised global economic growth since before the Global Financial Crisis. This synchronised growth has been a driver of the higher wool prices.

According to the latest data available from the **major exporting countries, raw wool exports** have increased by 8% in the 2017/18 season to May. This increase been led by a 19% increase in exports from New Zealand and a 22% increase in exports from Uruguay. Both countries this is it rebound from the sharp decline in the 2016/17 season. There was also an increase in exports from Australia (up 5%) and a 2% increase in exports from Argentina. Exports from South Africa were 1% higher. Details are shown in the first

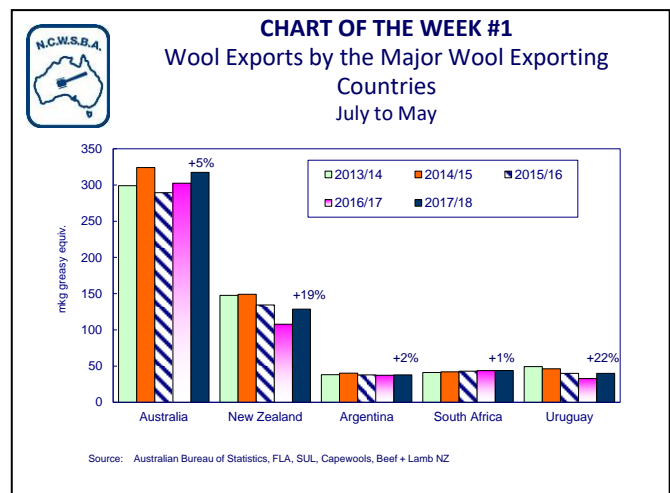


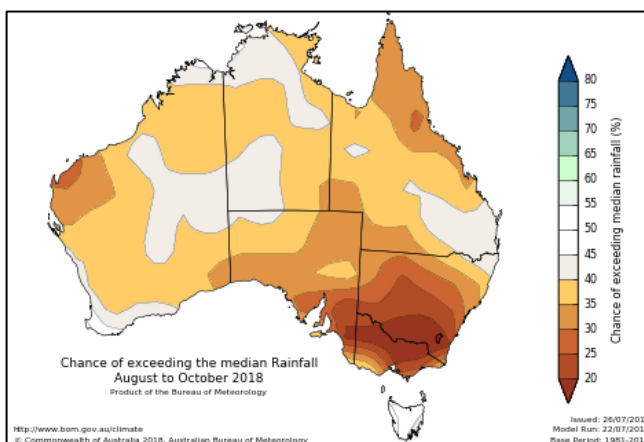
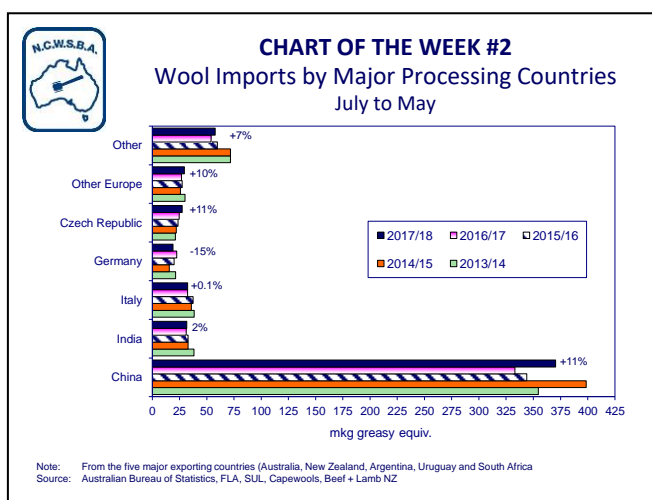
Chart of the Week. As can be seen in the chart, exports from New Zealand and Uruguay and still not returned to the 2015/16 levels.

There has been a broad-based improvement in **demand for raw wool** from many of the **major wool processing countries** (see the second **Chart of the Week**). While imports by China have lifted by 11%, there has also been a significant improvement in exports by the Czech Republic (up 11%), other European countries such as United Kingdom and Bulgaria, as well as 'other' countries which includes Egypt and Malaysia. After lagging for the first 6-8 months, India's raw wool demand and imports have lifted sharply in recent months. As a result, for the eleven months to May, India imports were 2% higher than for the same period in 2016/17.

This broad-based improvement in demand from raw wool has without doubt been the major contributor to the increase for price for wool, and in particular for Merino wool.

It has been **very dry in many parts of Australia** this year, with some areas in drought. In the April to June period, the Bureau of Meteorology reports that there was below or well below rainfall throughout New South Wales, Queensland, Western Australia and much of South Australia. The eastern half of Victoria and the north of the state have also seen dry conditions. The exception has been the south-west of Victoria, the south-east of South Australia and much of Tasmania, all of which have seen average rainfall in the three months April-June.

The Bureau yesterday released its **updated rainfall and temperature outlook** for the August to October period. The Bureau says that it is likely to be drier than average for most of mainland Australia. Chances are highest in the southeast, where there is a greater than 80% chance of a drier season for northern Victoria and southern NSW. Tasmania has roughly equal chances of a wetter or drier than average three months—so no strong indication either way that it will be particularly wet or dry. The **map** shows the chance of exceeding median rainfall, with the deeper the brown shading, the lower the chance of median rainfall. This is a very challenging outlook over the early part of Spring. Wool producers will be hoping that the Bureau's forecast is not realised.



INDUSTRY EVENTS

The **NCWSBA AGM and Forum** will be held on Thursday, 23rd August 2018 in Melbourne as part of the **2018 AWIS Wool Week**.

The **Nanjing Wool Market Conference** will be held on 11th to 13th September 2018 in Nanjing.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

THE AUSTRALIAN WOOL MARKET IS IN RECESSION.
SALES RESUME IN THE WEEK BEGINNING 6TH AUGUST 2018.

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