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NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- Demand drives prices higher in Australian wool market
- Wool's price competitiveness improves
- Australian wool exports in fall in October, up for the season
- Wool with a National Wool Declaration continues to rise
- Dry November in many parts of eastern Australia
- Upcoming industry events



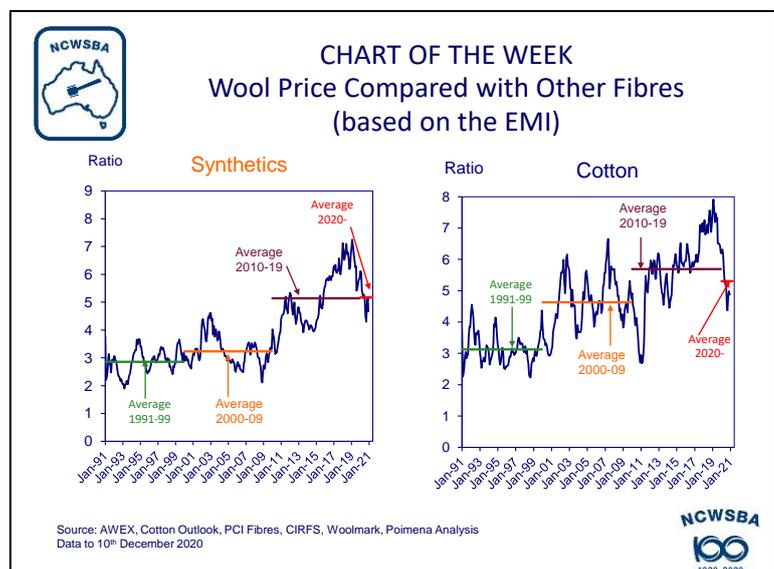
It was a very good week in the **Australian wool market** as decent demand drove prices higher even though the A\$ hit the highest level in 29 months. The good news is that prices rose on both sale days and all three selling centres, which is pretty unusual in recent times. Prices for all microns and almost all wool types lifted over the week, with the small exception of Merino Cardings in Fremantle, which eased by 2 cents. The **Eastern Market Indicator (EMI)** lifted by 54 cents to 1198 c/kg. Of the regional market indicators, the Southern Market Indicator rose the most, up by 57 cents to 1161 c/kg. The Northern Market Indicator lifted by 49 cents to 1257 c/kg and the Western Market Indicator was 46 cents higher at 1244 c/kg. The A\$ continued to rise strongly against the US\$ (as the US\$ weakened against most currencies), hitting the highest level against the US\$ since July 2018. It also lifted against the Euro and the Renminbi. The EMI lifted by 47 UScents to 892 USc/kg, by 290 RMB to 5819 RMB/kg and by 36 €cents to 735 €cents/kg.

As I reported in the **Weekly Newsletter** on 27th November, prices for cotton and synthetic fibres have risen by more than wool prices in the past few months. This trend has continued in the past fortnight, with cotton and synthetic fibre prices rising again this week. As a result, Australian wool's **price competitiveness** has improved significantly since the start of 2020. The ratio of the EMI to cotton price has fallen from an all-time peak of 7.92 in February 2019 to 6.32 in February 2020 and is currently sitting at 4.88. The ratio of the EMI against synthetic fibre prices has also fallen from an all-time peak of 7.25 in February 2019 to 6.08 in February 2020 and currently sits at 4.66.

The first **Chart of the Week** shows the trends in the price ratios between the EMI and synthetic fibres (left hand graph) and cotton prices (right hand graph). As can be seen, the current ratios of wool against both synthetics and cotton are well below the peak levels reached in late 2018. For cotton, both the current price ratio and the average since January 2020 are well below the levels seen through the 2010s.

This means that wool is more competitive against both synthetics and cotton, which should support demand for wool by garment makers, weavers and knitters.

The Australian Bureau of Statistics has released data on **Australian wool exports** in October. The volume of exports to all



destinations were down by 2%. Reflecting the large year-on-year drop in wool prices in September and October, the value of wool exports collapsed, down by 32% for the month compared with November 2019. Exports to China were 13% higher by volume compared with October 2019 (although the value of exports to China in October was down by 20%). This puts China's share of Australia's export volumes at 89% for the month. Exports to Korea, the fourth largest destination, were 43% higher, while exports to the UK 81% (although the UK is only a very small export destination). On the other hand, Australia's exports to Europe as a whole slumped by 54% in volume and by 72% in value. Of the main European countries, exports to the Czech Republic were down by 21% in volume while exports to Italy slumped by 75%. Exports to India dropped by 39%, although that country remained the second largest destination for Australian wool in October. For the four months of the 2020/21 season to October, the volume of exports was a slight 1% higher than a year ago, with exports to China and the Czech Republic than a year earlier, up by 18% and 15% respectively. The value of Australia's wool exports was down by 30% in the July-October 2020 period.

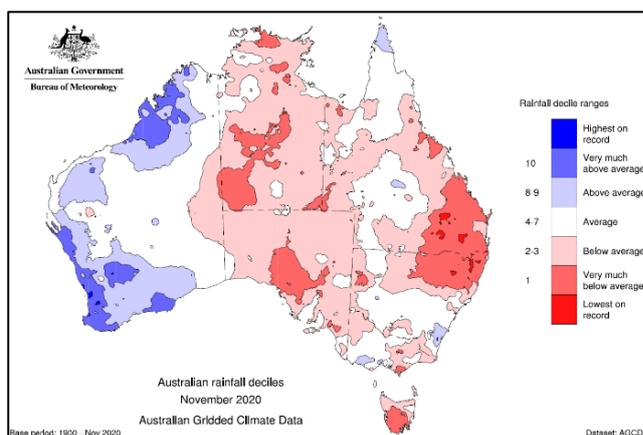
According to the latest data from AWEX, there was a 2% lift in the number of first-hand farm bales offered at auction with a **National Wool Declaration (NWD)** in the five months July to November 2020. As shown in the table below, the most significant % increase has been bales of wool declared as Ceased Mulesed (CM), which is up by 66%. There has also been a more moderate lift in the number of bales declared as Non-Mulesed (NM) and wool from sheep that have been mulesed with an analgesic or anaesthetic product (AA). As a result of these changes, the proportion of wool offered at auction declared as NM was 14.0%, above the proportion in the same period of last season. The proportion of wool declared as AA reached 40%. In total, the amount of wool declared as NM, AA or CM was a little over 58% of the total volume of first-hand wool offered. Wool with an NWD lifted to 76.6% share of the total offering.

Table: NWD Statistics – Season to November (bales)#

| | CM | NM | AA | CM+NM+PR | Mulesed | All NWDs | ND | Total |
|--------------------------|--------|--------|---------|----------|---------|----------|---------|---------|
| 2019/20 | 12,244 | 64,366 | 179,142 | 255,752 | 83.654 | 339,406 | 124,322 | 463,728 |
| 2020/21 | 20,287 | 66,199 | 189,090 | 275,576 | 86,657 | 362,233 | 110,746 | 472,979 |
| % change | +66% | +3% | +6% | +8% | +4% | +7% | -11% | +2% |
| 2019/20 share (%) | 2.6% | 13.9% | 38.6% | 55.2% | 18.0% | 73.2% | 26.8% | 100% |
| 2020/21 share (%) | 4.3% | 14.0% | 40.0% | 58.3% | 18.3% | 76.6% | 23.4% | 100% |

First-hand offered, clip lots only. Excludes Rehandle, Interlots and Bulk Class.

In spite of the Bureau of Meteorology's forecast of extensive rainfall due to the La Nina event, **rainfall in November** was disappointing. As the map shows, significant parts of the east coast recorded below average rainfall (the red on the map), particularly in Queensland, South Australia, Tasmania, the eastern part of Victoria and northern New South Wales. In contrast, Western Australia recorded well above average rainfall in the main sheep growing areas in the south-west of the state. The Bureau has maintained its forecast of above average rainfall over the next three months.



INDUSTRY EVENTS

The **Australian Wool Production Forecasting Committee** will meet on 16th December 2020 to review its current forecast of wool production for the 2020/21 season.

The **2021 IWTO Congress** is scheduled to be held in Kyoto, Japan in May 2021.

WOOL SALES WEEK BEGINNING 14th DEC 2020 – week 25 (roster as at 09/12/2020)

| | | |
|------------------|--|--------------|
| <u>Sydney</u> | Tues 15 th Dec; Wed, 16 th Dec | 10,848 bales |
| <u>Melbourne</u> | Tues 15 th Dec; Wed, 16 th Dec | 27,961 bales |
| <u>Fremantle</u> | Tues 15 th Dec; Wed, 16 th Dec | 10,317 bales |

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