

# AWI

## MARKET INTELLIGENCE

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THE  
WOOLMARK  
COMPANY



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With our first report for the calendar year 2019, we examine sentiment in wool auction sale rooms in Australia and also at the other end of the wool pipeline in the northern hemisphere, particularly Europe given winter sales figures are an important indicator of demand for the entire wool industry.

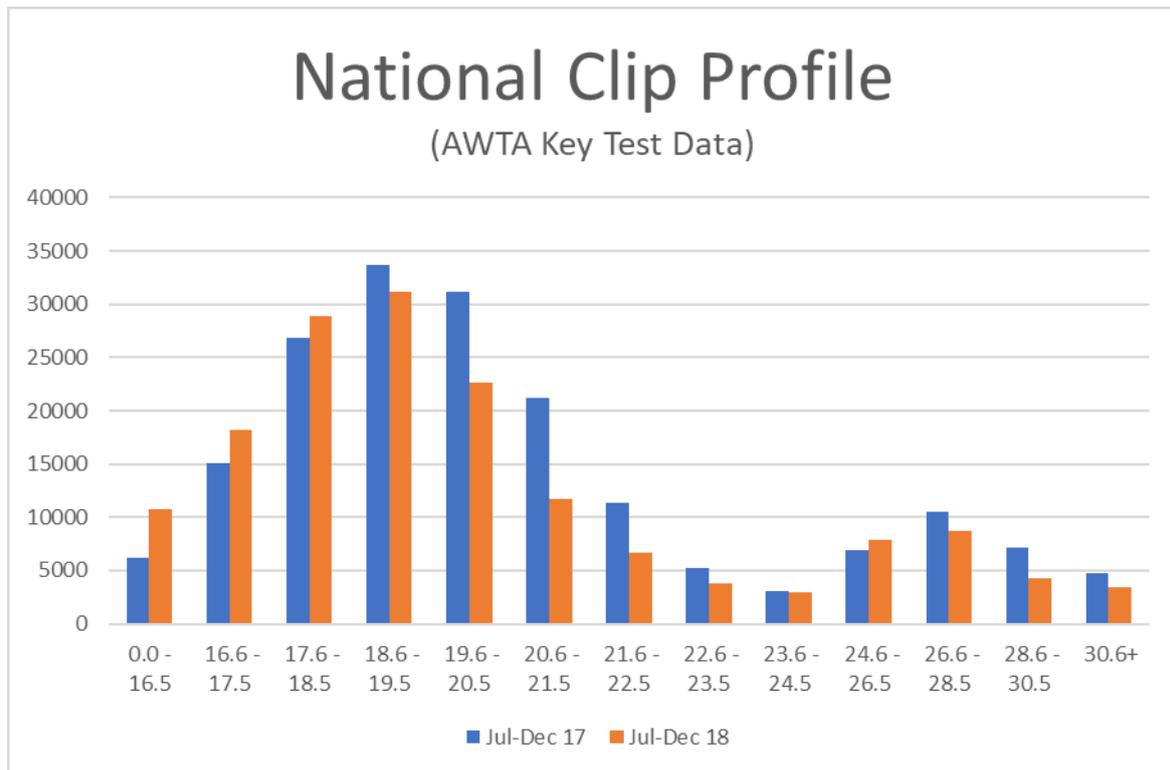
Central to this, we examine the crucial issue at the moment: drought supply meets subdued demand.

AWI Trade Consultant Scott Carmody told episode 73 of The Yarn podcast how demand for raw wool in sale rooms during the first few weeks of 2019 started with a surprisingly buoyant mood, moved to consolidation but at times also appeared quite stagnant, particularly from Chinese buyers. These comments appear somewhat contradictory at first glance but mirror the uncertainty that sometimes comes at this time of year as well as the caution surrounding US and China trade and foreign exchange movements.

While many woolgrowers in Australia continue to feed drought-hungry sheep under perfectly blue skies, on the other side of the globe, something equally as important to the wool industry is happening: northern hemisphere winter sales. While wool is marketed as a “fibre for all seasons and all occasions”, nothing beats a warm winter coat or jumper when it is cold and the start of winter in key northern hemisphere markets simply wasn’t particularly cold and sales were correspondingly slow. These retail sales figures help to set a buying tone for further along the wool pipeline given retailers need designers, who need manufacturers, who need exporters who need woolgrowers. Our role at AWI/The Woolmark Company is to have everyone along that pipeline choose wool. Having cold weather and marketing campaigns that drive consumers to buy wool from retailers drives demand all the way back to the sale room and in turn, the decision to run wool-producing sheep.

Given this, it was pleasing to have a cold winter arrive in Europe, with parts of Greece shivering through temperatures as low as -20 degrees, Rome frozen over and the polar vortex affecting North America on the other side of the Atlantic. With this cold weather, anecdotally, sales figures have improved and while this is not immediately translated to sale rooms in Australia, it is eventually linked because without demand for woollen garments, there is no price. Without wool being placed in new season products, there ultimately is no demand.

The market signals of demand from brands and manufacturers appear to be over-shadowed by concerns over low supply, particularly in the 19 to 22-micron category; a micron band traditionally favoured by many Chinese processors who produce more industrial-type garments for uniforms and the like. The supply of these wools has reduced by about 15% year on year due to the drought, with many of these clips now falling closer to the superfine category of 18.5 microns and finer according to the AWTA. These “drought-fine” wools have actually led to an increase in the amount of 18.5 micron and finer wools coming onto the market as seen when comparing the clip profiles of July to December last year compared to the corresponding time the year before, below.



One of the few upsides of the continuing drought is the pleasing staple strength of drought-affected clips. While AWTA has reported how yields have fallen with increased dust in wools (easily taken care of through the scouring process), the measure of staple strength being newtons per kilotex for many drought wools has actually held up very well with a drop of only 0.4-0.5 nKT for the typical drought-affected wool clip. This result allows buyers to place confidence in the processing capacity of these wools even if the yields are a little lower than normal.

In-turn a good price for these wools gives confidence to woolgrowers to continue to keep stock for when good seasons return and we all hope they do in 2019.

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