

AWI

MARKET INTELLIGENCE

November 2018

THE
WOOLMARK
COMPANY



awi
Australian
Wool Innovation
Limited



This month, with the wool market seemingly having found its feet after a number of weeks, we examine the health of our most important market; China. As mentioned many times in this report, 80% of Australian raw wool exports head to China and half of this is ultimately consumed at retail there.

Firstly though, in the Western/Northern Hemisphere markets, luxury brands are not yet impacted greatly by the price escalation seen over the last 12 months due the price elasticity they enjoy with their relatively wealthy customers. However, they are a little concerned at the speed of the price climb and are monitoring it more closely now as a result.

The shoulder/mass market brands are looking for blends with wool as opposed to pure wool garments to reduce price over pure Merino items but still want to make functional claims about the benefits of wool. They are pushing their vendors to explore more innovative natural fibre blends that can compete with pure merino. AWI through The Woolmark Company has spoken to some brands that are experimenting with grass fibres, oyster shell fibre (aka sea wool) or perceived exotic fibres like bison.

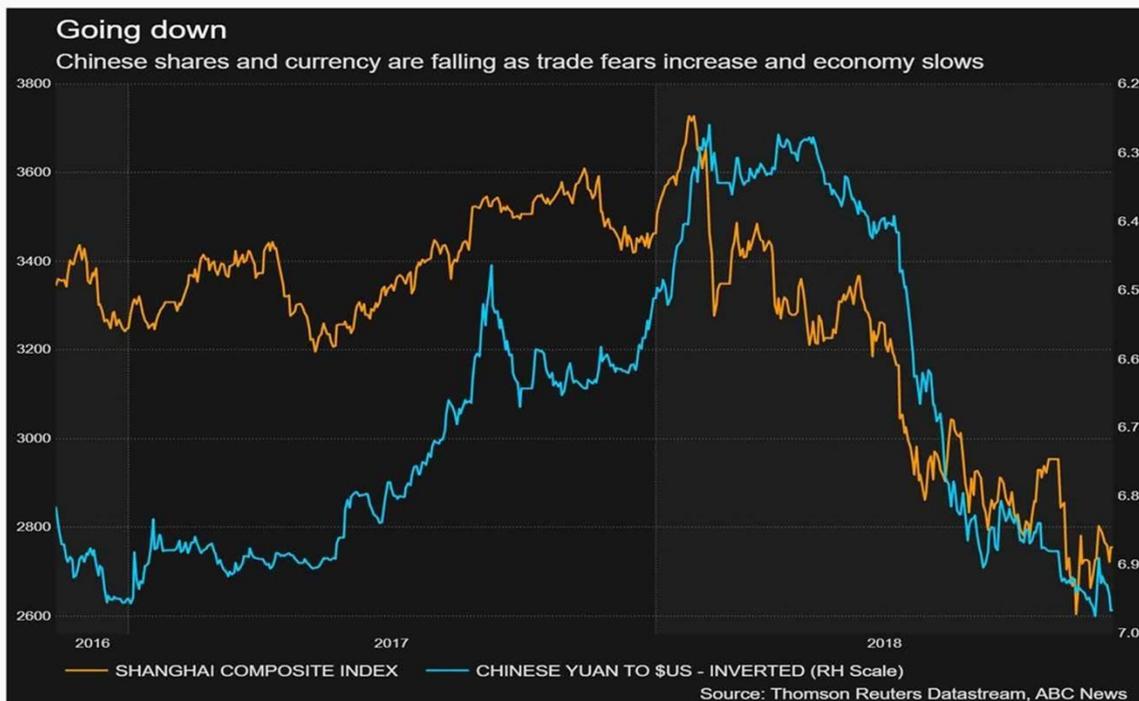
The performance sports brands also do not seem too impacted by price rises but are pushing for more functionality through innovation or select placement of Merino in targeted garment areas such as backs, arms etc with synthetics in non-core areas. This is based on increasing performance not price considerations.

In the Eastern hemisphere, which is largely influenced by China and India, the recent price falls from the highs of August 2018 are explained by a litany of reasons, many of which are anecdotal and others fact based. As China still takes 76% of our wool clip, the most influence on our wool price logically stems from the goings on in this nation.

Firstly, it must be recognized that the value of the Chinese Yuan (CNY) has fallen against the USD more than 10% since March 2018. In real terms this means a 10% price hike for Chinese based manufacturers on top of the strong Australian Dollar (AUD) price gains at Australian and other markets.

The last year has seen a staggering 30% loss of share market values. It is believed that most Chinese like to invest in stocks and shares and with such losses recorded, it would appear that no-one, including large wool textile mills, would be immune to be taking a pretty heavy hit on their paper investments/worth over the past 8 to 12 months.

The China trade disagreements with the USA have certainly taken effect since the commencement of the tit-for-tat sanctions earlier in 2018. Whilst not an overly large consumer of the higher-priced Australian wool garments, the USA is estimated to still consume the equivalent of around 14% of our annual clip. Most of this can be assumed to be manufactured off-shore in predominantly China, as the local manufacturing capability of the USA is minimal to say the least as far as wool textiles is concerned.



Most retailers in the Eastern Hemisphere sector have absorbed the raw wool price increase rather than pass it on to the consumer. On this basis, most of the price resistance is coming from the supply chain rather than the consumer. Whilst it is thought that European users may have bought stocks up to a year in advance, China continues to run on “just in time” inventory control. This means there is minimal stock in the Asian supply chain, and in order for any potential money making to occur, that chain has to eventually be stocked.

Anecdotally, it is thought that the early stage processing capacity has increased in the Zhangjiagang region (China’s textile hub) by up to 35,000 tons (roughly 310,000 greasy bales of consumption if at full capacity). This increased capacity is considered to be in the form of new machinery, not excess second hand or repurposed that is being sold from other manufacturers. Needless to say, a significant oversupply of capacity exists and that is not likely to change in the near future as global supply of wool continues to shrink and prices remain in the higher levels.

A lot of mills are reportedly nervous about missing the perceived “bottom of the market” and don’t want to let the market get away from them. It is widely known that the decline in use of Australian wool in India arose from the fact that that country in general was slow to act and believe in the higher prices over the past few years, and subsequently “missed the boat” for buying through all price levels last time and don’t want to be left behind again.

Using demand as the key driver, price levels appear to be reverting to a level of price in USD that was successfully retail tested 12 months ago at Northern hemisphere sales. The wool used last year was purchased some 14 to 18 months prior and that gives us the latest known “acceptable” level of price, which is about, but not as low yet, where the market was averaging during that period. We have just seen the commencement of the peak Northern hemisphere retail period so as of yet, results are not in, but extremely positive signs from China’s singles day and the Black Friday sales shows consumers are still very much active and remain keen at the higher end of the fashion triangle and that is a good barometer for the continued demand of wool, and particularly Merino, wool products.

WWW.WOOL.COM

Whilst Australian Wool Innovation Limited and The Woolmark Company Pty Ltd and their employees, officers and contractors and any contributor to this material (“us” or “we”) have used reasonable efforts to ensure that the information contained in this material is correct and current at the time of its publication, it is your responsibility to confirm its accuracy, reliability, suitability, currency and completeness for use for your purposes. To the extent permitted by law, we exclude all conditions, warranties, guarantees, terms and obligations expressed, implied or imposed by law or otherwise relating to the information contained in this material or your use of it and will have no liability to you, however arising and under any cause of action or theory of liability, in respect of any loss or damage (including indirect, special or consequential loss or damage, loss of profit or loss of business opportunity), arising out of or in connection with this material or your use of it.

© Australian Wool Innovation Limited and The Woolmark Company Pty Ltd. All rights reserved. This work is copyright. Except as permitted under Copyright Law no part of this publication may be reproduced by any process, electronic or otherwise, without the specific written permission of the copyright owner. Neither may information be stored electronically in any form whatsoever without such permission.