AWI MARKET INTELLIGENCE

September 2018

This month we examine the current state of the falling market in the context of the record highs of the season.

As of end September 2018, we are in the midst of a declining market. The Eastern Market Indicator (EMI) has come off its record high of 2116ac six weeks ago to 2013ac as at the end of September, representing a 4.9% fall. The EMI expressed in US dollars (USD) has been impacted more negatively with a 5.4% fall from 1539usc to 1456usc. These USD levels are indicative of both the short-term price resistance in play and also a slackening of demand, allegedly caused by the relatively high prices. In reality though, this time of the yearly textile cycle is a “slack time” in production in China as most garments for the Northern Hemisphere fall/winter season have already been made as typically this retail period sells the majority of the annual wool product.

In general, the greasy wool price is determined by retailers placing orders for wool garments at a set price for the upcoming season. With such heavy competition in the wool industry and indeed the demand from the Chinese manufacturing sector over the past years, we now see mill owners, traders (and even agents in some instances) speculating to buy greasy wool in the hope of selling greasy, tops or yarn at an acceptable profit margin to one of their clients.

This current price-setting method goes completely against the grain of normal price-making in textiles. Traditionally, apparel that moves along the processing pipeline drives demand. Orders for garments placed by retailers with garment manufacturers ultimately drag raw wool through from the auction system. So, wool is normally pulled through the pipeline by the retailers, not pushed through by wool being offered wool for sale in Australia.

This partly explains the volatility at present, but that traditional, and perhaps now potentially theoretical price setting methodology, is set to be fully tested in the medium term. Much of the strong gains in wool price has occurred out of new product innovation and partly on some innovative finishing techniques developed on established product. These new innovations and products have brought new players into the market, people who are selling wool garments for the very first time.

For those completely “new” wool retailers, today’s price of wool is not a record high but in fact, just “the price” of that material (wool). They have no prior knowledge or indeed care that wool used to be 800ac. The past is simply not on their radar as a factor in whether to make and sell. They came into the product at these prices and they surely would not have done so if it wasn’t profitable. With the relatively “new” retail product of next to skin, athleisure and adventure wear as well as new products such as shoes taking an estimated 12 to 15% of greasy wool, the retail buyers of these innovative products will become increasingly more influential for wool price setting as their market share of wool grows as expected.

It is more the long term invested traditional worsted and knitwear makers that fear these price levels. Having experienced decades of a “grocery store” mentality of being able to purchase wool “off the shelf” prior to the past five years or so, there needs to be a serious education of these users of the new paradigm of wool pricing and create awareness of the new competition for wool at manufacturing level that now exists. With all sectors of the supply chain having tightened margins to the core to adjust to the higher cost of raw materials, it is now up to all of industry to convince retail buyers and consumers that they need and want to pay more for wool garments and product.

There is no doubt that long term wool participants incessantly talk of current prices as “high” and of “record” levels, but as an industry we perhaps need to adjust our rhetoric. We need to reflect and portray the confidence that this level is where we need to be in order to have land holders produce wool, particularly Merino, as a first-choice enterprise.

Landowners have a choice around what to produce on their farm and with their resources at hand, whether it be Merino or crossbred wool, prime lambs, beef or cropping. Likewise those at the other end of the wool industry also have a choice: retailers and designers can choose whether to use wool or indeed cotton, polyester, nylon or even cashmere. In fact, no one in the wool industry has sold any wool until a consumer buys a product, a point often made by the late Michael Lempriere.

Naturally we want everyone to choose wool and the messaging of our fibre as natural, renewable and biodegradable has increasing resonance in a world seeking true sustainability. The many Woolmark licensees that we host in Australia are also increasingly wanting to have a stronger connection with the land, animals and people behind the fibre they choose in their garments so traceability and transparency are an increasingly important part of the industry. The role of the National Wool Declaration is significant in this regard but also the ongoing development of WoolQ brings wool producer and downstream wool users closer together. WoolQ opens up the opportunity for collective marketing of certain wools according to say bloodline and geography.

The drop in the wool price as experienced in recent weeks has been caused by various factors and is not entirely unexpected. Southern Aurora briefly debates the way forward in its most recent market report:

“The current retraction in the spot market of around 100 cents is in line with the previous seven pull backs over this two year period. The question is does the market need to come back further to meet the expectations of downstream processors and consumers or will tight supply due to the sustained drought conditions halt the downward trend.

Forward market levels for October and November indicate exporters willingness to cover some of their risk at close to spot. 21.0 micron is bid at 2150 about one percent under spot. 19.0 micron for the same period at 2260 about four per cent under the current cash market.”