

AWI

MARKET INTELLIGENCE

July 2018

THE
WOOLMARK
COMPANY



awⁱ
Australian
Wool Innovation
Limited

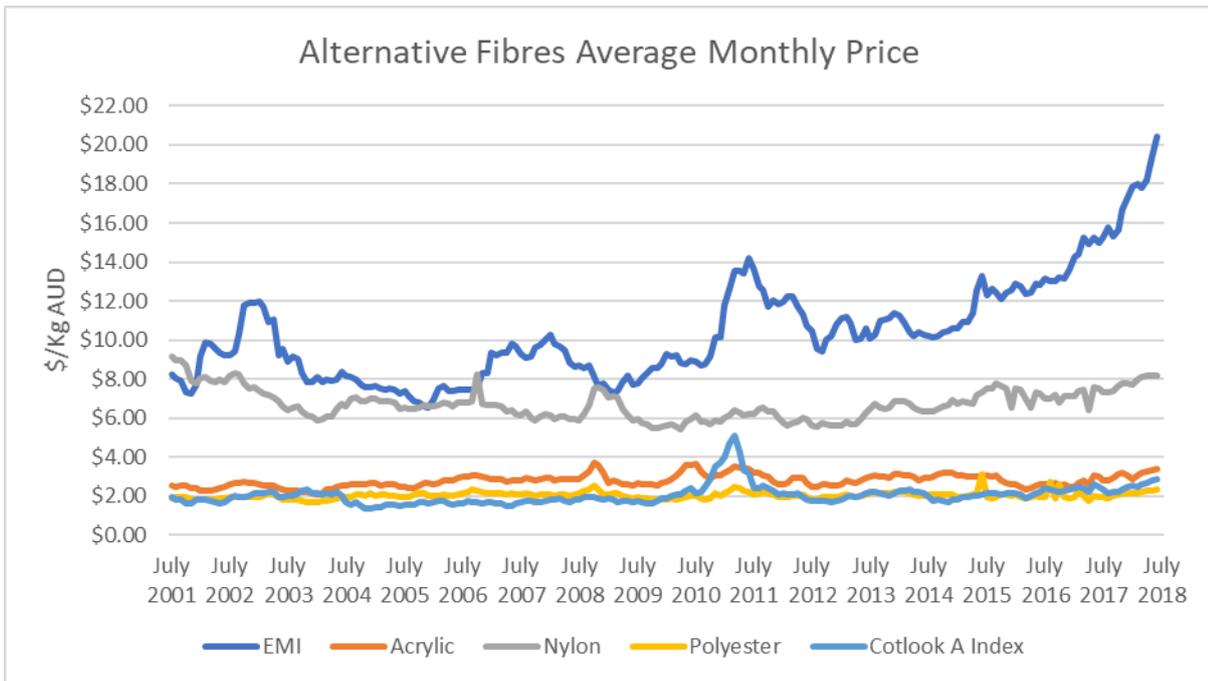


This month we examine in more detail the price ratios of wool relative to other fibres, not only man-made commodity fibres but other natural fibres such as cotton and cashmere, the latter being of increasing relevance to wool rather than the former. We examine the ratios as a window into a changing dynamic for the demand for wool, and examine why it might be the case.

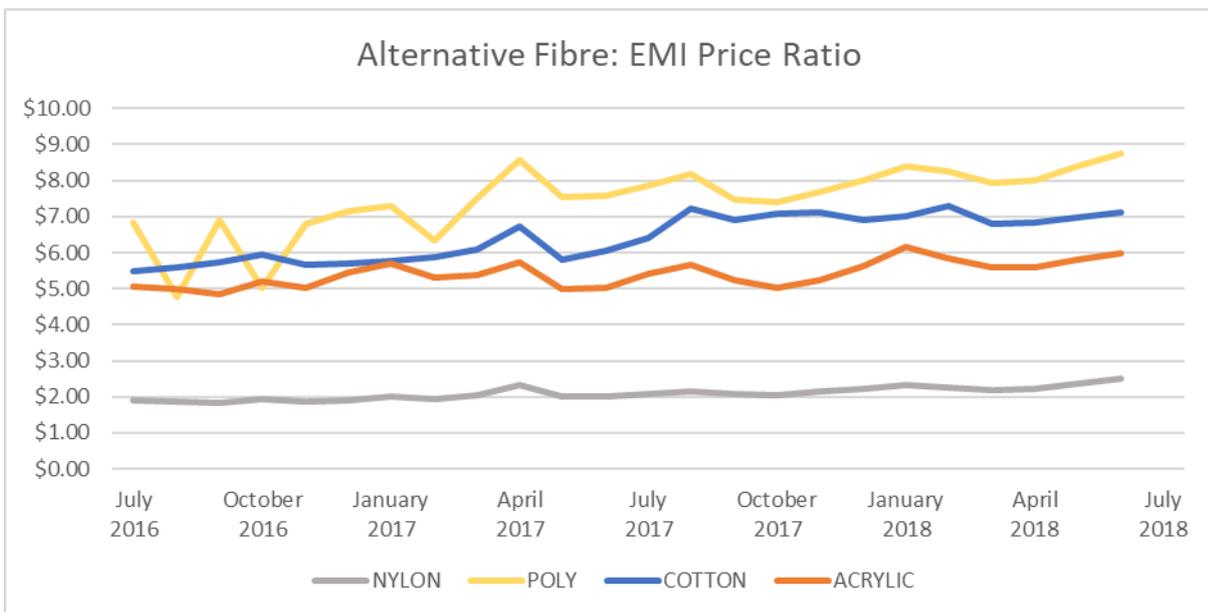
The chart below shows the price of wool relative to “commodity fibres”, produced on mass around the world for textiles. Polyester, nylon and acrylic are all man-made fibres, produced as part of the petroleum industry. Cotton of course is a natural fibre but is grown around the world in very large volumes relative to Australian wool production.

The chart firstly shows how relatively volatile the price of wool is when compared to other fibres. Given the production of man-made fibres can be either switched on or off it is perhaps not surprising to see. The global and varied production and demand for cotton lends itself to a more stable price also but notably the price spike for wool in 2011 was also mirrored for cotton but not for the man-made fibres.

Traditionally wool has traded at between 3 and 4 times the price of cotton but since around 2014, the price of wool has pulled away from the traditional price ratios for not only cotton but the man-made fibres and has therefore become relatively more expensive. The June 2018 wool:cotton ratio is now 7.1 with the EMI at \$20.40 and the Cotlook A Index at \$2.87. The grey line of Nylon prices has traded at \$1-2 below the EMI and in rare cases actually traded higher than the EMI (July-November 2001 and October 2006) but the price of wool is currently 2.49 times the price of nylon.



Looking at a graphic of the actual price ratios of wool relative to these fibres since July 2016 shows this upward movement in a more stable way with the relative prices for polyester between July and December 2016 being the anomaly to this concept.



The questions many ask when presented with this information are: “are these other fibres direct competitors to wool in the market anyway?” and “is wool therefore pricing itself out of the market by simply being too expensive relative to these other fibres?”

To answer these questions it is good to place woolgrowers in the same context as fabric-makers, fashion designers and retailers. It is a fair comparison because just as most woolgrowers have the choice as to what to produce from their land, often a choice between wool and meat sheep, beef production or cropping, those further along the wool production chain have a choice about what to produce also. Fashion designers must choose a look, a design, made from fabric and the manufacturer and retailer also. In fact, ultimately the consumer makes a choice about what to purchase and in essence this is the most important transaction in the entire wool industry as until

the consumer purchases a wool product, no one along the entire industry has actually sold any wool at all. This was a point often made by the late Michael Lempriere.

Is wool substituted for cheaper fibres as the market lifts? Absolutely, and when the price of wool lifts for a sustained period of time fibre substitution is first seen in the stores where sales volumes are high and margins are low. Essentially the change happens from the lower end of the fashion pyramid, and this is exactly why many wool marketing efforts occur towards the top of the fashion pyramid. As a marketing body, AWI/Woolmark want to be working with retailers and brands who are willing to pay more for wool, who have what economists call a higher price elasticity; partnering with companies who have a longer-term commitment to using wool and who recognise the need to pay woolgrowers a sustainable price and can also absorb higher prices.

So are wool prices really that high? It all depends on relativity.

The world buys wool in US dollars (USD) and with the EMI at A\$19.81 it is currently at USD\$14.63, this is actually lower than in mid 2011 when the corresponding figure was above USD\$15 so we have been in this territory before, for a very short time. The wool market in the last two years has seen a sustained and upward run, whether it can continue is anyone's guess but here is the case for optimism.

Merino wool was compared with cotton, or nylon, polyester and acrylic as substitutes to a certain degree, however there is a more precious and rare fibre that Merino wool compares very favourably with in both price and functionality, and that is cashmere.

Merino wool is, on average a little broader than most cashmere fibres but is easier to process and more durable to wear as anyone who owns a pure cashmere jumper will attest to. It is hard to find reliable cashmere price information over a given time period but currently cashmere is selling in the United States for close to \$A70/kg in greasy form. When you compare this to greasy prices for 18 micron fine Merino wool, with a 70% yield at around \$A17.50 (\$A25.00 clean) we see that cashmere is currently roughly four times the price of fine Merino wool.

If you were a designer, retailer or brand looking to create a functional, durable, stylish garment that people are willing to pay a premium for, what would you choose?

A final thought around supply, over the coming weeks the wool production forecasting committee will meet and the full extent to the drought in many wool-growing regions will be assessed. Many have already spent more than their wool income on feed and we all hope for rain; the effects of the extended dry period will be felt for a long time and the corresponding reduction in wool supply will have a role to play as well.

We are all hoping for rain.

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.