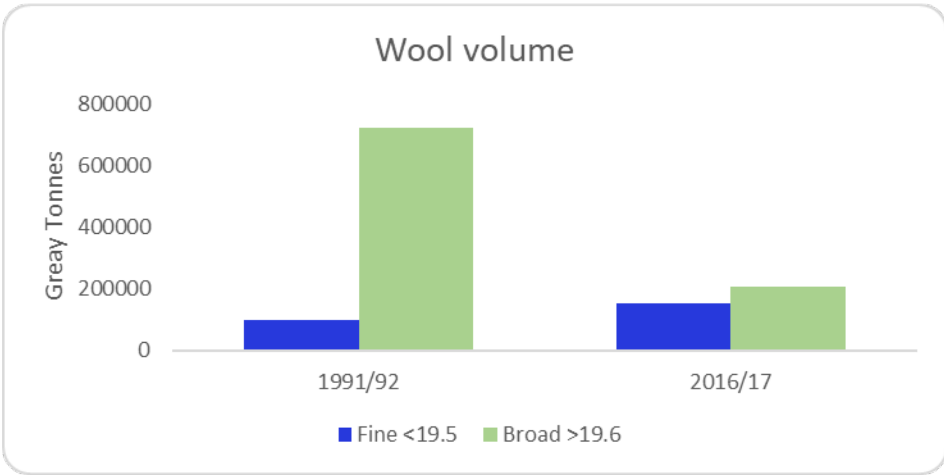
AWI MARKET INTELLIGENCE

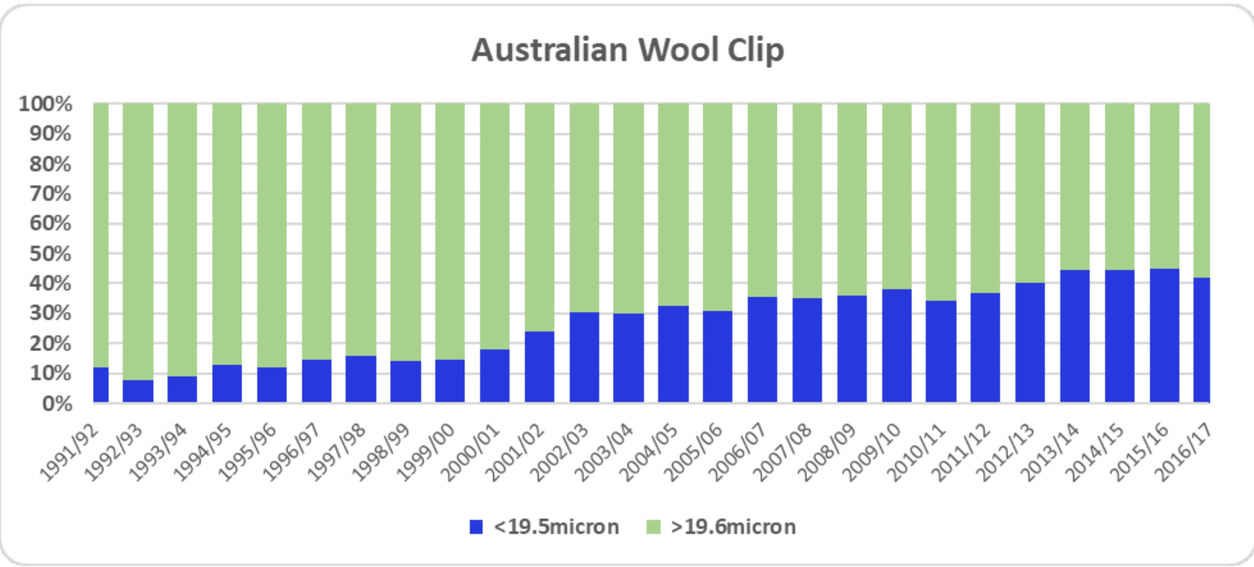
November 2017

The November market intel looks at the 2017 profile of the Australian wool clip in regard to the production of wool finer than 19.5 micron and the changing composition of what Australia growers have produced for market over the past three decades.

The previous 25 years has witnessed a radical shift in the make-up of Australia's wool clip, particularly the increasing percentage of wool produced that is less than 19.5 microns. The proportion of fine and super fine Merino wool that is less than 19.5 micron has moved from representing 11% of the clip in 1991/92 to 42% in the last complete season of 2016/17. Of most significance though, is Australia now produces an extra 53,047 tonnes of Merino wool finer than 19.5 micron compared to the season 1991/92 (Figure 1)



AWTA key test data reveals that in 1991/92, 817 million kilograms of Australian wool was tested in total, with just 97 million Kgs of that being Merino wool finer than 19.5 micron. In 2016/17, total wool tested dropped to 357 million kilograms, but Merino wool finer than 19.5 micron has actually risen to 150 million kilograms (Figure 3) in the same period. So, although the total clip volume has reduced over the 25 years, fine wool production has seen a roughly 50% increase in volume. (Figure 2).



Now accounting for just below 50% of the current Australian clip, wool finer than 19.5 micron is in a position to fill a new global demand for wool that up until recent years seemed to be impenetrable due to synthetic fibres. Recent developments in next to skin garments have opened new markets for fine wool, which once mostly ended up in traditional woven and knitwear garments such as suiting and sweaters. It appears that Australian wool growers have hit the “sweet spot” of demand and have provided the market with the perfect wool types for the growth in demand for Merino wool at consumer level. This is particularly pertinent to cater for the upsurge of Merino wool demand used in the athleisure and outdoor garment markets.

As an industry, this was not just a thankful coincidence, as years of product innovation, marketing and improvement in production have seen wool growers hit the “fit for purpose” levels required for the current climate. Fittingly, growers are now more than ever connected to designers, processors and consumers as communication and feedback occurs down the supply chain. Whether communicating directly with processors or indirectly through brokers and buyers, growers can now adapt their production in certain areas to market conditions and have unprecedented levels of information available. Not too long ago, wool was sold at auction and it was often not known to the grower where that wool went and for what purpose.

The industry today is in a somewhat tailored position to take advantage of the current consumer trends and meet the growing demand for next to skin products like never before. Twenty-five years ago, our industry may not have had the ability to meet the current demand for the next-skin segment and potentially prevent the initial adoption of wool by designers and consumers due to an inability to access suitable wool. The situation in 2017/18 is far different and should breathe optimism into industry, as consumer markets and therefore demand aligns with the unique properties of wool and its provenance.

The demand for Merino wool in these new products, as well as the continued demand from traditional fine and super fine Merino wool uses, has seen strong competition in the auction room which has left ultra, super and fine wool Merino prices well above previous year’s levels. 17, 18 and 19-micron wool all closed November at a monthly average of 2454 ac/kg, 22.77ac/kg and 1992ac/kg respectively. Year on year this is an increase of 794ac/kg for 17 microns, 639 for 18 microns, and 426ac/kg for 19 microns.

Currently at close of November, the wool market remains in a strong position as the AWEX EMI (Eastern market Indicator) closed at 1676ac/kg (Australian cents/kilogram). This represents a 21.6% or 298ac/kg increase year on year. At a supply level, there has been an increase in wool offered this season, indicating that recent price increases are not simply supply driven but are in fact impacted by a strong demand for the fibre. AWEX has recorded that and extra 59,289 first-hand offered bales or 6.4 Million Kgs (+7.4 %) equivalent has come through the auction system this season compared to the 16/17 season.

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