

AWI

MARKET INTELLIGENCE

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THE
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COMPANY



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Australian
Wool Innovation
Limited



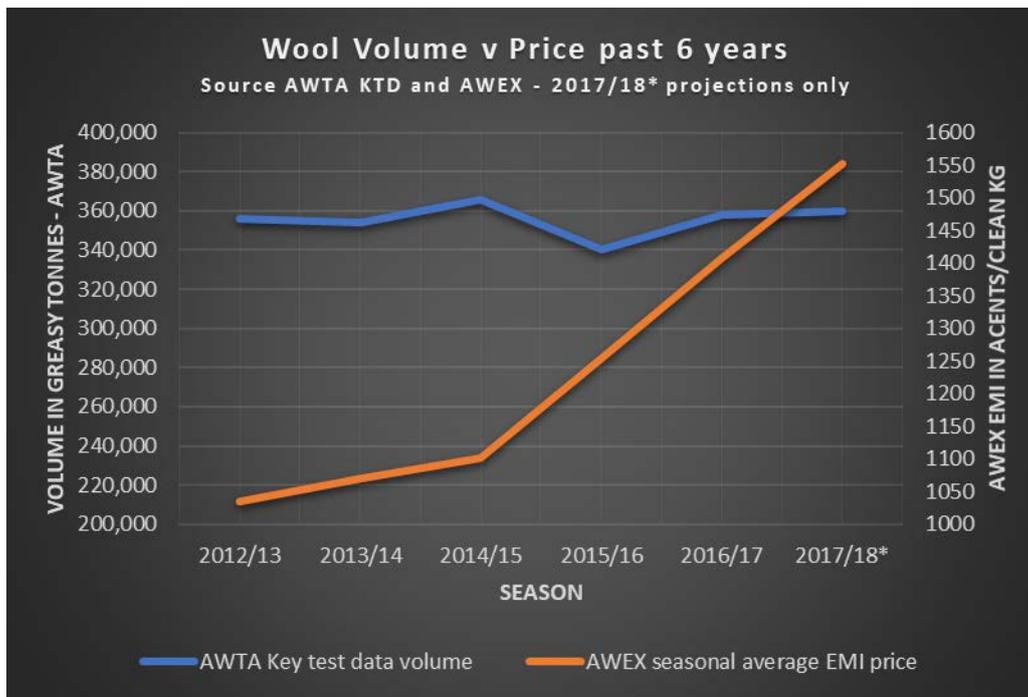
This month AWI trade consultant Scott Carmody talks through the current market with an eye to the true drivers of price.

In modern history, much debate has been made of the eternal question in all tradeable markets of what is causing the price, no matter whether that price be good, bad or indifferent. The simplest of responses such as a “supply” or “demand” answer can even bring about many an economic, emotive or prejudiced argument, but in the cold reality of day, the raw data will paint the picture of truth.

In fluid markets like the wool auctions and trading, (trading because quite a deal of wool volume is used as a trade before finally being manufactured), there is constant demand and supply. Participants at either end of the chain are willing to either buy or sell at differing price levels. The key demand indicator is of course the selling price and a “bullish price pattern” is the predominant signal of strong demand.

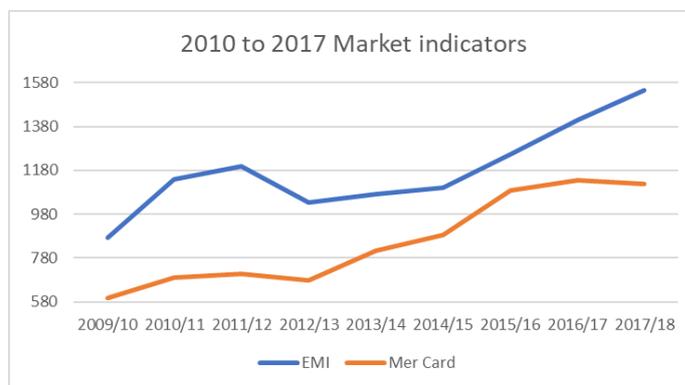
What most invested parties want to find out or even predict the timing of, is when supply will overwhelm demand or where demand will outstrip supply. Whether you have used Fibonacci, swing pivots or whatever tools are at your disposal, it has been very difficult to place resistance points, both upper and lower, that actually pan out to being anywhere near the reality of wool prices achieved.

Looking at the chart below, a price resistance situation has seemingly not been recognizable or predictable in any way, shape or form. The past 6 years at Australian wool auctions has seen powerfully increasing price levels (bull run) and is indicative of the strongest of demand signals, particularly more -so given the relatively unchanged supply scenario. This is perhaps compelling evidence as to why exporters for the past few years have been operating very much to a “hand to mouth” basis and reticent to lock in forward contracts at “today's prices or less”. To bet against market trends that have been in place for 5 or 6 years for any sort of exposed volumes would simply be called gambling and the modern day trade is first and foremost founded on risk adverse trading behaviour and cautious operational methods.



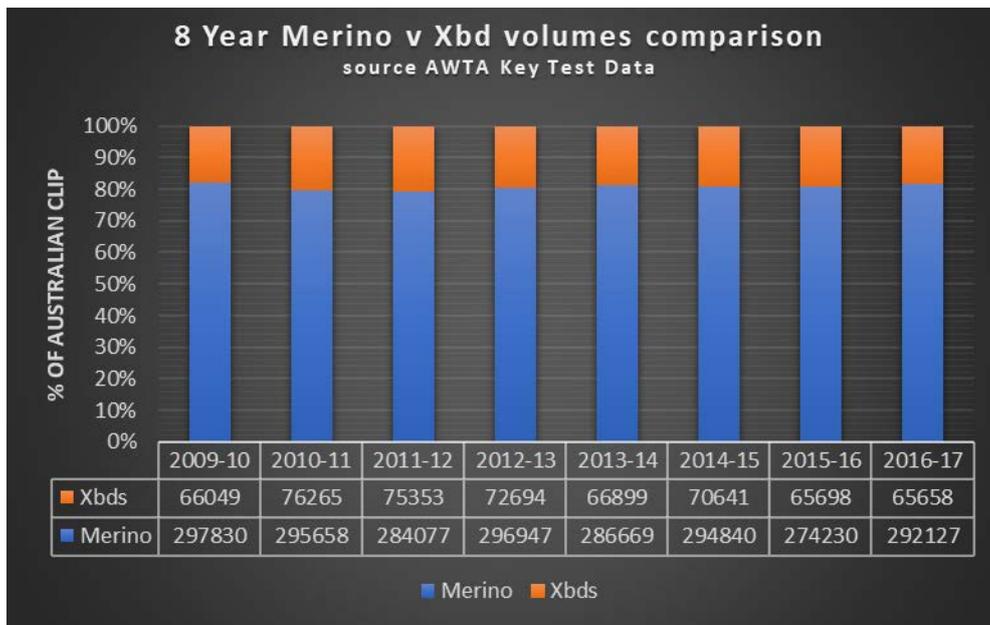
Today's situation within the Australian wool markets is thankfully a positive one, as wool growers are enjoying receiving some of the best clip returns they have had in decades. As at the end of October, the EMI was at 1594ac/clean kg and fast approaching the record levels of 1614ac/clean kg for the week ending AWEX EMI figure. This level was set earlier in this season in August 2017 in Week 7 of the auction series. This represents a year on year increase of up to 20% of the value of Australia's wool clip. The below table shows difference in price increases achieved since 2009/10 season.

	2009/10	2017/18	% change
EMI – All wool indicator	872	1547	Plus 77%
MERINO 17 micron	1239	2237	Plus 81%
MERINO 19 micron	1048	1838	Plus 75%
MERINO 21 micron	903	1574	Plus 74%
MERINO 23 micron	859	1407	Plus 64%
MER CARD INDICATOR	598	1119	Plus 77%
CROSSBRED 26 micron	603	1119	Plus 86%
CROSSBRED 28 micron	460	825	Plus 79%
CROSSBRED 30 micron	400	600	Plus 50%



Looking towards the Australian wool supply situation, the volume of all wool tested through AWTA Ltd has been relatively stable over the past 6 seasons. The tested volume has been revolving around the 360 million kgs greasy plus or minus 5% during that period. Early indications at the end of the first quarter of the current season show that production is on the increase once more, with 9.2% additional weight flowing through the test house as compared to the same time period of last year. This follows on from the 5% increase recorded last year to see wool volumes tested go to 357.9 million kgs from the 2015/16 season figure of 340 million kgs.

Within the overall supply figures, the breed make-up of the Australian clip has also barely changed. Recent anecdotal accounts of “everyone moved to crossbreds or fat lambs” and that is “why the total wool supply has remained constant” cannot be borne out by any figures of wool being tested through the AWTA Ltd. In fact, the opposite is being evidenced. The past season has seen the lowest volume of crossbred micron wools tested for 8 years. Last season the crossbred micron wools made up 18% of the Australian wool clip tested compared to 21% back in the years 2010 to 2012.



What is clear from the above data sets, is that a fundamental shift in demand for Australian wool has been rebuilt into the global textile industry over the better part of the previous decade. In very simple terms, the consumer is exercising their discretionary spend on luxury items and that includes wool. The wool markets are sustaining the bull run on price, and this is in tandem with a very stable production scenario. These conditions have led us to a point whereby growers who have stood steadfast to their industry are justifiably and consistently being rewarded for their efforts. As economic conditions are forecast to continue to improve throughout the world, this should assist to enshrine these sort of price levels into on farm modelling.

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