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MARKET INTELLIGENCE

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THE
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COMPANY



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This month we examine current market conditions and how woolgrowers have been reacting to a very dynamic mixture of market influences in the last 12 months.

There are many significant factors in the wool market at this moment; lower wool supply and low stocks of wool in the processing pipeline, slower economic conditions in key consuming markets (as explored in the January market intelligence report) and in recent weeks the onset of Coronavirus (COVID-19).

Where the balance of these very significant factors takes the wool market is anyone's guess. Our aim is to provide woolgrowers with market observations and trade information in order for more informed on-farm decisions to be made in conjunction with their wool selling broker.

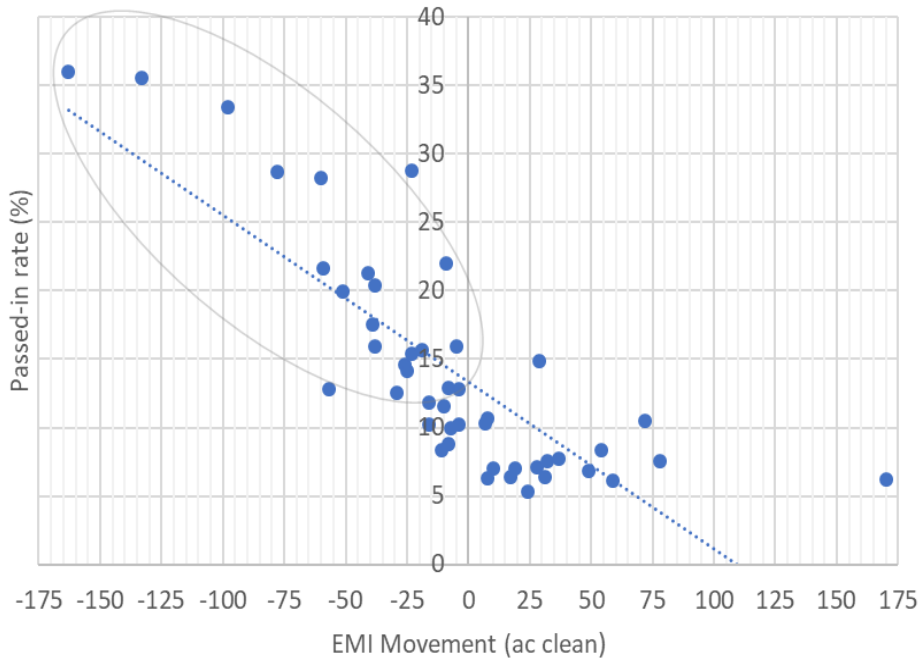
Given that China is Australia's biggest partner for the processing of our fibre and also our biggest consumption market for wool apparel products, it's hard not to imagine that from an apparel consumption point of view and a commerce or trading point of view, Coronavirus will have some effects on the wool industry and the fashion industry in general. Obviously, like the rest of the world, we will continue to closely monitor the situation and act accordingly with our industry partners.

The widely held expectation that the wool market would drop after the discovery and spread of COVID-19 has not eventuated, yet. In fact, the wool market has lifted during the period since disease notification. The value of the Eastern Market Indicator (EMI) in Australian currency has gained 48ac clean/kg from 1520ac to 1568ac and in US currency the value has increased by 24usc from 1030usc to 1054usc.

Woolgrowers in the meantime have been more than willing to exercise their right to pass in wool at auction as the ability of all the normal trade operators to participate in weekly auctions has been severely hampered. Coupled with a demand scenario that has been slipping with the declining global economy, observations show that these passed-in rates, - and also the withdrawn-prior-to-sale rates have been a contributing factor to a far healthier wool price than what may have been.

The volatility in passed-in rates since May 2019 is quite clearly larger than for any 12-month period in the last decade and lifted above 35% twice in August last year. Despite the drought biting hard throughout 2019, many woolgrowers were clearly not willing to sell their wool at lower prices. As can be seen by the chart, the rate of wool not reaching the reserves of grower sellers has averaged almost 14% over the past 12 months.

1 year passed-in rates versus market movement Feb 2019-Feb 2020

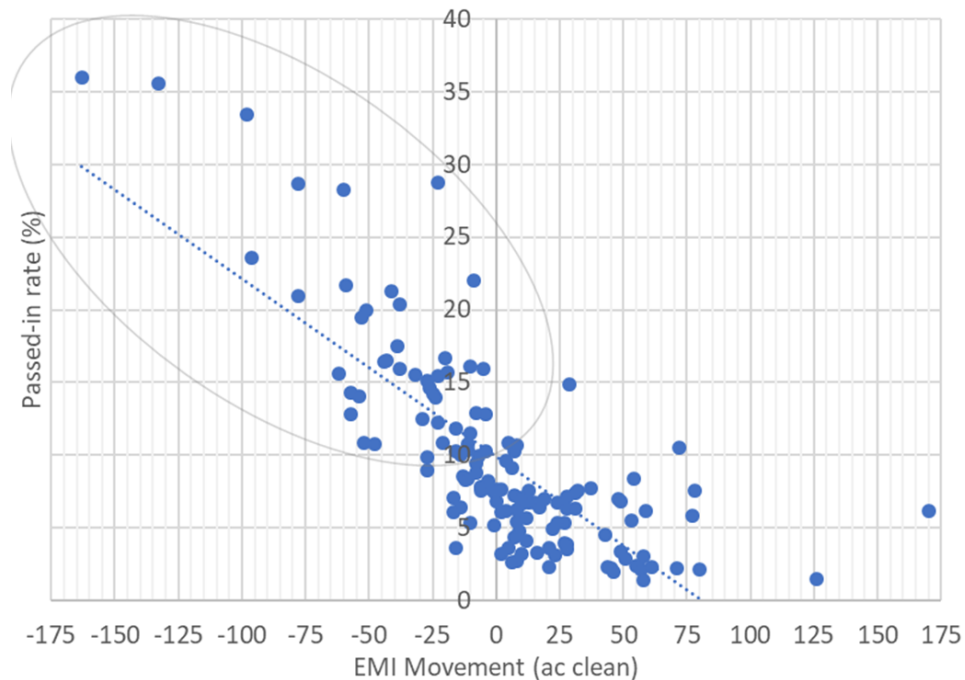


Anecdotally, individual circumstances have largely led to the ultimate decision of sell or not sell. With drought comes extremely tough and challenging decisions. Many have chosen to sell the wool, retain the core breeding stock and keep hacking on with the arduous task of hand feeding and watering.

On the other side, a decision to sell the stock and retain the wool would have been much harder to deal with initially but with cash on hand from stock sales, and a wool bank for both future living expenses and eventual restocking, the mental anguish that came with managing animals in drought can be alleviated for the time being. Given stock prices have been good, the additional income from the selling of the wool clip as well could have produced a higher tax burden needing settlement in the current financial year.

The long-term average passed-in rate for wool at auction is normally under 10%. The chart below illustrates that, even with the current high passed-in percentages, the immediate past 3-year average sits right on that 10% level. In comparative terms the current rates are 36% higher than the 3-year average and over 50% higher than the 10-year average passed-in rate.

3 year passed-in rates versus market movement Feb 2017-Feb 2020

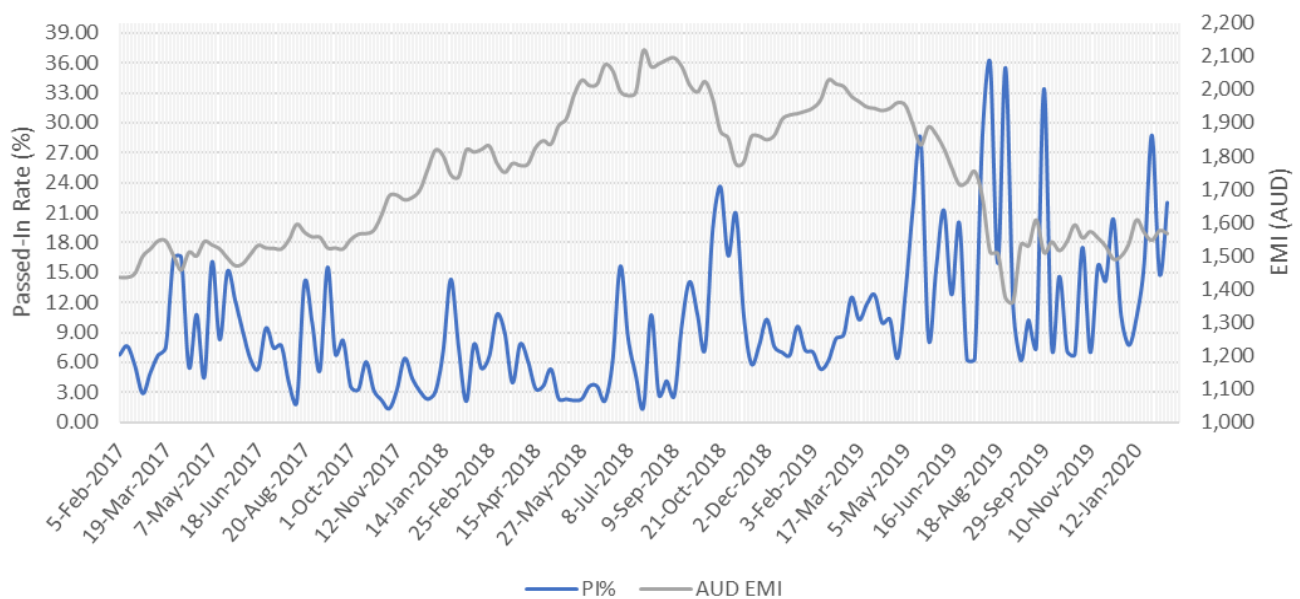


What the long-term charts do reveal is that generally speaking, upwards of 6% of the weekly wool sale offering could be considered 'not for sale'. In rough terms, market movements to the positive or even an unchanged auction result produces a similar retention of wool as does a minor falling market.

Significant weekly price rises of anything from 15ac to 75ac failed to alter that "rising market" passed-in rate of around 6%. A stand out example occurred in a sale week where auction markets soared 170ac, yet the passed-in rates still managed to have 7% of the wool on offer failing to meet the sellers reserves.

One would expect a clear trend between the level of the EMI and passed-in rates: when the market is lower, woolgrowers would be expected to reject the lower levels, but this is not entirely true. In fact there is no direct correlation between the actual trend of the EMI and the trend in passed-in rates which can be seen in the below graph from February 2017 to March 2019 where the EMI (grey line) steadily rises and no clear or compelling trend in passed-in rates (blue) can be observed.

3 year EMI against passed-in rate Feb 2017 - Feb 2020



Where the difference lies is within the magnitude of price falls in any single sale week. This is irrespective of the volume on offer or the actual price level being offered. When prices fall by over 15ac clean, the rates spike to well over that 10% mark and average close to 16%. The past 12 months has seen that average move closer to near 20%. Small falls are seemingly managed well and keep the percentage around the long term average. The sudden and large drops in price naturally trigger a wool broker to not sell given the parameters set before the sale. This clearly highlights the need for woolgrowers to liaise closely with their selling broker pre auction and provide clear instructions with their basic intent, but also some liberty to exercise that intent.

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