

SEPTEMBER WOOL MARKET INTELLIGENCE

This month we examine the ongoing repercussions of the global economy as inflation and the very high cost of energy in key markets continues to influence economic activity and therefore demand for wool. We also look at broader wools and some innovations for this sector together with a reminder of the cost of Foot and Mouth Disease given the recent South African experience.

The latest International Wool Textile Organisation (IWTO) report quotes the head of the World Trade Organization (WTO) who has warned of various trade disruptions negatively impacting global economic recovery. Russia's ongoing war in Ukraine and its widespread effects on energy prices and food security, bottlenecks in shipping routes, in particular Germany's North Sea ports and China's zero Covid policy. Various extreme weather events are complicating predictions and provisions of supply is also having an influence. Alongside this, international trade patterns have shifted with Chinese exports to the US shrinking last month for the first time in two years while Chinese exports to Russia have surged.

Year-on-year economic growth is expected to slow in the second quarter of 2022 according to the WTO because of the ongoing conflict in Ukraine and rising inflationary pressures. Wool is a discretionary purchase and historically wool prices have closely matched economic growth and with these ongoing uncertainties, the price of wool is expected to directly reflect this.

In recent weeks, the Woolmark Company has been reminding the world of how much oil or fossil fuel is used in the production of synthetic clothing. The video states how an Olympic swimming pool of crude oil is used every 25 seconds in the production of synthetic clothing, much of which ends up in landfill, stubbornly refusing to biodegrade or creating the enormous problem of microplastic pollution in waterways and oceans. The short Woolmark video has been viewed by many millions across digital billboards in New York and London as well as social media.

View it here: <https://youtu.be/GAnfzSKFbLQ>.

On the topic of an-made-fibres, as the COVID-19 pandemic appears to wane, the price of broader wools has not bounced back up to pre pandemic levels like the finer micron wools. This is clearly demonstrated when you compare the Eastern Market Indicator (EMI) relative to the 28 and 32 micron indicators over the last two years. From January 2021 onwards the two broader wool indicators have remained comparatively flat.

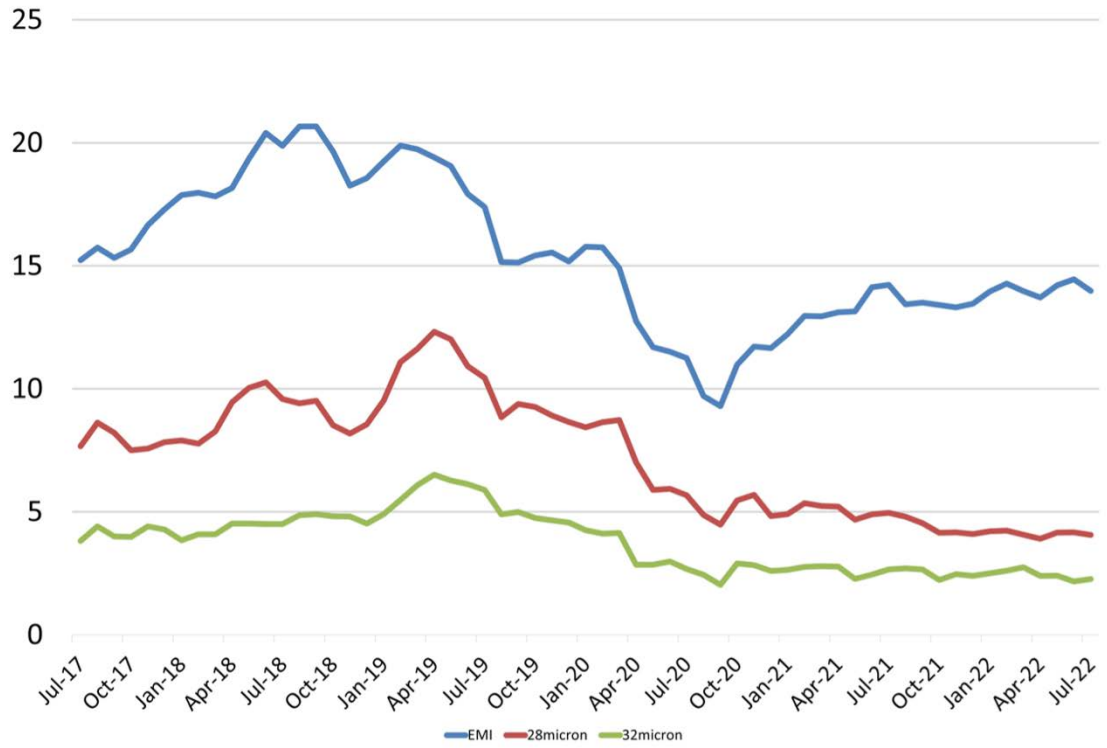
Woolmark's Peter Ackroyd recently spoke with broad wool producers and outlined how one of the main influences on this market has been the lack of demand for new carpets and upholstery in offices, hotels, airlines and public transport through the COVID pandemic. As people were not using these it has had a very significant effect on demand for new textiles using these wools. This is known as the "contracts" market and globally it stopped during the COVID pandemic but in recent times it has started to move again according to many conversations Peter has had with carpet and upholstery manufacturers in the UK at the Harrogate Flooring Show.

Whilst a growing proportion of the clip in southern states, Australia produces 7% of the world's wool broader than 24.5 micron.

Nevertheless, these wools are now at historically very low price levels particularly when compared to man made fibres. In fact, a tonne of Polyester is 3.5% more expensive than a tonne of 30-micron wool. Frustratingly, alternative fibres have done surprisingly well throughout the pandemic in terms of pricing with Polyester, Cotton, Acrylic and Nylon all increasing since January 2020 (Pre-pandemic) by 64%, 53%, 39%, and 12% respectively. Broad wool on the contrary has decreased 50% over the same period and represents exceptional value as a fibre option.

The benefits of wool as a natural, biodegradable, renewable fibre continue to be promoted through the Campaign for Wool, its Patron, now King Charles III, a long-term environmentalist, is yet to announce his intentions for this important campaign that includes the recent Why Wool Carpet Matters campaign amongst many initiatives since 2010. Recent highlights for broader wools include the Innovation in Wool awards that saw wool being used as biodegradable plant pots (below).

Figure 1: EMI vs 28 + 32 Micron Price Guides, July 2017 - July 2022



Lastly, as a reminder for the Australian livestock sector, the IWTO also report following an outbreak of foot and mouth disease (FMD), China has lifted its ban on South African imports of all cloven-hoofed animals which included wool. South Africa’s wool industry welcomed the decision as it accounts for a total production of over 42 million kilograms of wool, of which 70% to 80% is exported to China. The ban, which was in place since last April, cost South Africa approximately 730 million Rand or about 63 million Australian dollars.

