

Monthly Wool Market Overview

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Wool news for April 2018

SA Merino indicator for April 2018

First sale: 17714c/kg
Final sale: 18954c/kg
Movement: 7,0%
Rand/US\$ at last sale: R12,42

SA Merino indicator for April 2017

First sale: 16434c/kg
Last sale: 15944c/kg
Movement: 3,0%
Rand/US\$ at last sale: R13,16

Australian Indicator for April 2018

First sale: 1764/kg
Final sale: 1847/kg
Movement: 4,7%

Indicator for season 2017/18

Movement since opening: 3,3%
Seasonal high: 19743c/kg
Seasonal low: 17264c/kg
Average for season: 18380c/kg
Average in 2016/17: 15552c/kg

Low supply and demand drive prices

Wool prices have increased substantially in April. In South Africa, the Cape Wools Merino indicator rose by 7 per cent.

And while the indicator is below the seasonal high of R197,43/kg (clean), it is still significantly higher than in April last season (see **graph 1**).

In Australia, the EMI closed at the end of April at a record high (see **graph 2**).

The general consensus is that prices are driven mainly by supply concerns, particularly after the latest shorn wool production forecast for Australia of a 0,6 per cent decline in production.

It is clear from presentations at the World Merino Conference held in Uruguay earlier this month that it is unlikely that global wool production will increase significantly in the short term.

Major wool producing countries have various problems that restrict their ability

to produce more wool.

In Australia, which supplies 80 per cent of the world's apparel wool, a shortage of Merino ewers, high lamb and mutton prices and wild dog predation are some of the obstacles producers face.

In South Africa, wool receipts into brokers' stores as at the end of April are down 7,6 per cent compared with 2016/17.

Although supply is a concern, it is evident that increased consumer demand for wool is also playing an important role in the price increases.

This is demonstrated in price ratio of wool relative to other fibres. The wool:cotton ratio is currently closer to 7:1 rather than the traditional 3-4:1 (see report on **p2**).

The wool market and the key production trends that are shaping demand for wool will be discussed in depth at the IWTO congress in Hong Kong next month.

Wool shipments to top 10 export destinations for July - February 2018

Country	Greasy		Scoured		Tops & Noils		Total ¹⁾ R	% of total FOB ²⁾ value
	R	Kg	R	Kg	R	Kg		
China/HK/Macau	2 257 959 361	22 124 967	23 523 553	132 981	746 816	9 713	2 282 229 730	70,9
Czech Republic	411 213 471	5 438 301	0	0	0	0	411 213 471	12,8
Italy	111 132 501	790 656	59 194 805	375 170	146 570 164	688 693	316 897 470	9,9
Germany	0	0	24 126 487	185 042	31 016 385	165 501	55 142 872	1,7
Bulgaria	50 430 394	487 811	0	0	0	0	50 430 394	1,6
India	44 860 817	364 822	1 733 752	19 812	0	0	46 594 569	1,4
Egypt	31 277 289	228 321	0	0	0	0	31 277 289	1,0
USA	0	0	1 392 547	10 280	7 354 257	31 358	8 746 804	0,3
UK	0	0	0	0	1 852 304	46 878	4 942 562	0,2
France	0	0	0	0	4 510 701	31 998	4 510 701	0,1

¹⁾ Total Rand value includes value of waste exported.

²⁾ FOB = free on board

Full export report (Shipments) available at www.capewools.co.za

Accumulative results up to 20 April 2018

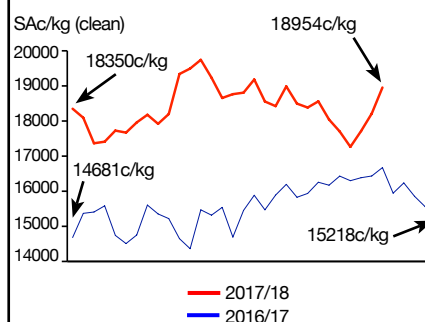
Wool receipts (kg greasy):

2017/18: 44 076 161,8
2016/17: 47 705 151,4
Change: -7,6%

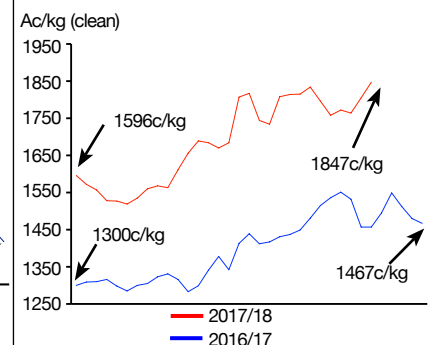
Offerings at auction (bales)

Season	Merino	Other	Total bales	Total kg
2017/18:	163 208	111 547	274 755	41 164 660,3
2016/17:	158 566	115 143	273 709	41 548 195,4
Change:	2,9	-3,1	0,4	-0,9

Graph 1: Cape Wools' Merino indicator on 25 April 2018



Graph 2: Australian Eastern Market Indicator on 25 April 2018





Declining wool supply expected to underpin demand

Australia's declining wool supply might continue to underpin and possibly extend the current "super-cycle" of demand currently experienced, says market analyst Chris Wilcox.

His remarks follow the latest shorn wool production forecast for Australia of a 0,6 percent decline in production for 2017/18 to 338 million kg.

Wilcox said the supply situation was continuing to support current wool prices and might extend the "super-cycle" of demand for particularly Merino wool being pushed by synchronised economic growth in the United States and the European Union.

He said the industry would have to wait and see what would happen with demand in the next couple of months, particularly given factors like the dispute between the US and China on trade issues.

The lower production forecast is due largely to more difficult seasonal conditions.

Conditions in many major production areas have been very dry through summer and the first part of autumn, resulting in lower than expected fleece weights.

Australian Wool Production Forecasting Committee chairman Russell Pattinson said while the committee expected that fleece weights would decline as the season pro-

gressed, the decline had been more than anticipated.

In addition, the high wool prices encouraged producers to shear their sheep earlier and the volume of prematurely shorn wool has increased.

"This has contributed to the recent decline in wool test volumes as wool that normally would have been delivered in recent months was delivered earlier in the season."

Mr Pattinson said that the weight of wool tested by the Australian Wool Testing Authority in the first nine months of 2017/18 was on par with the level in 2016/17, after being 5 per cent higher to November.

He said the committee expected this trend to continue in the remaining three months of the season.

The committee noted that for the 2017/18 season to March, the AWTA test data showed a significant decline in the weight of wool tested of 16,5 microns and finer, as well as a decline in the volume of 20 to 26 micron wool.

Volumes have increased for other micron ranges. The average staple length across Australian has fallen by 1,8 mm to 87 mm, with all states recording shorter average staple length for the season to date. *Source: sheepcentral.com*

Consumer demand also drives prices

Indications are that current high wool prices are not only driven by low supply but also by increased consumer demand, was the conclusion at the International Merino Conference held in Uruguay last month.

More than 400 delegates from Australia, New Zealand, South Africa, Uruguay, Argentina, Lesotho, Russia, United States and Portugal attended the conference.

What became clear from presentations by the various producer countries was that the global supply of wool was unlikely to lift significantly over the short term.

In Australia, production growth is limited by the lack of Merino ewes, the high lamb and mutton price, poor seasons, wild dog predation, land committed to cropping, etc.

In New Zealand, land suitable for Merino wool-growing is limited partly due to similar factors applicable in Australia but also the drive to preserve some high-country areas for conservation.

In South Africa, political changes, predation and the development of some areas for mining is impacting growth potential, while in Argentina predation by foxes and pumas are limiting weaning rates to less than 70% for many Merino producers.

Wool-growing regions of Patagonia, Ar-

gentina, have only recently recovered from significant volcanic activity in Chile.

An analysis of the wool price in relation to those of other fibres shows that the price for wool has increased substantially more than the prices of other fibres.

The wool price as represented by the EMI has traditionally traded at three to four times the price of cotton as represented by the Cotlook A index.

All other fibres: cotton, acrylic, nylon and polyester, have traded in a band of prices that appear rather flat relative to wool since 2001.

The exception being the price spike in late 2010, early 2011 that affected both wool and cotton.

One very clear trend when comparing wool to these man-made and commodity fibres is the relative price ratios beyond around 2013-14.

Over the past 4-5 years, the EMI has clearly pulled away from these fibres, so much so that the current market shows that the wool:cotton ratio is currently closer to 7:1 rather than the traditional 3-4:1.

It is clear that wool is now perceived as a more valuable fibre relative to cotton, nylon, polyester, acrylic and nylon. *Source: AWI Market Intelligence*

IWTO congress to discuss market direction

Where is the wool market heading for the rest of 2018 and beyond?

This is the main question to be discussed at the Market Intelligence Forum during the International Wool Textile Organisation's congress to be held in Hong Kong in May.

The forum, which will be led by Market Intelligence Committee Chair Chris Wilcox, will give insight into the key production trends that are shaping demand for wool.

The current season has been a season of feast or famine for raw wool demand and prices.

Merino wool saw strong demand that pushed prices to ever-higher levels. But demand for broader, crossbred wool fell sharply and global trade in semi-processed and finished wool products was patchy.

From supply to demand, the impact of stocks and the price relativity of wool to other fibres, the Market Intelligence Forum is consistently one of the most popular sessions at the IWTO Congress.

Other speakers at this year's Forum will include Madame Peng Yanli, President of China Wool Textile Association, and Madame Chen Lifan, President of Jiangsu Sunshine Group.

The main focus of the congress is wool's role in a future increasingly defined by sustainable fashion and interiors.

"The programme we have put together for the congress will review and reflect on global sourcing in this era of much greater transparency and accountability," says IWTO President Peter Ackroyd.

The impressive speaker line-up begins with keynote speaker Mr Stephen Wong, former Regional Director of the Hong Kong Trade Development Council.

New royal baby wrapped in Merino wool shawl

When the latest addition to Britain's royal family made his first appearance on the steps of St Mary's hospital in Paddington, he was wrapped in a white knitted shawl made with Merino wool.

Nottingham-based company GH Hurt & Sons made the shawl. It also made the shawls of all babies in the family for the last 70 years.

The Queen first bought a blanket from the brand in 1948 on the birth of her son Prince Charles, for his first public appearance.

Kate Middleton used the same brand and style of blanket for her older children, George and Charlotte.