Future price fundamentals for Australian wool

Dr Paul Swan

2011 National Bestprac Forum
11-12 August 2011
Flash in the pan, or fundamentals?

Data source: AWEX, RBA (FX rates)
Demand side fundamentals

1. The Asia-Pacific decades
2. The LOHAS consumer
3. Fashion
Global consumer markets are changing.

The centre of gravity is shifting to Asia.

China is now a bigger economy than Japan, and will soon be bigger than Western Europe (Eurozone).

The Asia-Pacific 14 economies (incl. China and India) will increasingly dominate.
1. The Asia-Pacific decades

There is a strong correlation between GDP growth and consumer spend growth, especially luxury market growth (Bain & Co).

Weak outlooks in traditional key wool markets (e.g. USA, Japan, UK, ...) balanced by bright outlook for emergent markets (China, India, Russia ...)

Source: IMA-Asia, 2011
Woolmark Gold

Partnership between Woolmark, 8 key fabric brands, and China Business Network (CBN), launched in November 2010

Combined audience of over 316,000,000, and has resulted in over 2,000,000 online searches for Woolmark Gold Partners

Partners report excellent early sales responses

Voted the Gold Woolmark programme the top industry marketing event of 2010 by Asian Textiles magazine.
2. The LOHAS consumer

- Ageing
- Wellness
- Conscious Consumption
- Urbanisation
- Connectivity
- Experience Economy
- Premiums/luxury
- Perpetual Motion
- Customising/personalising
- Globalisation
- Abundance of choice
- Democratisation
- Evolving gender roles
- Changing households & family structure
Wool has a great story to tell

✓ Wool is a natural fibre protein.
✓ Durable, yet biodegradable in soil
✓ Uniquely crimped, giving unparalleled drape and elasticity
✓ Keeps skin dry, and actively manages micro-climate
✓ Resists static charge
✓ Naturally flame and odour resistant
The Campaign for Wool

- 5-year initiative, under the patronage of HRH the Prince of Wales.
- Coalition of 118 international industry groups
- Common goal to educate consumers about wool’s natural attributes - stylized green Woolmark created.
- UK campaign launched in 2010, with global expansion underway (incl. USA, Japan, Italy, Australia...)
- 891 UK stores installed collateral at POS, and over 164.5 m people reached
- Over 6000 people attended events
- 50 Australian partner companies

See: www.campaignforwool.org
3. Fashion

The 3rd major driver is that wool is in fashion.

1 of the 3 major wool consumer market segments are ‘fashion conscious’

Have also had 2 of the coldest Northern Hemisphere winters on record, in a row.

Woolmark No Finer Feeling campaign launched in December 2010 – a 3 year campaign, initially launched in UK, Italy, Germany, Japan, and USA.

Targets include influential magazines such as Vogue, ELLE, GQ.

27 million people in the 5 key markets have seen the campaign material.

See: www.merino.com
Merino. No Finer Feeling

FASHION ADVOCATES: ARMANI  BENNETON  MISSONI

NO FINER FEELING. MERINO.COM

Woolmark

AWI Australian Wool Innovation Limited
CONNECTING THE PRODUCT WITH ITS NATURAL SOURCE

LOOK FOR MAXMARA, FIND MERINO WOOL.

NO FINER FEELING

Woolmark

MaxMara

awi
Australian Wool Innovation Limited
Supply side fundamentals
Our position in the global supply

Australian wool growers produce:
• 95% of all Fine/Superfine Merino
• 47% of Medium Merino
• 12% of fine-Crossbred wool types
• <0.5% of coarse Carpet types

So, Australian growers will almost always directly benefit from demand growth for <19.6 um.

They are unlikely to directly benefit from demand growth > 24.5 um

Sources: AWI
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Sources: FAO, AWPFC, Beef and Lamb NZ
AWIMLA Australian Sheep Industry Projections 2011
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Sources: FAO, AWPFC, Beef and Lamb NZ, AWI, MLA Australian Sheep Industry Projections 2011
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Australian supply is low, especially in the fine diameters – however, coarse wool production is recovering quickly.

Sources: AWI, AWTA Limited
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Australian supply is low, especially in the fine diameters – however, coarse wool production is recovering quickly.

Sources: AWI, AWTA Limited
Prices are high, for our competitors as well

Remember, wool > 21 um tend to be blended ‘down’ with these cheaper fibres

Prices are high, for our competitors as well

The price of cotton and the price of wool have around 10-30% association.

In the absence of a major physical stockpile of wool in Australia, the ‘normal’ wool:cotton price ratio is about 5:1 (EMI:Cotlook A).

Recently, extremely high cotton prices dropped the ratio to around 2.6.

We expect the ratio to return back toward 5:1 as cotton production recovers.

Sources: Wool - AWEX
          Cotton - Cotton Outlook, Economic Intelligence Unit
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Australian supply is low, especially in the fine diameters – however, coarse wool production is recovering quickly.

Sheep numbers and wool volumes will take years to recover, competing against demand for meat.

Sources: AWI, ABARES
MLA Australian Sheep Industry Projections 2011
Price outlook

Long-term AWI and ABARES outlooks are similar, given views about fundamentals.

The EIU views are based on cotton price forecasts (v. conservative).

Expect micron:price differentials to remain wide/widen, especially given likely much quicker recovery of coarse wool volumes.

AWI model assumes AU:US FX rate drop back toward US$0.90, but this assumes US recovery!

Sources: 
ABARES (Australian Commodities, Mar Qtr, 2011)
AWI
IMA ASIA (long-term AU:US FX rate forecasts )
Economics Intelligence Unit (16th March, 2011)
Staple strength – a looming issue?

SS is an important determinant of wool price – historically 20-30%

Influences processing potential – especially for fine weaving yarns

Over past decade, average SS in Australia has declined by on average 0.3 N/kt per year

Reduction in the wether population?

A challenge, and an opportunity!

Sources: AWTA Key Test data, SGS-NZ, NZWTA
3 take-home messages

1. Demand drivers are working in wool’s favour:
   a. The emergence of affluent Asia
   b. The LOHAS consumer
   c. Wool is in fashion

   AWI has a number of long-term marketing programs supporting demand growth in these areas – *Gold Woolmark, Campaign for Wool, No Finer Feeling*.

2. Reflecting strong prices, sheep meat and wool production are recovering, but recovery will be slow given due to competition between them.

3. Wool outlook is strong, but expect volatility
3 best practice indicators

1. Knowledge of cost of production – what is an acceptable price for you?

2. Market awareness – source market intelligence from a variety of sources, and explore options for managing price volatility

3. Have a farm business plan which addresses wool quality
Thank you