

Australian Wool Prices Hit Record High

by Julie Stepanek Shiflett, PhD

It is a good time to be in the wool business. Australian wool prices keep climbing, and U.S. wool prices closely follow its international lead.

The Australian Eastern Market Indicator (EMI) averaged 1,990 Australian cents per kg clean (1,481 U.S. cents per kg) during the week of August 10, marginally higher than before its three-week summer break and 28 percent higher year-on-year. When expressed per lb., the EMI averaged Australian \$9.05 per lb. and US\$ 6.71 per lb.

Australian wool price averages in U.S. dollars gained 7 percent in 2016, another 23 percent in 2017, and yet another 21 percent in 2018 to U.S. \$6.71 per lb. clean (about \$3.36 per lb. greasy, unscoured). Due to differences in wool preparation, U.S. wools typically bring 75 to 85 percent of Australian wool prices.

In the U.S. wool market, June and July were relatively quiet for many growers. This spring; however, prices for Fleece States wool out of Washington, Oregon, and California averaged \$4.23 per lb. clean for coarser 27 micron wools and \$6.02 per lb. for finer 20 micron wools. As will be explained later, wool growers receive a greasy--or raw--wool price which is about half the clean wool price.

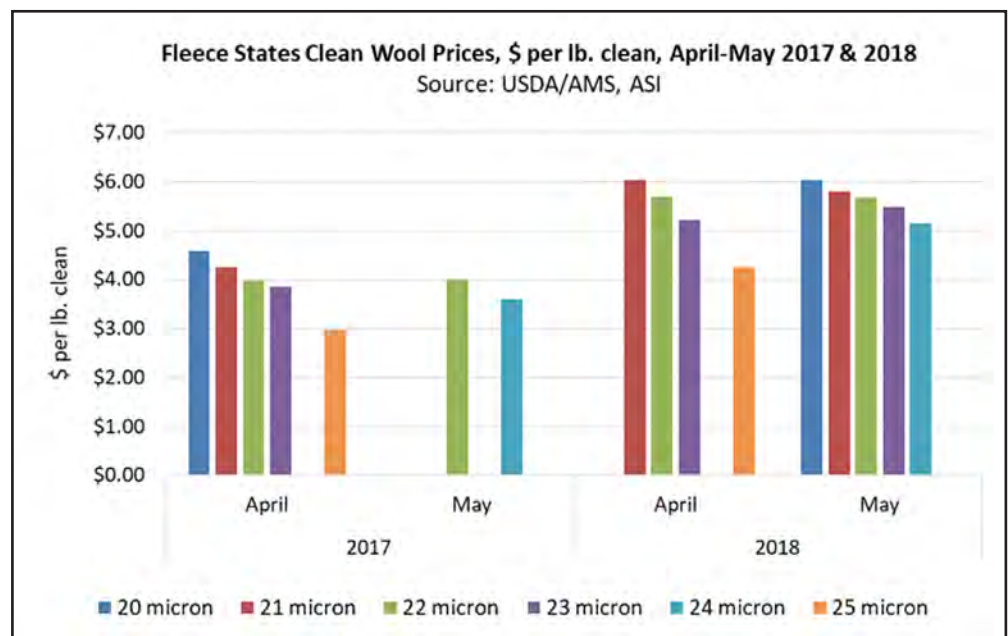
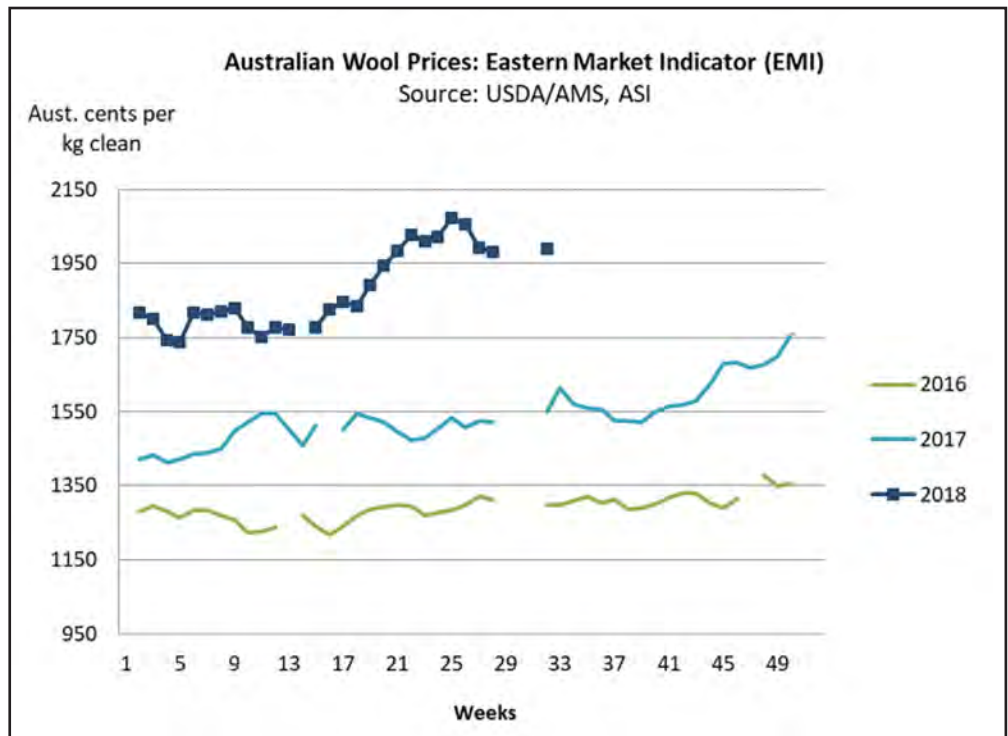
Fleece States Wool Prices (WA, OR, CA), \$ per lb. clean

Micron	Spring 2018 (March-June)	% Change Year-on-year
20	\$6.02	31%
21	\$5.91	39%
22	\$5.68	42%
23	\$5.35	39%
24	\$5.11	42%
25	\$4.44	49%
26	\$3.93	NA
27	\$4.23	83%

Source: USDA/AMS, ASI

This spring the relatively finer U.S. Fleece States wool were about 30 percent higher year-on-year and the coarser wools were up to 80 percent higher in light test.

Kentucky Fiber Trail ※ 5



Light test means that sometimes is tough to track wool prices of a particular micron if there are not a lot of trades to establish prices.

In the U.S. Fleece States, micron differences amounted to about a 5 percent price premium, or discount. On average, wools one micron finer can bring anywhere from 10 cents to 50 cents per lb. clean more per lb.

Tight International Supply Forecasted to Support Prices

High Australian wool prices are primarily due to a drought-induced tight supply and strong demand. In the next year or so, tight wool supplies in Australia will likely continue to support higher prices.

The Australian Wool Production Forecasting Committee forecasts that Australian shorn wool production in 2017/18



will reach 338 million kg greasy, down nearly 1 percent year-on-year (4/2018). Growing conditions have been challenging, which has resulted in lower fleece weights.

The Committee's first forecast for 2018/19 is for shorn wool production to be 333 million kg greasy, a further fall of nearly 2 percent due to lower fleece weights per head and lower number of sheep shorn. The Committee reported: The contraction of Australian wool is unfortunately coming at a period of strong wool market conditions which could have provided growers an incentive to retain sheep, if not for the drought, (4/2018).

There is some concern that Australian raw wool prices are getting too high. "There will be demand destruction at current price levels but supply concerns mask any impact to date. We expect this situation to play out in the short term. The risk of the market fatiguing increases as we move forward into the new season," (Weekly Market Report, 8/10/2018).

Wool Exports Up Year-on-year

While wool shearing winds down late spring in many parts of the U.S., the wool export season is just beginning. May wool exports were up year-on-year by about 37 percent, but then down 12 percent in June from a year ago.

Raw wool exports totaled 1.5 million lbs. in May, up 153 percent year-on-year. Total wool textile exports were 6.8 million lbs. in May, unchanged from a year ago. Within this category, wool apparel was up 19 percent to 3.0 million lbs. and wool yarn, thread, and fabric was down 1 percent year-on-year. The U.S. also exports smaller volumes of wool home furnishings and wool floor coverings.

One reason that wool exports were up sharply in May yet down in June was perhaps the uncertainty surrounding possible upcoming tariffs placed on U.S. wool exports to China. Tariffs on U.S. wool by our largest wool buyer, China, would reduce returns to Chinese and U.S. wool exporters. Reportedly, about 91 percent of the 545 products China is placing a tariff on are from the agriculture sector, (BBC News, 7/2018).

The tariffs are an immediate concern, but a secondary effect is that business uncertainty in China might mean Chinese wool mills suspend expansion plans and play the market

very cautiously which could hurt future U.S. wool exports. Perhaps the sharp year-to-year fall in June's U.S. wools exports is already a sign of market jitters on the part of the Chinese.

Economic forecasters agree that U.S. tariffs on Chinese goods will negatively affect Chinese growth. Any downturn in Chinese growth could also negatively affect raw wool demand and global wool sales because Chinese consumers are a sizable market for Chinese woolen goods.

Defining Wool Value: Yield

Several key wool properties determine wool's value including average fiber diameter--or micron--and length. But first, yield must be determined. Many U.S. wool buyers trading internationally will buy wool on a clean basis, which is not the same as the value of the raw wool clip--straight off the sheep or lamb. Buyers will look at wool's micron and length—among other factors—and determine a clean price. This clean price is, in turn, a function of yield. That is, actual prices paid to growers for grease wool is a function of yield.

Yield is what defines the amount of useful fiber than can be retrieved from a known weight of greasy, or raw, wool, (ASI, 2015). Wool in its raw form can include impurities such as vegetable matter (such as straw, seeds, burrs, and twigs), dirt, and wax that is removed during processing, or scouring (ASI, 2015: 1113). Most U.S. wool yields 45 to 55 percent, but some can yield up to 60 percent, (ASI, 2015: 1113). The higher the yield, the higher the return to the grower. In general, yield can be estimated to some accuracy by the breed of sheep. Dorset, for example, often have 50 to 65 percent yields, while Southdown have 40 to 55 percent yields (ASI, 2015: 1113).

However, external factors also play a role in yield determination. Yield will vary across growers and across growing seasons. Some wools are kept very clean through prudent grower management practices. Similarly, some winters are very dry with less snow cover which means wools are dirtier when sheared.

The greasy price is what is returned to growers. For example, the clean price for 25 micron wool in Fleece States this June was \$4.58 per lb. If a yield of 58 percent is assumed, the grease price is \$2.66 per lb. greasy (\$4.58 multiplied by 0.58). If the clean wool price is quoted delivered to the wool warehouse or wool pool, as often is the case, then the wool

grower will have to deducted transport and other handling charges from this greasy price. Thus, the greasy price received by the grower will be lower than the calculated \$2.66 per lb. greasy. A yield of 50 percent is often used to estimate a greasy price from a clean price--by dividing clean prices by one-half--, but actual greasy prices will depend on actual yield.

Most wool traded wool today calculates yield by using the International Wool Textile Organization's (IWTO) Schlumberger Estimated Commercial Top and Noil Yield. The Schlumberger formula predicts the amount of wool top and noil (further processed wool) that can be combed from raw, greasy wool. It assumes a certain percent moisture, percent vegetable-matter presence, and an allowance for wool grease. In the end, actual yields are determined by cleaning (scouring) core samples from wool.

The U.S. wool market is currently very strong which gives growers a chance to increase sheep incomes. The stronger the wool market, the larger the missed opportunity.

Julie Stepanek Shiflett, PhD *consults for the American Sheep Industry Association. She also consults independently, developing economic impact studies, market analyses, and feasibility studies for farmers and ranchers. Julie received her PhD in Agricultural Economics from Michigan State University and currently raises Boer ... goats in western Colorado.*

References

- American Sheep Industry Association, Inc. 2015. Sheep Production Handbook.
- American Sheep Industry Association, Inc. No date. "Wool Pricing." Accessed at <http://d1cqrq366w3ike.cloudfront.net/http/DOCUMENT/SheepUSA/Pricing.pdf> on 8/15/18.
- American Sheep Industry Association, Inc. No date. "Yield Determination." Accessed at <http://d1cqrq366w3ike.cloudfront.net/http/DOCUMENT/SheepUSA/Yield.pdf> on 8/15/18.
- Australian Wool Innovation Ltd. April 2018. "Wool Production Forecasts."
- British Broadcasting Corporation (BBC) News. July 5, 2018. "How a US-China trade war could hurt us all." Accessed at <https://www.bbc.co.uk/news/business-44706880> on 8/15/18.