AMERICAN WOOL

# ASI Annual Convention

January 23rd, 2020

Scottsdale, Arizona

# World Wool Market

presentation by Goetz Giebel

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My professional background

- Contact with the American Wool Council goes back almost 25 years when purchasing raw material for Bremer Woll-Kaemmerei, Germany, integrating US wool in the topmaking programms
- Through my 18 years emplyoment with Suedwolle, Germany, a leading worsted wool spinner as dircetor for raw material procurement and yarn sales into the outdoor market
- Since three years consulting in the wool industry on projects with companies from raw material through manufacturing to garment making
- President of Interwoollabs, an organisation set up by IWTO for the harmonisation of Almeter and Micron tests
- Several vists over the years to US warehouses of most regions and in contact over many years with exporters
- Regular meetings with the Wool Council at IWTO and other occasions
- Large industry network to liaise with for the benefit of wool use and information sourcing

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## My role for the American Wool Council

- Marketing and promotion, creating more awareness, supporting especially wool categories which are in weaker demand
- Identifying companies as potential users for US domestic wool
- Establishing contacts at fairs and looking out for opportunities where US domestic wool could be integrated
- Liaise with FAS overseas to help inform about our programs and identify opportunities
- Looking at new or upcomming manufacturing technologies to assess promotion of wool in that area

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Situation Overview

- Wool Textile Industry Today
- Production Countries
- Supply Situation
- Industry
- Situation and Challenges
- Conclusion

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## Wool Textile Industry Today

- Wool production is concentrated in finer micron categories
- Lowest production volume
- Man-made fibres are increasingly made from bio-polymers
- Fibre blends are in demand, for functionality and cost
- New machines open markets for new wool products

## Wool Textile Industry Today

- Product Focus is about climate control from:
  renewable, recyclable and biodegradable raw materials with a low carbon impact and energy efficient production
- Fashion is in a x-over phase combining traditional style with functionality
- Wool garments are offered mostly by special brands, striving for high standards usually targeting the premium sector

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## Wool Textile Industry Today

Requirements of Modern Fibres:

- Suitable for light-weight fabrics
- Elasticity/Elongation
- Moisture management
- Easy-Care
- Recylable
- Potential for Marketing Stories

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## Production Countries

*all in millon lbs clean (=> 1 lb clean equals abt 0,75 lb spun and dyed yarn)

USA approx. 12 (or 9*)

Australia 405*- South Africa 58*- Argentina 58*- Uruguay 54*- New Zealand 12*(Merino)

World Production data for 2018 – 1.154

Reason for decline of production is mainly due to draught or seasonal conditions in the southern hemisphere. A strong increase in sheep numbers is not expected in the comming years.

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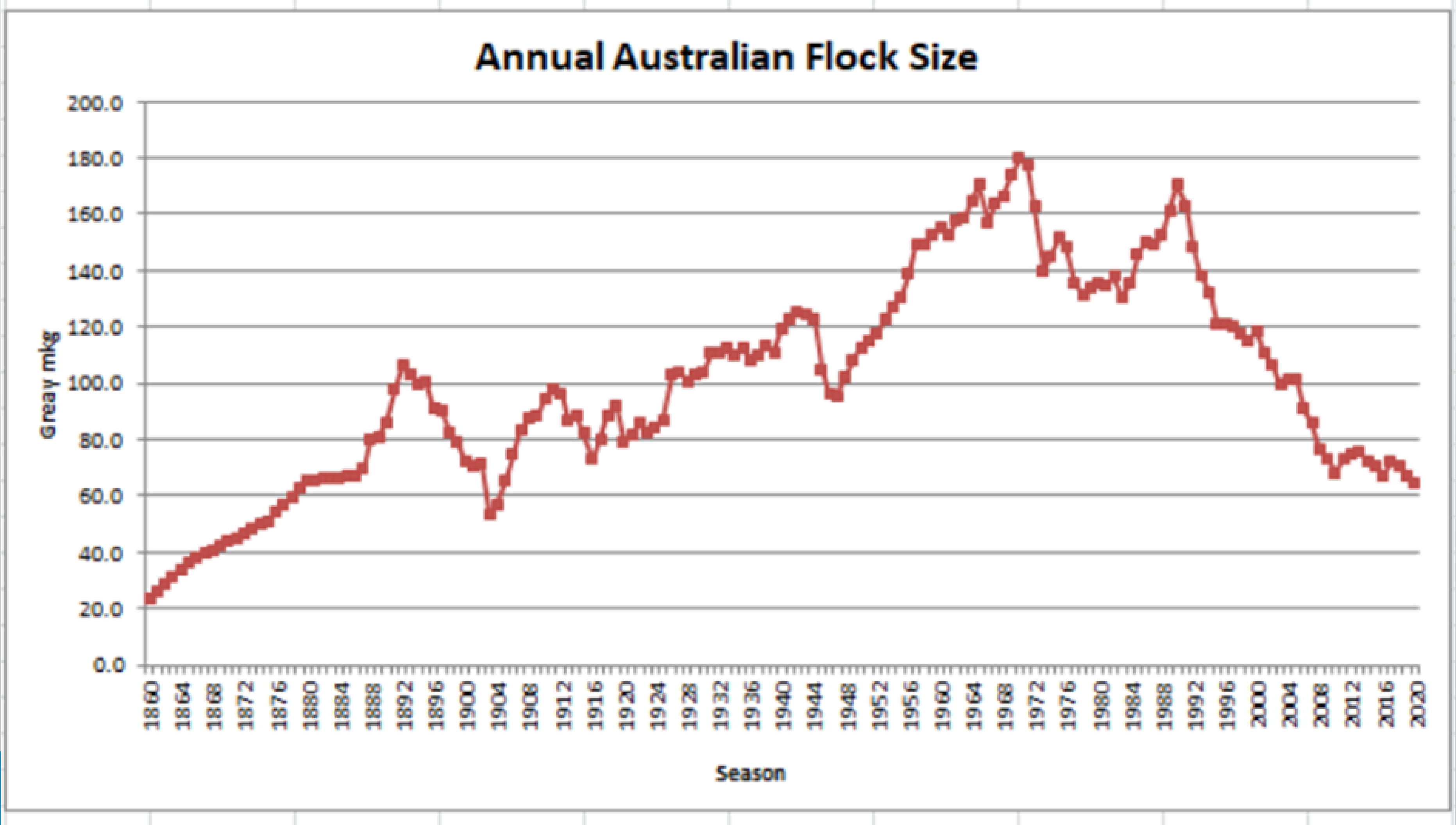

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## Supply Situation

- Despite the phase of higher wool prices in 2019 no production increase has been seen
- Challenging seasonal conditions and consequences in the southern hemisphere for the next sheep generation, particularly in Australia continue
- Foot and Mouth Disease in South Africa (restricting greasy wool imports into China)
- Rising costs of production had a negative impact
- The proportion of  micron shifting into finer categories (16 to 20 mic) continues
- Coarser Wools still lack of demand, despite innvovation initiatives for wool

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# Weekly Wool Market Report

**Week 29**

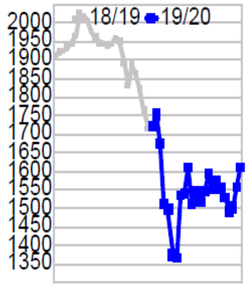
*www.awex.com.au*

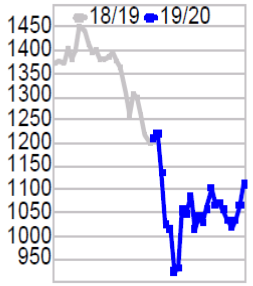
**Thursday, 16 January, 2020**

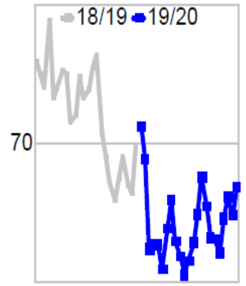
*Compared to week 25, Wednesday, 18 December, 2019*

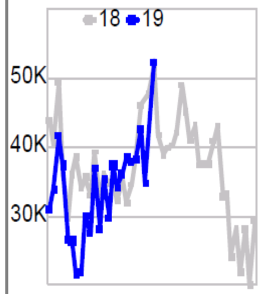
AWEX
*we know wool*

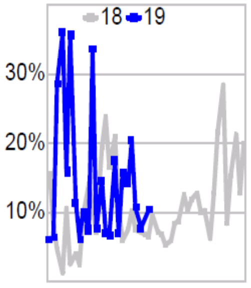
| AWEX EMI (¢) | EMI (US¢) | AUD (US¢) | Offering (bales) | Passed-In (%) |
|---|---|---|---|---|
| 1,609 | 1,111 | 69.07 | 52,261 | 10.5% |
| ▲ +51 | ▲ +45 | ▲ 0.62 | ▲ +17,485 | ▲ +2.7% |



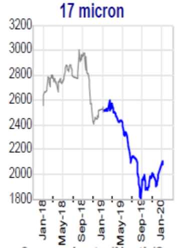



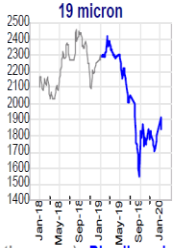

| | AWEX EMI (¢) | | EMI (US¢) | | AUD (US¢) | | Offering (bales) | | Passed-In (%) |
|---|---|---|---|---|---|---|---|---|---|
| Year on Year | | Year on Year | | Year on Year | | Year on Year | | Year on Year | |
| 17-Jan-19 | 1,923 | 17-Jan-19 | 1,375 | 17-Jan-19 | 71.51 | 18/19 | 872,265 | 18/19 | 9.8% |
| 16-Jan-20 | 1,609 | 16-Jan-20 | 1,111 | 16-Jan-20 | 69.07 | 19/20 | 779,369 | 19/20 | 15.0% |
| | -314 -16.3% | | -264 -19.2% | | -2.44 -3.4% | | -92,896 -10.6% | | 5.2% |

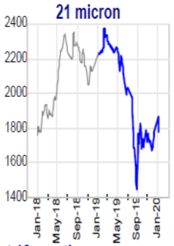
| | | North *Sydney* | | South *Melbourne* | | West *Fremantle* | |
|---|---|---|---|---|---|---|---|
| | Ind. | 1678 ▲ | +79 | 1566 ▲ | +33 | 1687 ▲ | +16 |
| Fine | 16.5 | 2202 | +117 | 2160 n | +107 | | |
| Fine | 17 | 2122 | +117 | 2082 | +93 | | |
| Fine | 17.5 | 2057 | +119 | 2015 | +77 | 1940 n | +59 |
| Fine | 18 | 2005 | +98 | 1930 | +67 | 1895 n | +48 |
| Fine | 18.5 | 1941 | +103 | 1904 | +99 | 1845 | +46 |
| Fine | 19 | 1909 | +91 | 1838 | +49 | 1794 | +7 |
| Medium | 19.5 | 1894 | +100 | 1814 | +35 | 1791 | +14 |
| Medium | 20 | 1878 | +86 | 1803 | +32 | 1787 | +12 |
| Medium | 21 | 1870 | +87 | 1783 | +14 | 1779 n | +7 |
| Medium | 22 | | | | | | |
| Medium | 23 | | | | | | |
| Medium | 24 | | | | | | |
| Crossbred | 25 | | | | | | |
| Crossbred | 26 | 1195 n | +15 | 1166 | +2 | | |
| Crossbred | 28 | 914 n | 0 | 865 | -48 | | |
| Crossbred | 30 | | | 711 | -18 | | |
| Crossbred | 32 | | | | | | |
| | MC | 1123 n | +52 | 1089 n | +38 | 1132 n | +44 |

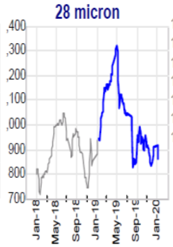
## AWEX Comment

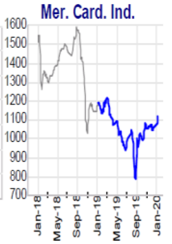
The Australian wool market resumed sales this week, after the annual three-week Christmas recess. The first sale of the new calendar year was another volatile one, with large price fluctuations across the series. This sale is traditionally a larger one, this year the national offering was 52,261 bales. As a three-day sale was required in Melbourne due to the large quantity, Sydney sold in the unusual pattern of Tue/Wed to avoid Melbourne selling in isolation. From the opening hammer on the first day of selling, it was immediately apparent that large price increases were on the cards. By day's end all types and descriptions across all merino microns rose by 90 to 140 cents. On the back of these rises, the individual Merino Price Guides (MPGs) in Sydney and Melbourne jumped by 93 to 135 cents. These increases helped to push the AWEX Eastern Market Indicator (EMI) up by 79 cents, this was the largest daily rise in the EMI since September last year. All three centres were in operation on the second selling day. As the Western region missed out on the price rises of the previous day, the Fremantle market opened very strongly, with general price rises of 90 to 100 cents. However, midway through the sale, buyers started to continually reduce their limits as they accumulated wool. By the end of the day the price rises had almost completely deteriorated. The downward trend experienced in the West was continued when Melbourne opened on the final day, so much so that the Southern MPGs for 17.5 micron and coarser fell by 27 to 77 cents. The EMI lost 34 cents for the day. Despite the final day losses, the EMI still recorded overall positive movement for the series, adding 51 cents for the week, to close at 1,609 cents. Next week's national offering increases to 59,890 bales.




2 year charts (North/South average). Blue line = last 12 months.

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## Wool Industry - Manufacturing

Changes in the manufacturing sector:

- weaving – suffers most, from further losses of volumes sold
- flatknitting (e.g. sweater business), has been generally stable over the years
- circular knitting (e.g. next to skin knitwear) and hosiery (e.g. socks) increased with further growth potential
  new machine generations give access to more markets
  traditional fashion industry applying more fabric from this category
- manufacturing is moving away from China, into India, Bangladesh, Vietnam and Cambodia or Myanmar – some production get´s established in Ethopia, due to duty free agreements with US and EU markets

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## Wool Industry – Changes

- Production Capacity – strong renewal/increases during the past good business years some equipment got re-installed in Italy
  for wool topmaking and spinning over capacity is now building up (mainly China)
- Margins are under pressure, market leaders fighting for sales volume
- Overall production is largely reduced to accomodate for less order intake
- Dyeing capacity in China is less available, after the closure of mills non-compliant to higher environmental standards (resulting in lead time issues at order peak times)
- Certification is increasingly required by brands and consumers wanting to understand the supply chain and raw material. For wool the Responsible Wool Standard (RWS) continues to attract more interest together with initiatives securing information transfer with blockchain

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<u>Wool Industry Challenges</u>

- Increasing numbers of specialised small and medium brands complicate a simple market overview
- Larger organisations buy wool brands and re-structure the business (i.e. VFC with Smartwool, Icebreaker, Napapijri)
- Textile manufacturers  invested in brands to stabilize their margins and order volumes, to depend less on commission business
- Despite good wool interest and retail sales in the USA (compared with other countries), investments in wool garment manufacturing remains small, with the consequence to continue importing textiles in large volumes also in future
- India is the main beneficiary from the US-China trade dispute, but does not offer the complete quality and product range of wool garment making, lacks of innovation
- Several large brands try to spread out their sourcing to more countries, often under aspects of preferential duties
- The luxury market continues to grow
- Fibres with functions remain in high demand
- Regenerative or recycled raw materials blended with wool are preferred combinations to lift the quality/value profile of products
- Smart texiles including conductive yarns or surfaces for several functions (health monitoring, communication or temperature regulations) will increase in importance over the next years
- High wool prices increased garment cost, which is often tried to be levelled out by a higher blend with other fibres
- Too many certification and branding schemes of raw material cause irritation in the downstream industry and with consumers

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## Conclusion

- Wool develops further into a specialised niche, for well informed consumers appreciating the product´s functionality and sustainable values at higher cost
- Innovation possibilities for wool have not yet been fully exploited, especially for coarser microns more application are feasible
- High price volatility caused hardship to specialized wool brands, pushing for an increase of fabric blends
- New machines demand development of higher tensile strength yarns, which 100% wool cannot offer – blends are required

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# Thank you!