About the research

The Australian Wool Annual Review includes data and outlooks on production in Australia, seasonal conditions, prices and demand. Significant effort has been taken to secure the most recent data available.

About Ag Answers

Ag Answers is a specialist insights division of Rural Bank. Recognising that good information is the key to making good business decisions, Ag Answers provides research and analysis into commodities, farmland values, farm business performance and topical agricultural issues to enable farmers to make informed decisions.

About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010. It is the only Australian-owned and operated dedicated agribusiness bank in the country, providing exceptional financial services, knowledge and leadership for Australian farmers to grow.
Australian wool growers can look forward to another year of strong prices as market fundamentals remain favourable for sellers.

The positive outlook for 2018 builds on a record breaking year in 2017. The AWEX Eastern Market Indicator (EMI) reached 1830 cents/kg clean in early March 2018, a record high in nominal terms and 30 per cent higher than a year ago.

Australian wool production has increased slightly, with greasy weight production up 2.1 per cent (AWTA, 2018) compared to this time last year. The national flock is also increasing following consecutive seasons of favourable conditions. The number of sheep shorn in 2017/18 is expected to be up 1.7 per cent (AWI, 2017).

Australian wool exports have increased in both quantity and value over the past three years. A total of 348,126 tonnes of wool was exported in 2017, up six per cent compared to the previous year. In value terms, wool exports were worth $3.65 billion dollars in 2017, representing an increase of over 20 per cent year on year.

China still accounts for most of Australia’s wool exports – over 77 per cent of Australia’s exported wool by volume.

The weather outlook for autumn and early winter suggests conditions are likely to be close to median rainfall and temperature for most wool growing regions. The current vegetation and soil moisture maps show that western New South Wales and much of Victoria are entering autumn with below average soil moisture.
Australian production

Wool production in Australia is slowly rising as farmers seek to build sheep flocks in response to current high wool, lamb and mutton prices. Nevertheless, national production remains well below the 1989/90 peak.

Australia’s shorn wool production is expected to rise by 1.4 percent in 2017/18 to 345,000 tonnes (AWI 2017).

Wool production has dropped by almost 50 per cent over the last 20 years, but there are signs that a trend toward increased production is emerging, with 2018 expected to be the third consecutive year of production growth. According to ABARES projections for Australian wool production, it appears that the two decade long trend of declining wool production is starting to reverse.

Production in Tasmania, Victoria and Queensland is expected to increase in 2018. Western Australia is expected to record reduced yield per head in 2017-18 as a result of the drier seasonal conditions experienced compared to 2016-17.

Australia’s sheep flock is estimated to be 73.6 million head this year, and is expected to increase to 76.6 million in 2018-19 (ABARES 2018). Despite this growth, the flock is still much smaller than a decade ago.

There will be no supply shock to perturb the market for fine to medium wool. The majority of Australia’s wool clip is at the fine end of the micron spectrum. Sixty per cent of production so far this financial year has been 20.5 micron or finer (AWTA, 2018). The majority of the increase in wool production will be related to the increase of meat breeds in the flock. Accordingly, the impact of flock growth on fine wool production will be limited, suggesting that the fine to medium wool market will not experience a rapid jump in supply.

So far this season, the average number of bales sold is 42,000 per week, up almost 10 per cent from 38,200 last season. This shows that farmers are taking advantage of prices and trying to get wool shorn and out of storage as promptly as possible.
International production

Australia is one of the world’s largest wool producers, but still faces competition from other producers such as New Zealand, South Africa and China.

New Zealand’s 2017-18 sheep flock is expected to be slightly smaller than the 2016-17 season. Nevertheless, production is forecast to rise as a result of the expected increase in yield per head. The flock is expected to be 27.3 million head, down 0.9 per cent on last year, and down almost 40 per cent since 2000. The value of New Zealand’s wool exports is expected to rise 16 per cent on last season due to the increase in production as well as price (Beef and Lamb New Zealand).

The New Zealand sheep flock largely comprises meat breeds, which typically produce broader wool. This has meant that increasing fine and medium wool prices are not flowing through to New Zealand’s wool industry to the same extent as in Australia given New Zealand’s smaller exposure to the fine wool market.

While almost two million bales were offered at Australian wool auctions in 2017 with a clearance rate of 92.7 per cent, just under 500,000 bales were offered in for sale in New Zealand and just over 300,000 in South Africa, with clearance rates of 77.6 per cent and 97.5 per cent respectively.

Wool production in China is expected to increase in the medium term, although the majority of Chinese production growth is going to be in broader micron wool, reflecting China’s current policy to develop and promote beef and sheep meat production. This is expected to increase supply of broader wool and maintain pressure on broad wool prices.

Although cotton and synthetic fibres are not perfect substitutes for wool, they do compete. The share of cotton in blended fabrics can be increased especially when cotton prices are cheaper relative to wool. Currently, the price differential between fine to medium wool and cotton is being contained by a concurrent increase in cotton prices.

World cotton production is expected to rise by 13 per cent in 2017/18 and a further three per cent next year (ABARES). The largest producers of cotton around the world are India, China and USA, all of which are expected to increase production and quality in the next few years (ABARES).
Demand and trade

International demand for wool is contributing to the strength of wool prices in the Australian market. This is apparent in high clearance rates at Australian wool auctions, growing export value and growing demand for wool based products.

In 2017, there was 348,126 tonnes of wool exported for a total value of $3.65 billion. This rise in export value can be mainly attributed to China, which accounts for approximately 77 per cent of Australian wool exports by volume. The value of wool exported to China in 2017 increased by 24 per cent compared to the previous year.

On a price basis, Switzerland was the highest price market for Australian wool exports in 2017 at over $69,000 per tonne, albeit only for two tonnes of wool. The average price of wool exported to Italy was a more modest average of $16,000 per tonne, but notable as the first of the premium wool export markets to trade a substantial volume of wool, approximately 14,500 tonnes in 2017.

The majority of Australia’s wool export income comes from 19 micron and finer wool, which accounts for over 48 per cent of Australia’s wool export value. The value of Australia’s exported wool over 24 micron contributed just over six per cent of Australia’s total wool income in 2017, illustrating the widening price gap between broader micron wool and fine micron wool.

The Australian wool industry benefited from additional export value to Italy in 2017, which rose by 40 per cent compared to the previous year. The volume exported to Italy increased only 7.5 per cent over the same period.

Australian wool exports are also benefitting from the favourable exchange rate. ABARES has forecast the Australian dollar to remain relatively low at an average of approximately 0.74 USD over the next five years.

Innovations in wool products such as fake fur and sports and active wear are driving up demand. This is in addition to population and wealth growth demand drivers, which are particularly apparent in China.

The sportswear industry is growing rapidly, and this trend is expected to continue in the future. The characteristics of wool are ideal for sportswear, as it is able to stretch, absorb moisture, be stain resistant, and reduce unpleasant odour. The expected growth in sportswear is encouraging wool manufacturers to create products that take advantage of the growing industry. The value of the sportswear market in China alone is expected to nearly double between 2015 and 2020.

The Australian dollar is still favourable to exporters

China’s sportswear sales are expected to increase in the future

Data: Goldman Sachs/The Economist

Data: RBA

Data: GTIS

Data: GTIS
Prices and farm performance

The Australian wool industry is still experiencing steady price rises in fine and medium micron categories, however the price of broad micron wool is remaining steady.

The wool market is expected to remain strong. The current AWEX EMI forecast, which is based on the performance of the indicator over recent years, suggests that the AWEX EMI is likely to stay above 1800 c/kg over the year ahead.

In nominal terms, Australian wool prices eclipsed record after record during 2017 and carried that momentum into 2018, with the AWEX EMI reaching 1830 cents/kg clean in early March 2018. The Western Regional Indicator closed February 2018 at 1912 cents/kg. Both prices have risen by over 15 per cent since the start of the financial year.

In real terms, the AWEX EMI is at its highest point since 1990. The record value was set in 1987-88 season, when the AWEX EMI averaged 2612 cents/kg when expressed in 2017-18 dollars, 48 per cent higher than the price at the end of 2017 (ABARES).

Both the 17 micron and 20 micron price guides have lifted by over 15 per cent since July last year. The broader wool markets have remained relatively stable over this financial year. 28 micron wool is currently over five per cent higher than the price at the start of the financial year, but is unlikely to see growth any greater than that. This is due to the increase in production from crossbred sheep in Australia, New Zealand and China in a market that already has limited demand.

Lamb and mutton prices are still slowly trending upwards following lows at the start of 2013. ABARES have forecast an increase in lamb and mutton price over the next two years, but expect the price to decline slightly in the long term.

Record breaking nominal wool prices in recent years are flowing through to the improved financial performance of wool enterprises.

The sheep industry has performed better over the past couple of years as a result of the higher prices received for livestock and wool, as well as good seasonal conditions.

Farm cash income from sheep enterprises is expected to reach the highest level in 20 years, and is expected to be 35 per cent higher than the average cash income for the last financial year (ABARES). Recent ABARES projections have predicted that the cash income of sheep farms is expected to remain high over the next couple of years, barring the occurrence of drought or other shock changes to the industry. The predicted high cash income is based on the ABARES forecast that the price of wool and livestock is expected to remain high over the next few years.

Farm management deposit (FMD) contributions can also be a good indication of how an industry is performing. The FMD balance for sheep businesses has increased by over $100 million in the past four years, reflecting a succession of profitable seasons (Department of Agriculture and Water Resources).

The price of cotton has trended higher over the past three years, which should assist the price competitiveness of wool. ABARES have forecast that the cotton price is going to rise by five per cent next season, as a result of demand as the economy improves.

The AWEX EMI is likely to hold on to 2017’s gains

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**The AWEX EMI is likely to hold on to 2017’s gains**

Data: AWEX, Ag Answers
Prices and farm performance (continued)

Mutton prices are expected to remain strong

- Data: MLA, Ag Answers
- 95% confidence level
- 68% confidence level

Broad wool categories have not experienced the same price increase as fine wool

- Data: AWEX
- 28 micron and cardings cents/kg

Farm cash income of sheep farms is expected to increase again this financial year

- Data: ABARES
Cotton prices have also been trending higher in recent years.

Data: Ycharts.com

FMD balances for sheep businesses are growing in response to good seasonal conditions.

Data: ABARES
## Price table

<table>
<thead>
<tr>
<th>Market Indicators</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eastern</strong></td>
<td>1778</td>
<td>1500</td>
<td>1316</td>
<td>1506</td>
<td>1068</td>
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<tr>
<td><strong>Western</strong></td>
<td>1859</td>
<td>1547</td>
<td>1353</td>
<td>1491</td>
<td>1109</td>
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### 17 Micron (Cents/Kg)

<table>
<thead>
<tr>
<th>Region</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North</strong></td>
<td>2802</td>
<td>2182</td>
<td>1765</td>
<td>2296</td>
<td>1346</td>
</tr>
<tr>
<td><strong>South</strong></td>
<td>2758</td>
<td>2133</td>
<td>1763</td>
<td>2271</td>
<td>1328</td>
</tr>
<tr>
<td><strong>West (18 micron)</strong></td>
<td>2259</td>
<td>2026</td>
<td>1587</td>
<td>1992</td>
<td>1258</td>
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</table>

### 21 Micron (Cents/Kg)

<table>
<thead>
<tr>
<th>Region</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North</strong></td>
<td>1887</td>
<td>1508</td>
<td>1383</td>
<td>1503</td>
<td>1161</td>
</tr>
<tr>
<td><strong>South</strong></td>
<td>1883</td>
<td>1504</td>
<td>1389</td>
<td>1506</td>
<td>1164</td>
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<tr>
<td><strong>West</strong></td>
<td>1884</td>
<td>1493</td>
<td>1370</td>
<td>1472</td>
<td>1166</td>
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### 28 Micron (Cents/Kg)

<table>
<thead>
<tr>
<th>Region</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
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</thead>
<tbody>
<tr>
<td><strong>North</strong></td>
<td>808</td>
<td>733</td>
<td>741</td>
<td>789.8</td>
<td>644</td>
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<tr>
<td><strong>South</strong></td>
<td>820</td>
<td>736</td>
<td>745</td>
<td>803</td>
<td>701</td>
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<tr>
<td><strong>West (Merino cardings)</strong></td>
<td>1269</td>
<td>1230</td>
<td>1049</td>
<td>1177</td>
<td>755</td>
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### Merino Lamb 16-22kg (C/Kg)

<table>
<thead>
<tr>
<th>Eastern states indicator</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
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</thead>
<tbody>
<tr>
<td><strong>Eastern states indicator</strong></td>
<td>598</td>
<td>563</td>
<td>480</td>
<td>559</td>
<td>405</td>
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### Mutton 18-24kg (C/Kg)

<table>
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<tr>
<th>Eastern states indicator</th>
<th>March - 18</th>
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<th>5 - year average</th>
<th>80th percentile</th>
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</thead>
<tbody>
<tr>
<td><strong>Eastern states indicator</strong></td>
<td>432</td>
<td>427</td>
<td>341</td>
<td>405</td>
<td>270.8</td>
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### Australian Dollar

<table>
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<tr>
<th>AUD/USD</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
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<tbody>
<tr>
<td><strong>AUD/USD</strong></td>
<td>0.77</td>
<td>0.77</td>
<td>0.82</td>
<td>1.03</td>
<td>0.76</td>
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### Cotton (USD/Kg)

<table>
<thead>
<tr>
<th>Cotlook A index*</th>
<th>March - 18</th>
<th>March - 17</th>
<th>5 - year average</th>
<th>80th percentile</th>
<th>20th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cotlook A index</strong></td>
<td>1.95</td>
<td>1.88</td>
<td>1.73</td>
<td>1.91</td>
<td>1.53</td>
</tr>
</tbody>
</table>

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*4 year average
80th percentile indicates that 80% of the data is below the value shown
20th percentile indicates that 20% of the data is below the value shown
Source: MLA, AWEX, Alpha Vantage, Ycharts.com
Seasonal conditions

The three month rainfall outlook for Australia is for most areas to receive around median rainfall. The temperature outlook shows that there is a high chance that the median temperature will be exceeded for Tasmania and the western district in Victoria, and close to average temperatures elsewhere.

The summer rainfall for wool producing areas was variable, with most of Western Australia receiving above average rainfall, but eastern South Australia, northern New South Wales, western Victoria and central Queensland getting well below average rainfall. The majority of Australia’s wool producing country experienced a hot summer, with the mean temperature anomaly for most wool regions being between one to three degrees above average, with the worst affected areas being central Queensland and central New South Wales (BOM 2018).

The climate factors behind this outlook include the breaking up of the recent La Nina event, with the El Nino-Southern Oscillation (ENSO) currently set at neutral. However, the effects of a neutral ENSO may be offset by the warm water temperature in the Tasman Sea, which may add moisture to any low pressure systems that may occur later in the year.

The normalised difference vegetation index (NDVI) shows that the majority of wool growing regions currently have below average vegetation, with the worst affected areas being South Australia and parts of Western Australia. The Australian Root Zone soil moisture map shows that the south-eastern side of Australia currently has below average soil moisture. The NDVI and root zone soil moisture maps indicate that there is a lack of feed available in some parts of Australia.