Australian wool growers are receiving some of the best returns that they have had in decades and the prospect of this continuing is good.

The fundamentals of the wool market are favourable for Australian wool producers. Strong demand from China and Italy has driven wool prices higher, especially for fine Merino wool. China accounts for almost 80 per cent of wool exported from Australia. Declining wool stocks in China have helped to boost the Australian market recently. This additional demand-side effect on the market builds on the macro domestic demand trend in China for woollen apparel associated with rising incomes.

The Australian dollar has been trending gradually higher over the past two years, up five per cent compared with November 2015. To this point that gradual increase has not perturbed buyers. That said, after briefly hitting 0.80 US in September, the Australian dollar has been declining and some commentators are suggesting that it will fall further, which would add support to Australian wool prices.
The wool market has seen exceptional growth over the past three and a half years. In November 2017 the market extended those gains further, with the AWEX EMI reaching 1681 cents per kilogram clean, marking an all-time high and an almost 30 per cent increase compared to November 2016.

A wool price collapse is unlikely, although volatility should always be expected. The wool market has seen downturns in the past. After previous peaks, on average, the market has taken just over one year to shed 30 per cent of its value. If the current market is near a peak (not suggesting that it is) then a downturn is expected to be mild on this occasion due to limited supply in Australia and the decline of stocks in held in China.
Wool growers are responding to strong demand by increasing the volume of wool offered at auctions. However, wool stored on-farm is limited so there will be no supply shock from wool entering the market from farm storage. Furthermore, Australian wool production has been in a 23 year period of decline. The lagged and slow process of increasing the size of the flock and therefore wool production means that supply is unlikely to put downward pressure on prices. The low point of Australian wool production appears to have occurred in 2015, but the recovery will be slow.

Australia’s wool clip is drifting away from fine wool toward both superfine and coarse wool. Demand for superfine wool in high quality apparel has been increasing prompting wool growers to produce for that market. Coarse wool has increased its share of the clip as strong lamb prices have prompted farmers to crossbreed merinos with other breeds that have more favourable meat characteristics, but tend to produce coarser wool.
Almost 80% of wool exports are to China

The Australian dollar remains close to five year 20th percentile

The value of wool exported is $355 million greater than in 2016

The Australian dollar remains favourable to exporters

Despite a downward trend in Australian wool production, the volume of wool exported in 2017 is higher than previous years

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