

Risk – Identify, quantify and mitigate.

The 2019/20 Wool season has started with the largest retraction in prices since the cessation of the Reserve Price Scheme (RPS) in 1991. The Eastern Market Indicator (EMI) lost 17% of its value falling from a season opening level of 1754 to 1497. The reversal of fortunes for the market has raised comments on the inherent risk of the wool grower. To put the current price falls in perspective the current level of 1497 is still in the top 25% of prices for the last decade. The average EMI for the last 10 years is 1295 and for the last five years 1494.

Wool prices peaked at 2116 in August last year as a result of a perfect storm in market fundamentals. Low supply and strong demand. The drought induced low supply (down 12.1% to 300 million kilograms) combined with active marketing campaigns, technical innovation and general global consumer confidence saw prices double in a four-year period. Such price pressure will always bring a degree of demand destruction. This began in the spring last year in the finer microns but was somewhat masked in the broader qualities with the continuing drought induced low supply 21.0 micron peaked in February this year at 2370. The build-up of risk factors towards the end of the wool season in July put further pressure on the market. The ongoing trade tensions between USA and China, uncertainty in Europe over Brexit, declining global growth and consumer confidence have all contributed to the decline in prices.

Where to from here?

The answer is not “we’ve got not control over that, so you have to wear it in the wallet” as a grower was reported in the media this week. The wool industry has risk products to enable growers to mitigate risk and smooth returns. This week a Monaro wool grower was able to add 30,000 dollars to his wool cheque on the maturity of his forward hedge contact. The current Riemann Wool Forward trades only 1.5% of the underlying wool clip of 300 million kilograms. Although forward price reports are published weekly on the AWI website and disseminated by all major brokers penetration along the pipeline is lacking. The need for better researched and funded extension of risk education is highlighted in the National Farmers Federation (NFF) 2030 Road Map where it has a goal of 90% of growers using some form of financial risk management by 2030. This will require a multi-industry approach.

This follows on the statement from AWI CEO Stuart McCullough after the volatility in the spot auction last week “It’s important to acknowledge there are significant macro-economic factors, beyond the control of the industry, that have influenced the recent downward trend in the EMI - this price volatility is part of the market’s cycle. What is also important during this period is to ensure due care is taken, to make certain woolgrowers are properly informed of factors influencing price and the price risk when selling and we hope this is being exercised with vigour.” With less than 2% of the national wool clip being hedged forward during a period of historically high prices it is evident that the strategic message and information is not being presented in a form that engages the grower. The reasons need to be identified and content adjusted to deliver the grower the best possible outcome. Growers should be assessing their risk into the spring and beyond and setting margin management targets

Trades This Week

September	19.0	1700	5t
September	21.0	1660/1680	30t
October	19.0	1665	5t
October	20.0	1645	5t
November	19.0	1690	2.5t
November	21.0	1650	2.5t
February	19.0	1750	<u>2.5t</u>

Total 52.5t

Projected Forward Levels for next indicate a continued easing tendency with exporters willing to talk on risk at modest discounts to cash but as yet not venturing into New Year maturities with volatility at historic highs.

	19.0	21.0	28.0
Spot	1731	1671	860
September	1685	1645	840
October	1680	1640	830
November	1660	1620	810
December	1650	1610	800

For more information, please contact:

Mike Avery on 0409 743 733, mike.avery@samarkets.com.au or visit www.samarkets.com.au.