



CCWG Wool Market and Business Update – Fall 2019

2018 / 19 Wool Market Update

The wool market has been experiencing quite a rough ride for the current wool marketing year. During the first quarter the market seemed to be on track for stable conditions with both fine wool and crossbred types achieving reasonable prices and demand. There were expectations at the time that good progress was being made for a new China / USA trade agreement.

This situation however was short lived from April onwards as a number of factors came into play. Traditionally the market for wool is at its best and consumer confidence is greatest when there is positive growth in global economies and a stable worldwide political environment. The current situation of widespread indecision and uncertainty has had a detrimental effect on all value chain partners within the entire wool textile industry. China is the world's largest market for woolen garments of which approximately 45% is for domestic consumption and the remaining 55% for export. The escalation of the China / USA trade conflict, with time lines for increased tariff's put in place by both sides has had a major negative impact on the market.

Wool prices have been quite volatile which has created chaotic conditions for mills and the consequences of de-valued inventories. In August the Australian market dropped by more than 35%, the market has since managed to claw back some of these losses in September and October. For several months mills in China have been operating on reduced production schedules from 30% to 60%. Due to weak demand, stocks throughout the entire wool textile pipeline have been building in China and around the globe. Cash flow has been very much restricted as a result. European processors have reported that consumer demand has dropped by more than 20 percent, again due to trade and economic

uncertainty from the trade war and other problems such as Brexit and tensions in the Middle East. Due to the overall state of the global economic situation, consumers are spending less on clothing which is affecting the entire global textile sector. Consumer confidence throughout China, Europe and other major economies has been severely affected by trade and fears of a worldwide recession.

Most of the major wool producing countries have experienced declines in wool exports of approximately 10% to 15% compared to a year ago which is mostly attributable to weaker global demand for wool. In Australia there has been no relief in the severe drought conditions that have existed for quite some time. Wool production has been hit hard due to these difficult seasonal conditions as producers have been forced to de-stock due to feed shortages. Wool production in Australia has declined by 14% compared to a year ago and there has been a downward trend now for several years. In NZ sheep numbers also continue to decline and wool production is lower by 2.5% compared to a year ago.

The Nanjing Wool Market Conference was recently held in Qufu, Shandong China where 500 representatives from 26 countries attended. The conference is an annual meeting of the global wool industry that facilitates discussion on current industry issues, future developments and market opportunities. The general consensus at the conference was that wool prices are likely to remain volatile for the next few months and possibly into 2020 before a more sustained and modest improvement will occur. A bright spot for the Chinese industry has been the popularity of two new star products that utilize significant fine wool and some broader wools to a lesser degree. Double sided wool fabric and fake faux fur (replicating wool for fur) for winter coats have been selling very well in the Chinese domestic market, examples are attached to this report.

In terms of Canadian wool production a 9.7% increase was recorded compared to the previous wool marketing year. This is a good sign and we are hopeful for stable wool production in Canada. However, continuing drought conditions in certain parts of the country is a big concern due to the associated increased feed costs and flock reductions or dispersals that have been occurring. At the time of this writing we have marketed approximately 60% of the current year's wool production. Under normal trading conditions we would expect to be further sold by this time of year. With the present difficult wool marketing conditions that prevail we will continue with a patient and disciplined wool marketing approach

to our regular established markets as opportunities arise. Our top three export destinations for Canadian wool in 2019 will be China, Egypt and Czech Republic. It is worth noting that the well prepared wool clips are always easier to market when times are tough compared to inferior quality wools that contain faults such as high vegetable matter, poor colour etc.

CCWG Livestock Supplies, the Real Wool Shop and Premier Choix Agricole represent the retail brands that have served the company well. This business continues to grow and achieve favourable results. Sales increased by 6.7% compared to the previous year and net profitability increased by 9.7%. Significant investment is being allocated to improving the companies online platform as this part of our business continues to expand. In order to maximize social media marketing opportunities and for future business planning and development, a marketing consultant will be providing recommendations for consideration on these initiatives.

We wish to recognize James McNeely, Wool Superintendent and Donna Zeman, Executive Director who are two long time company employee's that are taking well deserved retirement. On behalf of all of us we thank you for your many years of loyal and dedicated service. Best wishes to both of you for many years of happy retirement.

Sincere thanks is also expressed to all staff, directors and our loyal customers for contributing to our continued success in this our 101st year of business.

Respectfully submitted,

Eric Bjergso
General Manager

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@慕容惜生23