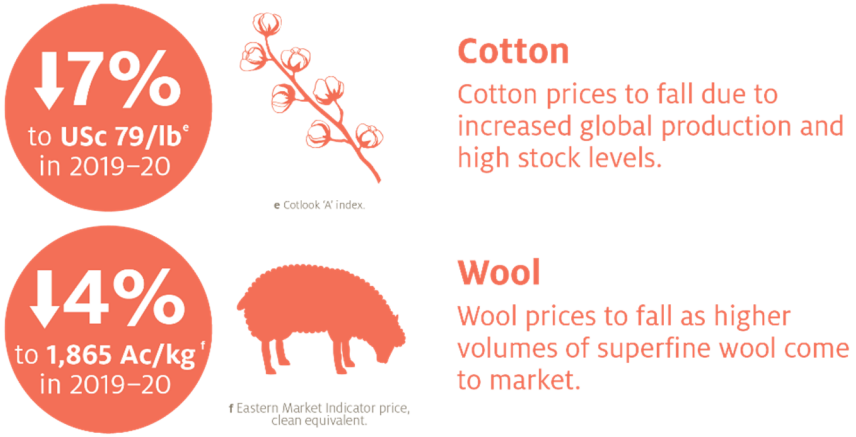
Natural fibres

Chris Mornement



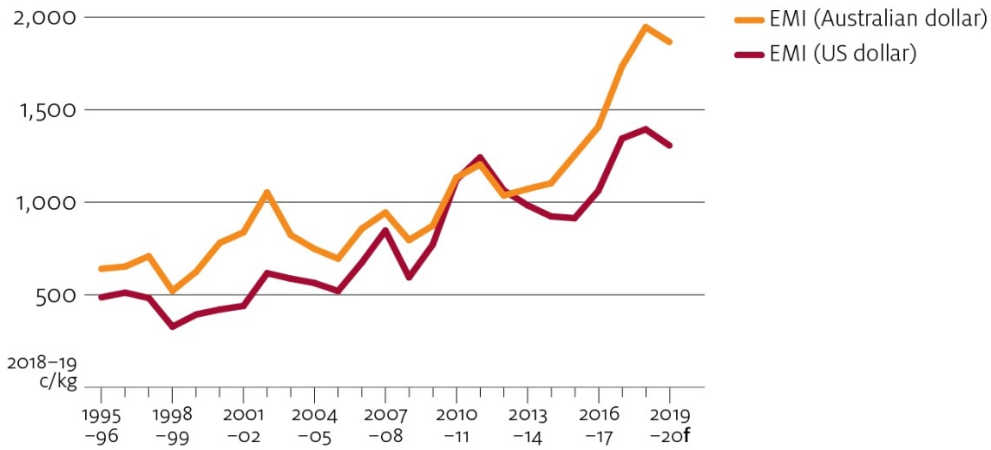
Australian wool production to fall as prices remain high

Total Australian wool production and exports are estimated to have fallen in 2018–19. Continuing dry seasonal conditions across most wool-growing regions have reduced the number of sheep shorn nationally and the average wool cut per head. In 2019–20 total wool production and the number of sheep shorn are forecast to decline further with the reduced sheep flock. Shorn wool production is forecast to decline by 5.3%. This is consistent with the estimates of the Australian Wool Production Forecasting Committee.

The Eastern Market Indicator (EMI) price for wool is a weighted average price across different wool types. In 2018–19 the EMI averaged an estimated 1,945 cents per kilogram. This is an upwards revision from the ABARES forecast in Agricultural commodities: March quarter 2019 due to stronger than anticipated demand. Wool prices are high compared with recent years, especially in US dollar terms—the currency most used to purchase Australian wool. The EMI declined slightly in late 2018 but was supported over the remainder of 2018–19 by falling wool supply and depreciation of the Australian dollar.

In 2019–20 the EMI is forecast to fall as higher volumes of superfine wool come onto the market and historically high prices cause some processors to substitute towards lower-cost fibres. The high EMI is creating an incentive for processors to substitute wool with cheaper synthetic fibres that can be blended with lower-cost medium micron wools (20.6 to 22.5 microns).

Eastern Market Indicator, 1995–96 to 2019–20



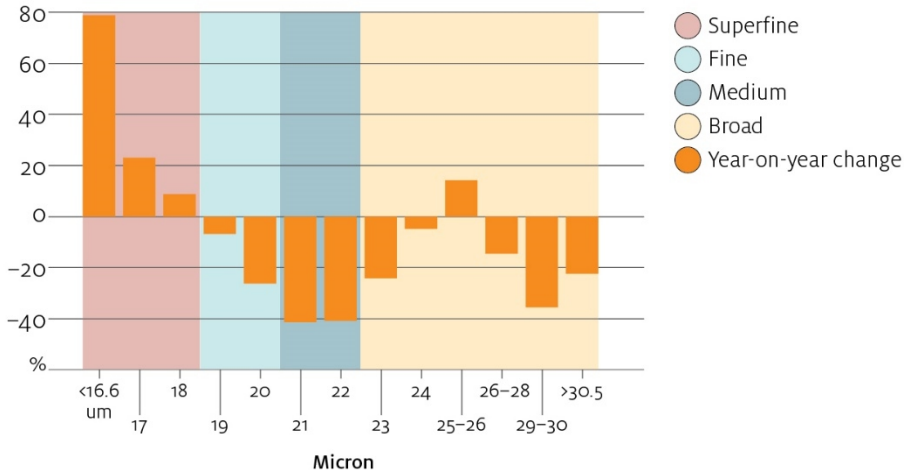
f ABARES forecast.

Dry conditions increase superfine wool supply

The estimated fall in total wool production in 2018–19 is not expected to continue across all wool types in 2019–20. Of the wool tested at the end of March 2019, the supply of fine and medium wools (18.6 to

22.5 microns) fell by 24% year-on-year. Dry seasonal conditions have pushed the average micron of these wools lower. This has resulted in a higher supply of lower-quality superfine wools (18.5 microns or less) coming onto the market. This combination of higher quantity and lower quality is likely to put downward pressure on premiums for finer grade wool.

Change in testing volume, Australia, July 2018 to March 2019



Note: Percentage change in volumes tested by Australian Wool Testing Authority are relative to same period in 2017–18.
Source: Australian Wool Production Forecasting Committee; Australian Wool Testing Authority

Increased world cotton production to decrease prices

World cotton prices are expected to fall in 2019–20 as a result of increased world production, high prevailing stock levels, and competition from synthetic fibres. This fall comes from high price levels in 2018–19 supported by strong demand and lower than expected production.

In 2019–20 world cotton production is expected to rise due to improved seasonal conditions in the United States, and increases in area planted in India and Pakistan. This follows falling production in 2018–19 mainly due to declines in China, India, Pakistan and the United States. Abandonment rates in 2019–20 are forecast to decrease in the United States due to favourable soil moisture and rainfall in the south-west.

World cotton consumption is expected to exceed production in 2019–20, leading to an overall reduction in world stocks. China's cotton reserves are expected to reduce to support domestic consumption, while World (excluding China) stocks are expected to grow as a result of increased production.

World textile demand to remain strong

Growth in global incomes and population is continuing to support textile demand.

Increased consumption of cotton-based textiles and clothing is expected as the number of middle-class consumers in emerging economies grows. Decreasing prices are expected to make cotton more competitive, providing manufacturers with an incentive to maintain the cotton content of textiles.

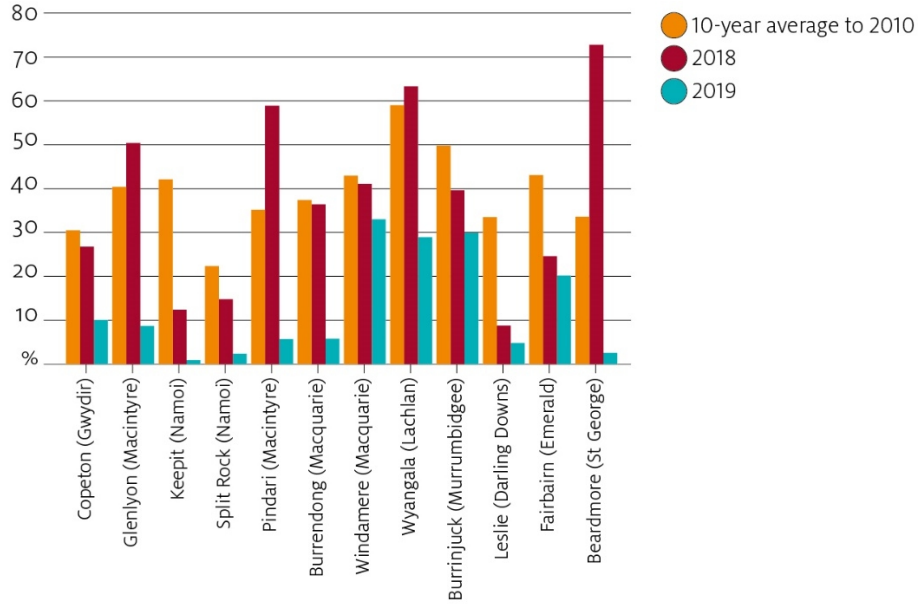
Demand for raw wool is driven by consumer demand for high-value woollen textiles and apparel. Forecast income growth in major wool-consuming markets—including China, the United States and the European Union—is expected to underpin global demand for fine wool.

An assumed depreciation of the Australian dollar is expected to support the competitiveness of Australian natural fibre exports.

Australian cotton production to fall

Australian cotton production is forecast to decline further in 2019–20 after a significant decline in 2018–19. Low dam storage and soil moisture levels have resulted in a decline in Australian cotton planting. Any recovery in production levels from 2019–20 is likely to be constrained by the availability of irrigation water following 2 years of dry seasonal conditions in eastern Australia. The last 3 recharge events for irrigation dams in the main cotton-producing regions occurred during a La Niña. La Niña conditions are not expected for the coming winter when significant dam recharge usually occurs.

Storage levels for key cotton-feeding dams in New South Wales and Queensland



Note: Numbers included here are percentages of storage capacity.
Source: Bureau of Meteorology

Opportunities and challenges

Uncertainty in global textile trade

The United States is a major importer of textiles and clothing processed in China. The impact of trade tensions between the United States and China on world textile demand and trade remains uncertain and depends on many factors. These include the extent of any future retaliatory import tariffs imposed by these countries and whether global trade tensions broaden to include other nations. Any new tariffs imposed by the United States on textile or garment imports from China present a downside risk to demand for Australian natural fibre exports. A decline in Chinese demand for natural fibres would likely affect Australia's wool industry more severely because Australia has fewer export markets for wool than for cotton.

The effect of the trade tensions on Chinese consumers, who represent a substantial and rapidly growing final market for apparel, has been unclear. Consumer confidence and to a lesser degree garment sales declined in China between February and August 2018 but has recovered and strengthened since September 2018. These data indicate that Chinese demand for textiles and clothing may not necessarily weaken if trade tensions continue.

Outlook for natural fibres

Category	unit	2017–18	2018–19s	2019-20f	*% change*
Cotton					
World a					
Production	Mt	27.0	25.8	27.1	5.0
Consumption	Mt	26.7	26.7	27.4	2.0
Exports	Mt	8.9	9.2	9.8	7.0
Closing stocks	Mt	17.7	16.6	16.4	-2.0
Cotlook 'A' index	USc/lb	88.0	85.2	79.2	-7.0
Australia b					
Area harvested	'000 ha	526	343	172	-50.0
Lint production	kt	1,058	485	290	-40.0
Exports	kt	872	981	395	-60.0
value	A$m	2,132	2,704	1,001	-63.0
Gin-gate returns **c**	A$/bale	600	642	622	-3.0
Wool					
Australia b					
Sheep shorn	million	76.8	71.2	67.5	-5.0
Wool production **d**	kt	422	379	352	-7.0
Exports					
Volume	kt (gr. eq.)	452	398	369	-7.0
value	A$m	4,380	4,251	3,778	-11.0
Eastern Market Indicator **e**	Ac/kg	1,732	1,945	1,865	-4.0

a August–July years. **b** July–June years. **c** Value of lint and cottonseed less ginning costs.
d Greasy, includes shorn wool and wool on sheepskins, fellmongered and slipe wool. **e** Clean equivalent.
f ABARES forecast. **s** ABARES estimate.
Sources: ABARES; Australian Bureau of Statistics; Australian Wool Exchange; Cotton Australia Statistics; Cotton Outlook, Merseyside, United Kingdom; US Department of Agriculture, Washington