National Council Wool Selling Brokers
AUSTRALIA

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From the Desk

- Australian wool prices firm with fine wool prices outperforming.
- Re-pricing of US interest rate hikes influencing AUD lower.
- Latest results from Burberry show retail profit margins higher than pre-COVID.

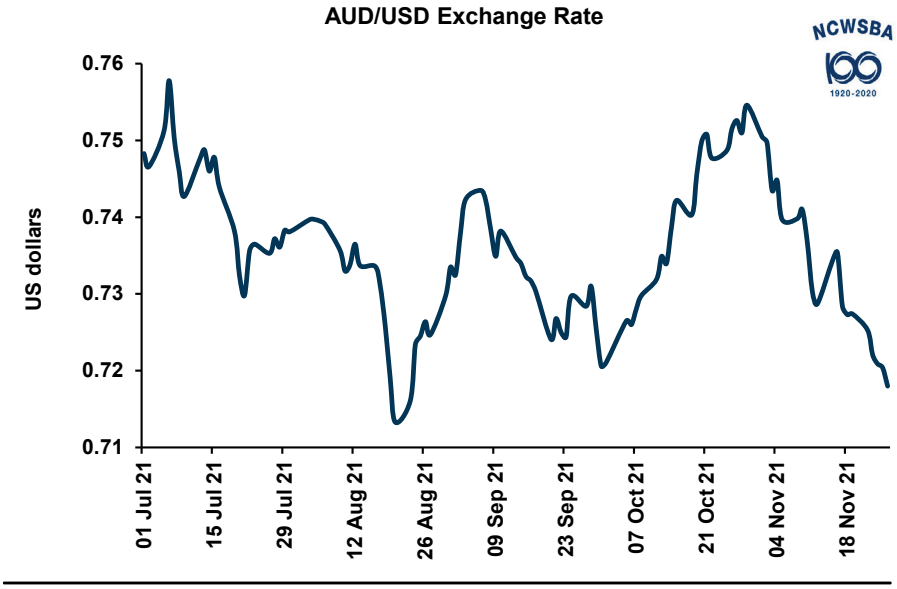
Australian Wool Market

The Australian wool market rose this week with the EMI closing 1.3% higher to 1,341 Aus c/kg clean. Price performance was notably different between selling days – with a weaker first day but a recovery on day two of selling.

Producer prices were helped by the weaker AUD which fell to a new one month low against the US dollar. In US dollar terms the EMI rose by 0.5%. How far the AUD can fall under the current phase of re-pricing of US rate hikes will have a role in shaping local wool prices. The recent surge in US inflation and robust labour market has financial markets betting the US Fed will raise interest rates sooner. Earlier this week markets were pricing a 60% chance of two Fed rate hikes by July 2022. Two months ago the probability was just 10%.

For the week, 37,725 bales were offered. With the firmer market pass-in rates were lower, averaging 7.5% nationally. Southern region fine wool fleece prices (up 2.0 to 2.5% in AUD terms) outperformed medium merino fleece (up 1.0-1.8%).

AUD approaching August low of 71.4 US cents



Source/Notes: RBA

Inflation and Wool Demand

The drivers of the current period of inflation in many instances can be related back to COVID. Key was a very large shift in spending patterns during the last 18 months as consumers spent on goods. Consumers were less able to access 'services' (dining out, travel) during restrictions imposed as a result of COVID. Rather, in many parts of the developed world, consumers spent money on goods which could be delivered door-to-door and related to their homes (eg. setting up home offices).

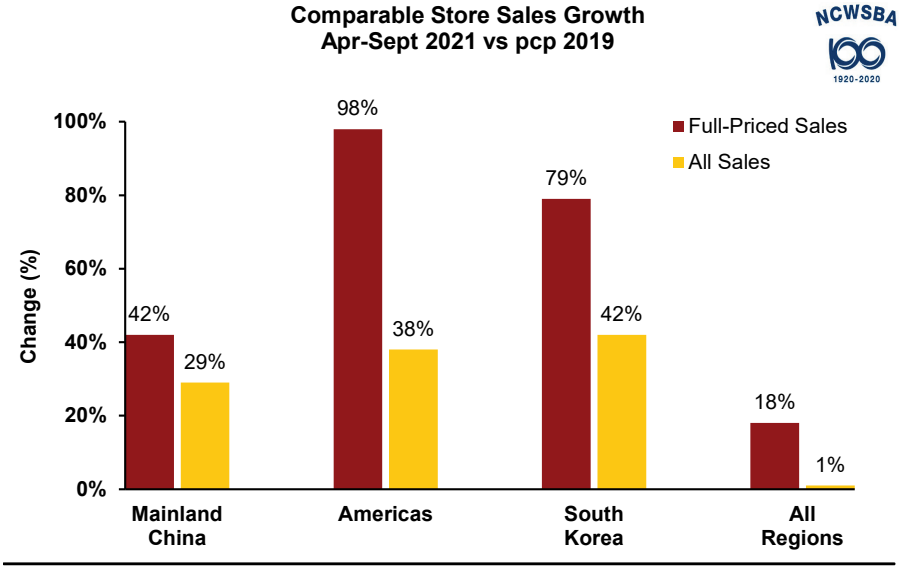
Auction Volumes for Next Week Sale 22 (bales)

Est. Date	22 Nov	24 Nov
Sydney	10,463	9,685
Melbourne	21,055	23,899
Fremantle	7,540	7,915
Total	39,058	41,499

For important disclosures refer to the Disclaimer Section at the end of this report.

As economies fully re-open (hopefully) in 2022 the reverse could be true. As COVID disruptions to consumer behaviour subside, we could well see consumers compensate for the lack of spending on services over the last 18 months. It is unlikely consumers will go and double up on more durable goods for some time. Higher spending in services, with softer growth in the demand for certain types of goods is plausible. Textiles and clothing are categorised as a 'good', but luxury fibres such as wool apparel at higher price points also have a degree of 'experience' when shopped instore (high street fashion). So as the 'experience' of shopping instore returns, demand for Australian merino is expected to benefit.

Strong double digit growth in Burberry full-priced sales



Source/Notes: Burberry

The latest results from Burberry gives us one indication of how higher end fashion sales are benefiting from consumers returning to stores to experience fashion. Burberry is a luxury fashion brand with a footprint of over 400 stores globally. When comparing the Burberry result for the last six months, the focus should be on the pre-COVID 2019 period, as sales will naturally be higher year-on-year (comparing to the depths of COVID crisis in 2020). Burberry's same store revenue sales over the last six months (April to September 2021) are back to pre-COVID levels, but with a higher proportion of full-priced sales (not discounted) which has boosted profit margins.

Full-priced sales for Burberry are growing at double digit growth which is driving margin expansion. For April to September 2021, comparable store sales growth is flat (+1% versus same period in 2019) but full priced sales are 18% higher (see chart on top RHS). Regionally, full priced sales almost doubled in the Americas, South Korea grew almost 80% and mainland China was up over 40% despite the wide-ranging regional lockdowns and adverse weather in August. This trend could be related to consumers experiencing product shortages during COVID.

Other take-aways from Burberry's results include:

- For total digital (online) group sales, full-priced sales growth almost doubled in the half compared to pre-COVID.
- Outerwear saw improving momentum in the half with Q2 full-prices sales increasing by 12%. Within this segment, jackets, downs, coats and quilts grew by around 50% while rainwear was more challenging.
- Menswear performed well in the latest half with full-price sales up 14% due to good traction in jersey wear and trousers.
- Womenswear was more challenging in the half with full-price sales up modestly although it saw good performance in trousers and knitwear.

Industry Events

IWTO Wool Round Table
From Monday 29th November to Thursday 2nd December 2021 – six chat rooms over four days.
iwto.org/wool-round-table-2021

Wool Production Forecasting
National meeting 15 December 2021.
State meetings held prior.

Disclaimer Section

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