CCWG Wool Market and Business Update – Fall 2018

2017/18 Wool Market Update

In the last 12 months fine wools from all origins have achieved unprecedented record prices although at the time of this writing prices have pulled back for most microns in the last couple of weeks. Unfortunately the crossbred and broader wools which are much more plentiful in supply have been left behind for the most part and have only recorded marginal increases compared to the previous year.

The growth in fine wool prices can be attributed to two main factors. There is major concern regarding future available supply due mainly to ongoing Australian drought in most of the major wool producing states. This has resulted in decreased production ie lower fleece weights due to feed shortages and reduced sheep numbers. For the 2018/19 season it does not look any better with the current forecast of a 5.7% reduction in the Australian wool clip.

As always, China is playing a major role in influencing the market due to the significant growth of their middle class and upper income earners. Despite rising prices, consumer demand for wool apparel has continued to grow. It was only ten years ago when China was mainly a low cost manufacturing and re-exporting destination for most of the wool exported to China. Today more than half of China wool imports are manufactured into wool products that stay in China and are purchased by Chinese consumers. Upwards of 70% of global wool production finds its way into this market. These are the main reasons for the current strong performance of fine wools. Most leading Chinese textile companies are reporting an increase in domestic sales but a decrease in exports. This underlines the huge growth potential for domestic sales within China as incomes continue to rise.

In terms of sustainability the key message to encourage consumers to choose wool continues to be that we have a natural fiber, renewable and biodegradable resource.

In addition to challenging global climatic conditions the current USA / China trade conflict cannot be underestimated. This escalating trade war remains a key risk to global economic activity and to global textile markets because of the uncertainty it is creating. It has the potential to completely disrupt the supply chain and to lower consumer confidence which up to this point in time has been very high in most of the major wool consuming countries. The present situation is that American raw wool, hides etc are now subject to a Chinese duty of 25%. China accounts for 53% of all USA imports of wool clothing.

Although we have developed markets for Canadian wool in six countries, China will be our major export destination in 2018 for all wool types. It does not appear that the new USMCA agreement will have any impact on Canadian wool exports to USA, greasy wool is still rated duty free the same as the previous NAFTA agreement. Our sales to USA will be lower this year because of the USA / China trade war, American mills have ample supply of wool that would otherwise be exported under normal wool trading conditions.

Our wool volume dropped approximately 4.3% during the 2017/18 wool marketing year but we are encouraged by recent Statistics Canada figures that indicate our sheep and lamb numbers have increased by 1.6% in 2018 compared to 2017, the first increase in 7 years. However, the drought conditions experienced this year in several provinces has resulted in high feed prices that will likely result in some flock reductions or dispersals.

The tough trading conditions for the broader wools in 2017/18 resulted in lower sales of almost 14.5% for Canadian wool compared to the previous fiscal year. Conditions are somewhat improved during the current wool marketing season. We have found much better selling opportunities compared to a year ago to our regular network of buyers and also some newly established customers.

Retail Business

The retail business of CCWG achieved better than projected results for the fiscal year ending February 28, 2018 and continues to grow. Profitability was up at all locations with overall sales increasing 9.2% In terms of revenue ratio it is now almost 25% (wool) and 75% (retail).

2018 marks our 100th year in business which is a significant achievement. Sincere appreciation is extended to all staff and directors for your efforts in helping CCWG reach this major milestone. You are the company's most valuable assets. Of course we must recognize the support we receive from our loyal customers who are the reason we are still operating and growing the business today. We are fully committed to building relationships with our customers based on the right product at the right price and delivered with exceptional customer service.

Best wishes to all for continued success.

Yours truly,

Eric Bjergso
General Manager

30th Nanjing Wool Market Conference and Wool Trade Fair 2018

Eric Bjergso, CCWG General Manager attended the 30th Nanjing Wool Market Conference and Wool Trade Fair on September 11th – 13th in Nanjing Jiangsu Province, China.

Over 500 delegates were registered from the Chinese and international wool trade.

Participants include growers, traders, primary processors, spinners, weavers and garment manufacturers. It provided an excellent opportunity for all international delegates to meet with China’s biggest wool buyers and processors, all in one place. Contracts were negotiated for 700,000 pounds of graded and objectively measured Canadian wool.

Exports: For Canadian exporters, some gains stem from rising commodity prices

FROM B1

So Canadian wool is moving in far greater numbers to China – shipments of unprocessed greasy shorn wool to the United States have vanished in recent months, but soared nearly eight-fold to China this August relative to last year.

In logistical terms, the shift has been remarkably simple. Wool is baled and packed into containers, each stuffed with just more than 20 tonnes. Containers once trucked to the United States are now being shipped to China. "This year, we're going to probably to see 80 per cent of our exports going to China," Mr. Bjergso said.

For Canadian exporters, some of the gains stem from rising commodity prices: The value of pulp sold to China from April to August is up by more than a quarter, although volumes shipped have not changed much.

Elsewhere, Chinese tariffs are blocking U.S. goods, and, as a result, giving a new lift to Canadian producers who had already been courting growing appetite in China for their goods, particularly high-end agricultural products. Boneless-beef exports to China were up 220 per cent in August; since April, overall shipments of animal products to China have risen 8.5 per cent. John Chang, whose Oxfield Agriculture Technology Investment (Canada) Corp. brings to China several dozen tonnes of Canadian beef a month, estimates his own sales are up 30 per cent this year. He is optimistic such gains will continue. "The next five years is going to be very positive between Canada and China," he said.

Canadian canola, too, has seen steady gains in recent years. But the growth has been especially large in 2018: Oil-seed shipments to China nearly doubled this July, compared with last year, while overall exports of Canadian grains and vegetables are up by a third since April. Exports of refined canola oil to China rose 930 per cent in August. At Sunora Foods, a small Calgary-based food-oil trader, second-quarter overseas sales rose 71.2 per cent.

Chief executive Steve Bank dismissed the trade-war influence. "I think our canola oil is a better product than some of the things that are domestically available. And that's more of a factor than just something that's happened in the last few months," he said. Chinese consumers "want nicer things."

Yet, Chinese buyers are also seeking Canadian supplies to help replace the enormous volumes of U.S. soya beans priced out of viability by tariffs. Canada is a relatively small soya-bean producer, but Chinese buyers are bringing in other goods, including canola and peas, as nutritional substitutes.

"As a result of the trade clash between China and the U.S., there's a huge gap in protein products. So it creates a good opportunity for protein products from other countries to enter the Chinese market," said Zhang Mingjie, senior business manager with the overseas resources department at Holley Group Co. Ltd., a large Hangzhou-based industrial conglomerate.

But Canada is hardly alone in attempting to fill the gaps left by U.S. soya beans. In addition to South American supplies that have flooded the Chinese market, other northern-hemisphere competitors have pivoted quickly: Ukraine with sunflower-seed meal, Russia with linseed, said Pan Xiaofeng, CEO of Shanghai Lianfeng Grain and Oil Products Co., a small importer.

Those two countries "have far surpassed Canada" in their effort at courting Chinese market share, he said. "I don't think Canada is doing enough in growing its Chinese market. It's relatively conservative."

He urged Canadian farmers to consider planting more soya beans next year.

But caution toward rushing to China remains high, even among companies that are counted among the biggest Canadian export success stories. For example, Clearwater Foods, based in Bedford, N.S., sells 16.5 per cent of its product to China, second only to Europe. Some Canadian seafood products have seen substantial gains into China this year: The value of lobster exports in August rose 87 per cent. Clearwater's overall second-quarter sales to China surged 23 per cent.

Still, Clearwater CEO Ian Smith said it's too soon to tell how the trade war will affect Canada. "It will take at least six months of a sustained tariff environment (or longer) to see how trade and prices change and how/whether there is a meaningful benefit to Canada," he said in a text message.

"Our view is a trade war is never good, even if Canada happens to enjoy a short-term benefit. Because any benefit is ultimately artificial, short-lived and unsustainable."

China has been pushing Canada to resume stalled talks toward a free-trade deal after Ottawa's agreement last month on a new North American trade accord.

Critics have argued that the United States-Mexico-Canada Agreement (USMCA) will make it difficult to pursue a similar pact with Beijing. That's because Ottawa agreed to a clause that allows a country to be punted from the proposed North American agreement if it enters into a free-trade deal with a "non-market country." That language is widely seen as a veiled reference to China, and many believe the clause gives the United States an effective veto over any prospective trade pact between Ottawa and Beijing.

With a report from Alexandra Li

Canada's exports to China surge amid trade tariffs

Canadian firms adopt diversification strategy long espoused by federal, provincial leaders as trade war between Washington and Beijing intensifies

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Canadian farmers and fishermen are sending big new shipments of wool, lobsters and canola oil to China, driving a rush of new exports to the world's second-largest economy amid the disruptions to the flow of global goods caused by the U.S. trade war with Beijing.

From April to August of 2018, according to Statistics Canada data, the value of Canadian merchandise exports to China rose 23 per cent, a surge of nearly $2-billion over a period that coincides with the period of greatest tariff escalation between the United States and China. The Statistics Canada figures are in Canadian dollars, and are also influenced by currency movements.

Canada's global exports are up this year, but exports to China since April have risen more than twice as quickly as those to the United States. In some cases, China has become a direct replacement for sales that once went to the Americans, shoving Canadian firms into the kind of diversification strategy that federal and provincial leaders have increasingly sought.

In September, Saskatchewan Premier Scott Moe travelled to China for a series of meetings "to discuss potash purchasing, uranium and ag [agricultural] products," spokesman Jim Billington said in a statement.

"We intend on expanding our exports over the next number of years, so we need to consistently and constantly look for new markets."

Exports to China are just one-fifteenth of those to the United States, the Public Policy Forum noted in a recent report, but "the U.S. is no longer the sole driver of the world economy, nor is it the reliable partner it was. This necessitates an aggressive strategy of purposeful diversification."

In some areas, the trade war has now made that happen with breathtaking speed. Take wool: The industry's U.S. market has "basically evaporated on us this year," said Eric Bjergso, general manager of the Canadian Co-operative Wool Growers Ltd., which markets more than 90 per cent of Canadian wool. Chinese tariffs have largely rendered American wool uncompetitive, and, as a result, the United States is now flooded with local product.

EXPORTS, B6