



It's Like Shares, But Better....

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Merino wether has traditionally been an article purchased and traded in Australia for one simple reason: wool. More recently however, the versatility of the Merino wether in the sheep meat and live export market has seen the animal purchased for more than just the valuable fiber grown on their back. With the wool market suffering the full effects of COVID-19 and the AWEX Eastern Market Indicator (EMI) falling to its lowest point since 2015, questions are being asked surrounding profitability of the Merino wether and what factors are currently impacting buyers' decisions.

The AuctionsPlus Market Insights team have investigated sale data of Merino wethers sold online from 2016 to present, with specifications fitting between 30-35kg and 45-50kgs liveweight. While AWEX EMI has been used to illustrate the effect which the wool market has on prices and the woolly sheep premium.

Since 2016, the average price difference between Merino wethers weighing between 30-35kg with more than 2.5-inches of wool, compared to wethers with less than half an inch of wool sits at \$19/head. Wethers weighing between 45-50kg when compared with the same wool measurements average a price difference of \$18. Shown below in Figure 1, over the observed time frame (2016-present) premiums have ranged from \$35/head (2017) down to \$1 (2020). Interestingly, in years where the wool market has weakened, buyers appear to totally discount the value of the wool, as seen in both 2016 and 2020.

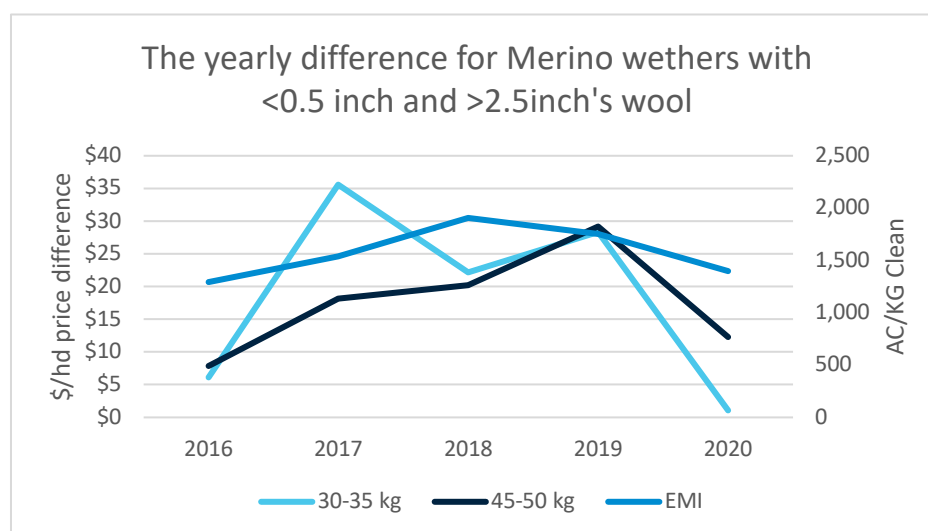


Figure 1: The yearly difference for Merino wethers with <0.5 inch and >2.5 inches of wool (30-35kg and 45-50kgs liveweight) vs the average yearly AWEX EMI/





This poses the question, are buyers relinquishing an opportunity in the market due to wools current unfavorable light?

To use the current 2020 market as an example, a 35kg wether with a half inch skin compared to a wether of the same weight with a 2.5-inch skin, both cutting 3kgs of 19 μ micron wool; buyers are gaining a wool cheque greater than the \$1/head premium woolly wethers are currently achieving. Selling the wool for 905c/kg greasy, there is a \$27 wool cheque available, minus shearing costs and the growers time and labor there is still value for growers.

Another component of the wool market that must be taken into consideration is the non-perishable nature of the fiber. Should growers have the opportunity, wool can be stored until the market is in a more favorable position. For example, in 2018, 19 μ micron wool was trading at 1700c greasy, a wether cutting 3kgs would return a \$51 wool cheque.

The widespread rainfall many growers received so far in 2020 has seen many looking for sheep to capitalize on a paddock full of feed. The woolly Merino wether provides a great option providing two profit streams through sheep meat and a wool cheque. Growers can store wool with their broker, so that the wool is insured and be may offered for sale when the market recovers from COVID-19. To quote Stephen Curry from the 2002 Australian movie, The Nugget, "Its like shares... but better".

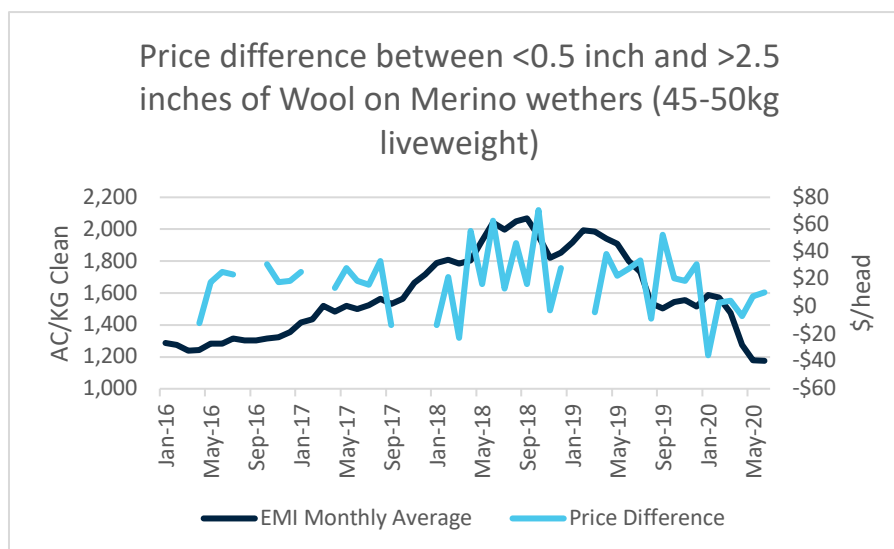


Figure 2: The monthly difference between <0.5 inch and >2.5 inches of wool Merino wethers (45-50kgs liveweight) vs the average monthly AWEX EMI.

Looking forward will growers follow past trends and only add value to the woolly wether when the wool market rebounds, or will we see growers take advantage of the current situation purchasing woolly wethers in a time when the market has discounted the value of the wool available?

