

# Strong Market For Finewools Net Returns \$28-40 Per Head

by COLLEEN SCHREIBER | Feb 28, 2019

## **By Colleen Schreiber**

SAN ANGELO — It's a great time to be a sheep producer, especially sheep producers who are in the finewool business.

Finewool prices last year reached record highs and it's potentially shaping up to be a similar kind of year insofar as the wool market goes.

That was largely the gist of the remarks made by those in the know who were part of a fiber panel at the recent Texas Sheep and Goat Raisers Association's winter meeting.

Rick Powers who heads up U.S. operations at Lempriere USA Inc., an international Australian-based wool buying and manufacturing firm, told those in attendance that there have been a lot of changes in the wool industry over the last 20 years.

"We have a much smaller, more vibrant wool industry in the U.S. and really around the world," Powers said. "Consequently we're seeing record prices." In fact today woolgrowers can expect a \$28 to \$40 per head return for their clip and that's after the cost of shearing has already been deducted, he said. Twenty years ago that same kind of clip netted a producer \$8-10 per head. "Things have really changed," he reiterated.

Though Power's day job has him in charge of Lempriere's top making, as well as buying and trading wool for the company, he comes from a Sonora ranching family and has a sheep operation in Nevada as well. These days with wool prices where they are now, with just an 80 percent lamb crop, the bottom line for a sheep outfit is equal if not better than a typical cattle operation, Powell insists.

"If you can hit that 100 percent lamb crop, you'll beat the heck out of cattle," he quipped.

Though the U.S. wool supply is much smaller compared to even 20 years ago – Texas only produces 1.2 million pounds today – the quality of the U.S. clip is much better, Powers told the group. Also, thankfully, production is no longer

falling precipitously like it did after the loss of the wool incentive in the early 1990s. In fact the U.S. clip has stabilized, Powers said.

Today about 70 percent of the U.S. clip is exported making world markets ever more critical. Powers discussed briefly some of what's going on in a few of the other major sheep producing countries around the world. He pointed out that because of an ongoing long-term drought, Australia's production is down 15 to 20 percent.

"There is a shorter supply of finewool, and that is right in our niche, in that 20-23 micron range," he pointed out.

The South Africans are also having a tough go. A recent foot and mouth outbreak in their cattle herd caused China and India to ban imports of all South African wool.

"About 10 to 15 percent of the world clip is suddenly off limits to the Chinese buyers, and the Chinese buy 70 to 80 percent of the total world wool clip," Powers stressed. "That will cause a bigtime supply shock."

In terms of how that might affect U.S. producers, Powers said that the U.S. wool industry only accounts for about 0.7 percent of the world's wool supply. "We're really just a blip on the radar in terms of Chinese consumption, but there is a seasonality effect from which U.S. producers benefit."

He explained that most of the U.S. wool hits the market from April to June. The Chinese clip comes the end of May through July.

"That gives us a good marketing window in China where we can get good prices from now until about April. Then we start feeling the pressure from the Chinese domestic clip."

Powers noted that the tariff spat that the U.S. is having with China is causing some issues for some types of U.S. wools. Specifically, the 10 percent tariff now in place is mostly impacting the carding types – the shorter wools. It hasn't impacted the fleece wools to the full extent.

He also pointed out that neither country has a tariff on finished goods meaning that places like the Gap, for example, can still import jeans and other finished clothing goods without being taxed.

"If a container of wool that we sell into China is earmarked and destined for consumption in the Chinese market, then we're directly hit," said Powers.

"That's mostly the carding types," he reiterated. "Fleece types go into a lot of

the factories that work in the free trade zone, and a lot of that fiber is being exported back out. That wool is not impacted by the tariff.”

Anodyne Wool, a family-owned and operated wool trading firm based in San Angelo, has been instrumental in finding markets for U.S. wools all around the world. Today Anodyne exports raw wool to over a dozen countries.

“I believe in this industry,” Anodyne’s CEO Terry Martin told the group. “I believe so much in this industry that I’ve brought all my family into business. We’re planning now for the future; our kids are the future.”

Domestically, Anodyne’s largest customer is the Platinum Group, still known today by most in the industry as Burlington Industries. Burlington was previously owned by Wilbur Ross. Ross had to divest the company when he became the U.S. Commerce Secretary. What is important about all of this is that the Platinum Group has the U.S. military contract, and Anodyne supplies the raw wool for that contract.

Martin reminded that these five-year contracts are protected by the Berry Amendment, which requires that the wool used in the military program be produced in the U.S. He also noted that in a normal year the military contract alone consumes about three million pounds of greasy wool.

Martin also pointed out that the majority of the military contract is for 21.8 micron top for use in the Armed Forces dress uniforms.

“Right now it’s a challenge to find that kind of wool,” he told the audience. “Texas used to be a huge part of that; not so much now. Instead we go to the Territory states to get a lot of our wool, but we really do miss it from Texas.” Martin talked briefly about the newest military contract, the Army’s new “Pinks and Greens” dress uniform so named because it closely resembles the dress uniform from the WWII era, also called the Pinks and Greens. The introduction of the new dress uniform is set to coincide with the 75th anniversary of D-day in June.

Given that the unemployment in the U.S. is at record lows, the military is having a hard time recruiting new soldiers. Nonetheless, as Martin point out largely everything is cyclical and the military will continue to be a major part of Anodyne’s business.

As far as exports, China is the key, Martin told the group.

“China is going to affect everything. Right now we have a 10 percent tariff that could go to 25 percent March 1, or it could go another 60 days at 10 percent,” he said. “That is going to affect the wool market in this country, and China is going to affect the wool market all over the world. They are the million pound gorilla in textiles. The best thing that could happen for all of us in the wool business is for this tariff to go back to zero. These trade wars are not good for anyone.” (The President announced that he is delaying tariff increases on China imports.)

Before giving up the microphone, Martin recognized the producers in the room acknowledging that without them there is no Anodyne.

“We’re counting on you guys to continue to produce wool sheep,” Martin said. “We believe in this industry.”

Jason Bannowsky, also a wool buyer and trader for Lempriere who is also involved in ranching and sheep production in Kimble and Menard County, shared some comments about what the wool trade wants and needs from producers.

“We want trouble-free wool that we can put on the truck tomorrow,” Bannowsky told the group.

Trouble-free wool occurs the day it’s shorn, he said.

“Number one for me is wool preparation at the shearing pen,” said Bannowsky. “That’s where 90 percent of the problems can be eliminated.” Specifically he was referring to removing the stain from the fleece, removing the bellies and that portion of the clip which doesn’t fit the rest of the clip – things like cotted fleeces and medullated fibers – fibers that do not take dye. “Fineness and staple length are important, Bannowsky told the group. “However, for us to pay the most money we can on any given day, the clip needs to be put up in a way that’s not going to give our customers problems down the road.”

The second step to attaining a trouble-free clip is to have a product that is ready to load on the truck. This step essentially encompasses the third step as well which is to have the clip prepared to international standards regardless of whether it’s being consumed in the U.S. or overseas. Such standards include wool packaged in nylon square packs and fully tested for micron, vegetable matter, and yield, Bannowsky said.

The wool buyer also explained that these steps are critical because of the risk wool merchants take on.

“At any one time, we have anywhere from \$1 million up to about \$6 million worth of exposure,” Bannowsky told the group.

He was referring to market risk from carrying inventory, and when dealing in international markets the risks include not just market fluctuations, but currency fluctuations and right now risk from tariffs.

“This 10 percent tariff on all wool going to China with the threat of it going to 25 percent on March 1, that’s a huge risk on us for fiber that we’re buying right now,” Bannowsky stressed. “Also, it doesn’t take long for us to have a 10 percent swing in the value of the fiber. In the peak of the wool season, a 10 percent change in the market with \$6 million of fiber in inventory is a substantial risk,” he reiterated. “That’s why we need to have wool that we can move on the day we buy it, or in very short order.”

Dr. Ronald Pope, who heads up Producers Marketing Coop, Mertzon, shared some additional thoughts about preparation and marketing.

“I want you to know that when it comes to the wool and mohair industry things are good,” Pope told the group. “When I say things are good, I’m referring to prices. The thing we struggle with is volume.”

In terms of preparation, he reiterated much of what Bannowsky said. “Hopefully everyone is pulling the bellies,” he said. “That’s just common sense. Even if you’re not doing a full table skirt when you roll that fleece pull the stain. You’ve done a tremendous amount right there to provide a product to your customers that is more acceptable and that has less problems.” Pope added that he recommends full table skirting so that other inferior portions can be pulled, things like sweat locks, high vegetable matter, and the short cotted fringes.

“The market is what it is, but if you do some of these practices it will allow your wool to go into those high-end premium lines.” Pope encouraged those who haven’t attended a classing school to do so, and he suggested that some of the day workers and fulltime employees should as well.

“During shearing, they can be devoted to helping put up the wool properly rather than running out to drench sheep while shearing is ongoing,” he said. Another possibility is to hire outside help. Figuring 500 head shorn a day, shed workers cost \$100 to \$150 a day.

“The cost of that extra help comes out to about 12 cents a pound on 500 head,” he told listeners. “If I can’t make up that 12 cents as a marketer, you need to go to someone else.”

Another important part of good wool preparation is facilities, Pope said. “I’ve joked with growers a lot that their great grandfather poured the shearing slab and nothing has been done since to improve on it. There isn’t even a roof.

“I’m being a little bit tongue and cheek, but with prices where they are if you figure what a roof would save so that the shearing crew doesn’t have to drag out their tarps that are frayed that contaminate the wool ... having a roof just creates a better work environment.”

Finally working on genetics will help improve one’s wool clip, Pope said. Mike Jernigan, Iraan, has been raising finewool Rambouillet sheep for almost 40 years.

“I was fortunate enough to get to carry on one of the premier flocks in Texas,” Jernigan told the group. “Leo Richardson and Rod Richardson were before me, and I just tried to continue what they started almost 100 years ago. We have quite a tradition here that we’re trying to uphold.”

Like others, Jernigan’s numbers are down. At one point he ran 5000 to 6000 finewool sheep; today that number is closer to 2000 head.

Predators are Jernigan’s biggest problem.

“We used to be totally surrounded by sheep and goats; now we’re the line. Actually Lane (Porter) is the line,” Jernigan said. “He has the largest flock the furthest west.”

Some neighbors may have cattle, but others have no livestock on their land. “That’s left us covered up with predators.”

Coyotes are his biggest issue, but there was a big influx of mountain lions last summer, and they're still working on some, he said.

Jernigan ranches right on the Pecos River and hogs are not but 20 miles up the river.

"They haven't gotten here yet, but they're coming."

Last year Jernigan added guard dogs to his toolbox. It's been a big learning process.

"When we started with sheep, dogs were our enemies," he said. "We had lots of town dogs around Iraan, and we always had to fight them. It's been difficult to overcome that old way of thinking. I imagine Rod (Richardson) is turning over in his grave now that we have dogs out with our sheep."

So far the dogs are working fairly well. On the ranch south of Big Lake he has only Rambouillet sheep.

"Last year we marked about a 92 percent lamb crop which was pretty decent given how hard the spring was," said Jernigan. "We were really dry. When we gathered lambs back in the fall, we actually had a few more lambs than what we marked so it looks like the dogs did a good job."

He added that dogs have their own mind.

"We have to turn them out, and trust their instincts."

Jernigan said he had hopes that one of his daughters might come back to the operation. His youngest daughter married a farmer who operates outside of Lubbock. His oldest daughter and her husband, who live at Crane, initially considered coming back.

"Our daughter is teaching school, and her husband is making a whole lot more money in the oil field than what we could afford. It just didn't work for us numbers-wise. I wish it was different because we would love to have someone carry this on ... it may end with us," he concluded.

Dawn Brown owns and operates Independence Fiber Mill in Brenham. The regional mill processes only Texas wool and mohair for handcraft artisans – knitters, spinners and weavers.

Once a physician, Brown gave up that career to return to her roots. Her family – both maternal and paternal – ran finewool sheep back in the 1870s in Uvalde and Lampasas. The sheep and land were sold long ago, but Brown and her husband bought a place a few years back and they run about 100 head of Angoras – white and natural colored – and some colored Rambouillet sheep. The fiber is used in their yarn business. She said the natural colored fibers are actually more valuable to those in the handcraft industry.

There are about 30 million people in America who knit and crochet making it almost a \$3 billion industry, she said. The average age of the artisan is 34, mostly women, though some men are involved as well.

Just like consumers who desire to know from where their food comes and how it is raised, these artisans want to know from where their yarn comes; not only that, they want a story, she said.

A 20 micron clip is an ideal spec and their mill equipment handles it well. They can handle finer types though there is more loss, and most knitters can't tell the difference at that finer level, Brown said. Not everything is necessarily combed out.

"These ladies like that some of the ranch is left in the yarn," she told the group. "It gives the yarn more character."

Brown learned to class wool and on some of the ranches she does business with, they allow her to be on hand during shearing to hand select certain fleeces to go into their own bale.

"We're doing some work to get the best product," said Brown. She also buys some wool and mohair private treaty for which she pays a premium price. The yarn is not cheap. She had several samples on hand from some of her Texas producers at the meeting. Three ounces of plain undyed white wool sells for \$18. Two ounces of mohair yarn ranges from \$22 to \$25, she said.

All of the yarn sold through Independence wool is branded, so to speak, as it carries a unique Texas tag that identifies the region, county or the town from where the wool came, or if the ranchers request the ranch name may be on the tag.

The yarn and some finished goods like cinches, for example, are sold online and at various craft events and yarn and wool shows across the state. Brown is to be a vendor at an upcoming four day knitting retreat at Horseshoe Bay which will attract knitters from all over the world.

Brown pointed to a disconnect between agriculture and today's consumer, who has little to no understanding about food and fiber production. She is on a mission to change that, to at least do her small part to educate those consumers in an effort to preserve "the sheep and goat ranching heritage." She pointed out that the 30 million U.S. knitters become wool and mohair advocates.

"They are eating lamb and wearing wool," Brown stressed. "It may not seem like it relates to Texas Sheep and Goat Raisers Association, but this is a conduit, a way to educate these people about what we're doing every day as producers."

Powers agreed with Brown about the need to tell a story. He said that traceability is a trend that is growing all around the world. "It's a trend that is not going to stop."

He wrapped up the discussion with a few final comments on the market. He told the group that while he expects good prices on wool to continue because prices are "so high," a 10 to 20 percent correction is likely over the next 12 months. He added that the correction will likely be short-lived given the supply situation around the world.

"Prices will bounce back and we'll likely be within 10 percent of where we are today," he concluded.