

Wool is on a roll, are the Percentiles telling us anything?

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When a market rallies strongly, it is sometimes difficult to make selling decisions. Is this the beginning of a new up cycle, or is this a short term rise and therefore a strong selling signal?

The current wool market lift is presenting these questions; we know that sheep numbers are low and therefore production is limited. We also know that wool supply in the spring has traditionally dampened prices and that in recent times the market has pulled back as a result of resistance from buyers when the market reaches certain levels (i.e 1250¢/kg for the 21MPG).

While not the only market analysis tool available, percentiles can help put the market in perspective and support marketing decisions for current and future sales. So how do you interpret price percentiles?

A percentile is a measure of how often, historically, prices have fallen above or below a particular price. So, for example, if a price is at its 67th percentile, this means that 67% of historical prices have been below that value, and 33% of prices higher. Similarly, a 90% percentile means that, 90% of the time, prices have been lower than a particular price, and higher just 10% of the time.

In table 1, we look at the percentile ranks over the past 10 years. This current percentile snapshot shows the mid wools clearly outperforming the finer types. While the medium wools are close to their 90th percentile for the past 10 years, the 19MPG and below is varying between 70% and 85%, with the finer types at the lower end. Based on this analysis, the fine wools are more likely to see an upside than their mid wool counterparts.

As a final note, percentiles can be used as an alternative for estimating what will happen in the future by looking at what has happened in the past. Previous prices will obviously not tell you where the price will be next year or the year after, however they can provide an indication of the range in which prices have moved and how much time they have spent at varying levels. In addition, percentiles provide a general view on whether prices are more likely to fall or to rise in the future.

Key points

- Medium wool percentiles are close to 90% for the past 10 years and between 80-85% for the past 5 years.
- Fine wools are clearly underperforming the medium wools based on the percentile analysis.
- Medium wool forward contracts are a better hedge option at the moment. Percentile analysis supports this idea.

What does this mean?

If we agree that history is a good indication of what will happen in the future for the wool market, then forward selling a portion of next year's clip is the message from the percentiles.

The market is more likely to pull back than rally. The question of what percentage of the clip to hedge then becomes one of perception of the future market, and attitude to risk.

If the price is returning a good profit, and you are unsure of what the market might do in the future, then putting in place forward orders to sell up to 50% of next production at 70th percentile or above levels is sound.

If this turns out to be only the beginning of higher prices, then additional sales can be made, both for the next clip and also for subsequent clips.

Table 1. Southern MPG Spot Price Percentiles (2003-current)

	18u	18.5u	19u	19.5u	20u	21u	22u	23u	28u	30u	32u	Card
Min	859	810	773	732	681	659	653	647	417	323	287	390
10%	988	961	908	852	795	740	712	697	442	376	330	422
20%	1029	987	935	880	827	764	739	718	456	396	350	440
30%	1082	1042	969	912	863	819	787	768	466	412	364	453
40%	1133	1093	1015	964	907	865	841	809	475	424	386	493
50%	1172	1136	1060	1003	940	917	901	875	485	434	399	534
60%	1234	1197	1113	1079	1014	981	940	909	523	458	410	581
70%	1311	1261	1190	1153	1084	1038	1011	999	574	513	447	616
80%	1388	1323	1257	1232	1185	1159	1148	1115	622	566	486	677
90%	1533	1466	1405	1374	1310	1278	1243	1210	651	595	519	736
Max	2162	1932	1778	1681	1590	1531	1462	1341	754	672	637	866
Date	10/10/2013											
Price	1312	1301	1292	1280	1257	1256	1245	1216	646	615	N/A	833
Percentile	70%	76%	83%	84%	87%	88%	90%	91%	89%	94%	N/A	98%

Source: AWEX

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