

Raw wool demand weakening

Economic conditions softening

Wool supply from Australia lifts

Wool's price competitiveness falls



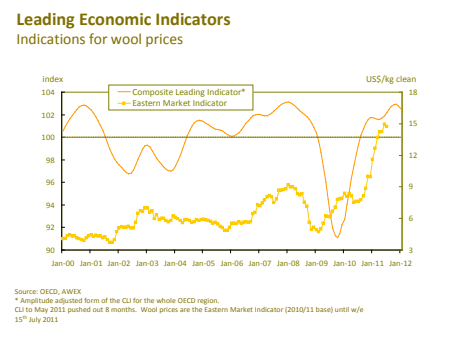
A Quarterly Insight into the U.S. and Global Wool Market

# wool journal

## Retail Demand and Economic Conditions

### Trends, Drivers and Prospects

A strong economic recovery in the major wool consuming countries helped lift demand for wool clothing in 2010 and this improvement flowed through to improved orders through the wool textile industry. More recently, economic conditions in developed countries have softened or become more uncertain, notably in Europe. In the US, unemployment remains stubbornly high and concerns about the Federal Government deficit are rising. Both are weighing on consumer confidence. The chart below shows how the economic indicators have just started to turn down. Wool prices have moved with these leading indicators and the dip in economic prospects could herald a softening in wool prices.



## Wool Textile Industry Conditions

### Trends, Drivers and Prospects

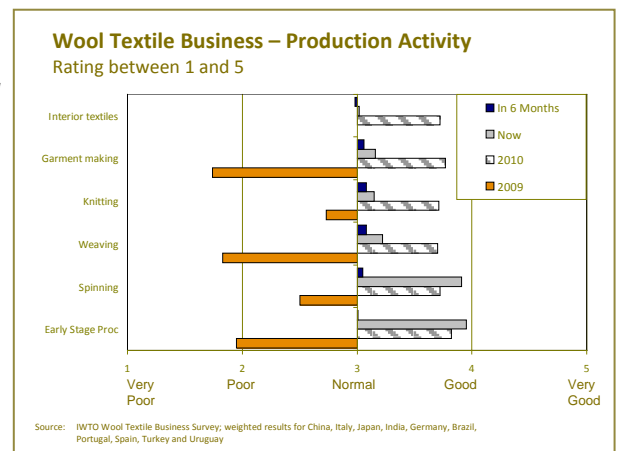
Business conditions in the global wool textile industry were strong throughout the just finished 2010/11 season, as evidenced by the results of the second annual survey of the global wool textile industry by the International Wool Textile Organisation (IWTO) which was reported in May at the IWTO Congress in Hangzhou.

Mills from all of the major wool processing countries, including China, India and Italy, reported that orders lifted strongly in 2010 and were maintained in the first months of 2011. This resulted in a strong lift in production activity in all sectors of the global wool textile industry, which was sustained in May.

Raw wool demand lifted solidly in the eight months of the 2010/11 season, driven by strong demand from mills in Western Europe. However, demand for raw wool has slackened in the last few months, with exports from four of the five major wool exporting countries below year earlier levels. Australian exports were the exception but the growth slowed.

US raw wool exports have also softened in recent months due to strong domestic demand and a resultant lack of supplies for export.

The IWTO survey results point to a weakening of world wool textile production activity, although mills still expected firm demand. Recent global economic uncertainty could see a stronger-than expected slowdown.



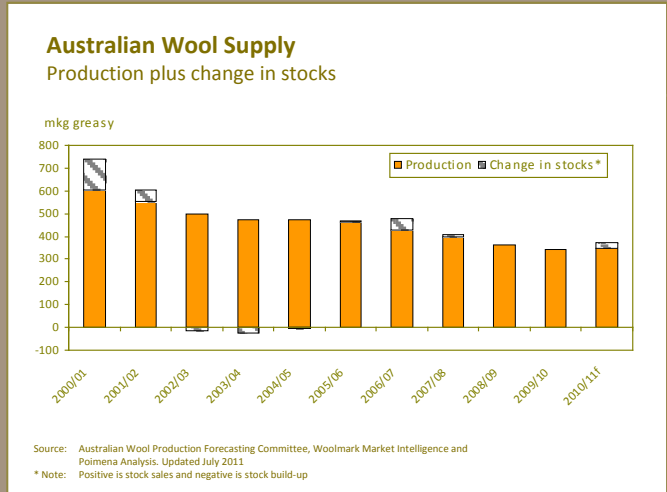
# Wool Production and Supply

## Trends, Drivers and Prospects

The high wool prices seen through the 2010/11 season changed the dynamics for the global wool industry. The most significant short-term impact was that it resulted in significantly greater supply of raw wool from Australia than had been anticipated. And, because Australia accounts for around a quarter of world wool production and 40% of world production of wool used in apparel, this boosted the world supply of wool. Nevertheless, world wool supply was still historically low.

Australian wool production was initially expected to fall again in 2010/11, continuing the long and steady decline seen since the early 1990s. However, the volume of wool tested in Australia in 2010/11 actually increased by 2%. While part of this increase was the sale of stocks held on-farm by growers, production was also higher than anticipated. As well, auction sales and exports were boosted by the sale of stocks held in broker stores and by buyers, resulting in higher supply (see chart). The auction sales in Australia increased by around 4% and the wool export volumes were up by 8%.

While wool supply from Australia was higher in 2010/11 than in 2009/10 and higher than expected, it was still lower than in the seasons up to 2007/08. In the medium term, the high wool prices may encourage increased interest in sheep for wool production, which could mean that Australian and world wool production recovers more quickly than previously expected.



## Outlook

Since the last edition of the Wool Journal in March the underlying fundamentals for the demand for wool have deteriorated and the risks of a reversal in wool prices have increased. Economic uncertainty on both sides of the Atlantic has risen and commodity prices in general have declined. As well, cotton prices have fallen by more than half since the peak in March, with the decline gathering pace since the start of July. Synthetic fibre prices have also weakened. Wool's competitiveness has eroded quickly. Finally, wool supply, notably from Australia, was higher than expected in the 2010/11 season and world production could lift in 2011/12.

In spite of these negatives, wool prices have been sustained at high levels. However, the indicators are that wool prices could have peaked and may see a downward correction in coming months.

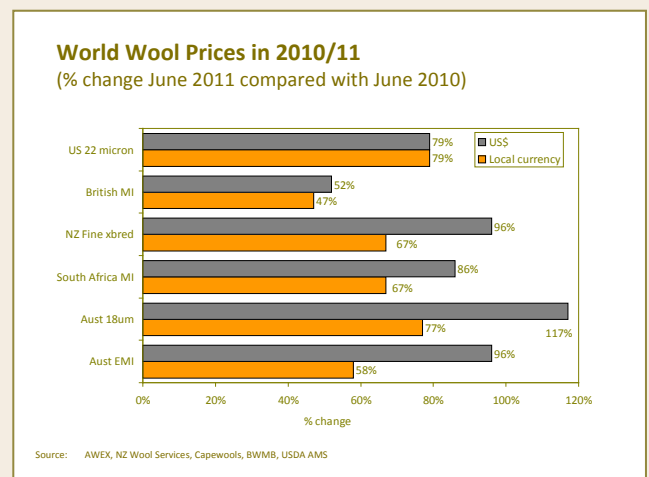
# Wool and Fiber Prices

## Trends, Drivers and Prospects

World wool prices hit record levels during the 2010/11 season and were maintained at around record levels right to the end of the season. As the chart shows, prices for all wool regardless of micron or end-use jumped sharply during the 2010/11 season, with the strongest rise seen for superfine wool (18 micron).

Australian wool prices, as measured by the Eastern Market Indicator, averaged 1,132 USc/kg which is the highest since the Indicator first began in 1976 and 50% higher than the average for the 2009/10 season. Prices for wool from other countries were also much higher over the season, including in the US. The USDA reports that 22 micron fleece wool increased by 79% over the season.

These record prices for wool were helped by cotton prices surging to the highest level since the Civil War. However, cotton prices have dropped back sharply in the past month. As a result, wool has lost price competitiveness against cotton and also against synthetic fibers. This may result in mills switching to synthetics and cotton, reducing the demand for wool.



These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter, the charts show the purchases of raw wool by the major processing countries from the five major exporting countries and the trends in cotton and wool prices.

## Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	30.7	+2%	351.6	+9%	China, India, Italy	Italy & Czech Republic up strongly
NZ	12.5	-27%	149.3	-6%	China, UK, Italy	China & Germany up, India down
Uruguay	4.8	-24%	51.7	-1%	China, Italy, Germany	Italy & Germany up, China down
Argentina	4.5	-23%	52.6	-7%	Italy, Germany, China	Italy & Germany up, China down
South Africa	2.1	-24%	31.4	-24%	Czech Rep, India, China	Czech Rep, India & Italy up, China down
USA	0.5	+26%	2.6	-7%	China, India	India up strongly, China down

Sources: ABS, Beef + Lamb NZ, SUL, FLA, Capewools, USDA

Notes: Raw and semi-processed wool. Australia, NZ, Uruguay, Argentina and South Africa are for the financial year from July to May. USA is for calendar year January to May

## Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	690	357	+94%	582	375	+55%
NZ	252	129	+96%	225	121	+85%
South Africa	665	361	+84%	466	380	+23%
UK	126	83	+52%	125	65	+91%

Sources: AWEX, NZ Wool Services International, Capewools, BWMB

Notes: Prices are for February. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is the fine crossbred indicator, UK is the British Wool Marketing Board Indicator. Year is calendar year

## Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	146	89	+64%	160	76	+110%
Synthetics	135	107	+26%	120	94	+28%
Wool: cotton	4.92	4.09	+21%	3.30	4.76	-31%
Wool: synthetics	5.34	3.40	+5.7%	4.13	3.81	+8%

Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres

Notes: Prices are for June. Season is financial year beginning in July

