

Textile Industry Buoyant

Retail Demand Recovering

Wool Production Stays Low

Wool and Cotton Prices Hit Records



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

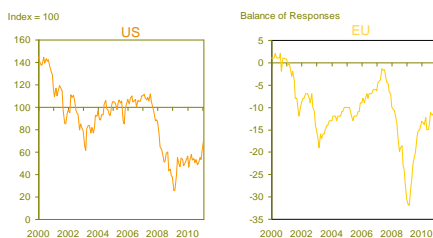
wool journal

Retail Demand and Economic Conditions

Trends, Drivers and Prospects

Economic conditions in most major wool consuming countries are improving and should continue to improve in 2011. After a dismal 2009, conditions improved in 2010, which has consolidated in recent months, particularly in the U.S. and Germany. China's economy remains robust (these are three of the top five wool consuming countries at retail). Consumer confidence in both the U.S. and the European Union have rebounded from the depths of 2009, and retail sales of clothing is lifting, notably in the important U.S. market. This and the recent cold and long winter are bringing increased orders for wool clothing and bright prospects for 2011. The devastating tsunami in Japan will be a negative for retail sales in 2011.

Consumer Confidence
United States of America and European Union



Source: The US Conference Board and the European Commission
Data to February 2011

Wool Textile Industry Conditions

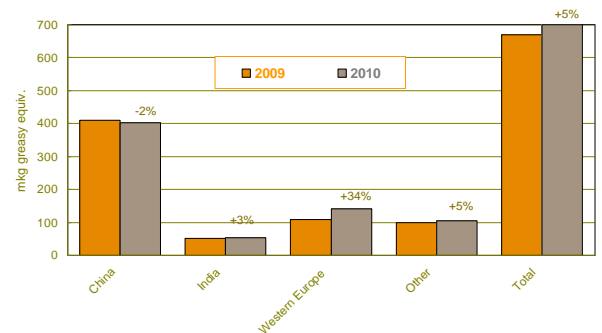
Trends, Drivers and Prospects

Conditions in the global wool textile industry are generally optimistic, in spite of raw wool prices hitting record levels. Orders are reported to be firm, helped by a continued surge in the prices for competing fibers and improving retail conditions.

In 2010, raw wool demand increased by 5 percent (see chart). The majority of this increase came from a 34-percent jump in demand by the Western European countries, notably Italy and the Czech Republic. By comparison, raw wool demand by China and India was more subdued. In part this was because China and India had remained strong buyers of raw wool in 2009 in spite of the negative effects of the Global Financial Crisis on consumer spending, while European mills slashed their buying. China's mills were aided by solid demand from their domestic consumers (China is the largest consumer market for wool clothing in the world). China's purchases are still the largest, but European mills are now the driving force behind raw wool demand and prices.

This more subdued buying by China and India has had some impact on the U.S. industry, as combined these two countries account for 80 percent of U.S. raw wool exports. U.S. exports to both countries fell in 2010, but in part this was due to strong demand within the United States as a result of the economic recovery and increased clothing sales in the United States.

Wool Imports by Major Processing Countries
(2010 compared with 2009)



Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa
Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool

Wool Production and Supply

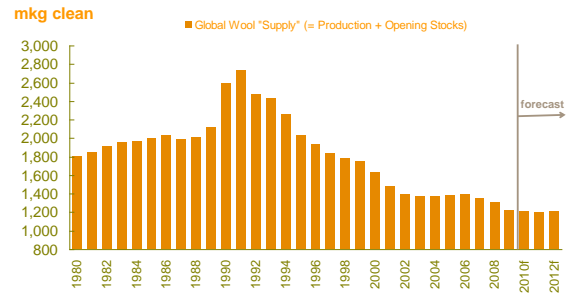
Trends, Drivers and Prospects

One of the important drivers of the recent record wool prices has been low supplies of raw wool. Wool production in almost all of the major wool exporting countries was lower in 2010 than a decade earlier.

Australia, the world's largest wool producer, has seen its production fall by 44 percent in the past ten years. Production and sheep numbers in Australia are the lowest in a century. New Zealand (3rd largest) has seen its production drop by 29 percent, with falls also in Argentina (-14 percent), Uruguay (-32 percent) and the United Kingdom (-44 percent). China (the world's second largest wool producing country) has seen its production increase by 18 percent, although its production has declined in the last two years. Wool production in the U.S. has fallen by 36 percent. Sheep producers in all countries have reduced the number of wool sheep due to lower returns than for other enterprises, including sheep for meat.

As a result, world supply of wool is at the lowest levels in 50 years or more. This has helped provide a base for higher wool prices. And, even though wool prices are now at record levels, a fast recovery in world wool production is unlikely. This is because world lamb and sheepmeat prices are also at record levels, which is encouraging sheep producers to remain with dual-purpose sheep (meat and wool).

Global Wool Supply at 50+ Year Lows



Source: The Woolmark Company, Poimena Analysis.

Outlook

There are a host of positives for the next few months for wool and only a few negatives and risks. Forecasts for economic growth in the major wool consuming countries are generally optimistic and retail sales are expected to improve. The trade fairs for the 2011/2012 Fall-Winter season were as buoyant as they have been for several years and wool's presence was strong. Added to this, the extreme cotton prices would be encouraging some fabric makers and designers to look to alternative fibers, including wool. Finally, world wool supply is very low and will not lift sharply in the near future. All of these point to the maintenance of current high prices for wool, or even further increases. The major risks are: the current upheaval in the Middle East and the impact on oil prices (which could dampen economic growth and consumer spending); and the tsunami in Japan could cause a drop in demand.

Wool and Fiber Prices

Trends, Drivers and Prospects

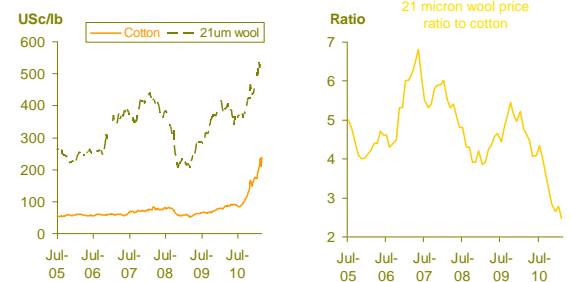
Wool prices are at record levels in U.S. dollars. Between July 2010 and early March 2011, Australian 21 micron wool prices (a benchmark for U.S. wool) have risen by 50 percent on the back of stronger demand and lower supplies.

Cotton prices are also at record levels and have jumped by 180 percent, caused by a serious shortage of cotton due to floods in Pakistan wiping out much of that country's crop, lower production in China and export restrictions imposed by India. Forward prices for cotton for the 2011/2012 season are lower than current levels, but are still much higher than the price levels in July 2010.

Even though wool prices have jumped, wool is still more competitive with cotton than at any time in the past six years. This will encourage use of wool.

Prices for synthetic fibers have also risen since July, but not by as much as the natural fibers. Polyester prices are up by 36 percent, but acrylic prices are only 7 percent higher than in July.

Cotton and Wool Prices Take Off



Source: Cotton Outlook and Poimena Analysis Data to 5th March 2011

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter, the charts show the rebound in economics growth in the seven major wool consuming countries and the price relativity of 21 micron wool against the two major competing fibers.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	24.5	+18%	201.9	+8%	China, India, Italy	China down, Italy, Czech up
NZ	11.2	-12%	87.7	-1%	China, Italy, UK	China up, India down
Uruguay	4.4	-0.5%	33.3	+20%	China, Germany, Italy	China down, Germany up
Argentina	5.5	+29%	32.4	+1%	Germany, Italy, China	China down, Germany, Italy up
South Africa	3.3	-1%	18.6	-23%	Czech Rep, India, Italy	China down 92%, W Europe up
USA	0.5	-44%	4.9	-35%	China, India	China, India down, Malaysia up

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 January. USA is for calendar year January to December

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
USA	380	300	+27%	380	302	+26%

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

Notes: Prices are for February. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is the fine crossbred

Fiber Prices and Ratios >>>

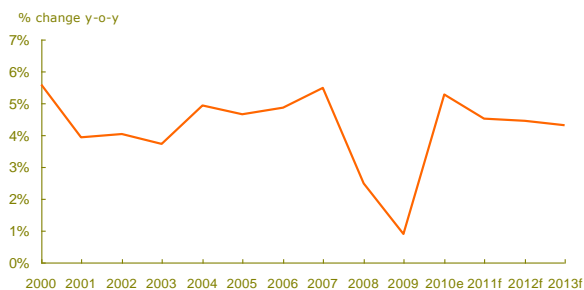
UScents	Month average	Last year	% change	Season average	Last season	% change
Cotton	215	81	+165%	142	71	+100%
Synthetics	127	95	+34%	112	88	+27%
Wool: cotton	2.47	4.77	-48%	3.24	4.99	-35%
Wool: synthetics	4.17	4.08	+2%	3.82	3.98	-4%

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

Notes: Prices are for February. Year is financial year beginning in July

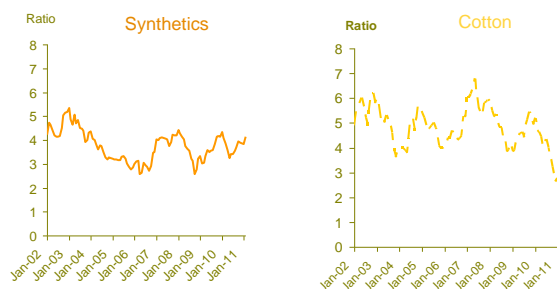
Recovery in Economic Growth

Economic growth weighted by wool consumption



Source: IMF, Consensus Forecasts (February 2011) and Poimena Analysis
 Note: Economic growth in China, Japan, USA, U, Germany, Italy, France and South Korea, weighted by apparel wool consumption (from Woolmark/IWTO) K

Wool's Price Competitiveness Improves Against Cotton, Not Synthetics



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
 Data to February 2010