



Hand-to-mouth buying in wool textile industry

Macro-economic conditions causing uncertainty

World wool supply remains low

Wool prices perform best



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

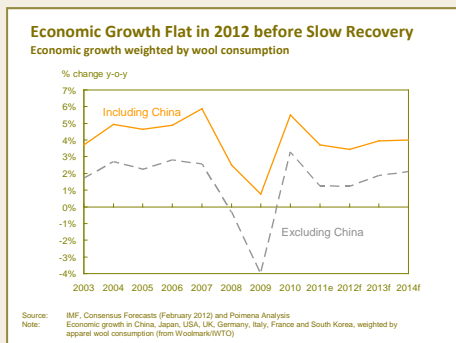
wool journal

Retail Demand and Economic Conditions

Trends, Drivers and Prospects

Economic conditions in the major wool consuming countries are still subdued, although there are tentative signs that the worst may be over in the US and in Europe. More positive news on the employment front in the US and improvements in other economic factors have seen US consumer confidence climb from the depths seen in October. In Europe, it seems that the storm caused by sovereign debt fears is passing. However, China's economy is starting to slow from the break-neck pace seen over the past decade. Worries about inflation have seen the Chinese Government take steps to slow the economy, from an annual growth rate 9% to 10% to a predicted 8.4% in 2012.

As the chart shows, economic growth in the 8 major wool consuming countries is likely to be subdued in 2012, which could keep pressure on wool demand.



Wool Textile Industry Conditions

Trends, Drivers and Prospects

Business conditions for mills in the main wool processing regions remain not easy, with reduced and delayed ordering from many of the key consumer markets on one hand but high wool prices on the other.

Demand for finished wool products in key markets in **Europe** has dipped in response to the difficult economic conditions and declining consumer confidence in that region. The volume of imports of finished wool clothing by the **United States** also fell for six consecutive months between July and December 2011. In **China**, retail demand for clothing has also slowed in recent months in response to the Government's efforts to restrain inflation.

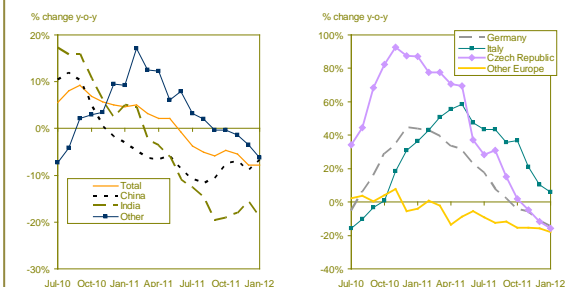
There are some positives, in spite of this relatively gloomy picture. Imports of wool knitwear by **Japan** increased sharply in 2011, which helped sustain China's demand for raw and semi-processed wool. As well, the value of wool clothing imports by the US has remained above year earlier levels, which reflects an increase in the average price for garments.

As a result of the overall quite difficult conditions, wool textile mills in the major processing countries of China, India and Italy have reduced their purchases of raw wool and are buying 'hand-to-mouth' (purchasing wool to fill immediate orders).

The chart shows the slowdown in raw wool purchases, with raw wool imports by almost all major processing countries below year earlier levels. This slowdown has also affected exports of US wool, which fell 6% by volume in 2011 although value was up 14%.

With stocks of wool held by mills reported to be low, any increase in ordering in coming months will directly lead to an increase in raw wool buying.

Wool Imports by Major Processing Countries* Declining 12 month rolling aggregate



* From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)
Source: Australian Bureau of Statistics, FLA, SUI, Capewool, NZ Meat and Wool

Wool Production and Supply

Trends, Drivers and Prospects

The latest forecasts and information from the major wool exporting countries suggest that world wool production will fall by around 1% in 2012. Previous forecasts had indicated that there would be a modest improvement in world wool production.

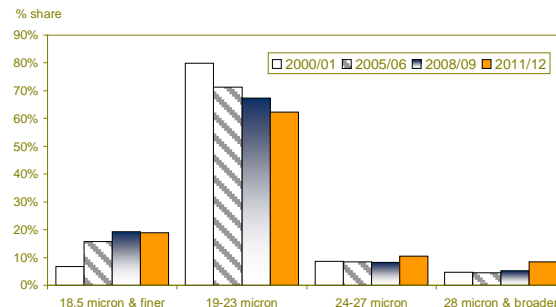
Wool production in **New Zealand** is now predicted to fall by 5% in the 2011/12 season, mainly due to a drop in the number of sheep as growers sell off some stock in response to the high sheep and lamb prices. **Argentina's** wool production is predicted to fall by 15% this season and wool production in **Uruguay** is expected to fall by 8%. There are no updated forecasts for **South Africa**, but wool receivals into brokers' stores have fallen by 3% this season, suggesting that production will fall by a similar amount. There are reports that wool production in **China** this year is lower than expected.

The current forecast for **Australia** is for production to increase by 1%, but the latest statistics on wool tests show a 1.1% fall in the July to February period. There has been a 6% fall in medium merino wool tested so far this season.

The chart shows the steady decline in production of medium merino wool in Australia since 2000/01. At the same time production of superfine wool and, more recently, cross-bred wool has increased. The shift to sheep for meat away from sheep for wool is starting to have an effect.

The lower production has created worries about a "shortage" of wool, which has helped sustain wool prices in spite of tough demand conditions.

Medium Merino Wool Production In Australia Falls
Shares of Wool Tested by Micron Category
(Snapshots: 2000/01 to 2011/12*)



Source: AWTA
Data to February for 2011/12 season

Outlook

While demand for raw wool has declined, as expected in the December 2011 edition of the **Wool Journal**, prices have not slipped as expected. This is almost certainly due to the continuing decline in wool production and the squeeze on supplies. As well, the low stocks of wool held by mills means that raw wool must be purchased when orders are received.

It is very likely that the supply of wool to the market over the next six months will be well below year earlier levels. This could mean that wool prices can be maintained at current levels in spite of the falling prices for competing fibers. The lower prices for cotton, polyester and acrylic means that wool is becoming very expensive compared with these fibers. This may encourage mills to swap away from wool where they can to meet price points.

Overall, there is more uncertainty than usual about the direction for wool prices.

Wool and Fiber Prices

Trends, Drivers and Prospects

Wool prices have pulled back from the peaks in mid-2011 but since October have been remarkably resilient in spite of the very difficult demand conditions. In contrast, prices for other fibers have fallen quite sharply in the past few months.

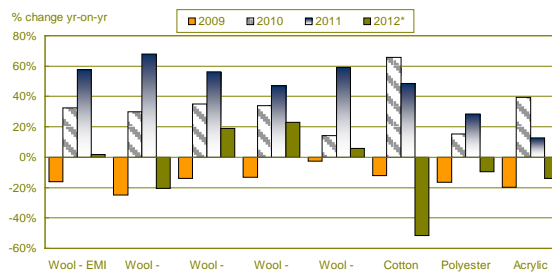
Between October 2011 to the end of March 2012, the Australian Eastern Market Indicator increased by 7%, with the strongest gains for prices in the medium merino range. For example, the 23 micron price guide has lifted by 25% between October and March.

In contrast to these strong gains, the prices for competing fibers have fallen. Cotton prices were down by 10%, viscose prices fell 19%, polyester prices were down 4% and acrylic prices were flat.

The chart shows the change in annual average prices for various fibers, highlighting how well wool prices have performed.

The much better performance of wool in general and medium merino wool in particular is due mostly to the low and falling production of wool. Other fibers are seeing production increase, which, combined with the poor demand conditions, are resulting in lower prices.

Wool Prices Perform Best in 2011 and 2012*
Change in Annual Textile US\$ Fiber Prices



Source: AWEX, CIRFS, Cotton Outlook, Poimena Analysis, PCI Fibre
For January-March 2012 compared with January-March 2011.

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter, the charts show China's exports of wool garments in recent years and the trends in US wool garment imports.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	23.9	+10%	181.3	-8%	China, India, Italy, Czech Rep	Italy up, China, India, Czech Rep down
NZ	12.6	+12%	80.7	-8%	China, UK, Italy, India	China up, UK, Italy & India down
Uruguay	3.9	-11%	24.8	-26%	China, Italy, Germany, Turkey	China & Germany down sharply, Italy down
Argentina	2.7	-52%	22.9	-29%	Italy, Germany, China, Turkey	All destinations down sharply
South Africa	3.0	-10%	21.1	+13%	China, India, Czech Rep, Italy	China up strongly after lifting of ban
USA	0.45	-14%	6.76	-18%	China, India	India up strongly (+69%), China down 50%

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

Notes: Raw and semi-processed wool. Australia, NZ, Uruguay, Argentina and South Africa are for January and the financial year from July to January, USA is for December and calendar year January to December. All wool exports, not just of US origin.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	633	569	+11%	628	519	+21%
NZ	349	295	+18%	330	291	+13%
South Africa	618	576	+7%	626	524	+19%
UK	122	139	-12%	123	121	+1%

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

Notes: Prices are for March. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is calendar year. Year average is year to March

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	100	229	-56%	111	149	-25%
Synthetics	118	136	-13%	118	115	+3%
Wool: cotton	6.52	2.54	+157%	5.90	3.16	+87%
Wool: synthetics	5.51	4.30	+28%	5.37	3.88	+38%

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

Notes: Prices are for March. Season is financial year July to March

