

Pessimistic macro-economic conditions causing uncertainty

Hand-to-mouth buying in wool textile industry

World wool supply remains low

Fibre prices weaken



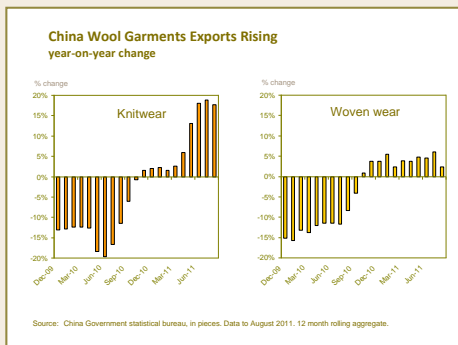
A Quarterly Insight into the U.S. and Global Wool Market

wool journal

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Global economic worries and recent falls in cotton prices are causing worries within the wool textile industry, particularly in China. Many attendees at the recent Nanjing Wool Market Conference (the largest conference of China's wool textile industry) who thought wool prices would fall in coming months cited world economic worries, falling cotton prices and concerns about being able to pass the high wool prices on to Chinese consumers. In spite of these concerns, China's exports of wool knitwear and woven wear continue to rise (see chart below), although the growth rate slowed a little in August. While China is buying less, India is buying more wool, notably from the US. Stocks held by the world wool textile industry are reported to be low and mills are buying hand to mouth. If retail sales in the major markets can be sustained, mills cannot afford to hold back from the market for long in spite of their worries.



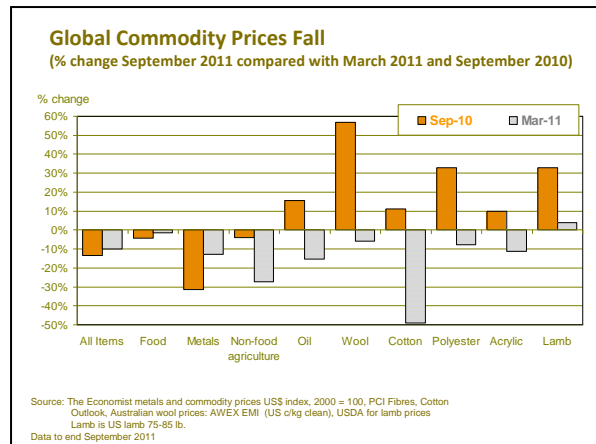
Retail Demand and Economic Conditions Trends, Drivers and Prospects

The concerns about the US and European economies noted in the previous edition of the Wool Journal two months ago have intensified into fully fledged fear, which has led to sharp falls in equity and commodity markets.

Economic forecasters, including the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO), have cut their forecasts for economic and trade growth in 2011 and 2012 for all of the major advanced economies. All say that the risks to the global economy are clearly on the downside and hinge on governments in both Europe and the US adopting the right policies to combat the economic, unemployment and government debt problems.

In the meantime, world commodity prices have been hit by the crisis in confidence. As the chart below shows, total world commodity prices (all items) are 10% below the levels a year ago and six months ago. Metals prices have dropped by 30% in the past year. Food and fiber prices, however, have done better. Wool prices have not been immune to the downswing, but have done better than almost all commodities and are well above year earlier levels and are only down by less than 10% on the levels of six months ago. Lamb meat prices have resisted much of the downturn and are even slightly above the March prices.

The current Fall/Winter season will be critical to determining the trend in wool prices in the next six months. Consumer confidence is down, and clothing retail sales in the US have started to weaken but there should be a strong presence of wool on retailers' shelves. If consumers maintain their spending, it should help pull wool demand through the wool textile industry.



Wool Production and Supply

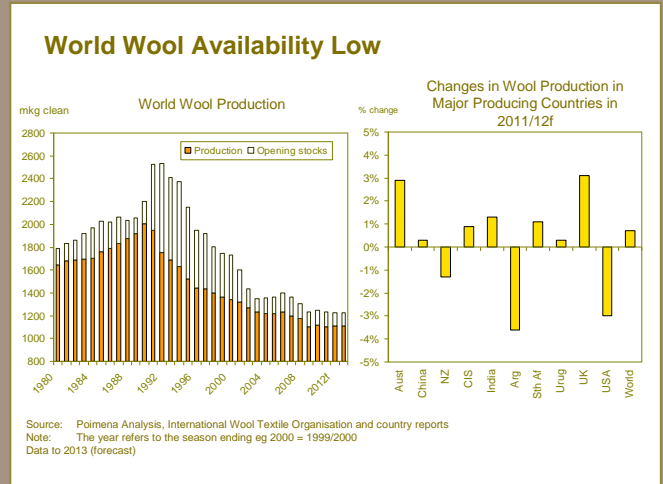
Trends, Drivers and Prospects

Low world wool production and supply has been one of the major positives supporting wool prices in recent years and there is no sign that production will recover quickly in the near future. The latest available forecasts from the major wool producing countries suggests that world wool production will lift by a very slight 0.7% to 1,112 million kilograms clean weight (ie with dirt, vegetable matter, grease etc removed). As the chart on shows, this will mean that production will remain at very low levels.

While world wool production is expected to be up slightly, this is mainly due to predicted higher production in Australia, the largest wool producing county. Production is also expected to increase a little in China, the Commonwealth of Independent States (CIS), India, South Africa, the UK and Uruguay.

Production is expected to drop in New Zealand, Argentina and the USA due to a combination of lower sheep numbers and poor seasonal conditions in some areas of each country.

As well, stocks of raw wool held in grower countries are also at a low point. This means that world wool availability (production plus stocks) is the lowest in 50 or more years. For example, the wool stocks to annual wool use ratio for wool is just 10%. A market is said to be in balance if the ratio is 20%, below that level and there is upward pressure on prices. The low stocks to use ratio for wool should provide a firm base for wool prices in 2011/12.



Outlook

Broader macro-economic factors will be the major driver of trends in wool prices in the next few months. Pessimism about economic prospects and high unemployment levels will weigh on consumers, possibly restricting their willingness to spend. It will also weigh on mills until they see the results from retail sales in the next 2-3 months and what this may mean for orders for 2012.

There is some upside potential on the macro-economic and commodity side if policy-makers make the right decisions. As well, low wool supply is a positive which will help support prices.

Overall, the negatives outweigh the positives in the current environment. Wool prices seem set to weaken further. There is also likely to be heightened volatility until clearer signals emerge both on the macro-economic front and on clothing retail sales in the lead-in to Christmas.

Wool and Fiber Prices

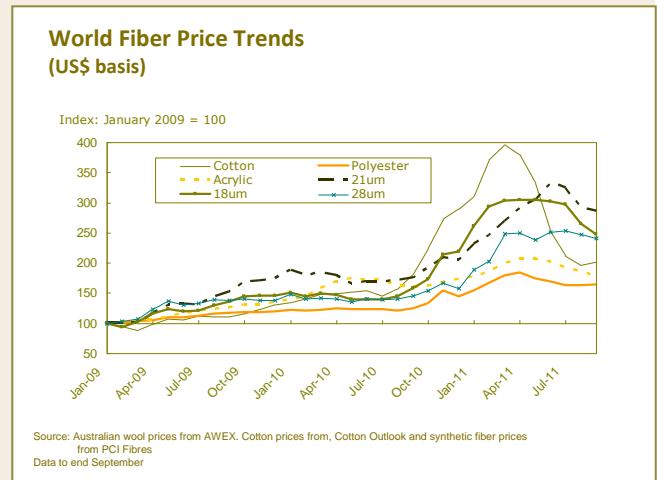
Trends, Drivers and Prospects

World fiber prices have pulled back in recent months due to a combination of heightened macro-economic concerns, expectations of weakening demand for fibers and increased supply of cotton. The trends in selected fiber prices are shown in the chart below.

The supply squeeze that resulted earlier in the year in cotton prices surging to record levels has abated. World cotton production in 2011/12 is predicted to reach the highest level since 2004/05 and consumption is forecast to grow only moderately due to still relatively high cotton prices and competition from synthetic fibers. As a result, cotton prices have more than halved from the record levels seen in March. However, prices have stabilized at levels well above those seen in 2009. Synthetic fiber prices have similarly stabilized at levels well above 2009 levels.

While wool prices have pulled back in the past two months, they are still double the prices seen in 2009. 21 micron wool prices are doing better than superfine wool prices, while broad wool prices have been remarkably steady over the past six months.

Wool is still relatively expensive compared with other fibers which will be a negative for wool prices in coming months.



These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter, the charts show the trends in consumer confidence in the US and Europe, and the trends in clothing retail sales in the US.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	20.5	+21%	42.8	-7%	China, Italy, Czech Rep, India	Italy, Czech Rep up. China, India down
NZ	10.1	-21%	20.8	-21%	China, Italy, UK, India	UK, India well down, China, Italy down slightly
Uruguay	3.7	-43%	7.2	-32%	China, Germany, Turkey, Italy	China, Turkey, Italy well down, UK up
Argentina	4.3	-9%	7.0	-11%	Italy, Germany, Turkey, Mexico	China, Germany well down, India, Italy up
South Africa	1.8	+35%	2.2	-15%	India, Czech Rep, Italy, Germany	China well down, India, Germany up strongly
USA	0.82	+20%	1.43	+7%	India, China	India up 88%, China down 28%

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

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

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	581	368	+58%	596	371	+61%
NZ	351	234	+50%	328	213	+54%
South Africa	548	368	+49%	566	372	+52%
UK	125	88	+43%	126	72	+76%

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

Notes: Prices are for September. 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

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	117	105	+11%	118	93	+26%
Synthetics	124	103	+21%	126	104	+21%
Wool: cotton	5.28	3.61	+46%	5.51	3.99	+38%
Wool: synthetics	4.96	3.69	+34%	5.14	3.55	+45%

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

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

