



Raw wool demand remains patchy and subdued

Better signs for economic conditions provide hope for wool prices

World production of man-made fibers rise while production of natural fibers slide

Excess cotton stocks and lower cotton prices a challenge for wool



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

wool journal

Retail Demand and Economic Conditions

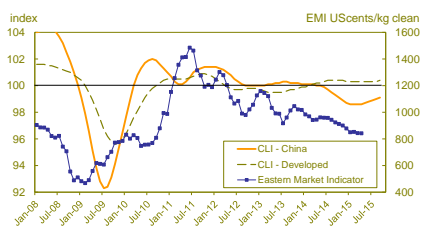
Trends, Drivers and Prospects

At the start of 2015 there were heightened concerns about another downturn in many of the major economies, with the exception of the US where the economic outlook was positive. The fall in oil prices were bringing fears of deflation and the continued uncertainty about Greece caused worries about a break-up of the European Union (EU). This bore down on consumer confidence in Europe, Japan and China.

Sentiment has improved since then as these fears have waned, with a subsequent strong bounce in consumer confidence (see chart on back page). While economic growth in the US is expected to be steady over the next 2 years, prospects for economic growth have improved in the EU, Japan and in China.

This is illustrated by the leading economic indicators (see chart below), which have turned up for both the developed countries and for China. This brings hope that wool prices in US\$ will turn around soon.

Signs of Recovery in the Economic Leading Indicators
Trends in Key Economic Indicators versus the Australian Eastern Market Indicator in US\$



Source: OECD, AWEX
* Amplitude adjusted form of the Composite Leading Indicator for OECD countries and for China.
CLI to January 2015 pushed out 8 months. Wool prices still w/e 3rd April 2015

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Demand conditions in many of the major wool processing countries remain subdued, judging by the latest raw wool trade data, although there has been an improvement in demand from China.

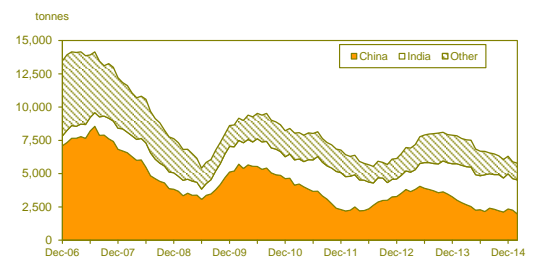
According to the data from the major wool exporting countries (Australia, New Zealand, Uruguay, South Africa and Argentina), raw wool exports lifted by 10% in February compared with the same month in 2014. In spite of this increase in February, the total exports for the 2014/15 season to date (that is, since July 2014) from the five major exporting countries was slightly lower than for the same period in the 2013/14 season.

Exports to most of the major wool processing countries have declined this season, with the exception of China and a few smaller countries, such as Egypt and Malaysia. Exports to **China**, the largest export destination for wool, was 5% higher for the 2014/15 season to date, helped by a 30% lift in February. Exports to **Egypt** and **Malaysia** have increased in recent years as the result of new early stage processing mills being established in those countries, which has continued this season.

Exports to **Europe**, the second largest destination for raw wool exports, fell by 13% for the 2014/15 to February as a result of declines in exports to Italy, Germany, the Czech Republic and the United Kingdom. After strong gains in the first half of 2014, raw wool exports to **India** from the large exporting countries have fallen back this season, by 12%.

These declines are being reflected in demand for wool from the **United States**. As the chart shows, raw wool exports from the US has declined in the 2014/15 US season (that is, since October) and was down by 25% to February. The improvement in China's demand seen for the other exporting countries has not been seen for the US, with exports down by 39%. Exports to India were 3% lower.

US Raw and Semi-Processed Wool Exports



Source: USDA Foreign Agricultural Services database
Data to February 2015. 12 month rolling aggregate

Wool Production and Supply

Trends, Drivers and Prospects

World fiber production has risen strongly over the past few decades, mainly driven by an explosion in the volume of man-made fibers produced. Since 2000, world production of all fibers has increased by 73%. Production of man-made fibers (oil-based synthetics and plant-based cellulosic fibers combined) has jumped by 104%. The production of cotton has increased over the same time, but at a slower rate with a 32% increase. In recent years, cotton production has fallen back.

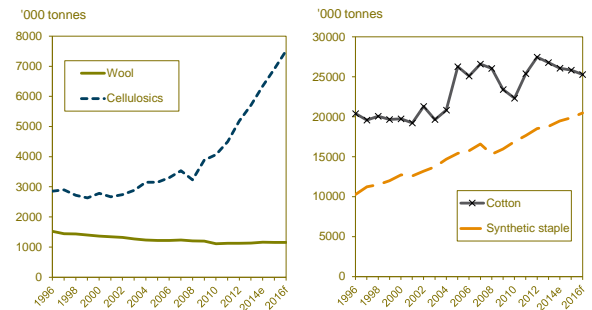
In contrast, total world wool production has dropped by 15%, with production of apparel wool (that is, wool used in clothing) falling by 27%.

As a result, wool's share of the total world fiber market has almost halved from 2.5% in 2000 to 1.3% in 2014. This measure of market share understates wool's presence. Firstly, a significant portion of man-made fibers, as well as a sizeable proportion of cotton, are used in industrial products where wool has no presence. However, production for those fibers against which wool competes most directly has increased in volume substantially (see the chart). The growth in production of plant-based cellulosic fibers (such as viscose or rayon) has been spectacular since 2008.

Secondly, wool is substantially more expensive than these other fibers. This reflects wool's greater perceived quality (and its end-uses) as well as its relative scarcity. Wool's share is best judged in value terms, rather than volume, although data on value is unavailable.

In the longer term, wool cannot compete with these fibers in volume terms. It must continue to compete in terms of quality. Wool will therefore continue to be used in higher-value end-products. The demand for these products is more susceptible to swings in economic conditions and consumer confidence.

World Production of Natural Fibers Slides while Man-made Fiber Production Rises



Source: CIRFS, USDA, Poimena Analysis, IWTO Market Information Report 2014
Note: For wool and cotton the years are seasonal years i.e. 2011 = 2010/11 season

Outlook

In spite of better sentiment about economic conditions in the major wool consuming countries, raw wool demand remains subdued in all of the major processing countries. Mills seem to be operating hand-to-mouth, purchasing wool as they receive orders. No doubt the low cotton prices are also creating a very competitive environment at the fiber level, as are the lower prices for synthetic fibers (such as polyester staple and acrylic) due to the continued low oil prices.

These short-term factors continue to hold back a recovery in raw wool demand. As well, the strength of the US\$ against the currencies of the major wool producing countries (Australia, South Africa and New Zealand) is benefiting the growers in those countries but is hurting producers in the US and other countries that are paid in US\$ (such as Uruguay).

This situation could continue until mid-year in spite of the positive signs from the leading economic indicators. Beyond that, there is likely to be a cyclical recovery in raw wool demand as there is a restrained improvement in economic growth in the major consuming countries.

Wool and Fiber Prices

Trends, Drivers and Prospects

The strength of the US\$ against the currencies of the major wool producing countries, in particular against the A\$, continues to weigh on the market. In the past month, the Australian Eastern Market Indicator has fallen by 1% in US\$ terms but has increased by 2% in A\$ terms.

At the same time, world cotton prices have fallen by a further 3% since February, continuing the fall seen over the past 12 months. Since March 2014, the CotLook A Index (an index of world cotton prices) has fallen from 97.3 US\$/lb to 69.55 US\$/lb, a drop of 28%. This decline in cotton prices has arisen due to excess world stocks of cotton which in turn has been caused by production exceeding consumption for each of the past five seasons, notably in China. According to the International Cotton Advisory Committee (ICAC) global stocks of cotton at the end of the 2014/15 will be 90% of one year's mill consumption of cotton. This has borne down on cotton prices. The chart below shows the trends in cotton prices since 2011. As can be seen, the current prices are below the 10 year average.

These lower cotton prices have contributed to a decline in the prices for polyester staple fibers which compete directly with cotton in products such as shirting fabrics. The fall in oil prices has also pushed polyester prices lower. As a result, the polyester to cotton price ratio has fallen back recently and is below the long term average (see chart).

Wool prices have been less affected (but have still slid) and the wool to cotton price ratio is well above the ten year average (see chart). It has fallen back from the peak reached in November.

Cotton Prices Fall Due to High Stocks



Source: Cotton Outlook and Poimena Analysis
Data to 3rd April 2015

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show consumer confidence in the US and the EU; and the trends in prices for wool and for competing fibers.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	30.0	+19%	218.8	+2%	China, India, Czech Rep, Italy, Korea	China, Korea up; India, Czech Rep, India, Italy down
NZ	14.7	+32%	99.4	+1%	China, Italy, UK, Germany, India	China and Italy up; Germany, UK & India down
Uruguay	3.1	-30%	31.8	-11%	China, Germ, Italy, Turkey, India	India up; China, Germany, Turkey and Italy down
Argentina	3.7	-11%	27.3	+2%	China, Germany, Italy, Mexico, Peru	Peru up; China, Germany, Italy, Mexico down
South Africa	3.2	-37%	27.2	-10%	China, Czech Rep, Italy, India	China up; Czech Rep, Italy and India down
USA	0.44	-21%	2.14	-25%	India, China	India and China and all others down

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

Notes: Raw and semi-processed wool. Australia, New Zealand, Uruguay, Argentina and South Africa are for February and the financial year from July to February. The month for USA is for February and for the season is the US wool season October to February.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	400	470	-15%	408	485	-16%
NZ	187	192	-3%	185	192	-4%
South Africa	423	485	-13%	437	492	-11%
UK	102	111	-8%	105	112	-6%

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

Notes: Prices are for March. Australia is the 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 and year average is year to March.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	69.7	97.3	-28%	71.5	91.0	-21%
Synthetics	87.7	107.8	-19%	99.8	108.4	-4%
Wool: cotton	5.83	4.86	+20%	6.29	5.32	+18%
Wool: synthetics	4.64	4.38	-6%	4.47	4.57	-2%

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

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

