



Mixed signals from economic indicators

China's raw wool demand falls, other countries lift

Producing countries' wool exports decline

Diverging trends for apparel wool and interior textile wool prices



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

wool journal

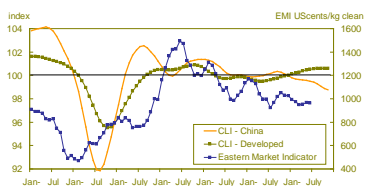
Retail Demand and Economic Conditions

Trends, Drivers and Prospects

The economies of the major developed countries in the US and Europe continue on a path to recovery, albeit hesitant in the Euro-zone countries. For example, the US employment levels are back to pre-Global Financial Crisis levels. In spite of this, wool prices, particularly prices for wool used in apparel, remain subdued with no sign of recovery.

A major reason for this is the slowdown in China's economy. After recording double digit growth rates throughout the 1990s and the 2000s, China's growth rate slowed to 7.7% in 2013 and is forecast at 7.3% in 2014. This is still robust growth compared with the growth rates recorded in the developed economies. Nevertheless, as the chart below shows, it appears that the downswing in the leading economic indicators for China is currently having a larger impact on the trends in wool prices than the upswing in the leading indicators for developed countries.

Mixed Messages from Economic Leading Indicators
Trends in Key Economic Indicators versus Australian Eastern Market Indicator in US\$



Source: OECD, ANZEC
* Amplitude adjusted form of the Composite Leading Indicator for OECD countries and for China.
CLI to March 2014 pushed out 8 months. Wool prices USc/w 9th June 2014

Wool Textile Industry Conditions

Trends, Drivers and Prospects

There is a clear divergence between conditions in the wool textile industry in China compared with the business conditions in other processing countries. Business conditions continue to improve in the wool textile industries of India, the Czech Republic, the UK, Egypt, Malaysia and elsewhere. Italy's wool textile industry is also seeing a modest improvement. This is being reflected in the trends in raw wool demand by these countries, as shown in the chart below. India and 'other' countries (which include Malaysia, Egypt, Thailand, Japan, Korea and Taiwan) have seen strong increases in raw wool demand, notably since the start of 2014.

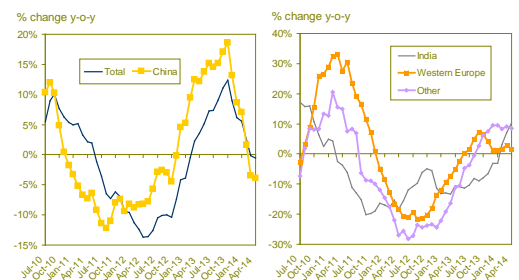
In contrast, China's raw wool demand has dived since reaching a peak in October last year. The double-whammy of a sharp drop in the growth of retail sales of clothing in China's domestic economy and weak export demand for wool clothing came at the same time that China's raw wool demand reached a peak. As a result, excess stocks of raw and semi-processed wool built-up within China's wool textile industry. Chinese mills have reacted with a sharp pull-back in raw wool purchases (as can be seen in the chart).

Total raw wool demand has also declined in concert with the decline in China's demand, in spite of the growth seen in demand by other countries. This is because of China's dominant position in raw wool purchases. It accounted for 62% of raw wool exports from the five major exporting countries in the 12 months to April.

The same trends are being seen in US exports of raw wool. As shown in the chart on the back page, the US exports of raw wool to China has declined so far in the US wool season (October to April), but exports to India and 'other' countries have increased. Even so, total US exports have fallen.

A recovery in total raw wool demand hinges on China.

Wool Imports by China Down, Other Countries Up
12 month rolling aggregate



Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool.
Data to April 2014

Wool Production and Supply

Trends, Drivers and Prospects

After recording a solid rise in calendar year 2013, raw wool exports by the major wool exporting countries has been much more variable in 2014 mainly as a result of differences in China's demand.

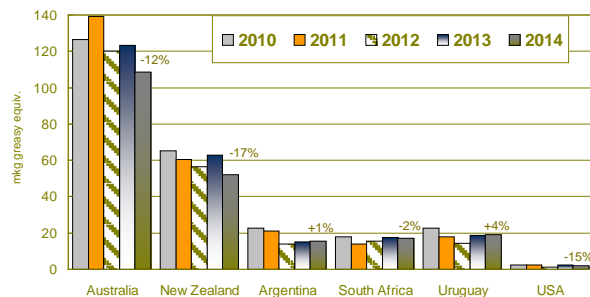
The two largest exporting countries, **Australia** and **New Zealand**, have both recorded significant declines in their exports so far in 2014 (see chart). These sharp falls are due to a combination of lower raw wool production in both countries and a drop in demand by China, their major export customer. China accounts for three-quarters of Australia's exports and half of New Zealand's exports.

South Africa's exports have also fallen in 2014 to April, although to a smaller extent because raw wool supply in South Africa has increased. China is also South Africa's major export destination, accounting for around 60% of South Africa's exports. South Africa's exports to China have lifted by 5%. The other country to see a fall in its exports is **the US** – China accounted for 41% of the US exports in 2013.

In contrast to these falls, exports from **Argentina** and **Uruguay** have both recorded modest increases in 2014. China accounts for half of Uruguay's exports and Uruguay's exports to China have lifted by 12% so far in 2014.

While the slowdown in China's raw wool demand has been the major influence on raw wool demand from some countries (notably Australia and New Zealand), the slowdown has not been consistent across all exporting countries.

Raw and Semi-Processed Wool Exports Decline
Calendar year



Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool, USDA

Outlook

While the major developed countries are on a recovery path, the slowdown in China's economic growth rate appears to be the most significant, and negative, influence on apparel wool prices wool (roughly wool of 26 microns and finer). Prices have drifted in recent months, with no sign yet of the hoped-for recovery predicted for the second half in 2014 (see recent editions of the **Wool Journal**).

Raw wool demand from China remains weak in the face of the economic slowdown in China. And, because of China's sheer size, total raw wool demand from the major exporting countries has fallen as result even though demand by other countries, such as India, Malaysia, and Egypt and, to a more subdued extent, countries in Europe, have increased.

It would appear that apparel wool prices will remain in the recent holding pattern until the leading economic indicators for China turn up, even as the economies of the developed economies recover. An upturn in China will bring a recovery in China's raw wool demand, which is vital.

Wool and Fiber Prices

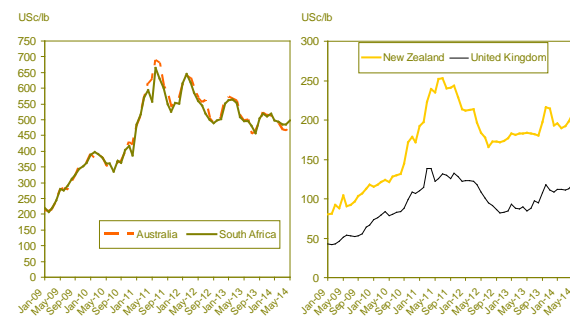
Trends, Drivers and Prospects

Clear divergent trends have emerged in the past six months or more in the prices for apparel wool compared with prices for wool used in interior textiles.

Prices for apparel wool has generally drifted lower in the past few months, as indicated by the prices for Australian and South African 22 micron wool (see the left hand chart). This reflects the poor retail sales for clothing over the recent Fall/Winter period in many countries, notably China; the resultant poor business conditions in the wool textile industry; excess stocks within China's wool textile industry; and the subdued prices for cotton and synthetic fibers. In spite of this downward drift, 22 micron wool prices are still at historically high levels. As the chart on the back page shows, prices for 22 wool are in the top 15th percentile of prices since 1991.

In contrast to the declining trend in apparel wool prices, prices for wool used in interior textiles have been on an upward trend since mid-2013. The chart shows prices for New Zealand fine-crossbred wool and for UK carpet wool. This upward trend has been pushed along by the recovery in the housing markets in several countries, notably the US, and continued demand for home furnishings in China. This has pushed prices for these wools into the top 10th percentile or better.

Diverging Wool Prices in Major Producing Countries



Source: AWEX, Capewools, BWMB, NZ Wool Services
Prices to end May 2014. For Australia and South Africa, prices are for 22 micron wool. For New Zealand, it is for fine cross-bred (25-32 micron). For the UK, it is the British Wool Marketing Board Indicator.

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show trends in US exports of raw and semi-processed wool; and the current percentile level for 22 micron wool prices.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	26.6	-11%	272.7	-4.2%	China, India, Italy, Czech Rep, Korea	China, Czech Rep down sharply, Italy, India, Korea up
NZ	15.7	+8%	130.4	-9%	China, Italy, India, UK, Germ	China. India up; UK, Italy, Germany down
Uruguay	4.1	-4%	44.3	+13%	China, Turkey, Italy, India	China, Italy up; India up sharply; Turkey down
Argentina	3.8	-5%	34.2	+2%	China, Germany, Italy, Mexico	China, Mexico down; Germany, Italy up
South Africa	3.9	-11%	38.5	+7%	China, Czech Rep, Italy, India	China, Czech Rep, India down; Italy up
USA	0.41	-5%	3.81	-12%	China, India	India up strongly, China down sharply

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 April and the financial year from July to April; and USA is for April and for the US wool season October to April.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	481	516	-4%	481	543	-11%
NZ	209	184	+14%	197	183	+8%
South Africa	498	496	+0.3%	492	537	-8%
UK	119	85	+41%	114	89	+28%

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

Notes: Prices are for May. 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 and year average is year to May.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	93	92	+1%	91	87	+5%
Synthetics	106	108	-2%	108	107	+1%
Wool: cotton	5.27	5.41	-3%	5.39	6.14	-12%
Wool: synthetics	4.61	4.64	-1%	4.56	5.02	-9%

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

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

