



Mixed messages from the Leading Economic Indicators

Wool business conditions improve

World wool production remains low, supplies could be tight

Wool prices continue to lift strongly, other fibers subdued



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

wool journal

Retail Demand and Economic Conditions

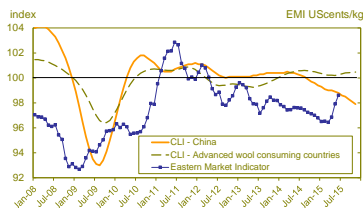
Trends, Drivers and Prospects

The latest data from the OECD on the leading economic indicators is rather mixed for the economic conditions in the key wool consuming countries.

The economic indicators for the major advanced wool consuming countries are positive for the next 6-9 months (see chart below), which is encouraging for wool product demand and, ultimately, for raw wool prices. However, confounding the outlook for wool prices is the continued slide in the leading indicator for **China**. This is due to the transition the Chinese economy is undergoing, from the invest-manufacture-export model to a more mature economy based on domestic consumer demand and the service industries.

Even with this adjustment, China's annual economic growth rate is predicted to remain at around 6.5% to 7% over the next two years, which should be ample for solid domestic demand for wool products.

Mixed News from 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 March 2015 pushed out 8 months. Wool prices till w/e 5th June 2015

Wool Textile Industry Conditions

Trends, Drivers and Prospects

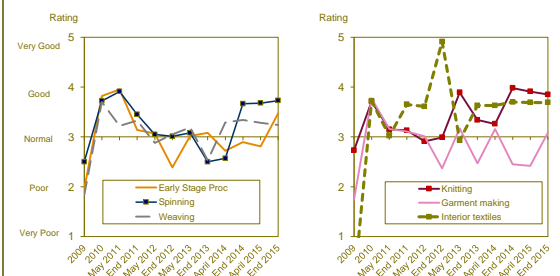
The results from the International Wool Textile Organisation's Wool Textile Business Conditions Survey for 2015 show vastly improved business conditions in the global wool textile industry compared with the results seen a year earlier. According to the survey, production activity levels in most sectors of the industry are either better than a year ago or are continuing at good levels. At the same time, stocks of raw wool and intermediate wool textile products within the industry, which were mostly too high a year ago, are now under control and, in some cases, too low.

Business conditions are particularly strong in the spinning and knitting sectors, and also for interior textiles (see the chart below). The weaving sector has seen solid production activity levels over the past nine months or more. Conditions have been more subdued in the early stage processing sector, but are expected to improve markedly in the remainder of 2015. Conditions in the garment making sector is volatile and generally weaker than other sectors.

These overall positive results were reflected in the generally upbeat mood at the IWTO's Annual Congress, which was held in Zhangjiagang, China in mid-May. While margins in some sectors are reported to be tight, business is said to be solid, at the least. In the woollen sector, business is exceptionally strong, notably in China. Demand is high for woollen woven and knitted fabric, principally for women's coats for the coming Fall/Winter. While there are good orders from China's major export markets for these coats, the most robust driver is demand for China's domestic market. Mills in the woollen sector are extremely busy producing fabric and garments to meet this demand.

These positive results and buoyant mood at the IWTO Congress is very encouraging for a sustained improvement in raw wool demand by the wool textile industry for the remainder of 2015.

Recovery for Early Stage Processing Sector: Wool Textile Industry Production Activity



Source: IWTO Wool Textile Business Survey
Weighted results for China, Italy, India, Germany, Turkey, Uruguay, Mongolia, Argentina, South Africa, New Zealand, United Kingdom and Norway

Wool Production and Supply

Trends, Drivers and Prospects

The latest forecasts for wool production were presented at the IWTO's annual Congress held in China on 18th to 20th May. World wool production is forecast to slip by 0.3% in 2015 to 1,151 mkg clean and slide by a further 0.6% to 1,144 mkg clean in 2016. These production levels will keep world production at around the very low levels seen for the past six years, with no sign of a sustained recovery in any of the main producing countries. The table shows the forecasts for each of the major wool producing countries that are IWTO members, for other countries and the global total. The year-to-year changes suggest that in many cases, gains in production in one year will be reversed in the following year. A significant influence on this trend is that the flocks in most countries are shifting away from wool-producing sheep to meat-producing or dual purpose (meat and wool) breeds, even in Australia.

In spite of low production levels, there has been an 8% increase in auction offerings in Australia this season in response to the sharp increase in prices. This wool has come from stocks held in broker warehouses and, to a smaller extent, stocks held on-farm.

Given this recent sell-off of wool stocks held in Australia (and elsewhere) in response to a sharp lift in wool prices, there will be very little if any carry-over stocks available in the 2015/16 season. This, combined with the lower wool production, could mean that wool supplies are tight in the first six months of 2015/16. This tight supply is expected to be particularly focused on wool of 30 microns and finer. This should help provide support to wool prices, although it could mean that stocks within the wool textile industry are increasing a little.

World Wool Production Eases Again
mkg clean

	2014	2015f	% change	2016f	% change
Australia	268	272	+1.6%	259	-4.6%
China	173	175	+0.3%	175	+0.1%
New Zealand	122	114	-6.6%	116	+2.3%
India	38	39	+0.4%	39	+0.6%
Argentina	27	28	+2.3%	28	-0.7%
South Africa	31	29	-5.0%	30	+4.2%
Uruguay	24	21	-11.3%	19	-9.6%
UK	22	22	+3.8%	23	+0.9%
Mongolia	14	14	+1.6%	14	-0.3%
USA	7.2	7.2	+1.0%	7.3	+0.7%
Others	437	438	+0.4%	441	+0.6%
Global	1,155	1,151	-0.3%	1,144	-0.6%

Source: IWTO national committee reports, FAO and Poimena Analysis
Note: 2013 = 2012/13 for Australia, NZ, Uruguay, Argentina, South Africa, Brazil
Updated: April 2015

Outlook

The strong business conditions in the wool textile industry, notably in China, is driving higher wool prices. While demand for woolen woven and knitted fabric for women's coats is extremely strong, demand conditions for wool worsted wear (including suiting fabrics) are also improving. This is likely to be sustained for the remainder of 2015, and will be met by the predicted decline in wool production, and a possible supply squeeze at the start of the 2015/16 season.

The recent sharp increase in wool prices in US\$ could be the start of a cyclical upturn in prices generally. Even with the recent increases, prices in US\$ remain relatively low (see the chart on the back page) which provides scope for further increases in coming months.

Prices will, however, be volatile. There are risks to the positive outlook, given the fragile and volatile global economic environment. As well, wool's price competitiveness with other fibers could dampen the upside in US\$ wool prices to some extent. Finally, in the past there have been corrections when prices surge as they did in May. Even so, the prospects for the remainder of 2015 are encouragingly positive.

Wool and Fiber Prices

Trends, Drivers and Prospects

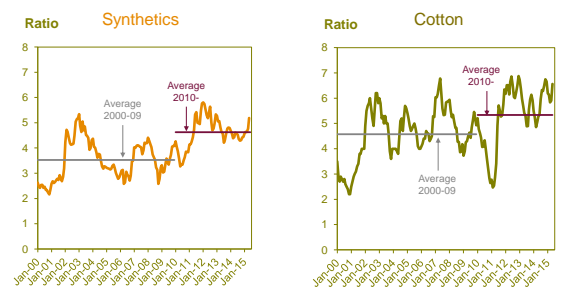
Wool prices in US\$ continued to lift throughout May, even though the US\$ gained further strength against the major wool growing country currencies. This improvement reflects the current strong demand conditions as well as concerns about a looming squeeze on wool supplies.

Wool prices lifted sharply in May in both grower country currencies and in US\$. In some cases, wool prices reached record levels in grower currency terms. For example, the South African Cape Wools' Merino Indicator broke the Rand record several times during the month due to a combination of strong demand and a weak Rand against the US\$. In Australia, the broader wool indicators (26 to 32 micron) and the Merino Cardings indicator all broke records levels. This is the result of very strong demand for this wool which is used in woolen fabric, mainly for women's coats.

The good news for US woolgrowers is that prices also rose sharply in US\$ terms. The Australian Eastern Market Indicator lifted by 109 UScents during May to the highest level since December 2013.

While wool prices increased, prices for competing fibers were subdued. Synthetic fiber prices rose a little in May, but cotton prices were slightly lower. The increase in wool prices but flat prices for other fibers has brought a significant change in the price competitiveness of wool (see chart). Wool's price ratio against both synthetic fibers and cotton increased (i.e. wool became less competitive) in May. The ratios are well above the average levels.

Wool Price Compared with Other Fibers



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to May 2015

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 consumer confidence in the major wool consuming countries; and the trends in Australian wool prices.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	29.8	+13%	286.6	+5%	China, India, Czech Rep, Italy, Korea	China, Korea, Czech Rep up; India; Italy down
NZ	16.5	+6%	134.2	+3%	China, Italy, UK, India, Germany	China and Italy up; Germany, UK & India down
Uruguay	4.4	+8%	42.2	-5%	China, Germ, Turkey, Italy, India	China, India up; Germany, Turkey and Italy down
Argentina	4.1	+7%	36.7	+7%	China, Germany, Italy, Peru, Mexico	China and Peru up; Germany, Italy, Mexico down
South Africa	3.4	-12%	38.1	-1%	China, Czech Rep, Italy, India	China up; Czech Rep, Italy and India down
USA	0.25	-39%	2.83	-26%	China, India	China down slightly; India and 'other' 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 April and the financial year from July to April. The month for USA is for April and for the season is the US wool season October to April.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	461	481	-4%	419	481	-13%
NZ	210	209	+0.4%	192	197	-2%
South Africa	419	498	-16%	416	492	-15%
UK	117	119	-2%	107	113	-6%

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

Notes: Prices are for May. 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 May.

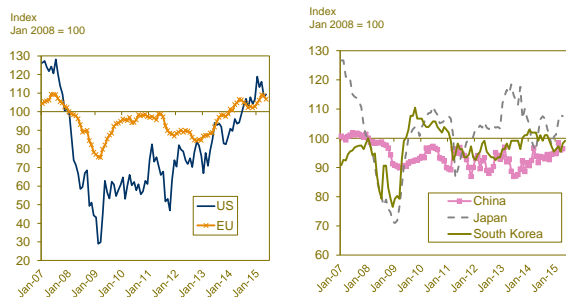
Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	72.8	92.7	-22%	71.7	91.4	-22%
Synthetics	92.0	106.0	-13%	98.1	108.0	-9.2%
Wool: cotton	6.56	5.27	+25%	6.28	5.39	+13%
Wool: synthetics	5.19	4.61	+13%	4.56	4.56	0%

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

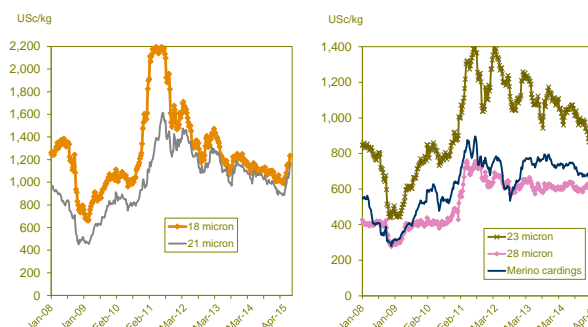
Notes: Prices are for April. Season is the financial year July to April. The wool:cotton and wool:synthetic ratios are based on 21 micron wool.

Consumer Confidence Up in US and EU, Volatile in Asia



Source: The US Conference Board, the European Commission and www.tradingeconomics.com
Data to May 2015

Wool Prices Up Sharply in May



Source: AWEX, Reserve Bank of Australia
Prices to 5th June 2015.