

China's raw wool demand falters

Global economic recovery on track for 2014

Raw wool exports up in 2013, but start to turn down

Wool prices dip



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

# wool journal

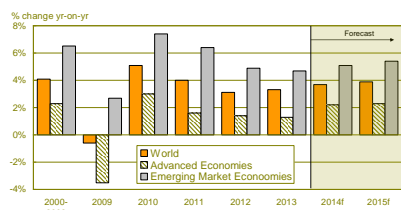
## Retail Demand and Economic Conditions

### Trends, Drivers and Prospects

The latest forecasts from major economic forecasters, such as the International Monetary Fund and from Consensus Forecasts, suggest that the world economy remains on a solid, if unspectacular, recovery path in 2014. This recovery path is welcome after 2012 and 2013 saw tough economic conditions, with the sovereign debt crisis in Europe causing a severe recession in a number of European countries. As well, China's economy slowed as it starts the transition from an export- and investment-driven economy to a more mature economy based on domestic consumption.

As the chart below shows, the world economy is expected to see growth rates in 2014 and 2015 return to the levels seen in 2000-08, before the Global Financial Crisis. This will hopefully provide a boost to retail sales, which have been disappointing in the past two years (see chart on back page).

**Economic Growth Forecasts from the International Monetary Fund**



Source: IMF World Economic Outlook

## Wool Textile Industry Conditions

### Trends, Drivers and Prospects

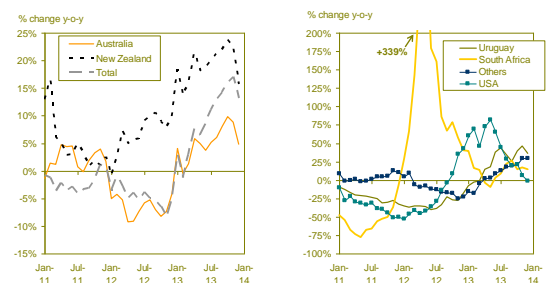
China is the world's major processor of wool and manufacturer of wool products, processing 44% of the world's wool in 2013, and so is the key driver of global demand for raw wool. In 2013 China's imports of raw wool increased by 13%, suggesting that demand conditions within China's wool textile industry were good. In fact, business conditions were difficult. China's exports of wool products struggled and its domestic retail market slowed.

While there was some improvement in exports of wool knitwear and wool top, China's exports of wool woven wear was down by 10% in 2013, its exports of wool yarn fell by 17% and exports of wool fabric fell by 6%. Wool knitwear exports increased by 5% and exports of wool top increased by 13%. It is important to note that even though China's exports of wool knitwear was a little higher in 2013 than in 2012, it was still well below the levels of previous years (see chart on the back page). Overall, China's exports of wool products were down in 2013.

As well, retail sales of clothing in China only increased by only 5% in 2013, the lowest in at least 20 years. By comparison, China's retail sales increased by 12% in 2012 and the growth rate typically exceeded 20% between 2000 and 2011. With China's export markets and retail markets being so weak but its raw wool purchases increasing in 2013, stocks of semi-processed wool such as yarn and fabric may have increased.

China's purchases of raw wool dipped in the last two months of 2013. This is shown in the chart. Mills may now be buying more cautiously to ensure that stocks do not build to unmanageable levels. This cautious buying may continue until the mills see the strength of ordering from retailers, both domestic and in export markets, in coming months.

**Raw Wool Imports by China by Source Country 12 month rolling aggregate**



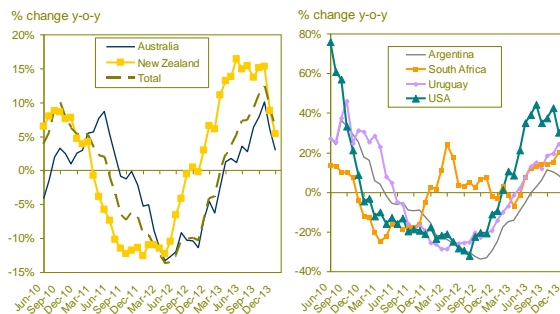
Source: China Government statistical bureau. Data to December 2013. 12 month rolling aggregate

# Wool Production and Supply

## Trends, Drivers and Prospects

Even though 2013 saw tough global economic conditions, mainly due to the on-going problems in Europe and an economic slowdown in China, raw wool demand performed remarkably well. As noted on the first page, this was helped by increased raw wool purchases by China, but other processing countries also lifted their demand. As a result, raw wool exports from the major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa) increased by 6% in 2013 compared with 2012 levels. As the chart shows, exports from each of these countries lifted in 2013. So, too, did US exports of raw and semi-processed wool. However, this run of increased raw wool exports may be coming to an end, as exports started to fall by the end of 2013. Exports in November and December were lower than a year earlier. The dip in raw wool exports in the last 2-3 months of 2013 was mainly due to lower demand from China. For example, US exports to China in the October to December period fell sharply after a strong lift in this period in 2012. This sharp downturn is shown clearly in the chart, which suggests that a cyclical turning point has been reached. If China's lower demand continues, then raw wool exports may remain below year earlier levels for the next few months.

**Wool Exports by Major Exporting Countries**  
12 month rolling aggregate



Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool. Data to December 2013

An additional factor is that wool supply from Australia will certainly diminish in coming months, reducing Australia's capacity to export. A considerable number of the wool growing regions in Australia's eastern states have been either in drought or very dry. While wool supply had been holding up quite well, it fell away in January and February. Auction offerings are likely to fall back in coming months. New Zealand is also seeing much lower auction offerings. This possible lower supply to auction, combined with the prospect of lower volume demand, could result in lower exports for the next few months.

## Outlook

In spite of the global economy being on track for a solid recovery in 2014, raw wool demand is likely to dip further in coming months as mills, particularly those in China, work to reduce any excess stocks within the wool textile pipeline and ensure that stock levels do not become unmanageable. They will also be waiting to see the strength and direction of ordering from retailers for Fall/Winter 2014.

The extent to which this dip, if it occurs, flows through to raw wool prices will depend on how much wool is available at auction in coming months. This is likely to be low in both Australia and New Zealand due to adverse seasonal conditions.

Nevertheless, wool prices appear to have entered a cyclical downturn. It is hard to predict when this cycle will play itself out – in the past these downturns have lasted several months. However, it is unlikely that the downturn will be as strong as in the past due to the expected lower wool supplies over the next six months.

# Wool and Fiber Prices

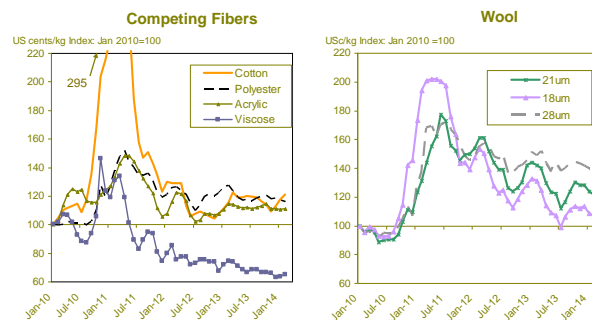
## Trends, Drivers and Prospects

As feared in the December edition of the **Wool Journal**, wool prices were weaker than had been hoped in the first two months of 2014, as softer demand from China started to have an impact on wool markets. The Australian Eastern Market Indicator in US\$ fell in January and February, to be 4% lower at the end of February than at the end of December. The 22 micron price guide was also down by 5% over the same period. South African wool prices fell in line with the lower Australian wool prices levels, while wool prices in New Zealand were down by 2%. The British Wool Marketing Board Indicator actually lifted by 3% over the same period.

The chart shows the trends in prices for wool compared with the major competing fibers over the past four years. In the past few months, the prices for competing fibers have been relatively stable, in contrast to the downturn for wool prices.

Given the signs that raw wool demand has turned down, wool prices may be entering a period of cyclical downturn. The duration of this downturn will depend on better ordering from retailers in the major markets flowing through the wool textile chain to raw wool processing companies. The timing of an upturn is uncertain and will only become clear in the next 2-3 months.

**Wool Turns Down, Other Fibers Stable**



Source: AWEX, Cotton Outlook, PCI Fibres and Raw Materials, Poimena Analysis. Monthly average to February 2014

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 wool exports of wool knitwear and woven wear by China; and retail sales for the major wool consuming countries in 2013 compared with previous years.

## Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	29.6	-16%	163.9	+2%	China, Italy, Czech Rep, India	China, India down; Czech Rep, Italy up in December
NZ	8.3	-28%	78.3	-2%	China, UK, Italy, Germany	China, UK, Italy and Germany all down in December
Uruguay	4.6	+23%	25.2	+22%	China, Germany, Turkey, Italy	China, Turkey< Germany up in December; Italy down
Argentina	4.2	-3%	18.8	+3%	China, Germany, Italy, Mexico	China, Germany up; Italy and Italy down in December.
South Africa	4.5	-1%	21.4	+15%	China, Czech Rep, India, Italy	China no change, Czech Rep and Italy down; India up strongly in December
USA	0.47	-8%	1.76	-8%	China, India	China down 38% in Oct-Dec, India up 92%

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

Notes: Raw and semi-processed wool. Australia, NZ, Uruguay, Argentina and South Africa are for December and the financial year from July to December. USA is for December and for the US wool season October to December. Data is greasy weight for Australia, NZ, Uruguay and Argentina and actual weight for South Africa and US.

## Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	489	566	-14%	495	569	-13%
NZ	189	181	+6%	193	182	+6%
South Africa	493	563	-13%	495	563	-12%
UK	112	88	+27%	112	91	+23%

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

Notes: Prices are for February. 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 February

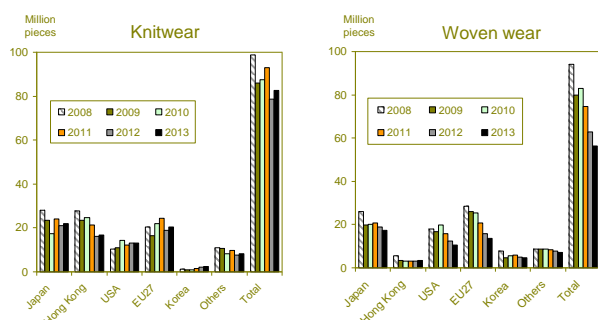
## Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	94	90	+5%	90	84	+7%
Synthetics	107	114	-6%	108	107	+2%
Wool: cotton	5.23	6.40	-18%	5.51	6.41	-14%
Wool: synthetics	4.61	5.05	-9%	4.59	5.09	-10%

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

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

### China Wool Woven Wear Exports Decline in 2013 Calendar year



Source: China Government statistical bureau, in pieces. Data to December 2013. 12 month aggregate.

### Clothing Retail Sales in Major Wool Consuming Countries

% change y-o-y	2009	2010	2011	2012	2013
China	18.8%	24.8%	20.6%	12.3%	5.3%
USA	-6.3%	6.0%	3.4%	0.9%	1.9%
Japan	-13.5%	-6.3%	3.2%	-0.4%	0.7%
Germany	-2.2%	1.2%	0.9%	-0.3%	0.1%
UK	1.0%	5.4%	3.3%	1.5%	2.6%
Italy	-1.5%	0.8%	-1.1%	-2.3%	-2.1%

Source: Government statistical bureaus.  
Notes: China is volume of sales in top 100 stores. Other countries are value. Japan is value of retail sales of clothing in major department stores. Germany and Italy is total retail sales.