



Excellent clothing retail sales in the US, mixed elsewhere

Raw wool demand declines in 2014

Australian superfine wool production falls while total production stabilizes

Rising currency puts pressure on wool prices for growers paid in US\$



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

wool journal

Wool Textile Industry Conditions

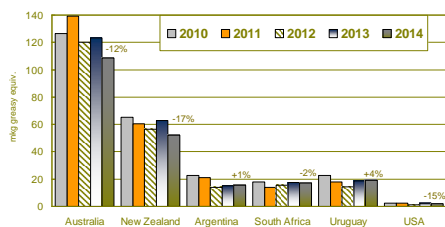
Trends, Drivers and Prospects

Raw wool demand declined in 2014 as business conditions in the major processing countries weakened. In total, raw wool exports from the five major exporting countries and the US fell by around 4% in total in 2014. As the chart below shows, raw wool exports from the two largest exporting countries, Australia and New Zealand, fell by the most. Exports from Argentina, Uruguay and South Africa all did better.

Raw wool exports from the US also fell significantly, although this was in part due to strong domestic demand. The US wool industry has the benefit of a large domestic market for raw wool, which none of the other major exporting countries has.

There was a pick-up in exports in December, but whether this can be sustained into 2015 will depend on how well retail sales perform in Fall/Winter.

Raw and Semi-Processed Wool Exports Decline Calendar year



Retail Demand and Economic Conditions Trends, Drivers and Prospects

Retail sales of wool clothing in the major wool consuming countries during the Fall/Winter period will be critical to determining the strength of business conditions in the wool processing industry in the next few months. This, in turn, will determine the strength of raw wool demand. On this front there is both good and bad news.

Consumer confidence in the US hit an 8 year high in January and this is reflected in a very strong increase in US clothing retail sales, as shown in the chart below. For the October-January period clothing retail sales jumped by over 4%. Hopefully this will bring better orders for wool clothing in coming months as retailers plan for the 2015 Autumn/Winter season. At the same time, retail sales of carpets and rugs have slipped from the peaks.

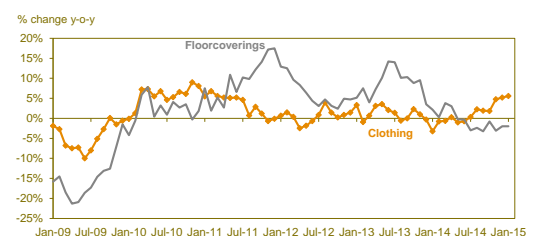
For five of the other major retail consuming countries, the value of retail sales grew over Fall/Winter 2014 compared with 2013, which is positive. Retail sales in **Germany** and **France** grew more strongly in 2014 than the year before (see the table on the back page).

Growth in clothing retail sales in **the UK** has moderated but remains robust. In **China**, the value of clothing retail sales grew at a slower pace than in 2013, continuing the pattern seen in the past 2-3 years. Nevertheless, the growth rate remains high in China compared with other countries. Retail sales in **Korea** were positive but subdued.

In contrast to these relatively positive results, retail sales in **Japan** and **Italy** contracted in 2014 compared with 2013. The continued decline in Italy remains a significant concern given its importance as a major retail market for wool clothing and its leading role in fashion.

The strong growth in the US and Germany augurs well for wool textile orders, although this may be offset by the poor results in Japan and Italy.

US Clothing Sales Up, Floorcoverings Down Monthly year-on-year change



Wool Production and Supply

Trends, Drivers and Prospects

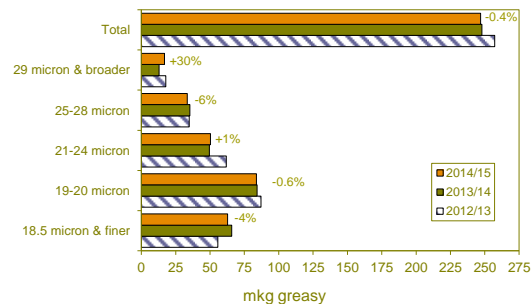
In spite of the official forecast that Australian wool production will decline by 2% in the 2014/15 season, the weight of wool tested in Australia has remained firm in the first eight months of the season.

According to data from the Australian Wool Testing Authority, the weight of wool tested in the July to February period was only 0.4% lower than for the same period in 2013/14. In spite of this firm result, there have been some significant differences between micron categories which has resulted in a broadening of the Australian wool clip this season.

As the chart shows, production of **superfine wool** (18.5 micron and finer) has dropped by 4% this season, after two seasons of strong growth. This decline has been in response to both relatively lower prices for superfine wool in the past 12-18 months and better seasonal conditions in some regions in much of 2014. **Fine merino wool** (19-20 micron) has also slipped slightly. At the same time **medium merino wool** (21-24 micron) has lifted while **broad wool** (29 micron and broader) production has jumped.

ABARES (the Australian Government agriculture commodity forecaster) has just released its new five year forecasts for the Australian sheep and wool industry, as well as Australia's other agricultural industries. It predicts that even though sheep numbers will lift by 8% from 70.7 million head in 2015 to 76.1 million in 2020, Australia's shorn wool production will increase by only 3% over the same period from 336 mkg greasy to 345 mkg greasy. High lamb and sheepmeat prices will encourage a continued shift towards meat sheep breeds, according to ABARES.

Australian Superfine Production Falls
Wool Tests By Micron Category
(Seasons 2012/13 to 2014/15 – July to February)



Source: Australian Wool Testing Authority

Outlook

As observed in the previous edition of the **Wool Journal**, the key to increased demand for wool finer than 24 microns is the retail sales of clothing over the just-finished Fall/Winter season. The good news is the excellent clothing retail sales in the US, and positive sales in other countries, in first four months of Fall/Winter. This, together with the cold winter in the US, could help lift orders by retailers to the wool textile industry as they look ahead to Fall/Winter 2015. A downside is the slowdown in growth in retail sales in China as the Chinese economy evolves to a more consumer-focused economy.

In spite of this positive, there are no firm signs yet of a significant boost to raw wool demand. The picture is clouded by the continuing strength of the US\$. While it means that raw wool purchases from Australia and elsewhere are cheaper than six months ago, mills in China will be cautious about committing to increased purchases until they believe that the US\$ has stabilized. Nevertheless, the delayed recovery in raw wool demand seems likely in the next few months.

Wool and Fiber Prices

Trends, Drivers and Prospects

The most significant influence on wool prices in recent months has been the continuing strength of the US\$ against the currencies of the major wool producing countries. Since September the US\$ has lifted by 11% against both the NZ\$ and the South African Rand, by 9% against the British £ and by a massive 14% against the A\$. This has meant that wool prices in US\$ have declined, even though prices for wool in Australia, New Zealand, South Africa and the UK in local currency have been relatively stable or, in the case of Australia, have even increased.

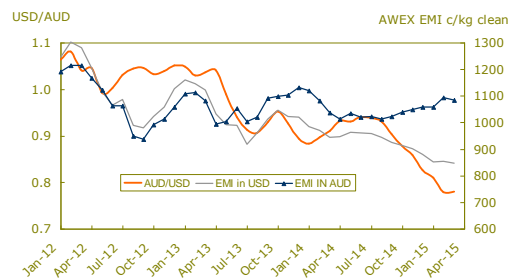
The chart below shows the trends in the US\$:A\$ exchange rate over the past three years compared with the trends in Australian wool prices in A\$ and in US\$. As can be seen, the sharp decline in the A\$ against the US\$ has coincided with a steady (although not as dramatic) decline in wool prices in US\$ (down by 8%). At the same time, Australian woolgrowers have seen wool prices in A\$ terms lift by 7%.

One additional trend seen in recent months is that prices for Australian broad wool (28 micron and broader) and for Merino cardings have performed much better than prices for finer fleece wool (see chart on the back page). This is the result of strong demand for wool used for woolen-spun clothing, such as tweed.

Forecasters expect the US\$ to lift a bit more in coming months in response to the strong US economy and expectations of higher interest rates by the US Reserve.

This may place further pressure on wool prices in US\$.

Australian Wool Price Affected by Exchange Rate
EMI in US\$ vs USD/AUD Rate



Source: WLAWEK, Reserve Bank of Australia
Data to 6th March 2015. EMI is on the 2014/15 basis

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show the retail sales of clothing in the eight largest retail markets for wool; and the trends in prices for finer merino fleece wool compared with broader wool and merino cardings.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	35.7	+21%	167.4	+2%	China, India, Czech Rep, Italy, Korea	China, Korea up; Czech Rep, India flat; Italy down
NZ	10.2	+23%	75.2	-4%	China, Italy, UK, Germany, India	China and Italy up; Germany, UK & India down
Uruguay	3.3	-20%	20.0	+6%	China, Germ, Turkey, Italy, India	China, India up; Germany, Turkey and Italy down
Argentina	6.5	+43%	20.5	-4%	China, Germany, Italy, Mexico, Peru	China and Peru up; Germany, Italy, Mexico down
South Africa	4.6	-0.4%	23.9	-5%	China, Czech Rep, Italy, India	China up; Czech Rep, Italy and India down
USA	0.72	+52%	1.59	-10%	India, China	India and China up; 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 December and the financial year from July to December. The month for USA is for December and for the season is the US wool season October to December.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	412	489	-16%	412	494	-17%
NZ	187	184	-1%	184	193	-4%
South Africa	441	493	-10%	442	495	-11%
UK	106	112	-6%	106	112	-6%

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

Notes: Prices are for February. 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

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	68	94	-28%	72	90	-20%
Synthetics	89	107	-22%	101	108	-17%
Wool: cotton	6.15	5.23	+17%	6.35	5.51	+24%
Wool: synthetics	4.65	4.58	+2%	4.45	4.59	-3%

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

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

Clothing Retail Sales in the Major Wool Consuming Countries

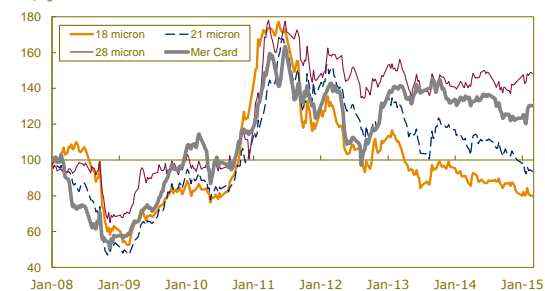
% change y-o-y	2009	2010	2011	2012	2013	2014	Oct-Jan	
							2013	2014
China	+18.8%	+24.8%	+20.6%	+12.3%	+11.6%	+10.1%	+13.6%	+8.7%
USA	-6.3%	+6.0%	+3.4%	+0.9%	+1.3%	+1.1%	-0.1%	+4.3%
Japan	-13.5%	-6.3%	+3.2%	-0.4%	-0.7%	-0.5%	-1.6%	-2.3%
Germany	-2.2%	+1.2%	+0.9%	-0.3%	+0.1%	+1.3%	+0.1%	+2.8%
UK	+1.0%	+5.4%	+3.3%	+1.5%	+3.1%	+5.2%	+12.8%	+1.8%
Italy	-1.5%	+0.8%	-1.1%	-2.3%	-2.1%	-1.3%	-1.3%	-1.1%
France	-1.1%	+2.8%	+1.7%	+0.6%	+1.1%	+1.2%	+1.6%	+2.0%
South Korea	+4.0%	+9.8%	+8.6%	+3.2%	+0.8%	+1.6%	+2.2%	+0.6%

Source: Government statistical bureaus.

Notes: Value of retail sales for 2014 to December. China is for retail sales of garments, hats, footwear and knitwear. Japan is for major department stores. Germany, Italy, France and South Korea is total retail sales.

Broader Wool and Merino Cardings Up, Finer Fleece Wool Down Australian Wool Prices – US\$ Index

USc/kg Index: 11th Jan 2008 = 100



Source: AWEX
Data to 6th March 2014