Economic conditions expected to improve, but not until second half of 2013

China's wool textile industry experiencing delayed and lower orders

Australian wool production up in 2012/13 but flat in 2013/14

Wool prices fall but remain high relative to cotton and synthetic fibers

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

wool journal

Retail Demand and Economic Conditions

Trends, Drivers and Prospects

Clothing retail sales in most of the major wool consuming countries have been weak or even negative in the past 12 months. Consumers lack confidence to spend, as a result of the difficult and uncertain economic environment. For example, retail sales in the key European countries of Germany and Italy fell, as it did in Japan. Retail sales growth in the UK, China and the US, though positive, was below the growth rates in 2010 and 2011.

The latest forecasts from the International Monetary Fund suggest that economic growth reached a low point in the first quarter of 2013 and will slowly improve for the rest of 2013 and into 2014. The problem for the world wool textile industry, however, is that retailers are placing their orders now for Fall/Winter 2013 and are being influenced by the current poor retail sales and economic conditions. As a result, orders are delayed and lower than last year.

Economic Growth in Major Apparel Wool Consuming Countries
(% change year on year)

Source: IMF, Consensus Forecasts , International Wool Textile Organisation and Poimena Analysis
Note: Economic growth in China, Japan, USA, UK, Germany, Italy, France and South Korea, weighted by apparel wool consumption

Wool Textile Industry Conditions

Trends, Drivers and Prospects

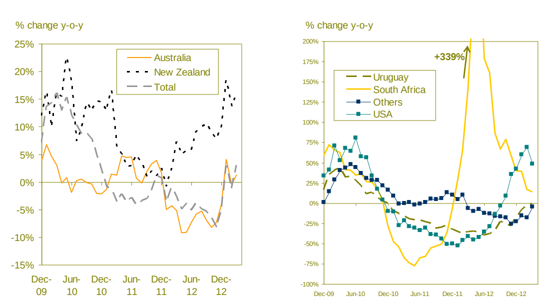
China is the largest wool processing country in the world, the world's largest exporter of wool clothing and the largest retail market for wool clothing and interior textiles. Its wool textile industry processes around 40% of all raw wool produced in the world, both for clothing and interior textile use. It takes around three-quarters of Australia's wool production and it accounts for over half of the wool exports from the USA. As a result of its significant presence in the world wool textile industry, business conditions in China's wool textile industry have a major effect on the world's raw wool market.

Disappointingly, business conditions in China have been difficult for the past year or more. These tough conditions have been due mainly to a strong downturn in China's exports of wool products, although a slowdown in the domestic economy has also contributed to the weakness. In the twelve months to February, China's exports of wool clothing fell by 15% compared with the previous 12 months. Exports to all of China's major markets, including the US and Europe, fell substantially. As well, China's exports of semi-processed wool products were down by up to 28%. The only bright spot was exports of wool carpets and rugs, which increased by 7%.

In addition, growth in China's domestic retail market slowed in response to a slowdown in China's economy, which grew at just 7.8% in 2012, the slowest growth rate in over a decade.

In response to the difficult business conditions, China's raw wool imports fell in 2012 (see chart). There has been a slight recovery in recent months, mainly due to a lift in imports from New Zealand, South Africa and the US. A recovery in business conditions in China's wool textile industry hinges on improved orders from retailers, particularly in the US, Europe and Japan. This seems to be some way off.

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



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

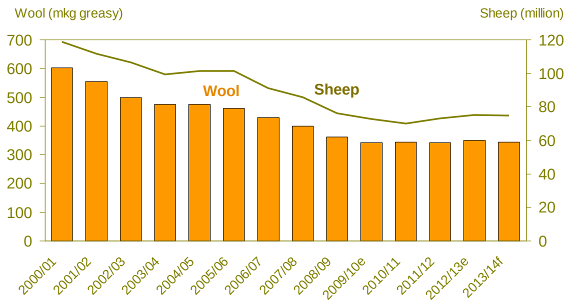
Wool Production and Supply

Trends, Drivers and Prospects

Australian wool production will increase by 2.3% in the 2012/13 season (which ends in June) according the just-released forecasts from the Australian Wool Production Forecasting Committee. It is in line with the increase in the volume of wool tested in Australia to the end April. This will be the first increase in annual production in Australia since 1996/97 and is the result of a small increase in the number of sheep in Australia this season.

The Committee expects that shorn wool production in Australia will reach 350 mkg greasy (230 mkg clean) this season. While there has been a moderate increase, the total shorn wool production for Australia remains near the lowest levels in almost 80 years. Even so, Australia is the world's largest wool producing country, with a share of 23%, and produces around 45% of the world's wool that is used for clothing.

Australian Sheep Numbers and Wool Production
2000/01 to 2013/14f



Source: Australian Wool Innovation Production Forecasting Committee, ABS,
Wool production is shorn wool; sheep numbers is as at 1st July.
Updated May 2013

While there is expected to be an increase this season, the Committee does not expect this to continue in 2013/14. In its first forecast for the coming season, the Committee predicts that shorn wool production will fall back by 1.4% in 2013/14, to 345 mkg greasy. Seasonal conditions have been very dry in large parts of eastern and southern Australia (some of the major wool producing regions), which will result in slightly lower fleece weights. The biggest constraint, however, will be a recent sell-off of adult sheep. In the eight months July 2012 to February 2013, the number of adult sheep slaughtered was 1.6 million head higher than for the same period in 2011/12. This will mean that the sheep numbers at the start of the new season will be lower, with lower wool production as a result. This low wool production from the world's largest wool producing country will help support future wool prices.

Outlook

The outlook for wool prices will be determined by the conflicting effects of still low wool production and weak retail and wool textile business conditions. Over the next few months, supply and demand appear to be in a delicate balance. As a result, there may be fluctuations in wool prices in response to temporary changes in raw wool purchases by mills or unexpected changes in supply to the auction market.

Wool prices may come under pressure as the Southern Hemisphere spring (September to November) approaches due to the seasonal flush of wool being shorn. This usually happens each year.

The forecast for improved economic conditions in the second half of 2013 and into 2014 is more encouraging for increased orders through the wool textile pipeline and to the raw wool market. This, however, may not be seen until late 2013 and the first half of 2014.

Wool and Fiber Prices

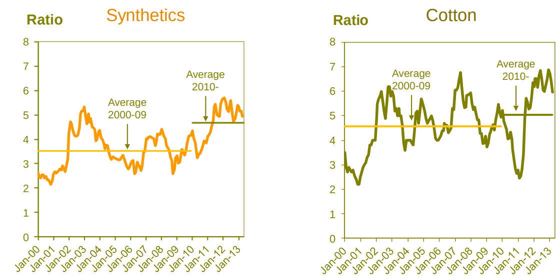
Trends, Drivers and Prospects

Australian and South African wool prices fell sharply in early April before recovering a little in the second half of the month as weak raw wool demand and increased wool supply bore down on the market. Cotton and synthetic fiber prices also fell over the month, but less than wool prices.

The April monthly average of the benchmark Australian Eastern Market Indicator (EMI) fell by 7% in US$ compared with March. This continued the declines seen in February and March, although the rate of decline was faster in April. By the end of the month, the EMI was at 1,020 USc/kg, the lowest since October. Prices at the start of May have fallen further, with the EMI at 996 USc/kg at 3rd May. South African wool prices fell in April, in line with the declines in Australia. New Zealand wool prices also fell, while British wool prices were firm for the month.

With wool prices falling by more than the price of cotton, the wool to cotton price ratio dipped in April. It is still well above the levels seen throughout the 2000s and also higher than the average since 2010 (see chart). The wool to synthetic fiber price ratio fell but is also above the levels seen in the 2000s and since 2010. Given the low world wool supply relative to the other fibers, these ratios may remain high for the foreseeable future.

Wool Price Compared with Other Fibers



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to April 2013

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter the two charts show US exports of raw wool in total and to the two major export destinations, and the trends in China's exports of wool clothing to the major export destinations.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	38.8	+14%	254.4	+4%	China, India, Italy, Czech Rep	Italy and China up in March, Czech Rep and India down
NZ	18.3	+8%	128.2	+18%	China, UK, Germany, Italy	China, Germany up strongly; UK steady; Italy down
Uruguay	4.7	+27%	35.0	+9%	China, Germany, Turkey, Italy	China, Turkey up sharply, Germany up, Italy down strongly
Argentina	3.5	-16%	29.6	-4%	China, Germany, Italy, Uruguay	China strongly; Germany & Uruguay up; Italy down sharply
South Africa	4.7	-6%	31.6	+5%	China, Czech Rep, India, Italy	China up strongly, Czech up; India, Italy both down sharply
USA	0.66	-6%	1.96	+67%	China, India	In 2013 to date, China up 49%, India up300%

Sources: ABS, Beef + Lamb NZ, SUL, FLA, Capewools, USDA
Notes: Raw and semi-processed wool. Australia, NZ, Uruguay, Argentina and South Africa are for March and the financial year from July to March, USA is for March

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	515	599	-14%	554	621	-11%
NZ	340	349	-3%	340	345	-2%
South Africa	509	585	-13%	547	616	-11%
UK	90	118	-24%	90	121	-26%

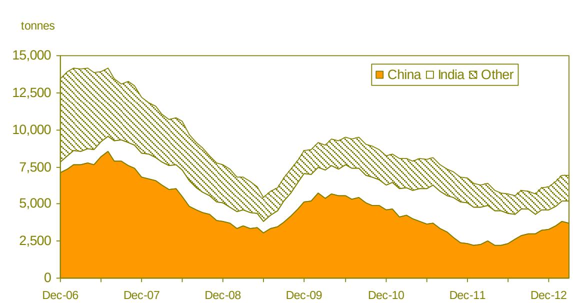
Sources: AWEX, NZ Wool Services International, Capewools, BWMB
Notes: Prices are for April. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is calendar year and year average is year to April

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	93	100	-7%	86	106	-19%
Synthetics	106	117	-9%	106	118	-10%
Wool: cotton	5.06	6.15	-8%	6.29	5.93	+6%
Wool: synthetics	4.47	5.24	-6%	5.12	5.35	-4%

Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres
Notes: Prices are for April. Season is financial year July to April

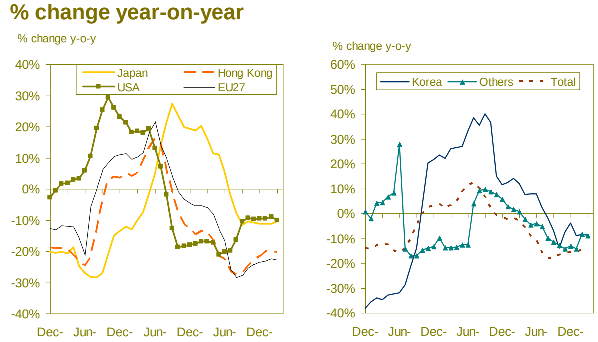
US Raw and Semi-Processed Wool Exports



Source: USDA Foreign Agricultural Services database
12 month moving aggregate. Data to March 2013

China Wool Garment Exports By Country

% change year-on-year



Source: China Government statistical bureau, China Wool Textile Association
Note: Data to March 2013. 12 month rolling aggregate