Feast and Famine: The Situation and Prospects for the World Wool Market

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Poimena Analysis
and
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American Wool Council
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Topics

1. Recent price trends
2. Global production and supply
3. Demand conditions
4. Summary and prospects
Feast for Fine Merino Wool; Famine for Broader Wool

Australia and South Africa

New Zealand and the UK

Source: AWEX, BWMB, NZ Wool Services
Prices to 25th January 2018
NZ Broad crossbred wool is 33-38 micron.
The UK wool price is the British Wool Marketing Board Indicator.
Broad-based Price Rise for Commodities (US$ basis)


Data to 25th January 2018
Fine Merino Wool Price Ratio at Highs; Broad Wool Price Ratio at Lows
US$ terms

Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis, Wool Services International NZ
Data to January 2018

Note: For 18 micron and 21 micron wool it is Australian wool
For Broad Xbred it is New Zealand broad wool and the ratio is against acrylic fibre
World Economic Events and Wool Prices
Australian Eastern Market Indicator

Source: AWEX – 2017/18 basis
Data to 25th January 2018
## Merino Wool Price Supercycles

<table>
<thead>
<tr>
<th>Date</th>
<th>Peak Price*</th>
<th>Price change - start to peak*</th>
<th>Weeks - start to peak</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UScents</td>
<td>Acents</td>
<td>UScents</td>
<td>Acents</td>
</tr>
<tr>
<td>February 1986 to May 1988</td>
<td>1203</td>
<td>1582</td>
<td>+743 (+162%)</td>
<td>+925 (+140%)</td>
</tr>
<tr>
<td>April 1993 to March 1995</td>
<td>707</td>
<td>949</td>
<td>+379 (+116%)</td>
<td>+496 (+107%)</td>
</tr>
<tr>
<td>November 2001 to January 2003</td>
<td>709</td>
<td>1211</td>
<td>+350 (+97%)</td>
<td>+501 (+71%)</td>
</tr>
<tr>
<td>May 2010 to June 2011</td>
<td>1512</td>
<td>1434</td>
<td>+789 (+109%)</td>
<td>+564 (+65%)</td>
</tr>
<tr>
<td>April 2016 to January 2018</td>
<td>1439</td>
<td>1818</td>
<td>+540 (+60%)</td>
<td>+586 (+48%)</td>
</tr>
</tbody>
</table>

* Based on the Australian Eastern Market Indicator, 2017/18 basis
Total World Production Stable
But Broad Wool Production Rising

2016 total production
1,140.5 mkg clean

2017 total production
1,147.9 mkg clean

2018 total production
1,158.6 mkg clean

Near 70 year lows

Stocks:Use ratio
~11%

Source: IWTO, Country statistics, Poimena Analysis
Updated January 2018
Australia Dominates Global Merino Wool Production

% share

Source: AWTA, NZWTA, CapeWools, FLA, estimates by Poimena Analysis
Australian Wool Production Remains Near Century Lows

Source: Australian Bureau of Statistics, Australian Wool Production Forecasting Committee
Based on a season. 2018 = 2017/18

Forecast for 2017/18
345 mkg
Consumer Confidence Lifts in the Major Wool Consuming Countries

Source: The US Conference Board, the European Commission and www.tradingeconomics.com
Data to December 2017
## Improving Clothing Retail Sales

<table>
<thead>
<tr>
<th>% change y-o-y</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Year to date*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>+25.1%</td>
<td>+17.7%</td>
<td>+11.5%</td>
<td>+10.8%</td>
<td>+9.3%</td>
<td>+7.0%</td>
<td>+7.0%</td>
</tr>
<tr>
<td>USA</td>
<td>+3.5%</td>
<td>+0.5%</td>
<td>+1.5%</td>
<td>+2.1%</td>
<td>+5.9%</td>
<td>+2.0%</td>
<td>+2.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>+3.2%</td>
<td>-0.4%</td>
<td>-0.7%</td>
<td>-0.5%</td>
<td>-2.3%</td>
<td>-5.3%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>+0.9%</td>
<td>-0.3%</td>
<td>+0.1%</td>
<td>+1.3%</td>
<td>+2.8%</td>
<td>+1.9%</td>
<td>+1.9%</td>
</tr>
<tr>
<td>UK</td>
<td>+3.3%</td>
<td>+1.5%</td>
<td>+3.1%</td>
<td>+5.2%</td>
<td>+1.5%</td>
<td>-2.5%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.1%</td>
<td>-2.3%</td>
<td>-2.1%</td>
<td>-1.3%</td>
<td>+0.8%</td>
<td>+0.3%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>France</td>
<td>+1.7%</td>
<td>+0.6%</td>
<td>+1.1%</td>
<td>+1.2%</td>
<td>+3.4%</td>
<td>+2.8%</td>
<td>+2.9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>+8.6%</td>
<td>+3.2%</td>
<td>+0.8%</td>
<td>+1.6%</td>
<td>+3.5%</td>
<td>+4.2%</td>
<td>+4.0%</td>
</tr>
</tbody>
</table>

Source: Government statistical bureaus.
Notes: Value of retail sales. 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.
* To November for all countries except China and UK which is to December
## Improving Furnishings and Interior Textiles Retail Sales

<table>
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<tr>
<th>% change y-o-y</th>
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<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>China</td>
<td>+32.8%</td>
<td>+27.0%</td>
<td>+21.0%</td>
<td>+13.9%</td>
<td>+16.1%</td>
<td>+12.7%</td>
<td>+12.7%</td>
</tr>
<tr>
<td>USA</td>
<td>+9.6%</td>
<td>+4.7%</td>
<td>+6.6%</td>
<td>-1.2%</td>
<td>+6.5%</td>
<td>+4.1%</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>-1.8%</td>
<td>-1.8%</td>
<td>-2.5%</td>
<td>-1.8%</td>
<td>-14.8%</td>
<td>-19.2%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>+0.9%</td>
<td>-0.3%</td>
<td>+0.1%</td>
<td>+1.3%</td>
<td>+2.8%</td>
<td>+1.9%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>-22.1%</td>
<td>+28.9%</td>
<td>+14.5%</td>
<td>-3.1%</td>
<td>-29.3%</td>
<td>-6.9%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>-1.1%</td>
<td>-2.3%</td>
<td>-2.1%</td>
<td>-1.3%</td>
<td>+0.8%</td>
<td>+0.3%</td>
<td></td>
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<td>France</td>
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<td>+1.1%</td>
<td>+1.2%</td>
<td>+3.4%</td>
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<td>+1.6%</td>
<td>+3.5%</td>
<td>+4.2%</td>
<td></td>
</tr>
</tbody>
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**Source:** Government statistical bureaus.

**Notes:** Value of retail sales. UK is for retail sales of floorcoverings. China is for furnishings. Japan is sales of furnishings in department stores. US is personal consumption of carpets and other floor coverings. Germany, Italy, France and South Korea is total retail sales.

*To December for China and UK, to November for all other countries.
US Imports of Wool Products Drops
Value (% year-on-year change of 12 mma)

% change y-o-y

Clothing

Interior textiles

Source: OTEXA. Data to November 2017
China’s Exports of Most Wool Products Decline (Calendar Year to November - % change year on year)

% change y-o-y

Raw and Semi-processed Imports

Wool Product Exports

Source: China Customs and China Wool Textile Association; US Department of Commerce

Wool imports is for raw and semi-processed wool (including wool top)
Wool Imports by Major Processing Countries
Calendar Year to November

Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)
Source: Australian Bureau of Statistics, FLA, SUL, Capewools, Beef + Lamb NZ
Wool Export Volumes by Major Exporters
12 month rolling aggregate

Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Beef + Lamb
Data to November 2017
# Summary of Drivers

## Merino

1. Low production of finer wool
2. Virtually no stocks left
3. Increased raw wool demand, notably from China
4. Higher economic growth leading to upturn in commodity prices (including Merino wool)
5. High consumer confidence and higher clothing retail sales growth
6. Increased use of Merino wool in active and leisurewear?

**BUT**

1. High price relativity for Merino wool against competing fibres
2. Lower imports of wool clothing by US
3. Are pipeline stocks growing?

## Broad Wool

1. Increased production of broader wool
2. High stocks held in New Zealand
3. Raw wool demand from China fell in 2016/17
4. Substitution of broad wool by acrylic and nylon?
5. Slowdown in use of broad wool in apparel products in China?
6. Patchy retail sales for furnishings
7. Trade in wool carpets falls

**BUT**

1. Broad Crossbred wool price relativity at lows
2. High consumer confidence in key countries
3. New style knitting products using broad wool in China
Prospects for 2018

➢ Merino wool prices at highs, but could be near a cyclical peak
➢ Broad wool prices at the bottom?
➢ Longer term demand trends and prospects positive for Merino wool
➢ Product development will be key for broad wool

Will it be feast or famine?
## Merino Wool Price Supercycles – the Downside

<table>
<thead>
<tr>
<th>Date</th>
<th>Price change – peak to low*</th>
<th>Low Price*</th>
<th>Weeks – peak to low</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UScents</td>
<td>Acents</td>
<td>UScents</td>
<td>Acents</td>
</tr>
<tr>
<td>May 1988 to March 1991</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>-666</td>
<td>-1045</td>
<td>418</td>
<td>537</td>
</tr>
<tr>
<td>March 1995 to May 1996</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>-232</td>
<td>-343</td>
<td>475</td>
<td>606</td>
</tr>
<tr>
<td>January 2003 to December 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-229</td>
<td>-562</td>
<td>480</td>
<td>649</td>
</tr>
<tr>
<td>June 2011 to September 2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-549</td>
<td>-501</td>
<td>963</td>
<td>933</td>
</tr>
</tbody>
</table>

* Based on the Australian Eastern Market Indicator, 2017/18 basis
Thank You!