Low stock levels at early stage processing around the world

Slow world economic growth an increasing concern

World wool production remains low

Wool prices at record levels against other fibers

Mixed outlook for the lamb industries in Australia and New Zealand

ASI

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

ASI wool journal

Retail Demand and Economic Conditions

Trends, Drivers and Prospects

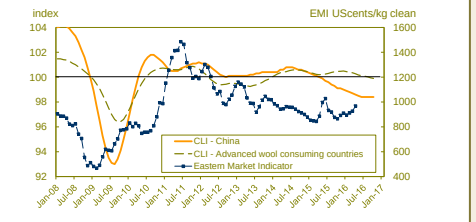
The latest data and forecasts suggest that economic growth may cause headwinds for the wool market.

In its updated forecast for the world economy released on 12th April, the International Monetary Fund said that the world economy has weakened further in recent months amid continued financial turbulence. While it noted that the situation in financial markets had improved since February, the on-going slow economic growth rate was a concern that needed to be addressed by policymakers.

This impact of this concern on the wool market is illustrated by the chart below, which shows the trends in the Economic Leading Indicators for both China and for the major advanced economies which consume wool, compared with the price for wool in US$. While wool prices have lifted, the Leading Indicators have turned down or remained low.

Economic Leading Indicators Turn Down

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 February 2016 pushed out 8 months. Wool prices till w/e 8th April 2016

Wool Textile Industry Conditions

Trends, Drivers and Prospects

The International Wool Textile Organisation (IWTO) held its annual Congress in Sydney, Australia on 4th to 6th April. The results of the annual Wool Textile Business Conditions Survey, which were presented at the Congress, showed that stock levels at all stages of the wool textile industry have been brought under control.

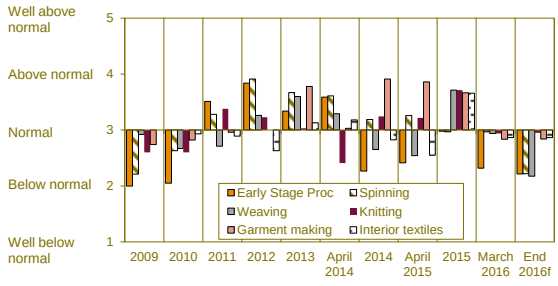
By the end of 2015, stocks in the weaving, knitting, garment making and interior textiles sectors of the global wool textile industry had moved well above 'normal' levels. This had the potential to cause a blockage to orders to the early stage processing (ESP) and spinning sectors. Certainly, raw wool purchases from the major wool exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa) fell for the 2015/16 wool season to date (July 2015 to February 2016), perhaps as a result. Wool exports from the US for the US wool season (October 2015 to February 2016) had also fallen. Details are provided in the data tables on page 3.

The good news is that survey respondents say that these excess stocks have now been cleared with stocks reported to be at 'normal' levels for all sectors except for the ESP sector. As the chart here shows, stocks in the ESP sector are below normal and need to be replenished.

Survey respondents, however, expect that stocks in a number of sectors, including in early stage processing, to remain below normal at the end of the year. In general production activity levels within the industry are expected to be back to normal levels.

These results are encouraging for future raw wool purchases, although mills appear to be cautious in their stock holding plans.

Wool Textile Industry Stock Levels Pull Back from Highs



Source: IWTO Wool Textile Business Survey
Weighted results for China, Italy, Germany, Uruguay, Mongolia, Argentina, South Africa, Japan, France, Spain and the United Kingdom

Wool Production and Supply

Trends, Drivers and Prospects

The latest forecasts of wool production for the world, for the wool producing IWTO member countries and other countries were presented at the IWTO Congress earlier in April. The estimates and forecasts show that world production is expected to fall by 1.5% in 2016 to 1,148 mkg clean. It is then predicted to be only marginally higher in 2017. While these levels will not be as low as in 2009 when production fell to 1,110 mkg clean (which was the lowest in 70 years), global production remains very low

Furthermore, world stocks of raw wool held in wool growing countries are estimated to be very low. As a result, the world's available supply of wool is very constrained. This is helping sustain world wool prices at reasonable levels.

As the table shows, the fall in global wool production in 2016 is due to combination of a 7% drop in wool production in Australia (the largest producing country), an 8.8% drop in Uruguayan wool production, a 2.2% decline in production in New Zealand as well as 1% falls in South Africa and the UK. These will be partly offset by increases in other countries, including a predicted 1.5% increase in the USA. In 2017, small increases in a number of countries will more than counter a further small fall in Australian wool production.

World Wool Production Remains Near 70 Year Lows
mkg clean

	2015	2016f	% change	2017f	% change
Australia	277	258	-7.0%	256	-0.6%
China	176	177	+0.3%	177	+0.0%
New Zealand	114	112	-2.2%	112	+0.1%
India	39	39	+0.6%	39	+0.5%
Argentina	28	28	0.0%	29	+0.7%
South Africa	30	30	-1.0%	30	+1.6%
Uruguay	22	19	-8.8%	20	+3.8%
UK	22	22	-1.0%	22	+0.0%
Mongolia	17	18	+8.4%	21	+11.1%
USA	7.2	7.3	+1.5%	7.4	+1.9%
Others	442	446	+0.8%	449	+0.7%
Global	1,166	1.148	-1.5%	1,154	+0.5%

Source: IWTO national committee reports, FAO and Poimena Analysis
Note: 2015 = 2014/15 for Australia, NZ, Uruguay, Argentina, South Africa, Brazil
Updated: April 2016

These declines in world wool production in 2016 and 2017 come in spite of a moderate increase in world sheep numbers. This increase in sheep numbers reflects a shift away from wool producing sheep and towards either dual-purpose (wool and meat) or meat breeds in response to relatively high prices for sheep and lamb meat.

Wool Outlook

The low stocks of wool in the early stage processing sector combined with the continued low world wool production levels is an encouraging sign for prices in coming months. Furthermore, stocks in other sectors of the wool textile pipeline are expected to fall below comfortable levels.

However, any positives will be in the face of mounting headwinds in the form of the slow-growing world economy. The latest Economic Leading Indicators are a little worrying as they point to a downswing in the advanced economies. At least the downward cycle for the Chinese economy seems to have plateaued and, hopefully, will begin an upswing in the near future.

Furthermore, wool's high price relativity against other fibers may become a sticking point.

Overall, early stage processing mills are likely to be cautious in their raw wool purchases. Garment makers, knitters, weavers and spinning mills may also take a conservative approach to ordering, at least until they see evidence of good ordering from retailers.

Wool and Fiber Prices

Trends, Drivers and Prospects

Wool prices in US$ rose in March, continuing the general improvement seen over the past six months or so. At the same time the strong decline in prices for competing fibers has steadied somewhat.

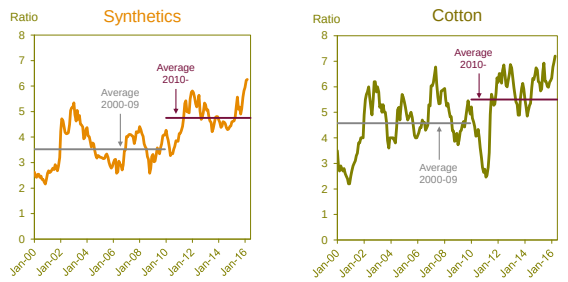
*The Australian **Eastern Market Indicator** increased by 3.4% in March to 943 USc/kg. It then lifted by a further 24 UScents in the first week of sales in April to 968 USc/kg, the highest level since June 2015. It fell back 19 UScents in the week ending 15th April. **South African** and **New Zealand** wool prices also rose in March, albeit more modestly.*

*There were some signs of stability returning for prices of the major competing fibers after the long-term lows recorded in February. **Cotton** prices fell to 64.55 USc/lb in the first week of March, the lowest since October 2009, but they recovered by the end of the month to be slightly higher than a month earlier. **Polyester staple** prices lifted a little in March, from 64 USc/lb in February to 65.3 USc/lb. **Acrylic fiber** prices also rose, by 1 UScent to 81 USc/lb.*

In spite of the modest recovery in prices for competing fibers, wool's price relativity with these major competing fibers continued to increase and reached all-time record levels in March-April. The chart shows the trends in wool's price relativity with synthetics and with cotton. As can be seen, wool is currently over 6 times the price of synthetics and 7 times the cotton price.

Further details are provided in the data tables in the following page.

Wool Price At Record Levels Compared with Other Fibers



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to March 2016

These statistics and charts present a snap-shot of the current situation in the global wool industry. The two charts in this edition show the latest data on exports from the major wool producing countries and the US, as well as data and forecasts of world sheep numbers, wool production and stocks.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	33.6	-6%	200.3	-9%	China, India, Czech Republic, Italy, Korea	India up; China, Italy, Korea & Czech Rep down
NZ	13.6	-9%	93.5	-6%	China, Italy, UK, India, Germany	UK, Germany & India up; China & Italy down
Uruguay	3.4	+9%	28.9	-9%	China, Germ, Italy, Turkey, Bulgaria	Germany, Bulgaria up; China, Italy & Turkey down
Argentina	3.5	-3%	22.4	-18%	China, Germany, Italy, Czech Rep, Uruguay	Uruguay, Germany, Italy & Czech Republic up; China down
South Africa	5.5	+71%	30.0	+10%	China, Czech Rep, Italy, India, Egypt	China, Czech Rep, Italy, India & Egypt all up
USA	0.252	-42%	2.024	-5%	China, India	China & India down; other destinations up

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 February and the financial year from July to February. The month for USA is for February. For the season the period is the US wool season October to February.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	452	400	+13%	444	408	+9%
NZ	179	188	-5%	180	186	-3%
South Africa	460	406	+13%	451	414	+9%
UK	124	148	-16%	120	152	-21%

Sources: AWEX, NZ Wool Services International, Capewools, BWMB
Notes: Prices are for March. 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 for the calendar year January to March.

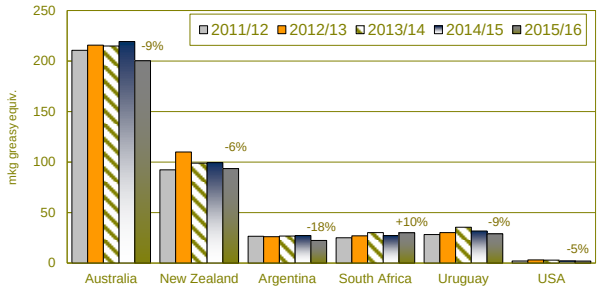
Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	65.6	69.7	-7%	66.9	68.3	-2%
Synthetics	72.9	87.7	-17%	72.9	89.3	-18%
Wool: cotton	6.96	5.83	+22%	6.69	6.07	+10%
Wool: synthetics	6.26	4.63	+35%	6.15	4.62	+33%

Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres
Notes: Prices are for March. Year is the calendar year to March. The wool:cotton and wool:synthetic ratios are based on 21 micron wool.

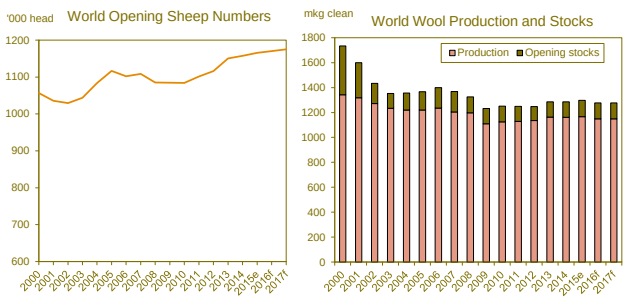
Raw and Semi-Processed Wool Exports Fall

Wool Season* to February



Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool, USDA
* The wool season for Australia, New Zealand, Argentina, South Africa and Uruguay is from July. The wool season for the US is from October

World Sheep Numbers Up
Wool Production and Stocks Down



Source: Poimena Analysis and International Wool Textile Organisation
Note: The year refers to the season ending eg 2000 = 1999/2000
Data in 2015 is an estimate and data in 2016 and 2017 is a forecast
Updated March 2016

Sheepmeat Market

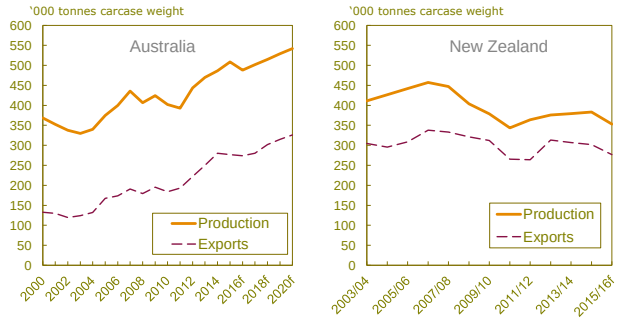
Trends, Drivers and Prospects

The latest forecasts for the Australian and New Zealand sheep and lamb industries suggest that lamb meat production in both countries will either steady or even decline in 2016. However, for Australia this dip is expected to only be temporary.

*According to the latest forecast from Meat and Livestock Australia (MLA), which was released earlier this month, lamb meat production in **Australia** is expected to slide by 3.2% in 2016. Even so, at 488,000 tonnes, it would still be the second highest level of production on record. Lamb meat exports are also expected to be slightly lower (down by 1.1%) in 2016 compared with 2015. At 277,000 tonnes, exports would be slightly lower than the record levels seen in 2014.*

Australian lamb meat production has been on a rising trend since 2002 and MLA expect this trend to resume in the years beyond 2016 (see the left hand chart). The increase in production has come as the result of strong lamb prices over the past decade and reflects in part a shift away from sheep producing only wool and towards either dual-purpose (meat and wool) or meat only breeds. The extended period of good lamb prices has been driven by increased export demand, as the chart shows.

Lamb Production and Exports in Australia and NZ



Source: Meat & Livestock Australia, Beef & Lamb NZ
f forecast
Australia is calendar year; NZ is for the season October-September

*In contrast to the relatively buoyant situation in Australia, lamb meat production in **New Zealand** has been on a declining trend since the mid to late 2000s (see the right hand chart). This reflects a strong shift away from sheep towards other industries, notably the dairy industry. Beef + Lamb NZ expect that lamb meat production will fall by 8% to 353,000 tonnes in 2015/16 (the NZ season is October to September). This will be the lowest production level in at least the past ten years. Exports, which account for over 90% of New Zealand lamb production, are also expected to fall by 8% in 2015/16.*

Given that these countries are the world's two major producing countries and major suppliers for imports of lamb meat into the US, the slide in production and exports may mean a little less competition for US lamb in the US market in coming months. The growth in Australian production and exports may, however, see further inroads into the US market of Australian lamb.

Lamb Prices >>>

USc/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	177	179	-1.4%	172	188	-8.3%
NZ	137	165	-18.7%	142	169	-15.3%
UK	278	302	-7.9%	268	295	-9.2%
US	332	351	-5.3%	338	353	-4.1%

Sources: Meat & Livestock Australia, Beef and Lamb NZ, USDA, BWMB
Notes: Prices are for March, except for NZ which is February. Australia is trade lamb, New Zealand is all export lamb, UK is 12-25kg SQQ lamb, US is 55-65 lb, choice and prime lamb. Year is calendar year and year average is year to March (February for New Zealand).

Lamb Meat Exports >>>

million lbs	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	49.8	-3.5%	137.4	+6.3%	US, China, Middle East, PNG, Japan	US, China, Japan up; Middle East, PNG down
NZ	78.7		139.8		China, UK, US, Germany, Netherlands	China, US, UK, Germany and Netherlands up

Sources: Australian Bureau of Statistics, Beef + Lamb NZ
Notes: For Australia, data is to March and the calendar year from January to March. For New Zealand, data is to February and the calendar year from January to February