ASI

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

ASI wool journal

Retail Demand and Economic Conditions

Trends, Drivers and Prospects

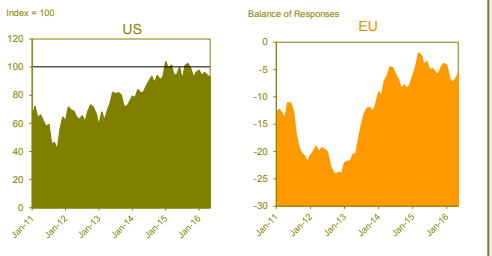
Consumer confidence in the United States (US) and in the European Union (EU) remains solid according to the latest data to May (see chart below). This should continue to encourage positive sales of both clothing and meat in both the US and the EU.

While confidence in the US has eased back from the highs recorded in September last year, it remains much better than the five years prior to 2015. At the same time, consumer spending in April grew at the fastest growth rate since 2009.

In the European Union, consumer confidence in Germany and France rose in April, but slid back in the United Kingdom and Italy. Nevertheless, consumers remain relatively confident across the whole of the EU compared with the depths seen in 2012.

A concern in all countries is the threat of deflation, which could erode confidence and spending.

Consumer Confidence Remains Solid
US and European Union



Source: The US Conference Board and the European Commission
Data to May 2015

Wool Textile Industry Conditions

Trends, Drivers and Prospects

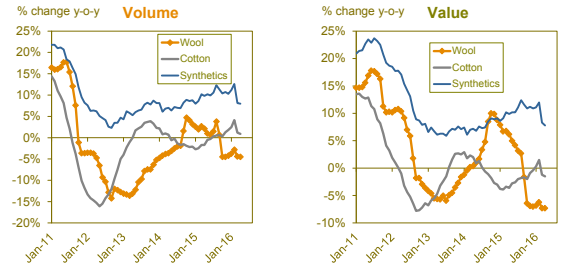
US imports of wool products have continued to decline in both volume and value terms according to the latest data to April 2016 from the US Office of Textile Agreements (OTEXA).

In the 12 months to April, the volume of US imports of wool clothing was 7% below the level of a year earlier while the value of US imports was 6% lower. This continued the decline which began in October 2015 after an unexpectedly sharp drop in US imports in October. The chart below shows the trends in US imports of clothing by fiber type. As the chart shows, imports of both synthetic and cotton clothing are out-performing imports of wool clothing. There is a continued growth in imports of cheaper synthetic fiber clothing. Cotton clothing has not done as well as synthetic fiber clothing but continues to lift in volume terms compared with a year ago.

The relatively poor performance of wool clothing imports has come even though US consumer confidence remains solid and US retail sales of clothing continues to increase. One possible reason for the disappointing performance of wool clothing imports is that the Fall/Winter period was unseasonably warm well into January, the third consecutive year this has happened. It appears to have dampened the sales of warm clothing, including wool clothing.

A second possible factor is that wool clothing is considerably more expensive than clothing of other fibers. The chart on page 3 shows the trends in the average price per square meter for clothing made of cotton, synthetics and wool. As can be seen, wool clothing is around 5 times the price of cotton clothing and 6.5 times the price of synthetic fiber clothing. This could be discouraging some consumers from purchasing wool clothing.

Decline in US Imports of Wool Apparel Continues
12 month moving average - year-on-year change



Source: OTEXA. Data to April 2016

Wool Production and Supply

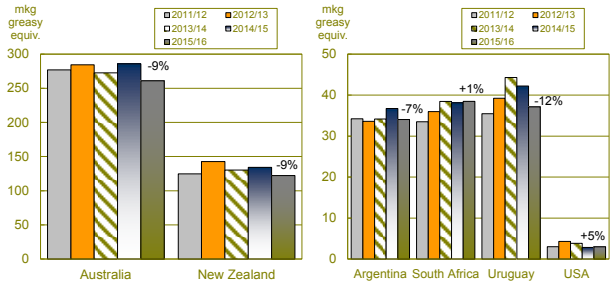
Trends, Drivers and Prospects

*Wool production in many of the major wool producing and exporting countries is expected to decline in the 2015/16 season. As reported in the April 2016 edition of the ASI **Wool Journal**, wool production is expected to decline in Australia (-7%), New Zealand (-2.2%), South Africa (-1%) and Uruguay (-8.8%). Production is expected to be flat in Argentina. In contrast, wool production in the US is expected to increase by 1.5%.*

The decline in production is being reflected in the volume of raw and semi-processed wool exports from these countries in the 2015/16 season to date. In total, the volume of wool exports from these five exporting countries plus the US has fallen by 8.8% to April. As shown in the chart here, export volumes from Australia and New Zealand have both fallen by 9%, while exports from Uruguay were down by 12%. Even though Argentina's wool production is expected to be steady in 2015/16, its exports have dropped by 7%.

On the other hand, exports from South Africa have increased slightly (by 1%). The best result has been for the US, with wool exports rising by 5%.

Raw and Semi-Processed Wool Exports Fall
Wool Season* to April



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

*For the **major wool exporting countries**, exports to China (by far the largest destination) has recorded a 12% decline. At the same time, exports to India, Italy, the Czech Republic, Germany and the United Kingdom have all increased this season to date. For the **US**, exports to China have increased by 17% this season, with China accounting for almost 50% of the US exports.*

While the volume of wool exports from the major exporting countries has fallen this season, the value of exports in domestic currency terms has increased for Australia and South Africa, and has been flat for New Zealand and Argentina. This suggests that demand for wool remains reasonably strong.

Wool Outlook

As the Southern Hemisphere wool selling season winds down to its close at the end of June, prices for finer wool used in apparel have continued to increase and remain attractive compared with historical levels. Prices for broader wool are less positive.

This positive price position for apparel wool has been significantly helped by a combination of low production levels in the major Southern Hemisphere producing countries and improved demand from the wool textile industries in India and Europe. This has helped offset a decline in raw wool purchases by China.

One concern is the continued year-on-year decline in US imports of wool clothing. This time of year (in the lead-in to summer) has only a small impact on the purchases of wool clothing as consumer interest in wool is at a seasonal low point. However, US imports of wool clothing need to start recovering from May to November. This period accounts for over 80% of the US' annual imports of wool clothing. A repeat of last year's low levels would dramatically affect the availability of wool clothing at retail in the US in the Fall/Winter period.

Wool and Fiber Prices

Trends, Drivers and Prospects

The trends in prices being paid for finer wool used in woven and knitted apparel and for broader wool used in interior textiles and heavier weight outercoats have diverged since October 2015. Prices in US$ for fine apparel wool have been rising while broader wool prices in US$ have been flat or have fallen.

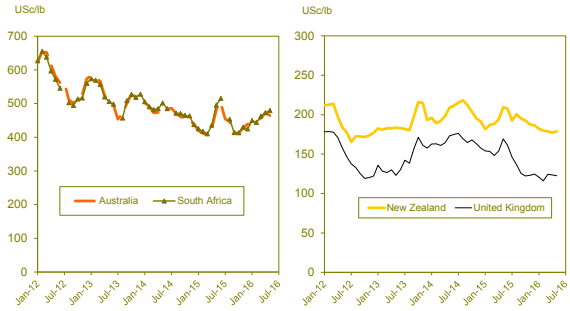
Since October 2015, Australian 21 micron wool prices in US$ have lifted by 13% while South African 21 micron wool prices have gained 16%. In local currency terms, Australian 21 micron wool prices have lifted by 11% but South African 21 micron wool prices have jumped by 32%. These differences reflect the change in the A$ and the South African Rand over the past seven months: the A$ gained 1.6% against the US$ between October and May while the Rand declined by 14%.

As a result of the gains in prices, the current US$ price for 21 micron Australian wool is at the 80th percentile. In other words, the current price is above 80% of all prices since 2004.

In contrast to these increases in wool prices from Australia and South Africa, New Zealand fine crossbred wool prices fell by 7% in US$ terms and by 9% in NZ$ terms. Broader British wool (used in carpets) were flat in US$ and lifted by 7% in Pound Sterling.

The trends in prices for 21 micron wool from Australia and South Africa are shown in the chart, together with trends in prices for broader wool from New Zealand and the United Kingdom.

Apparel Wool Prices Up,
Interior Textile Wool Prices Down



Source: AWEX, Capewools, BWMB, NZ Wool Services
Prices to end May 2016. For Australia and South Africa, prices are for 21 micron wool. For New Zealand, it is for fine cross-bred (25-32 micron). For the UK, it is the British Wool Marketing Board Indicator. All prices in clean basis.

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 trends in fiber prices and US exports of raw and semi-processed wool.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	27.8	-5%	261.0	-9%	China, India, Czech Republic, Italy, Korea	India up; China, Italy, Korea down. Czech Rep steady
NZ	13.6	-18%	122.2	-9%	China, Italy, UK, India, Germany	UK & Germany up; China, Italy & India down
Uruguay	4.4	-1%	37.1	-12%	China, Germ, Italy, Turkey, Bulgaria	Germany, Italy & Bulgaria up; China & Turkey down
Argentina	5.3	+29%	34.1	-7%	China, Germany, Italy, Czech Rep, Mexico	Germany, Italy & Czech Republic up; China & Mexico down
South Africa	3.4	0%	38.5	+1%	China, Czech Rep, Italy, India, Germany	Czech Rep, India & Germany up; China, Italy down
USA	0.40	+59%	2.98	+5%	China, India	China & other destinations up; India 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 April and the Southern Hemisphere season from July to April. The month for USA is for April. For the season the period is the US wool season October to April.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	457	463	-1%	451	419	+7%
NZ	179	201	-15%	179	192	-7%
South Africa	471	485	-3%	458	429	+7%
UK	123	169	-28%	121	156	-22%

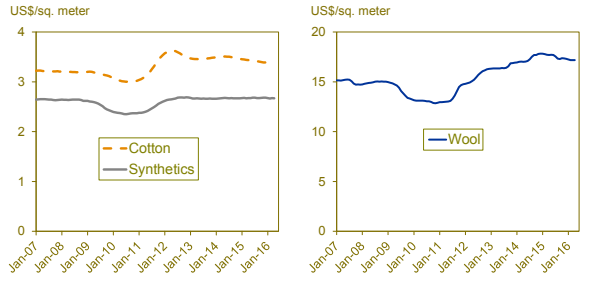
Sources: AWEX, NZ Wool Services International, Capewools, BWMB
Notes: Prices are for May. Australia is the 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is for the calendar year January to May.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	70.2	72.8	-4%	69.3	71.7	-3%
Synthetics	74.6	91.9	-19%	78.3	98.1	-20%
Wool: cotton	6.62	6.60	+0.3%	6.40	6.29	+1%
Wool: synthetics	6.22	5.22	+19%	5.15	4.56	+13%

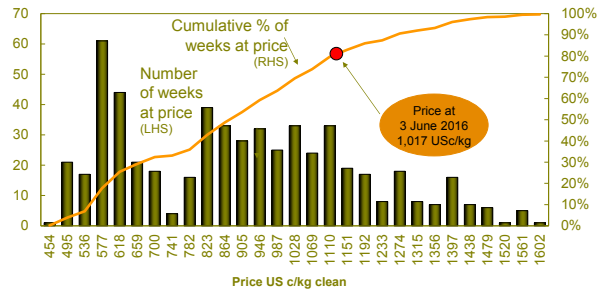
Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres
Notes: Prices are for May. Year is the calendar year to May. The wool:cotton and wool:synthetic ratios are based on 21 micron wool.

US Imports of Apparel – Unit value
12 month moving average ($ per square metre)



Source: OTEXA. Data to April 2016

21 Micron Wool Price in Top 20th Percentile



Source: AWEX, Reserve Bank of Australia, Poimena Analysis
Based on weekly prices 1991 to 3rd June 2016

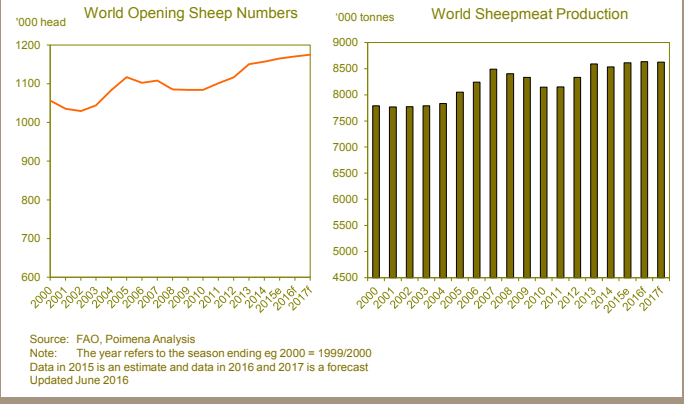
Sheepmeat Market

Trends, Drivers and Prospects

World sheep numbers have risen steadily since 2010 as a result of generally increased returns from sheep production. At the same time world sheepmeat production has also increased.

According to data from the United Nation's Food and Agriculture Organisation (FAO) and the statistical bureaus for some of the major sheep producing countries, world sheep numbers have lifted by around 100 million head between 2010 and 2015. This increase has been driven mainly by increased sheep numbers in China, the countries of the former Soviet Union and some of the large sheep producing countries in Africa. The increase has come even though sheep numbers in Australia and New Zealand have declined (Australia has the second largest sheep flock in the world and New Zealand is the second largest sheepmeat exporting country). As the chart shows, world sheep numbers are likely to increase over the next two years.

World Sheep Numbers and Sheepmeat Production Up



Source: FAO, Poimena Analysis
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 June 2016

Sheepmeat production has also increased since 2010, boosted by the higher sheep numbers and a shift, in some countries, away from sheep for wool to sheep for meat (see chart). This shift has occurred, for example, in Australia and China, the two largest wool producing countries. Prices for sheepmeat have been more attractive than wool prices, even though wool prices have been at historically good levels. While sheep numbers are likely to rise, world sheepmeat production is more likely to remain relatively flat in the next two years. This is due, in part, to lower production in New Zealand where a shift in land-use to dairying in recent years has seen a drop in potential sheepmeat production.

Sheepmeat prices have been relatively strong in recent years due to increased demand from emerging economies, notably China, where higher incomes have resulted in consumers demanding more red meat in place of grains and white meats. This is benefiting both beef and lamb. As a result, even with the projected increase in global sheepmeat production, this change in consumer tastes in these emerging markets provides an optimistic outlook for sheepmeat, notably lamb, as a premium priced product.

Lamb Prices >>>

USc/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	184	195	-5.8%	175	190	-7.6%
NZ	133	162	-17.4%	144	167	-14.1%
UK	278	278	+0.2%	270	292	-7.3%
US	327	345	-5.4%	333	351	-5.0%

Sources: Meat & Livestock Australia, Beef and Lamb NZ, USDA, BWMB
Notes: Prices are for May. 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 May (preliminary for New Zealand).

Lamb Meat Exports >>>

Million lbs	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	46.3	+5.7%	183.6	+6.2%	US, China, Middle East, PNG, Japan	US, China, Japan up; Middle East, PNG down
NZ	76.7	+16.2%	292.5	+3.9%	China, UK, Germany, US, Netherlands	US, China, Germany, Netherlands up; UK down

Sources: Australian Bureau of Statistics, Beef + Lamb NZ
Notes: Data is to April and the calendar year from January to April.