

Raw wool purchases turn down

Mixed retail sales results over Fall/Winter

Positive forecasts for Australian wool production and prices

Wool prices perform better than other commodities

US lamb prices perform better than other countries



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

ASI wool journal

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Retail sales of clothing in the major wool consuming countries over the Fall/Winter period was rather mixed.

For 2015 as a whole, growth in retail sales of clothing was better in five of the eight major wool consuming countries than in 2014. For a number of countries, it was the best in at least five years or more. Of the remaining three countries, only Japan recorded disappointing growth rates (see the table below).

However, as the table shows, it was a more disappointing picture for clothing retail sales over the important Fall/Winter period (October 2015 to January 2016). Only three countries recorded growth in retail sales which was better than for the same period in 2014 (Korea, France and the UK). The other countries, including the US, recorded weaker growth.

This mixed and disappointing result brings some uncertainty for retail orders in coming months.

Clothing Retail Sales in the Major Wool Consuming Countries

% change y-o-y	2010	2011	2012	2013	2014	2015	Oct-Jan*	
							2014	2015
China	+25.8%	+25.1%	+17.7%	+11.5%	+10.8%	+9.5%	+9.7%	+7.5%
USA	+6.0%	+3.4%	+0.9%	+1.3%	+1.1%	+3.8%	+5.1%	+1.5%
Japan	-6.3%	+3.2%	-0.4%	-0.7%	-0.5%	-2.3%	-1.0%	-3.3%
Germany	+1.2%	+0.9%	-0.3%	+0.1%	+1.3%	+2.6%	+2.1%	+1.6%
UK	+5.4%	+3.3%	+1.5%	+3.1%	+5.2%	+1.6%	-1.0%	+0.2%
Italy	+0.8%	-1.1%	-2.3%	-2.1%	-1.3%	+0.8%	-1.1%	+0.7%
France	+2.8%	+1.7%	+0.6%	+1.1%	+1.2%	+2.9%	+1.6%	+2.0%
South Korea	+9.8%	+8.6%	+3.2%	+0.8%	+1.6%	+3.5%	+0.7%	+5.6%

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.
* Italy and China October to December

Retail Demand and Economic Conditions Trends, Drivers and Prospects

Raw wool imports by the major wool processing countries have entered a cyclical downturn in the past six months. This cyclical downturn is largely due to a downturn in imports by China.

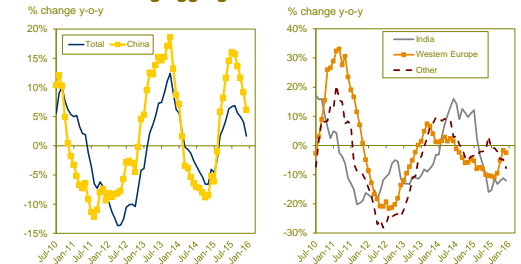
As the chart below shows, exports by the five major exporting countries to **China** is has turned down (the five major exporting countries are Australia, New Zealand, Uruguay, Argentina and South Africa). The chart below shows that the 12 month aggregate of exports to China for 2015 is ahead of the previous 12 months. However, this is entirely due to a 24% year-on-year increase in the first six months of 2015 (January to June). Exports were down by 12% for the second half of 2015 (July to December). As China accounts for over half of the raw wool exports from the five major exporting countries, total exports to all destinations has also entered a cyclical downswing.

While stocks are reported to be low throughout much of China's wool textile industry, mills remain very cautious about purchasing given the slowdown in the domestic Chinese economy and what this means for consumer purchases in China. As well, credit availability remains tight for mills, which is restricting their input purchases.

Exports to the other major processing countries in the second half of 2015 were mostly positive, with increases in exports to **India, Germany, the Czech Republic and the UK**. Exports to **Italy** were down slightly. There have been strong declines in exports to 'other countries' (which includes Egypt and Malaysia).

US export of raw wool increased strongly in January and are 4% higher for the US season to date (October to January).

Wool Imports by China Turns Down, Other Countries Mixed 12 month rolling aggregate



Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool. Data to December 2015

Wool Production and Supply

Trends, Drivers and Prospects

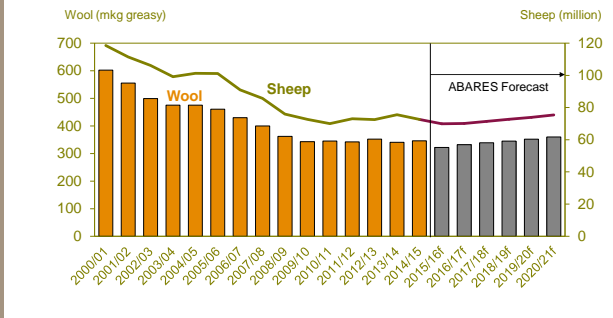
ABARES, the Australian Government's agricultural forecaster, released its five year forecasts in early March. It predicts that wool prices will rise steadily over the next five years. It also forecast that sheep numbers and wool production will rise from the lows expected in the 2015/16 season.

ABARES predicts that shorn wool production in Australia will lift next season to 332 mkg greasy (from a forecast 322 kg greasy in 2015.16) and then continue to increase to 360 mkg greasy by 2020/21. The increased shorn wool production in 2016/17 and beyond is the result of a forecast increase in sheep numbers in Australia to 77 million head in 2021

ABARES predicts that the Australian Eastern Market Indicator will rise steadily in A\$ from an average of 1,240 Acents/kg this season to 1,370 Ac/kg in 2020/21. Based on its assumptions for the exchange rate between the A\$ and the US\$ (which is for a slow improvement in the season average exchange rate from 71 UScents in 2015/16 to 74 UScents in 2020/21), the US\$ level of the EMI is expected to rise from an average of 880 USc/kg in 2015/16 (which is below the 919 USc/kg average for 2014/15) to 923 USc/kg in 2016/17 and then rise further to reach an average of 1014 USc/kg in 2020/21.

These forecasts, if accurate, are a welcome sign of optimism for the Australian and US wool industries. The price increase in both A\$ and US\$, if it eventuates, is welcome, particularly for US wool growers who has seen US\$ prices fall as a result of the strong US\$ in the past two years.

Australian Sheep Numbers and Wool Production 2000/01 to 2020/21f



Source: Australian Wool Innovation Production Forecasting Committee, ABS. Forecasts from 2015/16 to 2020/21 are from ABARES. Wool production is shorn wool; sheep numbers is as at 1st July. Updated March 2016

Wool Outlook

The latest forecasts for the advanced economies are relatively positive for 2016 and 2017, albeit at relatively modest economic growth rates. As well, consumer confidence in the US and Europe remain at high levels (see chart on page 3).

Even so, the clothing retail sales growth rates over the Fall/Winter 2015 period were disappointing in many of the major wool consuming countries. It is disappointing as it may hinder retailer orders over the next few months as they consider their plans for Fall/Winter 2016.

The good news is that the recent trade and fashion shows saw a strong presence of wool. As well, more and more sport and active leisurewear manufacturers are including Merino wool in their ranges.

From the wool textile industry perspective, conditions are mixed with mills in China adopting a conservative raw wool purchasing pattern. At the same time mills in Italy, India and elsewhere are buying more.

The immediate prospects hinge on China but the longer term prospects look to be positive.

Wool and Fiber Prices

Trends, Drivers and Prospects

Wool prices have been resilient amid a period of intense volatility and downward pressure in share markets and markets for other commodities around the world. After dipping in January in US\$ terms, Australian wool prices have bounced back in February and the first week of March.

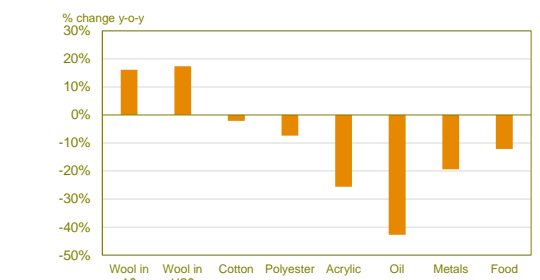
Meanwhile, **cotton** prices have continued to fall. At the end of the first week of March, the CotLook "A" Index was at 64.55 USc/lb, the lowest since October 2009. Excess stocks and lower polyester prices have weighed on the price for cotton. **Polyester staple** prices were at 65 USc/lb in February, the lowest since March 2009. **Acrylic fiber** prices were at 80 USc/lb, which is the lowest level in 12 years!

These lower prices for **man-made fibers** have arisen mainly due to the huge drop in oil prices in the past six months or so. As the chart below shows, oil prices in February were 43% lower than a year ago. This has put downward pressure on oil-based man-made fiber prices. There has also been a significant 19% in the metals index (which captures iron ore, copper etc.) as China's demand for metals and excess supply has pushed prices lower. Even the food index has fallen by 12%.

As the chart shows, wool has performed much better in US\$ terms. It has also recorded a stronger increase in A\$ terms, thanks to a fall in the A\$ exchange rate with the US\$.

Wool has been very different largely because supply is constrained while there is excess supply of the other commodities.

Wool Outperforms Other Commodities
year-on-year % change in price



Source: AWEX, The Economist, CotLook, PCI Fibres. February 2016 versus February 2015. Wool price is the Australian Eastern Market Indicator; cotton price is the CotLook 'A' Index; Polyester is from PCI Fibres all regions average. Oil is West Texas Crude; Metals and Food is from The Economist magazine's commodity indices

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 consumer confidence in the major wool consuming countries and the price competitiveness for wool against other fibers.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	32.0	-10%	148.8	-11%	China, India, Italy, Czech Rep, Korea	India, Italy up; China, Korea & Czech Rep down
NZ	8.4	-17%	68.6	-9%	China, Italy, UK, Germany, India	UK, Germany & India up; China & Italy down
Uruguay	3.5	-23%	21.3	-11%	China, Germ, Italy, Turkey, India	Germany up; China, Italy, India & Turkey down
Argentina	3.9	+18%	15.7	-22%	China, Germany, Italy, Mexico, Uruguay	Uruguay & Mexico up; Italy flat; China & Germany, down
South Africa	6.6	+2%	21.8	+6%	China, Czech Rep, Italy, India, Egypt	Czech Rep, Italy, India & Egypt up; China down
USA	0.312	+175%	1.77	+4%	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 December and the financial year from July to December. The month for USA is for January. For the season the period is the US wool season October to January.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	446	410	+9%	440	411	+7%
NZ	180	187	-4%	181	184	-2%
South Africa	348	414	-15%	343	418	-18%
UK	116	154	-24%	118	154	-23%

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

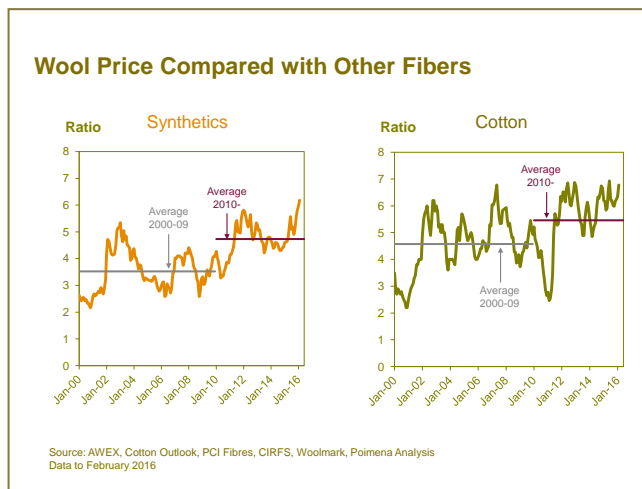
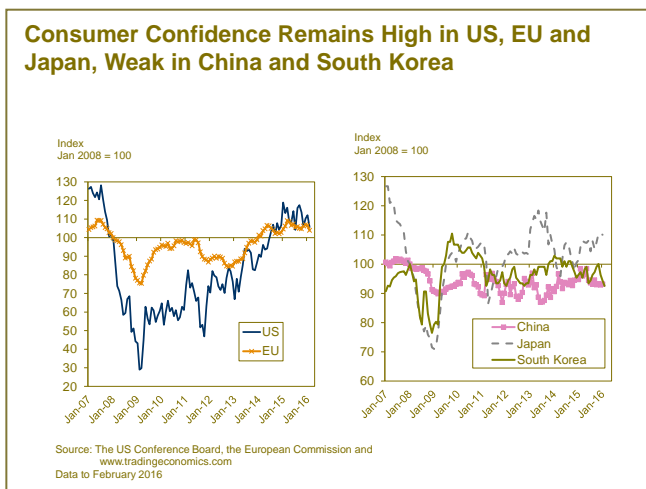
Notes: Prices are for February. Australia is the 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is for the calendar year January to February.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	66.3	67.7	-2%	69.9	67.6	+3%
Synthetics	72.7	89.1	-18%	84.2	90.2	-7%
Wool: cotton	6.78	6.10	+10%	6.26	6.18	+1%
Wool: synthetics	6.18	4.62	+34%	5.23	4.61	+14%

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

Notes: Prices are for February. Year is the calendar year to February. The wool:cotton and wool:synthetic ratios are based on 21 micron wool.



Sheepmeat Market

Trends, Drivers and Prospects

Prices for lambs in the three largest exporting countries, Australia, New Zealand and the UK, have fallen back from the heights seen in early 2014. In contrast, the price for US lamb has been relatively stable in the past 12-18 months.

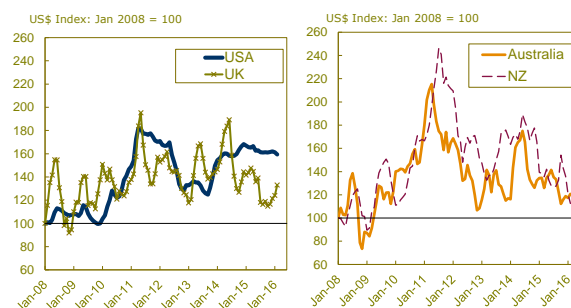
In general, the price for lambs for slaughter around the world tend to follow similar trends, mainly driven by the price trends in Australia and New Zealand, the two largest exporters of lamb meat and mutton in the world. Combined, these two countries account for 70% of the world exports of sheepmeat (lamb or mutton). The United Kingdom accounts for a further 9% of world trade in sheepmeat.

The chart shows the trends in lamb prices in US\$ in the three major exporting countries and the US. It is presented as an index as there are differences between each country in the types and weights of lambs produced. Until 2014, the price for lambs in the US followed the general trends in the US\$ prices in the major exporting countries. Since then, prices in the US stabilised while the lamb prices in the three major exporting countries have fallen back. The decline in price in these countries has been significantly due to the stronger US\$ in the past two years, as prices in the domestic currencies have been relatively solid. One reason for the more stable prices in the US compared with the prices in the exporting countries is that while the US is a major export destination for Australian and New Zealand lamb (accounting for around 20% of total exports for each country), there are a number of other destinations which influence the local price in both countries. In particular, the Middle East and China have become important and growing export destinations for Australian and New Zealand lamb, while the US is an established and mature market.

Data from the USDA Foreign Agricultural Service shows that the prices for imported frozen lamb into the US from Australia and New Zealand have been more stable in the past 2-3 years than have the domestic prices in each country. This is particularly true for imports from New Zealand. This means that US lamb has not been subject to the same downward pressure as the US\$ equivalent prices in the domestic markets in Australia and New Zealand. Whether this beneficial situation continues in the future is uncertain.

The good news is that ABARES, the Australian Government's commodity forecaster, predicts that lamb prices in both A\$ and US\$ will increase over the next five years. It forecasts that the annual average lamb price in Australia will rise from 390 US\$/kg in 2015/16 to 470 US\$/kg in 2018/19.

Lamb prices in Australia, NZ, US and UK



Source: Meat & Livestock Australia, Beef & Lamb NZ, USDA, UK Agriculture and Horticulture Development Board
 Notes: Trade lamb for Australia; all lamb export price for NZ; 55-65 lb, choice and prime lamb for US; Standard Quality Quotation – 12-25 kg lamb
 Data to February 2016

Lamb Prices >>>

US\$/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	172	192	-10%	170	192	-12%
NZ	137	168	-19%	142	169	-16%
UK	272	294	-7%	263	292	-10%
US	339	352	-4%	340	353	-4%

Sources: Meat & Livestock Australia, Beef and Lamb NZ, USDA, BWMB

Notes: Prices are for January. Australia is trade lamb, New Zealand is all export lamb, UK is 12-25kg, US is 55-65 lb, choice and prime lamb. Year is calendar year and year average is year to January.

Lamb Meat Exports >>>

million lbs	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	38.5	+13%	515.9	-1%	Middle East, US, China, PNG, UK	Middle East, US, PNG up; China, UK down
NZ	61.2	+11%	686	+3%	China, UK, Middle East, US, Germany	US, UK, Middle East, Germany up; China down

Sources: Australian Bureau of Statistics, Beef + Lamb NZ

Notes: For January and the calendar year from January to December.