

Modest growth predicted for household consumption

China's wool product exports turn the corner?

Wool volumes in Australia decline

Competing fiber prices begin to recover

Growing demand for lamb by China and the Middle East



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

ASI wool journal

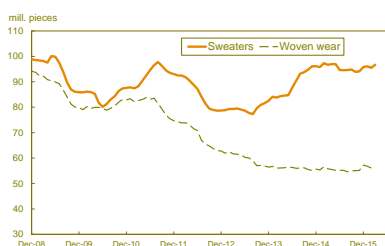
Wool Textile Industry Conditions

Trends, Drivers and Prospects

After six months of lackluster results, the latest data on China's exports from the Customs Bureau provides some signs of improvement. This is important as China's exports accounts for around half of China's raw wool use each year, with the domestic retail market accounting for the other half.

The trade data for March shows that China's exports of wool top, yarn, fabric, sweaters and woven wear were all well above year earlier levels. This has helped offset earlier losses, although the aggregate of China's exports of most wool products in the past year are below the previous 12 months. As the chart below shows, after a brief respite in December and January, China's exports of wool woven clothing remain near the low levels of a year ago. Exports of wool sweaters, after dipping in October, are back level with year earlier levels.

China's Wool Woven Clothing Exports Struggle 12 month moving aggregate



Source: China Customs and China Wool Textile Association
Data to March 2016

Retail Demand and Economic Conditions Trends, Drivers and Prospects

Prospects for growth in household consumption in the major wool consuming countries over the next two years are clouded, with some improvement possible, albeit at relatively slow growth rates.

Eight countries account for around two-thirds of the total world consumption of wool at retail, led by China (with a 23% share), the US (11%) and Japan (9%). One of the key drivers of demand throughout the wool textile industry back to the farm gate is how much disposable income consumers in these major retail markets have to spend. And one measure of this is the growth in private or household consumption. The table below shows the rate of growth in private consumption for each year between 2013 and 2015, the average between 2004 and 2006, and the latest forecasts for 2016 and 2017.

As can be seen, a number of the key countries have recorded very low (less than 2%) or even negative growth in private consumption in the past three years, notably Italy, Japan, France and Germany. As well, growth in China has slowed substantially from the previous double digit growth rates. In contrast, growth rates for the US, UK and, more recently, Korea have lifted.

The recent slow or negative growth rates in a number of countries would have held back the consumption of wool products, in part because these products tend to be higher value.

The forecasts for growth rates in 2016 and 2017 show improvements for some countries, such as Italy. However, growth throughout much of Europe is expected to be below 2%. This may continue to restrain wool clothing purchases.

Mixed News from Household Consumption Growth Rates in Key Wool Consuming Countries

Country	Country share of world wool consumption at retail	Private Consumption Growth Rate					
		Av 2004-06	2013	2014	2015e	2016f	2017f
China*	23%	10.7%	7.7%	7.3%	6.9%	6.5%	6.3%
USA	11%	3.2%	1.7%	2.7%	3.1%	2.6%	2.5%
Japan	9%	1.5%	1.7%	-1.0%	-1.2%	0.2%	0.0%
Italy	5%	1.0%	-2.5%	0.6%	0.9%	1.3%	1.2%
Germany	5%	0.4%	0.6%	0.9%	1.9%	1.9%	1.5%
Korea	5%	3.0%	1.4%	1.7%	2.2%	2.4%	2.4%
UK	4%	2.4%	1.9%	2.6%	2.8%	2.6%	2.2%
France	3%	2.4%	0.5%	0.6%	1.4%	1.4%	1.5%

(f) forecast.
Source: Poimena Analysis for wool at retail, Consensus Forecasts (April 2016) for private consumption growth rates
Notes: China is GDP growth rate

Wool Production and Supply

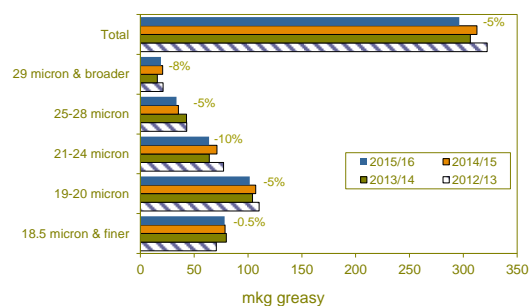
Trends, Drivers and Prospects

Wool production in Australia in 2015/16 remains well below the levels in 2014/15 as a result of lower sheep numbers and, for significant parts of Australia, very dry seasonal conditions. Most micron categories have recorded significant declines in volumes this season, with the exception of superfine wool (18.5 micron and finer).

The latest data from the Australian Wool Testing Authority (AWTA) shows that the total volume of wool tested for the 2015/16 season to date was 5.2% below the levels seen for the same period in 2014/15. The chart here shows the total volume of wool tested by AWTA in the ten months to April for the current season and the previous three seasons. As can be seen, wool test volumes were well below all the previous seasons. This indicates that wool production for the full season is on track to be the lowest level for 90 years. [Note: AWTA tests virtually all wool produced in Australia.]

The volume of wool tested in most micron ranges were well below the levels of a season earlier, with significant drops in the medium Merino range (21 -24 micron) and broad wool (29 micron and broader). The one category that has only seen very modest declines is superfine wool (18.5 micron and finer). This is very marginally below the 2015/16 level and not much behind the record levels seen in 2013/14. Production of this wool had been expected to fall back this season after persistently low price differentials in recent years (see the second chart on page 3). However, the dry seasonal conditions (which means that there is more "hunger-fine" wool) and a shift to Merino blood-lines which produce superfine wool but much higher average fleece weights has meant that production of this wool has been maintained. This difference in production trends between superfine and medium Merino wool will mean that the differential will remain low.

Australian Superfine Production Falls
Wool Tests By Micron Category
(Seasons 2012/13 to 2015/16 – July to April)



Source: Australian Wool Testing Authority

Wool Outlook

The outlook for wool prices remains moderately positive, with some risks and uncertainties.

The modest improvement in the prices for competing fibers is helpful for the outlook, reducing to a small extent the high price relativity for wool against these fibers.

Raw wool demand by China has been hamstrung by weak exports of wool products in the past 6 months or more, but the latest month data was much improved. Hopefully, this improvement continues and mills in China see better orders from retailers from the US, Europe and Japan for the 2016 Fall/Winter season. This will become clearer over the next two months.

It is hard to envisage a sharp improvement in order levels, however, given the slow rate of growth for private consumption expected in these countries.

Therefore, even though apparel wool prices are likely to continue improving in US\$ terms, this recovery will remain volatile. It will also be subject to the continued vagaries of currency movements, notably the exchange rate between the US\$ and the A\$.

Wool and Fiber Prices

Trends, Drivers and Prospects

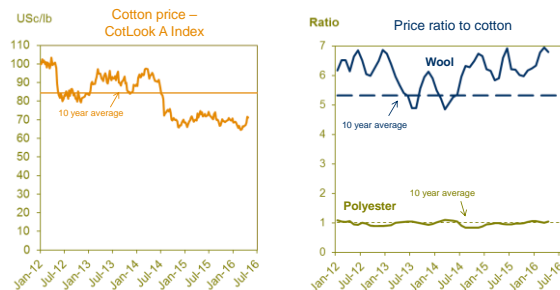
Apparel wool prices continued their recovery in US\$ in April, although prices for wool used in interior textiles remained subdued. At the same time, prices for competing fibers also lifted in April after an extended downturn.

Australian wool prices lifted again in April to reach the highest month average level in US\$ terms since June 2015. The recent rise continued the see-saw recovery from the low point in February 2015. Wool prices in **South Africa** followed a similar pattern to prices in Australia, increasing in April. Prices in both countries were 8% to 10% higher than a year earlier. In contrast, prices for broader wool in **New Zealand** and the **United Kingdom** were flat to slightly down. Prices for this broad wool (which is used in interior textiles) remain 8% to 10% below year earlier levels.

One positive factor for wool prices is that, after an extended period of decline, prices for competing fibers such as cotton, polyester staple and acrylic lifted in April. As the chart shows, the CotLook A Index (an indicator of world cotton prices) lifted in March and April as they recover from recent lows. This improvement in prices appears to have been in response to lower production in 2015/16 and predicted for 2016/17, helping to reduce the supply imbalance in the global cotton industry.

Prices for man-made fibers, such as polyester staple and acrylic fibers, also improved in April (see chart on page 3).

Cotton Prices Starting to Recover?



Source: Cotton Outlook and Poimena Analysis Data to 29th April 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 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	32.9	-12%	276.3	-4%	China, Italy, India, Czech Republic, Korea	India, Czech Rep up; China, Italy, Korea down
NZ	15.1	-17%	108.6	-8%	China, Italy, UK, India, Germany	UK, Germany & India up; China & Italy down
Uruguay	3.8	-37%	32.8	-13%	China, Germ, Italy, Turkey, Bulgaria	Germany up; China, Italy, Turkey & Bulgaria down
Argentina	6.4	+19%	28.8	-12%	China, Germany, Italy, Czech Rep, Mexico	China, Germany, Italy & Czech Republic up; Mexico down
South Africa	5.0	-33%	35.1	+1%	China, Czech Rep, Italy, India, Germany	Czech Rep, India & Germany up; China, Italy down
USA	0.55	+27%	2.58	+0.1%	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 March and the financial year from July to March. The month for USA is for March. For the season the period is the US wool season October to March.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	467	412	+13%	450	409	+10%
NZ	178	194	-9%	180	188	-4%
South Africa	467	418	+12%	455	415	+10%
UK	124	154	-20%	121	152	-20%

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

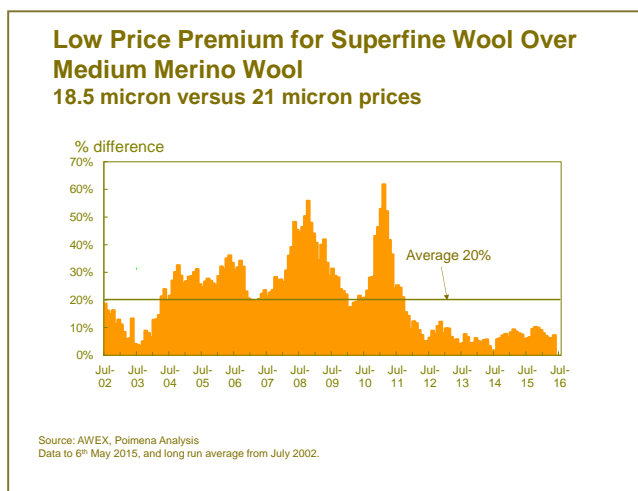
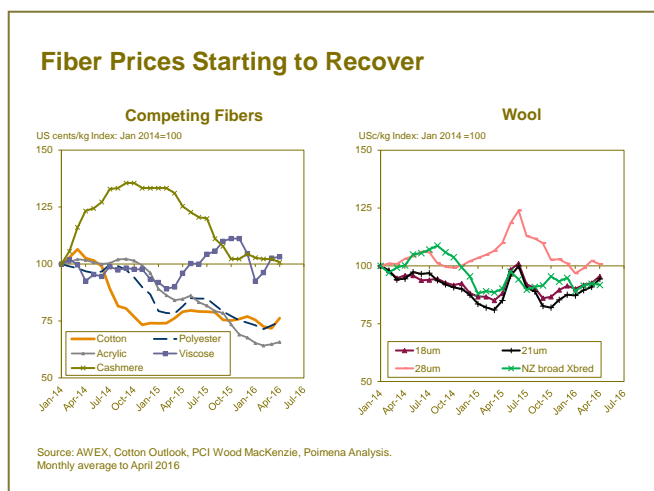
Notes: Prices are for April. Australia is the 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is for the calendar year January to April.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	69.6	72.2	-4%	69.2	71.6	-3%
Synthetics	74.6	89.4	-17%	78.6	98.7	-20%
Wool: cotton	6.80	5.91	+15%	6.37	6.26	+2%
Wool: synthetics	6.35	4.77	+33%	5.10	4.50	+13%

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

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



Sheepmeat Market

Trends, Drivers and Prospects

Over the past ten years the Middle East and China have grown in importance as export destinations for both Australian and New Zealand lamb meat exports. In spite of this, the US remains an important export market, notably for Australia.

Australia and New Zealand are the world's largest exporters of sheep meat, accounting for around 70% of the world's exports each year. For both countries, the US has been an important export market for many years. For Australia, the US has accounted for between 20% and 25% of Australian lamb exports, while the US' share of New Zealand exports has been between 5% and 7%.

However, while the share taken by the US has been relatively constant, the volume of exports from Australia to the US has increased as Australia's total exports have risen. Since 2005/06, Australia's total exports of lamb meat has increased by 72% and its exports to the US has increased by 41%.

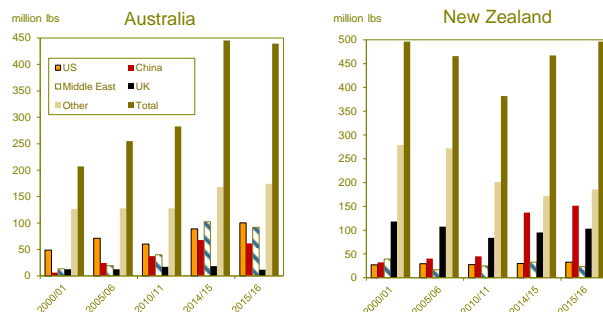
As the chart shows, China and the Middle East have both seen the most significant growth in exports of lamb meat from Australia, with increases of 152% and 381% respectively. The US is still the largest export market for Australian

lamb meat in 2015/16 to date. In total, exports account for a little under 50% of Australia's lamb meat production, with the domestic market accounting for the larger share.

The overall trend is different for New Zealand. Lamb meat exports have been volatile but not clear trend either up or down. Nevertheless, China has risen in importance, taking over from New Zealand's traditional export markets in Europe, such as the UK, Germany and France. New Zealand's exports to China have increased by 275% in the past decade and exports to the Middle East are up by 40%. New Zealand's exports to the US have risen by just 12%.

It seems likely that Australia's exports to the US may stabilise in future given the rising importance of and growth potential in both China and the Middle East. New Zealand's exports to the US are also likely to remain relatively steady.

Lamb Demand by China and Middle East Grows
Financial Year: July to latest month*



Source: Australian Bureau of Statistics
* To April for Australia and to March for New Zealand

Lamb Prices >>>

USc/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	177	192	-7.6%	173	189	-8.1%
NZ	136	173	-21.4%	141	169	-16.9%
UK	272	296	-8.0%	269	295	-8.9%
US	331	354	-6.4%	336	353	-4.1%

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

Notes: Prices are for April, except for NZ which is to March. 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 April (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	75.9	-6.7%	215.8	+0.2%	China, UK, Germany, Netherlands, US	US, China, Germany, Netherlands up; UK down

Sources: Australian Bureau of Statistics, Beef + Lamb NZ

Notes: For Australia, data is to April and the calendar year from January to April. For New Zealand, data is to March and the calendar year from January to March.