

Weaker economic conditions in the wake of the Brexit vote

China's raw wool imports drop sharply

Australian wool production to recover?

Fine wool prices outperform others

Brexit vote could affect NZ lamb exports to the US



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

ASI wool journal

Wool Textile Industry Conditions

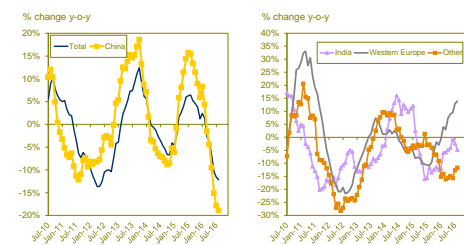
Trends, Drivers and Prospects

China's imports of raw and semi-processed wool have dropped sharply this year as mills wind back stocks after a surge in purchases in 2015.

For the 2016 calendar year to August, China's raw wool imports was 19% lower than for the same period in 2015. China's purchases from the US have fallen by 28%. This decline comes after China's purchases increased sharply in 2015, reaching a peak in mid-2015, before starting the fall back (see chart). Stocks within China's wool textile industry built up as a result of this surge in raw wool imports and weaker than expected exports and domestic sales of wool products. Mills have been running those stocks down but this destocking may be coming to an end.

At the same time as China's purchases have fallen, raw wool purchases by Europe has increased. India's imports have also recovered a little.

Wool Imports by China Falls, Europe Turns Up 12 month rolling aggregate



Source: Australian Bureau of Statistics, FLA, SUL, Capewoods, NZ Meat and Wool. Data to August 2016

Retail Demand and Economic Conditions Trends, Drivers and Prospects

Economic conditions in the major wool consuming countries in the Northern Hemisphere are weaker than hoped-for as the important Fall/Winter season begins. The season is the most important period of the year for the sales of wool clothing and good economic growth will help retail sales of wool clothing.

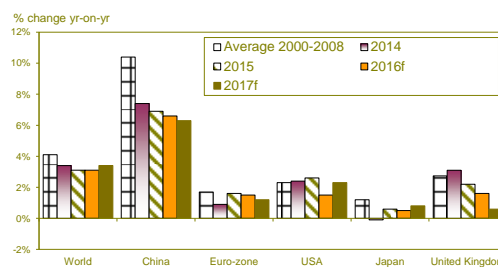
Economic growth in the US slowed in the first half of 2016 and is now predicted to record a growth rate of only 1.5% this year. This is down from a prediction six months ago of around 2% growth. The UK and the Euro-zone have also both seen a significant reduction in the predicted economic growth rate as a result of the UK vote in June to exit the EU (Brexit). Growth of only 1.5% and 1.6% respectively is now expected this year and just 0.6% and 1.2% in 2017. China's economic growth also continues to slow with forecasts of 6.6% in 2016 and 6.3% in 2017 (see the chart below showing the economic growth rates in the major wool consuming countries).

While economic growth has slowed, consumer confidence in several countries are at very good levels. In September, consumer confidence in the US hit the highest level in almost eight years. While consumer confidence in the EU has slipped back, particularly in the UK following the Brexit Vote, consumer confidence is still well above the low levels seen in 2013.

Clothing retail sales have been affected by the weaker and uncertain economic conditions. The chart on page 3 shows the latest data and shows that many countries have recorded slower growth in retail sales.

Hopefully the good levels of consumer confidence in the US and elsewhere will encourage consumers to increase spending on clothing in the Fall/Winter season.

Weaker Economic Growth Outlook in Key Economies



Source: IMF, World Economic Outlook, July 2016 and Consensus Forecasts, September 2016

Wool Production and Supply

Trends, Drivers and Prospects

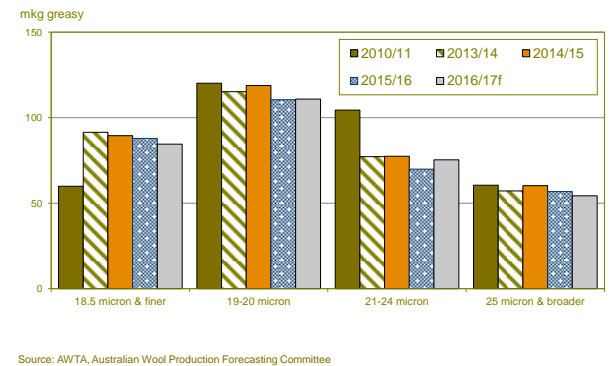
Australian wool production in the 2016.17 season is expected to remain at the same level as in 2015/16, according to the latest forecasts released in August. There are signs that production may increase in 2017/18.

The Australian Wool Production Forecasting Committee predicts that shorn wool production in Australia will total 325 mkg greasy (around 225 mkg clean) in 2016/17. This is the same as its estimate for production in 2015/16, which is the lowest since 1925/26. This steady production level is despite sheep numbers in Australia estimated to have fallen by 4.6% to 68.4 million head at the start of the 2016/17 season (which began on 1st July). Seasonal conditions across Australia have improved substantially since May, with significant, widespread rain which will boost pasture growth during the Australian Spring and fill water storages. This in turn will help lift average wool shorn per head, notably in the Autumn shearing in March-May 2017. These higher wool cuts will offset the lower sheep numbers.

The greatly improved seasonal conditions will also mean less fine and superfine wool (19.5 microns and finer) and increased production of broader Merino wool (20 to 24 down of production by micron range over recent seasons and the predicted split in 2016/17.

With the excellent seasonal conditions now prevailing across Australia, including in regions which have been in drought for up to four years, wool producers will look to rebuild their flocks. This has pushed prices for breeding ewes to high levels, so many will rely on breeding their own to build flock numbers. This will probably result in higher wool production in Australia in 2017/18 and beyond.

Australian Wool Production by Micron



Wool Outlook

The new Southern Hemisphere wool selling season for 2016/17 has started well for finer wools used in apparel. Prices in both US\$ and local currency remain steady at historically high levels, helped by a combination of tight supplies and solid demand from Europe. The same cannot be said for medium and broad wool of 26 microns and broader. Prices for these wools have struggled as demand has dipped due in part to lower demand for woollen fabric.

This solid start to the 2016/17 season for finer wool has come in spite of lower raw wool purchases by China. Mills in that country have cut back on purchases to bring stocks of raw and processed wool products (including top, yarn and fabric) under control. Furthermore, slower economic and retail sales growth in key wool consuming countries is a potential dampener for raw wool demand.

It is very likely that fine wool prices will break out of the unusual stable pattern seen in recent months. In spite of the weaker economic fundamentals, prices are more likely to rise, rather than fall, because China will need to increase its purchases soon.

Wool and Fiber Prices

Trends, Drivers and Prospects

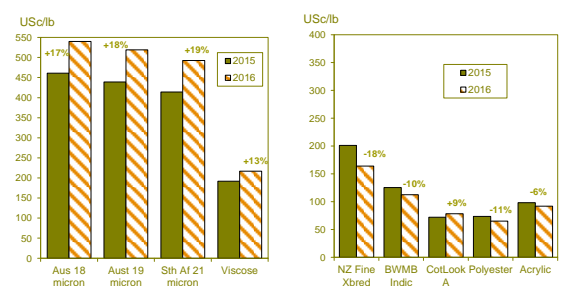
Fine Merino wool prices have outperformed the prices for broader wools and other fibers over the past year or more. As well, prices for these wools have been very stable during 2016.

The price for Merino wool in Australia and South Africa has increased by 15-20% over the past year as supplies remain tight and demand is firm, in spite of a downturn in raw wool purchases by China. In contrast, US\$ prices for broader wool from New Zealand and the United Kingdom have declined by 10 to 20% as demand for these wools have weakened. An additional factor, which has hurt NZ wool prices, is that the British pound sterling has fallen as a result of the Brexit vote.

The price for oil-based synthetic fibers such as polyester staple and acrylic have fallen by 5-10% due to a combination of lower oil prices and significant excess production capacity, notably in China. The plant-based fibers of cotton and viscose (which uses cellulose as the base material) have increased, albeit more moderately than fine wool prices. The chart shows the change in prices over the past year.

Australian and South African wool prices have also been remarkably steady in US\$ terms over the past six months, with only small movements up or down. This is very unusual. When such a trend has occurred in the past, prices have broken the stable pattern with a significant move up or down. The pressure seems to be building towards another such breakout.

Fine Wool Prices Outperform Monthly Average - September



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 clothing retail sales 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	17.2	-1%	40.7	-3%	China, India, Italy, Czech Republic, Korea	Italy, Korea, Czech Rep up; China, India down
NZ	8.7	-32%	17.7	-32%	China, Italy, UK, India, Germany	UK stable; China, Germany, Italy & India down
Uruguay	2.7	-22%	5.2	-35%	China, Germ, Turkey, Czech Republic, Italy	Germany, Czech Rep & Italy up; China & Turkey down
Argentina	1.6	+22%	5.7	+21%	China, Germany, Czech Rep, Italy, Turkey	Germany, Italy, Czech Republic & Turkey up; China down
South Africa	1.6	+22%	2.1	-22%	China, Italy, Germany, India, France	Italy, Germany, India & France up; China down
USA	0.48	-36%	5.09	-6%	China, India	Other destinations up; China & 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 August and the Southern Hemisphere season from July to August. The month for USA is for August and the year to date is the US wool season October to August.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	488	415	+18%	473	440	+8%
NZ	164	195	-16%	177	195	-9%
South Africa	493	414	+19%	475	446	+6%
UK	113	125	-10%	118	150	-21%

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

Notes: Prices are for September. Australia is the 21 MPG, South Africa is the 21 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is for the calendar year January to September.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	78.3	68.9	+14%	72.8	70.6	+3%
Synthetics	78.5	84.6	-7%	75.2	88.8	-15%
Wool: cotton	6.24	6.02	+4%	6.52	6.23	+5%
Wool: synthetics	6.22	4.90	+27%	6.29	4.96	+27%

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

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

Clothing Retail Sales in the Major Wool Consuming Countries

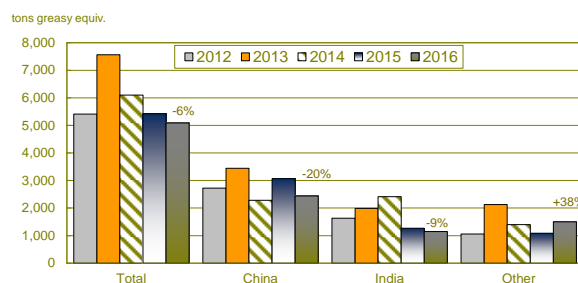
% change y-o-y	2010	2011	2012	2013	2014	2015	Year to date*	
							2015	2016
China	+25.8%	+25.1%	+17.7%	+11.5%	+10.8%	+9.3%	+10.3%	+7.2%
USA	+6.0%	+3.5%	+0.5%	+1.5%	+2.1%	+4.2%	+5.3%	+1.3%
Japan	-6.3%	+3.2%	-0.4%	-0.7%	-0.5%	-2.3%	-3.2%	-4.6%
Germany	+1.2%	+0.9%	-0.3%	+0.1%	+1.3%	+2.8%	+2.8%	+1.6%
UK	+5.4%	+3.3%	+1.5%	+3.1%	+5.2%	+1.5%	+1.3%	-3.9%
Italy	+0.8%	-1.1%	-2.3%	-2.1%	-1.3%	+0.8%	+0.6%	+0.7%
France	+2.8%	+1.7%	+0.6%	+1.1%	+1.2%	+3.4%	+3.1%	+3.3%
South Korea	+9.8%	+8.6%	+3.2%	+0.8%	+1.6%	+3.5%	+2.3%	+5.2%

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.

* Year to date is to July

US Raw and Semi-Processed Wool Exports Fall Season to Date (October to August)



Source: USDA

Sheepmeat Market

Trends, Drivers and Prospects

The vote in June by the voters of the United Kingdom to leave the European Union (Brexit) could have a significant effect on the destination of lamb exports from New Zealand. As New Zealand is the second largest supplier of frozen lamb to the US, this could result in increased exports of NZ lamb to the US.

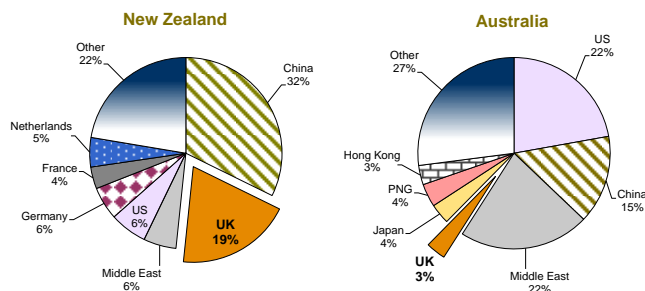
The UK is the second largest export market for New Zealand lamb exports with a 15% share of NZ's exports in 2015/16 (see chart). In contrast, the UK is only a relatively small destination for Australian lamb exports. NZ is given preferential access to the European Union through a 280,000 tonne tariff-free quota. Half of this goes to the UK market. Furthermore, 90% of the UK's exports of sheepmeats go to the EU. It is unknown what the specific arrangements will be after Brexit, but it is possible that UK access to the EU is more restricted. As well, the current tariff-quota arrangement for NZ lamb meat to the UK may be renegotiated.

In the short-term, the Brexit vote has resulted in a significant drop in the Pound Sterling against the NZ\$ (as well as other currencies). This means that British sheepmeat is more price competitive with NZ lamb, potentially putting pressure on NZ lamb prices and encouraging NZ exporters to redirect their exports away from the UK. While it is early days, the latest export data from NZ shows that lamb exports to the UK fell by 36% in August.

Changes to NZ's preferential access to the UK market as well as an extended period of a lower Pound Sterling could result in NZ exporters redirecting their lamb meat exports to other markets, including the US. The US is currently the 4th largest export destination for NZ lamb, with 44.4 million lbs exported to the US in 2015/16. This compares with 118 million lbs exported by Australia to the US.

If NZ does export more lamb to the US, it would present added competition to both Australian and US domestic lamb supplies. This may have a detrimental effect on US lamb meat prices in the medium term.

UK Important for NZ lamb, not Australia Lamb meat exports by destination in 2015/16



Source: Beef + Lamb NZ, Meat and Livestock Australia

Lamb Prices >>>

USc/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	204	175	+17%	189	190	-0.2%
NZ	185	161	+19%	159	163	-2%
UK	241	243	-1%	262	274	-4%
US	350	343	+3%	342	348	-2%

Sources: Meat & Livestock Australia, Beef and Lamb NZ, USDA, UK Agriculture and Horticulture Development Board

Notes: Prices are for September (to August for New Zealand). 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 September (to August for New Zealand).

Lamb Meat Exports >>>

Million lbs	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	35.3	-9%	346.9	+3%	US, Middle East, China, Hong Kong, Japan	US, China, Japan, Hong Kong up; Middle East, down
NZ	28.1	-35.6%	492	-1%	China, UK, Germany, US, Middle East	China, Middle East up; UK, Germany, US down

Sources: Australian Bureau of Statistics, Beef + Lamb NZ

Notes: Data is to August and the calendar year from January to August.