



China's growth slows but positive global economic conditions continue

China's raw wool imports leap – stocks building?

Australian wool production to fall after surge in supply in May-June

Weak A\$ helps Australian growers, hurts US growers



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

wool journal

Wool Textile Industry Conditions

Trends, Drivers and Prospects

After a decline in 2014, China's imports of raw and semi-processed wool have jumped in 2015 to date, but its exports of wool products have fallen.

The chart below shows the year-on-year change in China's wool imports and its exports of the various semi-processed and finished products. As can be seen, China's **imports** of raw and semi-processed wool from all sources increased by 21% for the year to July compared with the same period in 2015. US wool exports to China increased by 62%. This lift in China's purchases has helped boost raw wool prices in the supplying countries.

The concern is that at the same time China's **exports** of all wool products have fallen. Unless demand in its domestic market (which accounts for around half of the imported raw wool) has increased, stocks may be rising in China.

China Wool Product Trade – Unbalanced
(Calendar Year - % change year on year)



Source: China Customs and China Wool Textile Association
Wool imports is for raw and semi-processed wool (including wool top)
2015 year-to-date is to June

Retail Demand and Economic Conditions Trends, Drivers and Prospects

The world's commodity and share markets have been extraordinarily volatile in the past month, riven by concerns about a slowdown in China's economy and what this might mean for the global economy. These fears, at this stage, appear to be over-blown.

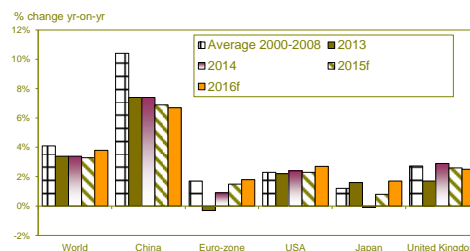
China's economic growth has slowed from the break-neck pace seen prior to 2010. This slowing in economic growth is inevitable as China's economy matures. It is undergoing a transition from being based on importing of raw materials and exporting low-priced manufactured products to being more reliant on domestic consumption. China's domestic consumption currently contributes only around 35% to China's annual GDP. This compares with a mature economy, such as the US, where domestic consumption accounts for around 70% of annual GDP. China's transition, once completed, is positive for the world wool industry as well as various other industries which are focused on the consumer.

Even with the slowing economic growth rate, China's economy is still expected to grow at 6.9% in 2015 and 6.7% in 2016 (see chart below). This is still very robust growth, particularly for an economy that is worth US\$10.4 trillion (the US economy is worth around US\$17 trillion).

The 'slower' growth rate for China is well above the growth rates predicted for the advanced economies (as the chart shows). An important additional point from this chart is that the economic growth rates for the advanced economies are expected to improve steadily in 2015 and 2016. This is good news for wool.

The slowdown in China's economic growth rate is not, in itself, a concern. However, there will be pains as China's economy changes, and this could bring volatility in various industries which supply China, including the wool industry.

Positive Economic Growth Outlook
(% change)



Source: IMF, World Economic Outlook, July 2015 and Consensus Forecasts, August 2015

Wool Production and Supply

Trends, Drivers and Prospects

The new forecast for Australian shorn wool production for the 2015/16 season suggests that there will be a sharp decline in production due to lower sheep numbers.

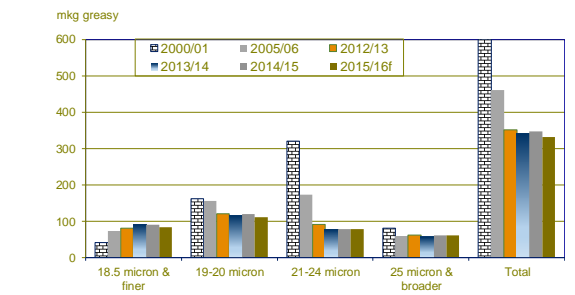
In mid-August, the Australian Wool Production Forecasting Committee released its second forecast for shorn wool production in the 2015/16 season. The Committee predicts that shorn wool production will decline by 4.3% in the 2015/16 season, to 332 mkg greasy. This is a more significant year-on-year decline than previously predicted, entirely because shorn wool production in the 2014/15 season was higher than previously thought, at 347 mkg greasy (an increase of 1.8% on the level in 2013/14).

There was a surge of supply onto the market in the May-June period in response to a spike in wool prices. Some of this wool had been carried over by producers from previous seasons, while some would have been delivered in the first 2-3 months of the new 2015/16 season (the season starts in July). This surge in May-June will reduce the volume of wool available at auction in the 2015/16 season.

The decline in production in 2015/16 will be mostly due to a drop in sheep numbers, with the turnoff of sheep and lambs in 2014/15 remaining at the high levels seen in 2013/14. The Committee estimates that sheep numbers at the start of the 2015/16 season in July was 69.1 million head, down from 72.6 million head at the start of the 2014/15 season.

After the strong increase in 2013/14, production of superfine wool (18.5 micron and finer) dipped in 2014/15 and is expected to fall again in 2015/16. This should relieve some of the price pressure on superfine prices. Production in other microns are also expected to dip in 2015/16 (see chart).

Australian Wool Production by Micron



Source: AWTA, Australian Wool Production Forecasting Committee

Outlook

The hopes for a cyclical upturn in wool prices in US\$ terms, which were expressed in the previous edition of the **Wool Journal** in June, have been dashed. A dip in raw wool demand by some of the major wool processing countries (other than China) and the continuing strength of the US\$ against the currencies of the major wool producing countries, notably Australia, have combined to bear down on wool prices in US\$. This has happened even though raw wool purchases by China have increased.

Prospects for coming months are uncertain. On the one hand, expectations of a continued improvement in economic growth rates in the major advanced countries, such as the US and in Europe, is a significant positive for retail sales as we enter the crucial Autumn/Winter period in the Northern Hemisphere. On the other hand, the strong increase in raw wool purchases by China while its exports of wool products have fallen raises the alarm that stocks within China's wool textile industry could be building. Hopefully, the positives outweighs the negatives.

Wool and Fiber Prices

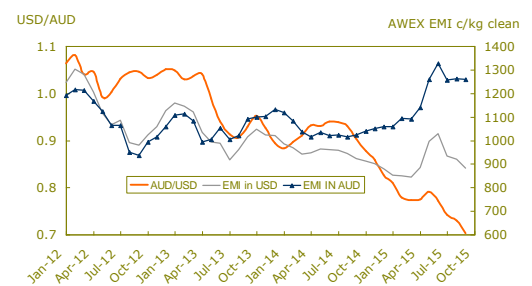
Trends, Drivers and Prospects

Wool prices in US\$ terms fell back in the past two months, reversing the positive trend seen in May and June. In part this is due to a strong US\$ and a weak A\$.

As reported in the last edition of the **Wool Journal** in June, wool prices in Australia, New Zealand, South Africa and the United Kingdom increased in the May-June period, in some cases quite sharply. For example, the Australian Eastern Market Indicator (EMI) increased by 19% in US\$ terms between the last week in April and mid-June when it reached a peak of 1061 USc/kg, the highest level since October 2013. The Capewools Indicator for South Africa increased by 17%. The increases were more modest for the broader wools from New Zealand and the UK (+7% and +5% respectively). Since the peak in mid-June, however prices have slipped back in all of these countries in both the local currency and, in particular, in US\$ terms. This is shown, by example, in the chart below, with the Australian EMI falling terms between the June peak and close at the end of the first week of September.

As can be seen in the chart, the A\$ price levels initially fell back from the peak but have then stabilized. This is because the A\$ has continued to fall against the US\$. At the end of the first week of September, the A\$ was down to 70 UScents, the lowest level since April 2009. A number of currency forecasters are predicting that it could fall to 60 UScents. That could hurt prices received by US woolgrowers.

Australian Wool Price Helped by Exchange Rate EMI in US\$ vs USD/AUD Rate



Source: WI, AWEX, Reserve Bank of Australia
Data to 4th September 2015. EMI is on the 2014/15 basis

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show the wool imports of raw wool by the major wool processing countries and the latest data on clothing retail sales in the major wool consuming countries.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	25.2	+0.2%	216.2	+17%	China, India, Czech Rep, Italy, Korea	China, Korea, Czech Rep up; India down, Italy flat
NZ	13.1	+6%	101.9	+6%	China, Italy, UK, India, Germany	China up; Germany, Italy UK & India down
Uruguay	4.6	+3%	32.2	-1%	China, Germ, Turkey, Italy, India	China up; Germany, Turkey, India and Italy down
Argentina	2.2	-34%	26.6	+8%	China, Germany, Italy, Peru, Mexico	China and Peru up; Germany, Italy, Mexico down
South Africa	0.9	+395%	26.5	+11%	China, Czech Rep, Italy, India	China up; Italy, Czech Rep and India down
USA	0.62	-18%	4.67	-14%	China, India	China up; India and other destinations 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 July and the calendar year from January to July. The month for USA is for July and for the season is the US wool season October to July.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	44.3	469	-6%	435	480	-9%
NZ	201	218	-8%	195	204	-4%
South Africa	448	467	-4%	448	487	-6%
UK	97	117	-17%	106	116	-9%

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

Notes: Prices are for August. 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 calendar year and year average is year to August.

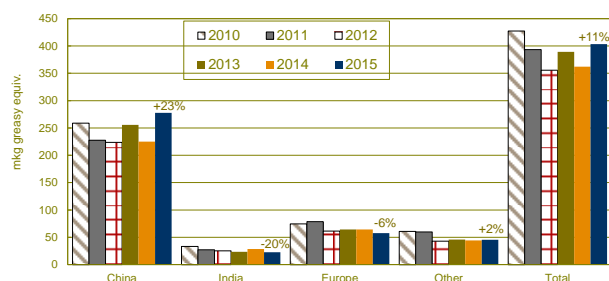
Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	72.0	74.4	-3%	70.8	89.4	-21%
Synthetics	86.1	108.1	-20%	89.3	107.1	-17%
Wool: cotton	6.20	6.32	-2%	6.26	5.44	+15%
Wool: synthetics	5.18	4.35	+19%	4.96	4.52	+10%

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

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

Wool Imports by Major Processing Countries (Calendar Year to July)



Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)
Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool

Clothing Retail Sales in Major Wool Consuming Countries

% change y-o-y	2009	2010	2011	2012	2013	2014	2015 y-t-d
China	18.8%	24.8%	20.6%	12.3%	11.6%	10.1%	10.3%
USA	-6.3%	6.0%	3.4%	0.9%	1.3%	+1.1%	+4.9%
Japan	-13.5%	-6.3%	3.2%	-0.4%	-0.7%	-0.5%	-2.4%
Germany	-2.2%	1.2%	0.9%	-0.3%	0.1%	1.3%	2.7%
UK	1.0%	5.4%	3.3%	1.5%	3.1%	5.2%	1.6%
Italy	-1.5%	0.8%	-1.1%	-2.3%	-2.1%	-1.3%	+0.5%

Source: Government statistical bureaus.

Notes: All countries is value. Japan is value of retail sales of clothing in major department stores. China is for retail sales of garments. Germany and Italy is total retail sales.
2015 is year to July for all countries except for Italy which is to June