

# Gathering Momentum

## Trends and Prospects for Fine Merino Wool



Balmoral Sire Evaluation Group  
2016 Field Day  
8<sup>th</sup> April 2016

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Chairman, Market Intelligence Committee

International Wool Textile Organisation

Executive Director, National Council of Wool Selling Brokers of Australia



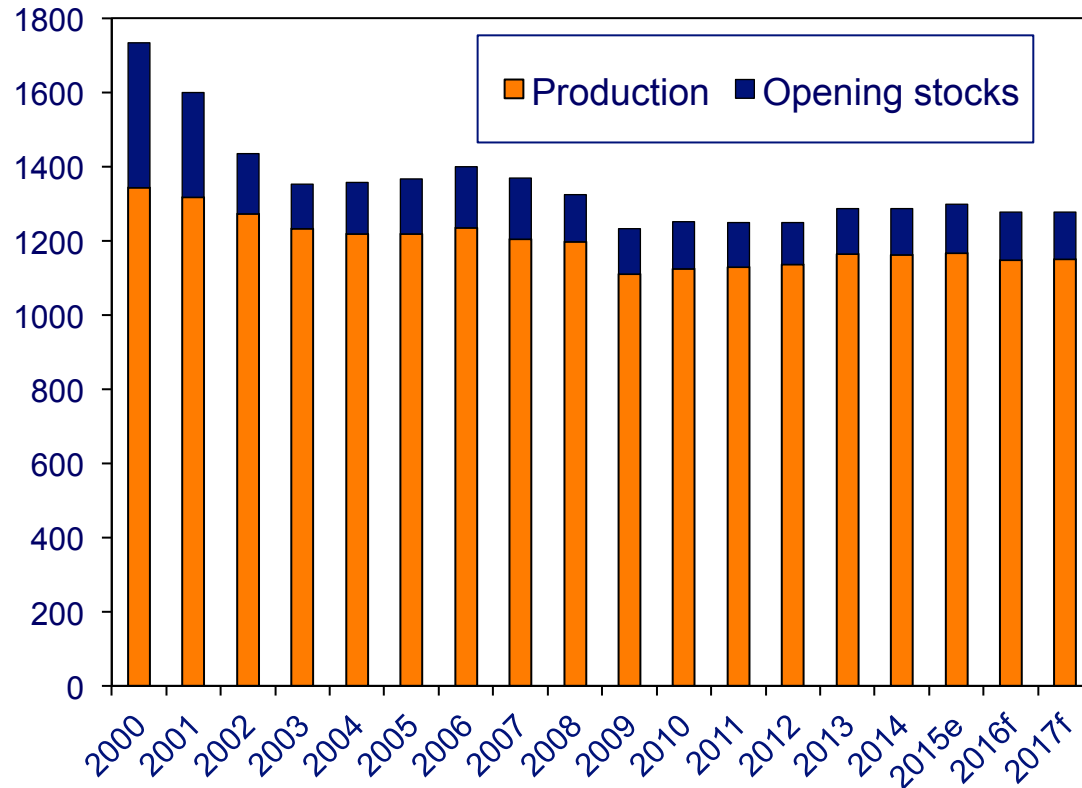
# Messages

- Total world and Australian wool production low...  
...BUT higher superfine wool production
- Wool prices perform better than prices for other commodities...  
...BUT narrow margins for superfine wool
- Some positives, some negatives for short term demand...  
... BUT demand for superfine wool growing...  
...AND longer term demand trends and prospects positive



# Wool Production Flat, Stocks Low

mkg clean



2015 production  
1,166 mkg clean

2016 production  
1,148 mkg clean

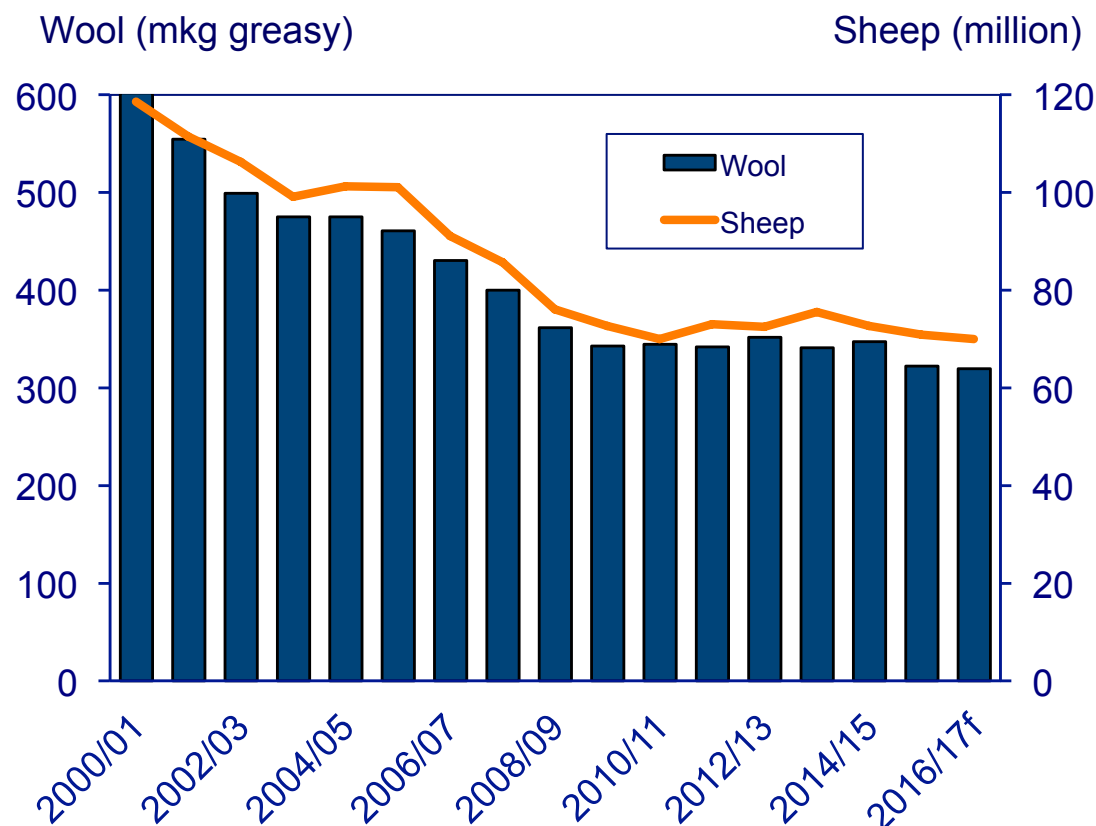
2017 production  
1,154 mkg clean

**70 year lows**

Stocks:Use ratio  
~11%

Source: Poimena Analysis and International Wool Textile Organisation  
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 March 2016

# Australian Sheep Numbers and Shorn Wool Production Remain Low



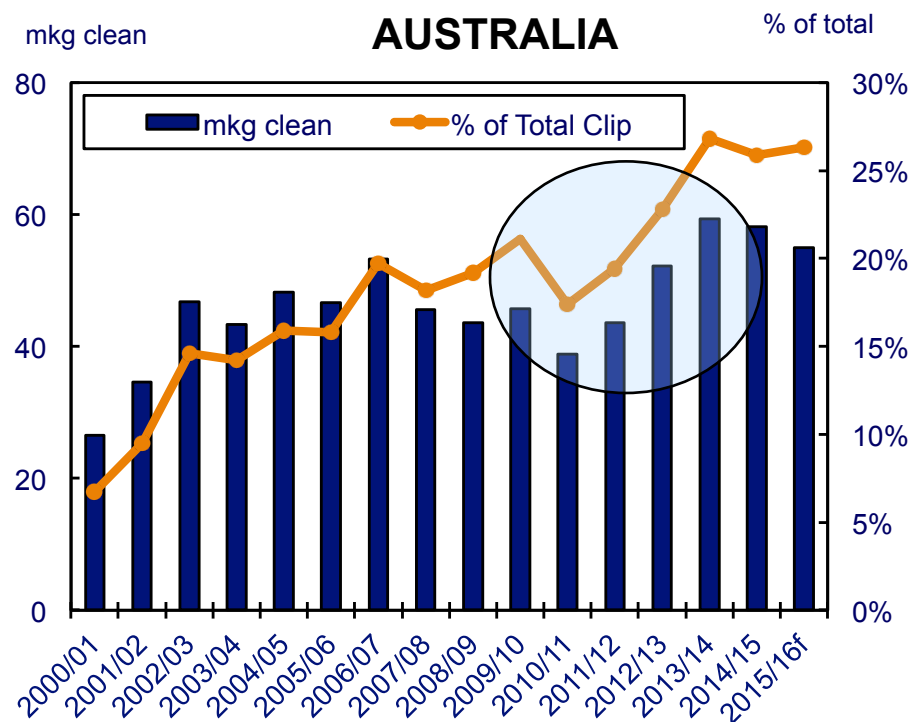
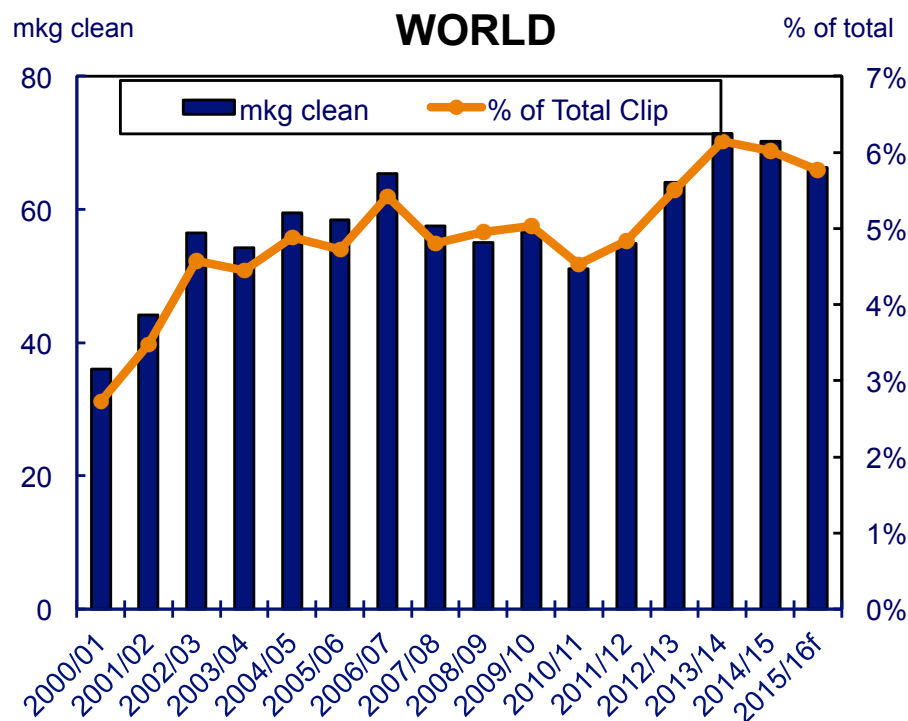
2015/16 production  
↓ 7%  
to 322 mkg greasy

2016/17 production  
320 mkg greasy

**Lowest  
since  
1923/24**

Source: Australian Wool Production Forecasting Committee, ABS, ABARES  
Wool production is shorn wool; sheep numbers are as at 1<sup>st</sup> July  
Updated for forecast March 2016

# Superfine Wool Production Pulls Back from Peak

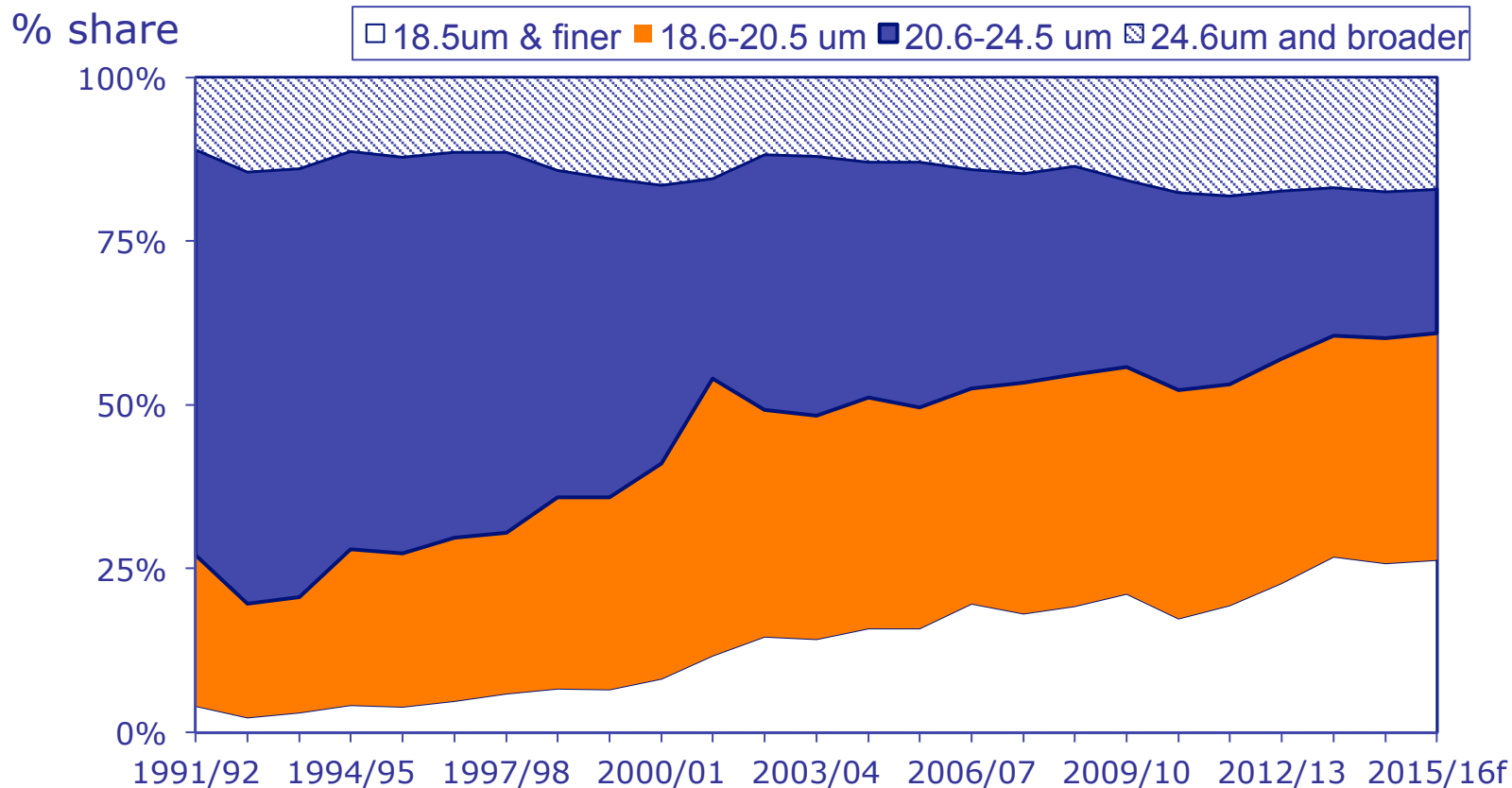


Source: Poimena Analysis, AWTA, NZWTA, Cape Wools, FLA, Delta, American Sheep Industries, China Wool Textile Association.

Updated March 2016

# Medium Merino Wool Production Drops

## Australian Wool Production by Micron Range Shares



Source: Australian Wool Production Forecasting Committee and Australian Wool Testing Authority

Updated: March 2016

# Micron Price Differentials Narrow for Superfine Wool

% difference relative to 21 micron wool

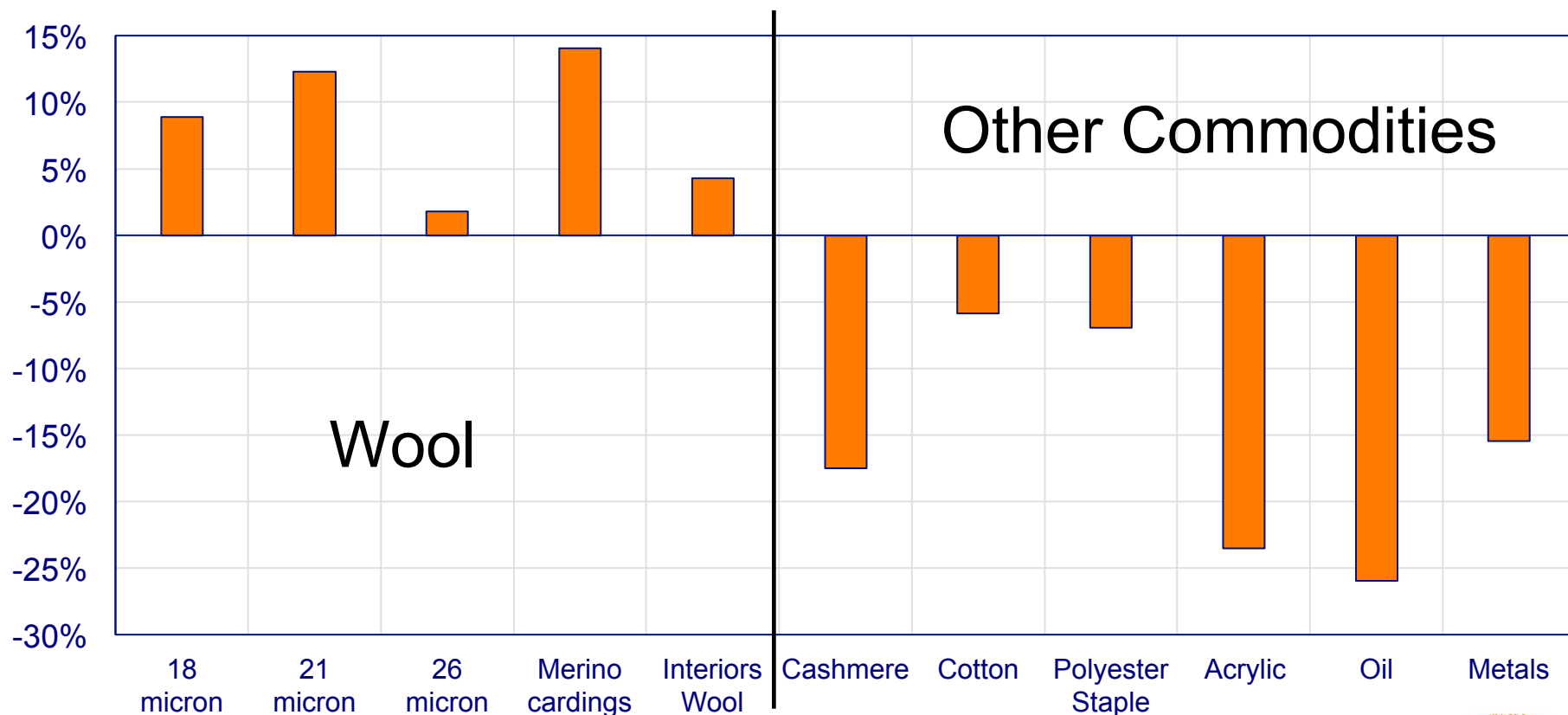
Month and year	18 micron	19 micron	23 micron	26 micron	28 micron	Merino Cardings
July 1999	+125%	+88%	-22%	-29%	-29%	na
July 2005	+30%	+18%	-3%	-25%	-38%	-50%
July 2015	+8%	+4%	-2%	-21%	-32%	-22%
10 year average	+27%	+14%	-5%	-31%	-45%	-37%
5 year average	+14%	+7%	-4%	-30%	-43%	-34%
March 2016	<b>+9%</b>	<b>+4%</b>	<b>-2%</b>	<b>-28%</b>	<b>-39%</b>	<b>-19%</b>

Source: AWEX

# Wool Outperforms Other Commodities

## % change March 2016 vs March 2015 – US\$ base

% change y-o-y



Source: AWEX, The Economist, CotLook, PCI Fibres  
Prices to March 2016  
Interiors Wool – NZ Crossbred wool



# Demand - Drivers and Prospects 2015/16 and 2016/17

- Mixed economic growth in 2015-2017
  - Solid in US and UK, improving in Europe and Japan
  - China slowing and in transition – a key for wool
- Positive consumer confidence in the US, Europe and Japan
- BUT... disappointing results for retail sales in some countries
- Strong demand for double-faced woollen fabric – will it continue?
- Wool textile industry stocks now under control?
- High price ratio for wool against cotton prices and synthetic fibres – does it matter?
- US\$ predicted to be strong against A\$, but how accurate are the forecasters?



**Positives but risks**

# 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%	+8.9%	+6.6%
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.

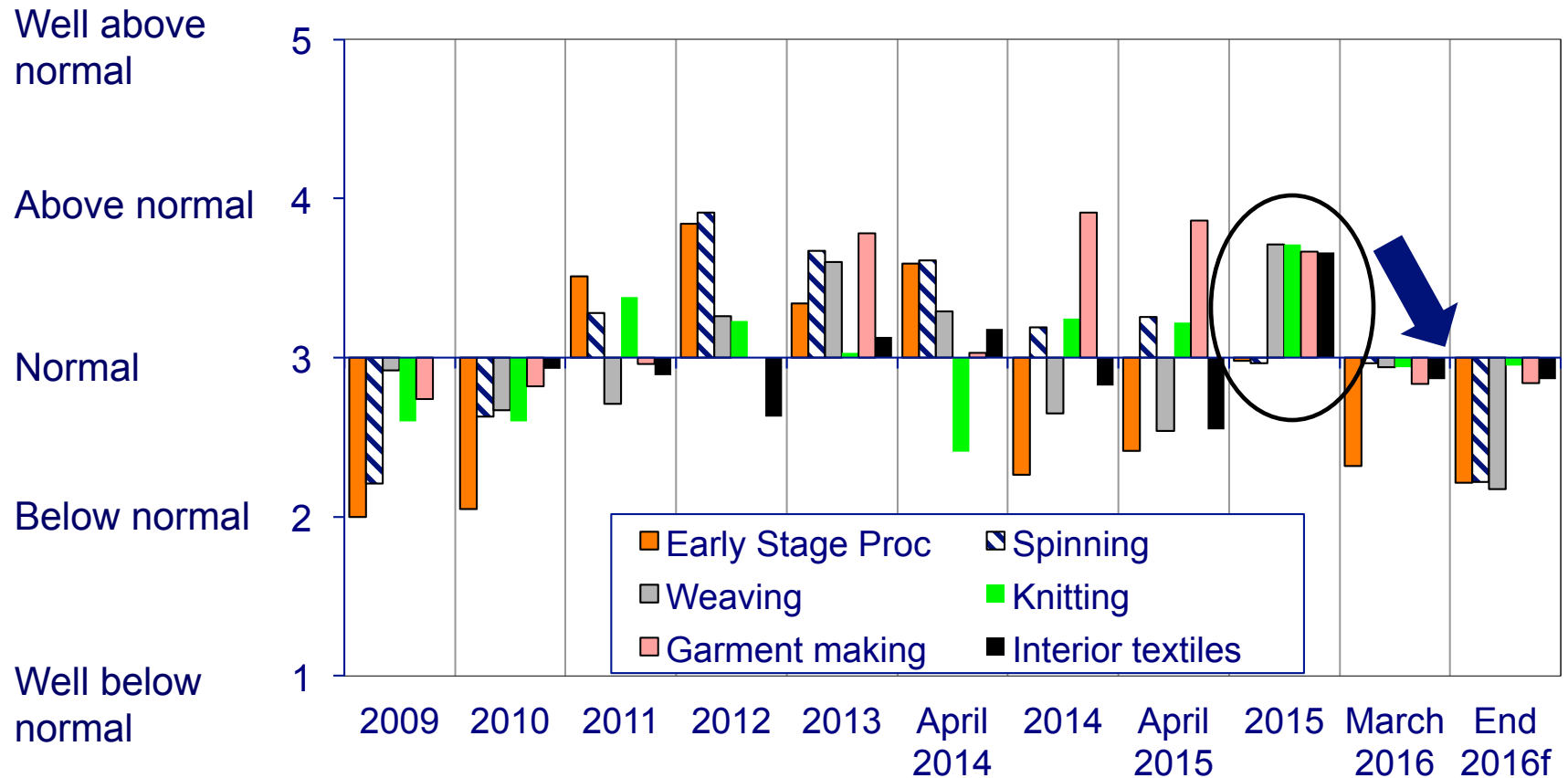
Notes: Value of retail sales. China is for retail sales of garments, hats, footwear and knitwear. Japan is for major department stores. Germany, Italy, France and South Korea is total retail sales.

# The Craze for Double-Faced Woollen Fabric in China



- Woollen fabric uses shorter wools (cardings etc.) as well as crossbred wool
- Double-faced fabric is two pieces of woollen fabric knitted together during production, each of a different colour or shade
- Garment doesn't need a lining
- Fabric used mainly for women's coats for China market for sale in Fall/Winter 2015

# Wool Textile Industry Stock Levels Pull Back from Highs



Source: IWTO Wool Textile Business Survey  
Weighted results for China, Italy, Germany, Uruguay, Mongolia, Argentina, South Africa, Japan, France, Spain and the United Kingdom

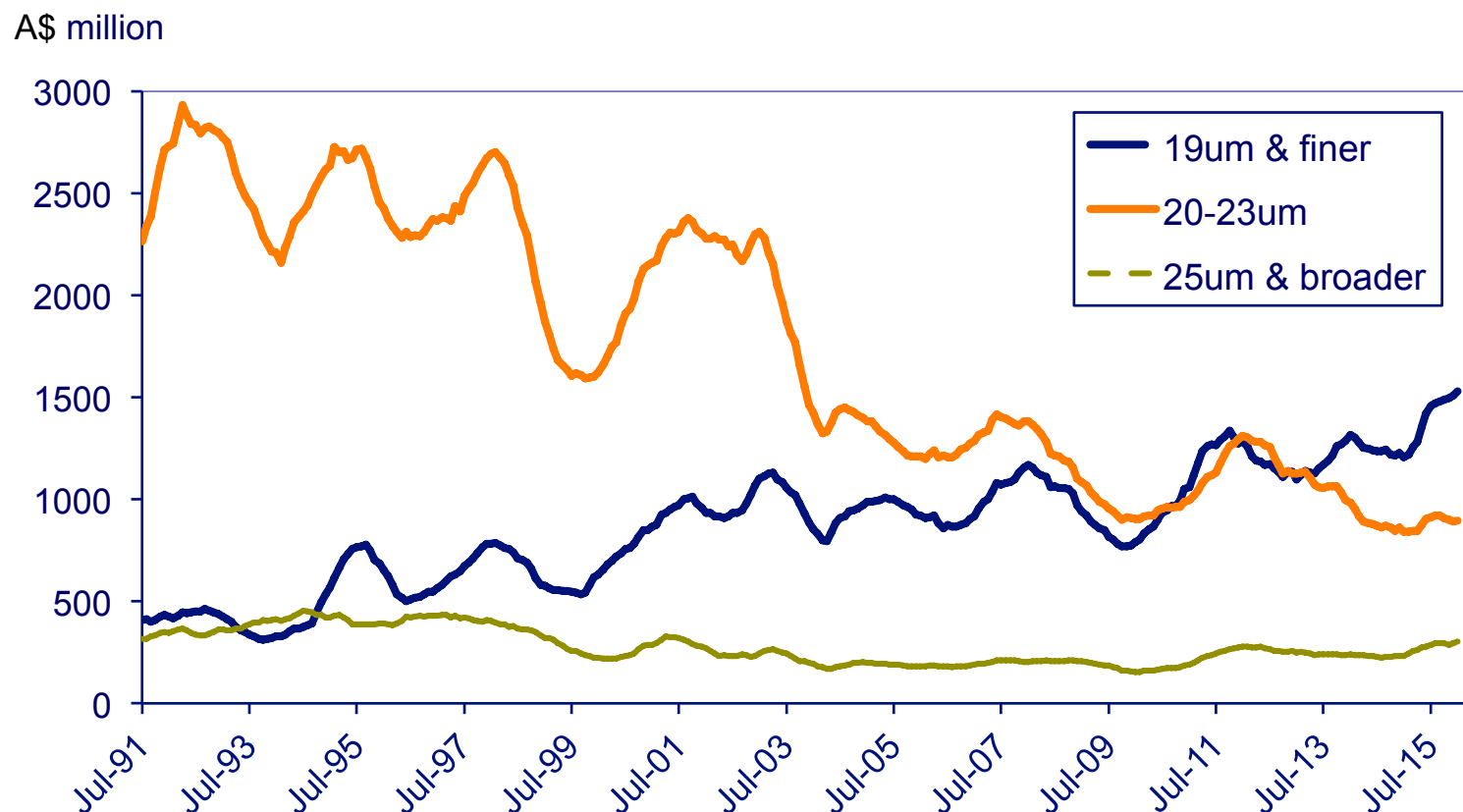
# What about the longer term?

- Growing demand for fine Merino wool
- Long-term prospects for wool depend on global economic conditions and income growth, not relative production with other fibres
- Demand for business-wear for men will continue to be a mainstay for wool
- Knitwear a growth area, particularly with increased demand for active leisurewear and casual garments
- Coats the best performers in womenswear for wool
- Trade in other women's wool clothing continues to fall



# Demand for Fine and Superfine Wool Rising

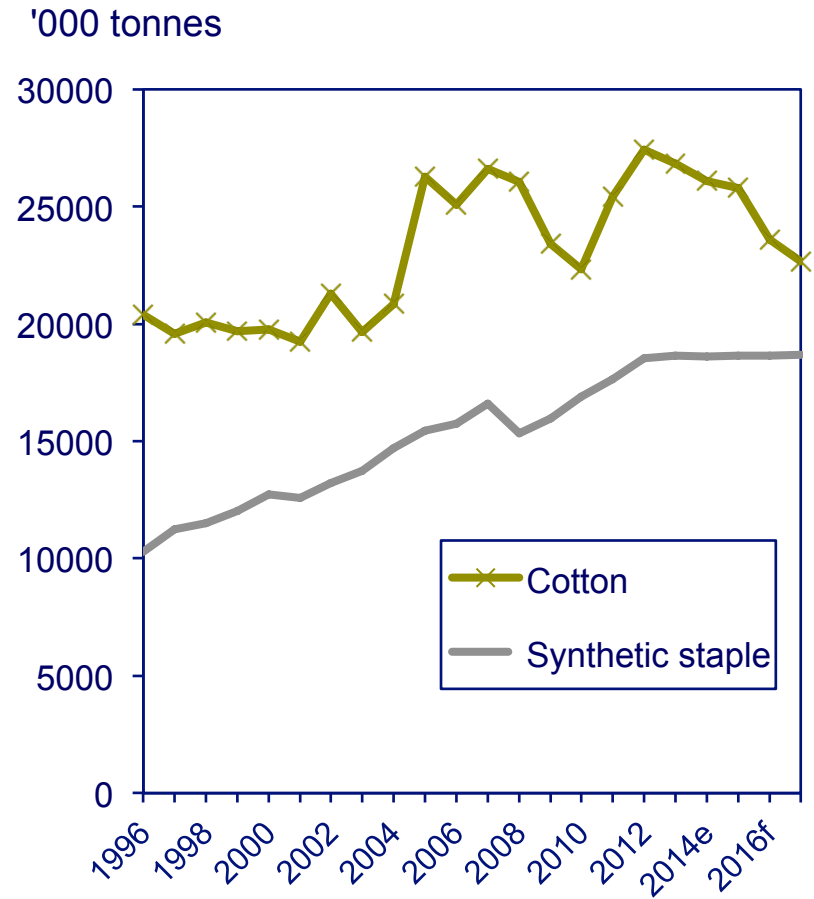
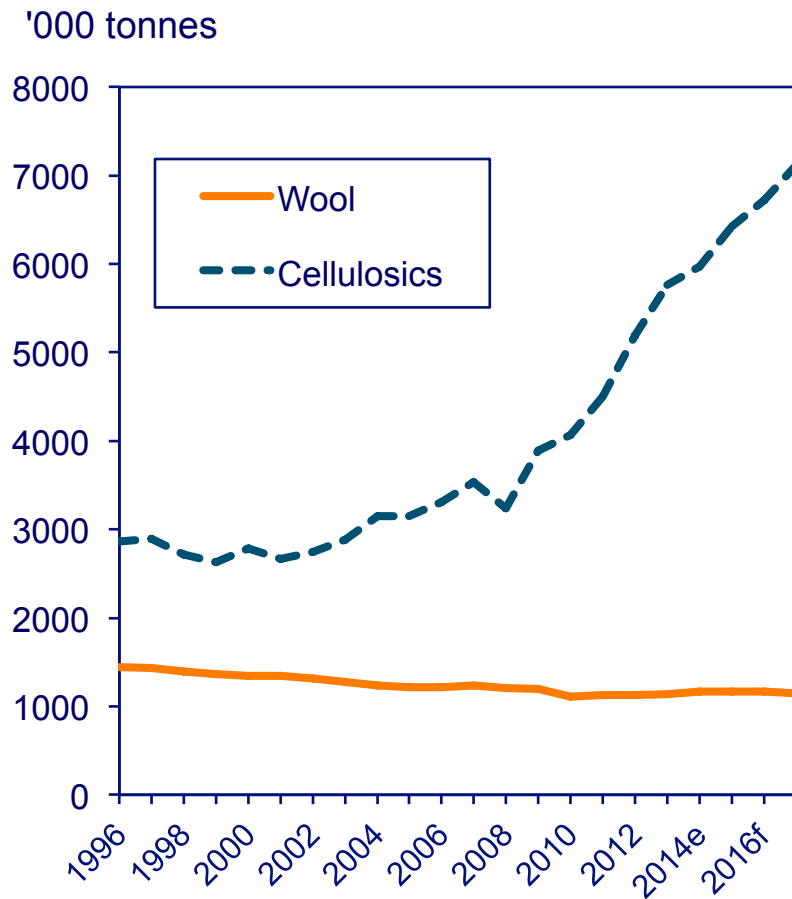
## Australian wool exports by value



Source: Australian Bureau of Statistics, Poimena Analysis  
Data to January 2016  
12 month rolling aggregate

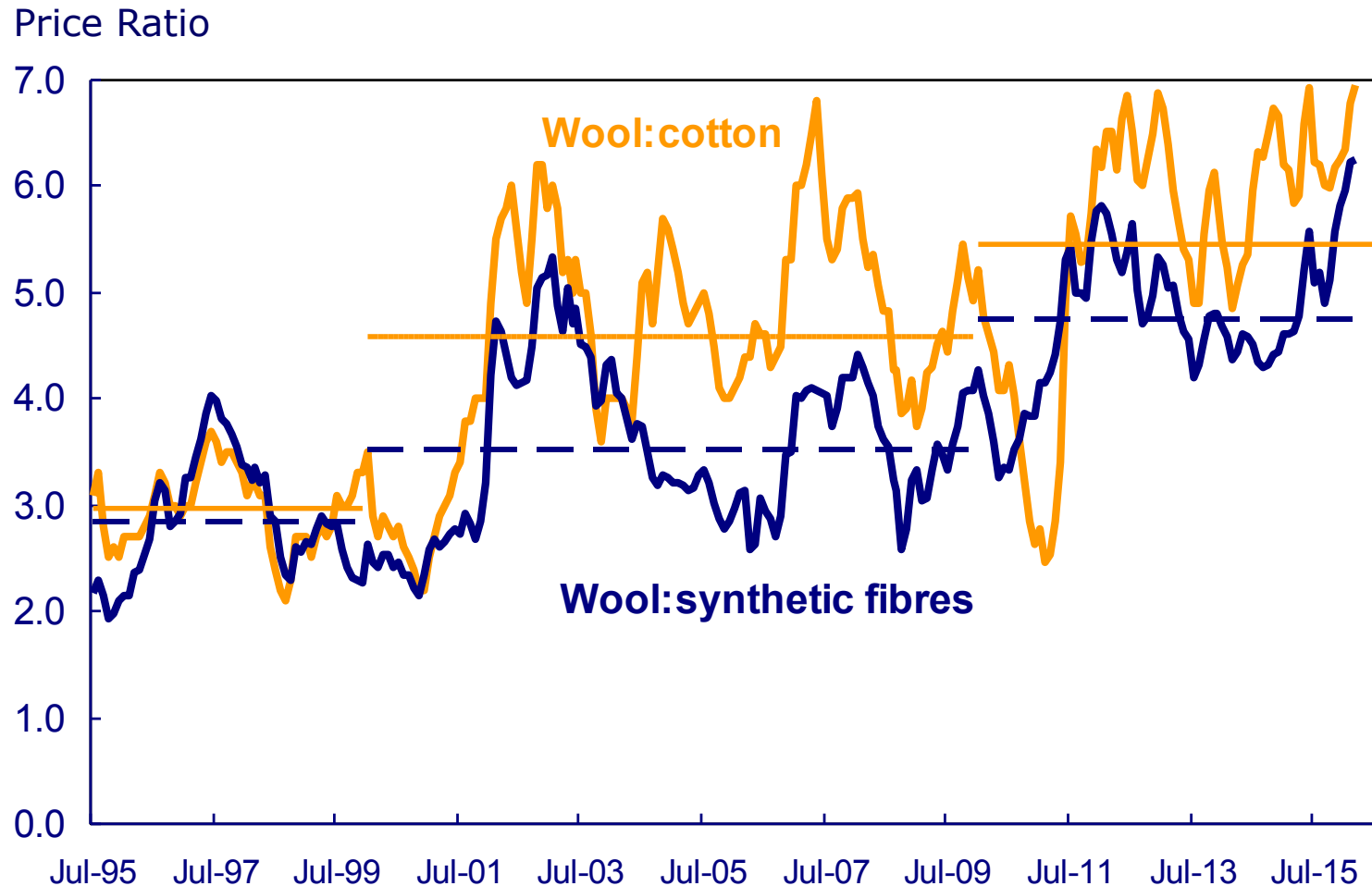


# World Production of Wool and of Competing Fibres: Wool Cannot Compete on Volume



Source: CIRFS, USDA, Poimena Analysis, IWTO Market Information Report 2015  
Note: For wool and cotton the years are seasonal years i.e. 2011 = 2010/11 season

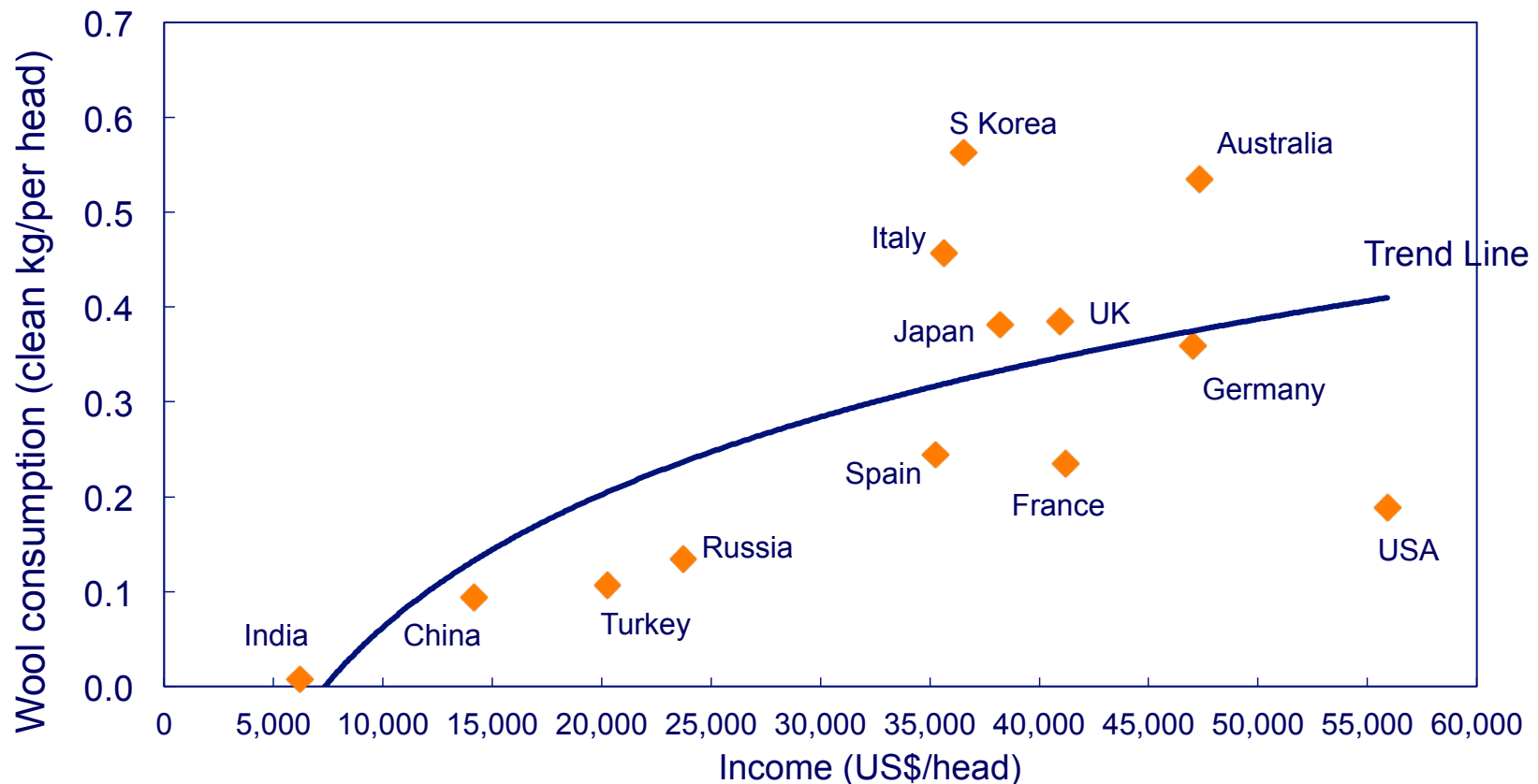
# Wool Price Ratios With Other Fibres Rises to New Level



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Poimena Analysis  
Compared with 21 micron wool. Data to March 2016



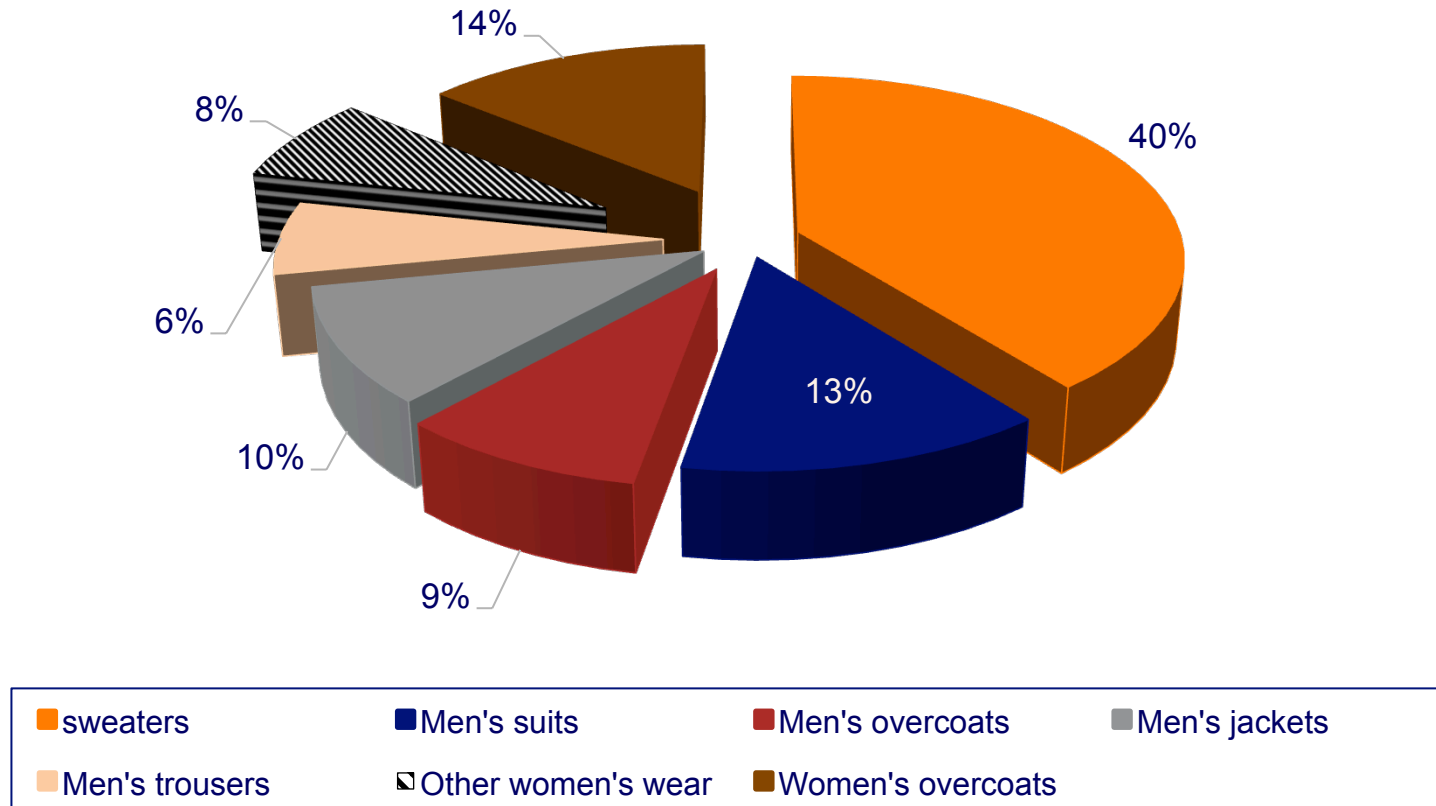
# Apparel Wool Consumption Rises as Incomes Lift



Source: International Monetary Fund and Woolmark

Apparel wool consumption is apparel NDA at retail average 2012-2014 as estimated by Poimena Analysis. Income is US\$ GDP per head in 2015 on a purchasing power parity basis.

# World Trade in Wool Clothing in 2014 (% share)



Source: IWT0 Market Information 2015 Report, Foreign Trade Statistics, International Trade Centre, Poimena Analysis & Delta Consultants

# Product Segment Prospects:

## Growth opportunities for fine Merino wool

### Growth



### Mainstay



### Decline



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Thank You!

