

The Global Wool Market: The Good, the Bad and the Prospects

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Topics

1. Recent price trends
2. Global production and supply
3. Demand
4. Prospects
5. Information gaps

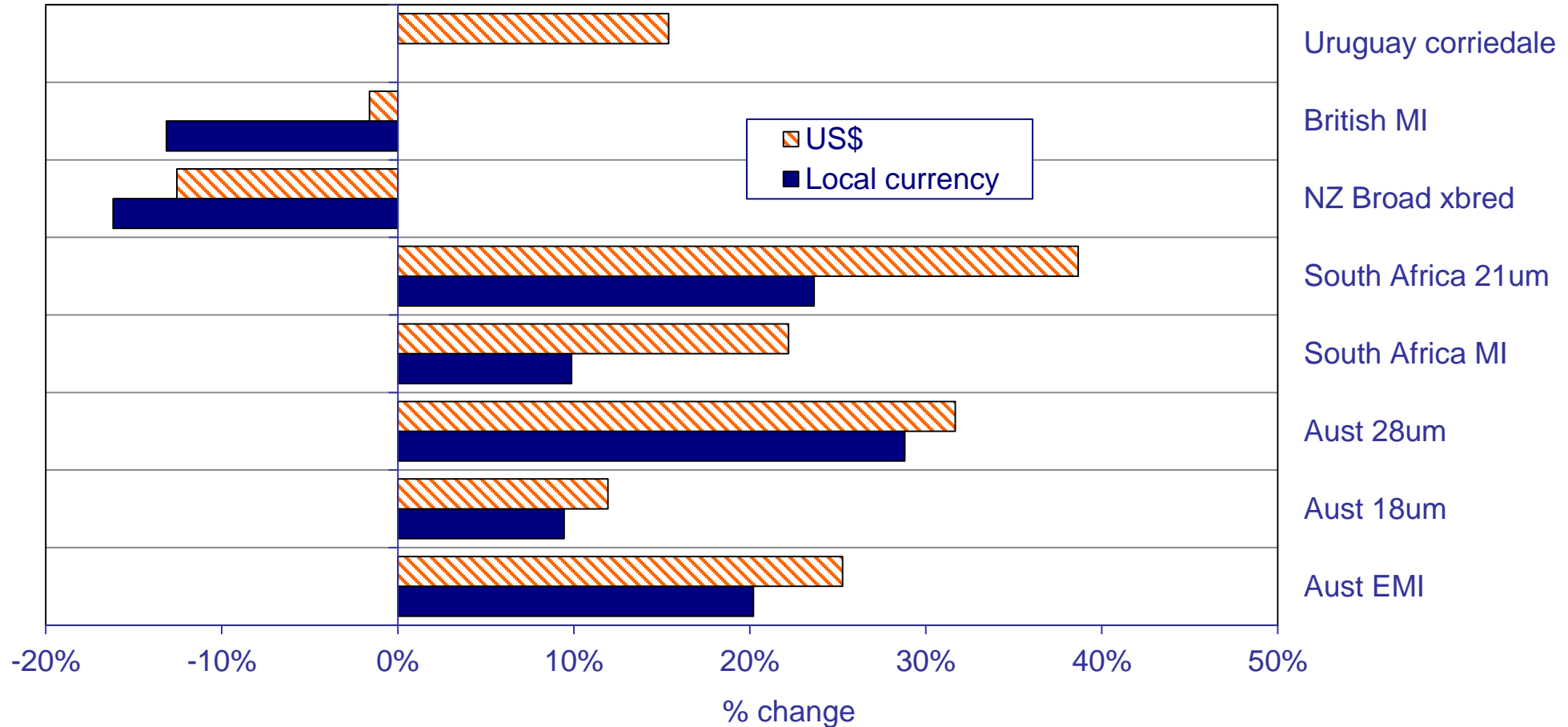


Prices



Merino Wool Prices On a High; Broad Wool Prices Low

(% change April 2018 compared with April 2017)

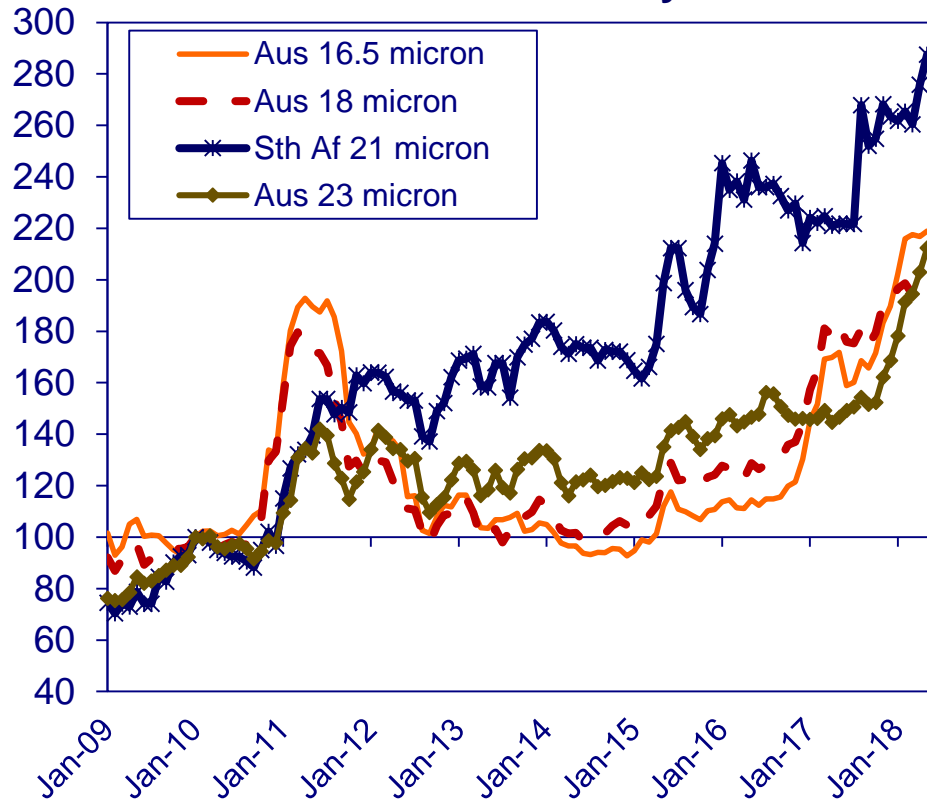


Source: AWEX, NZ Wool Services, Capewools, BWMB, Zambrano & Cia (Uruguay)

Merino Wool Prices on a High: Australia and South Africa

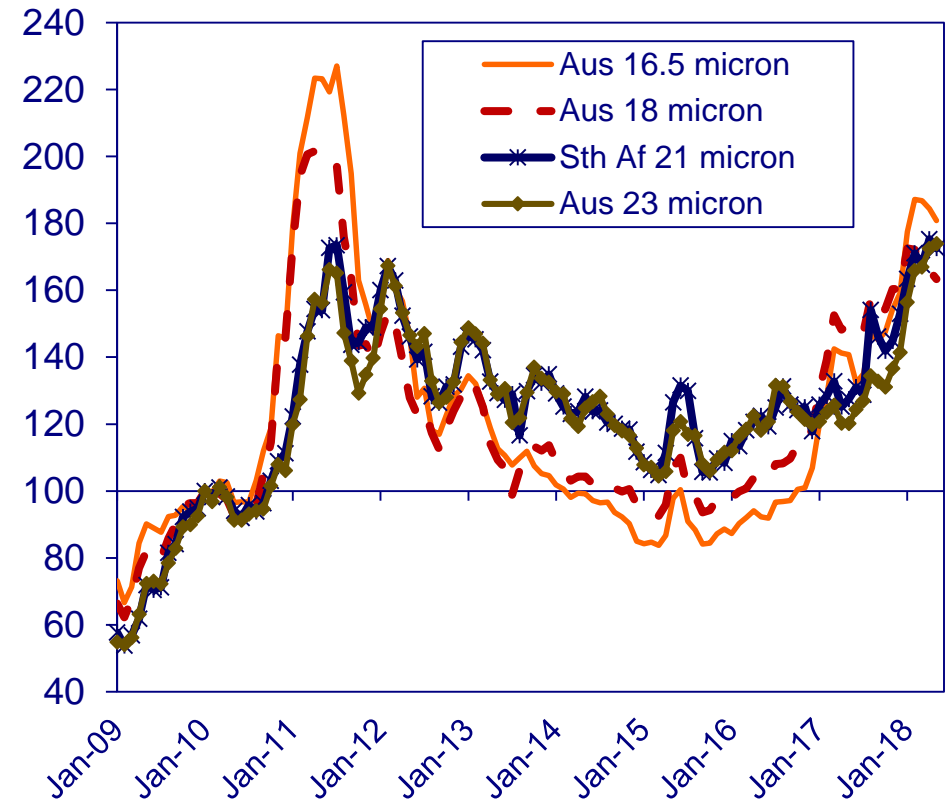
Index
Jan 2010 = 100

Local Currency



Index
Jan 2010 = 100

US\$

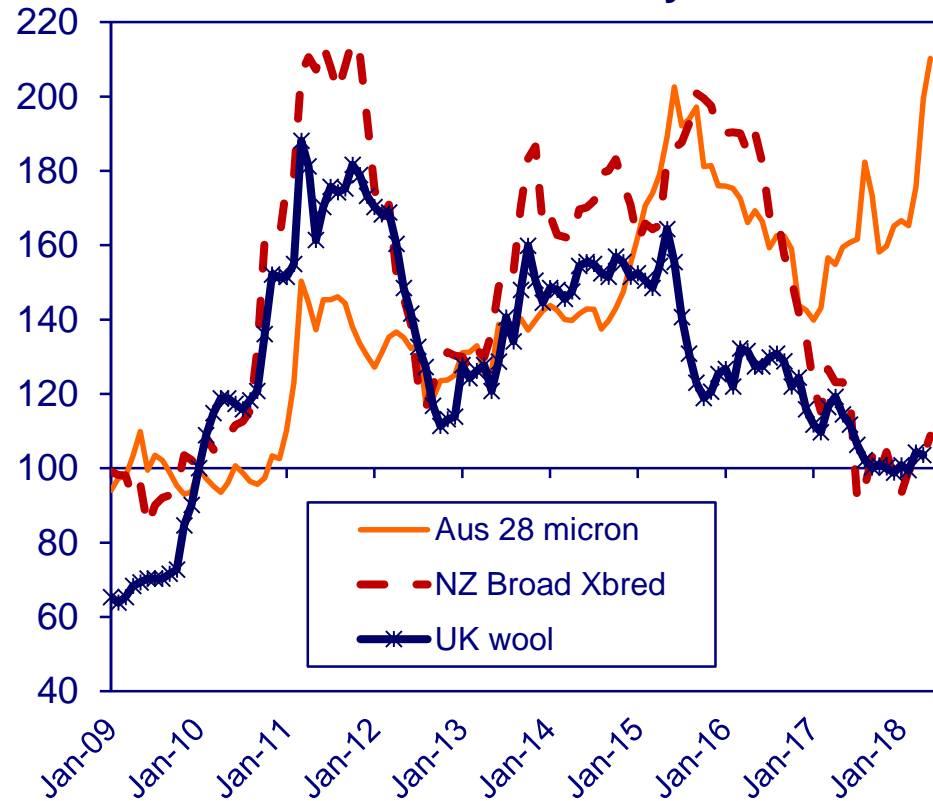


Source: AWEX, NZ Wool Services, Capewools, BWMB
Data to 11th May 2018

Broad Wool Prices at Nine Year Lows

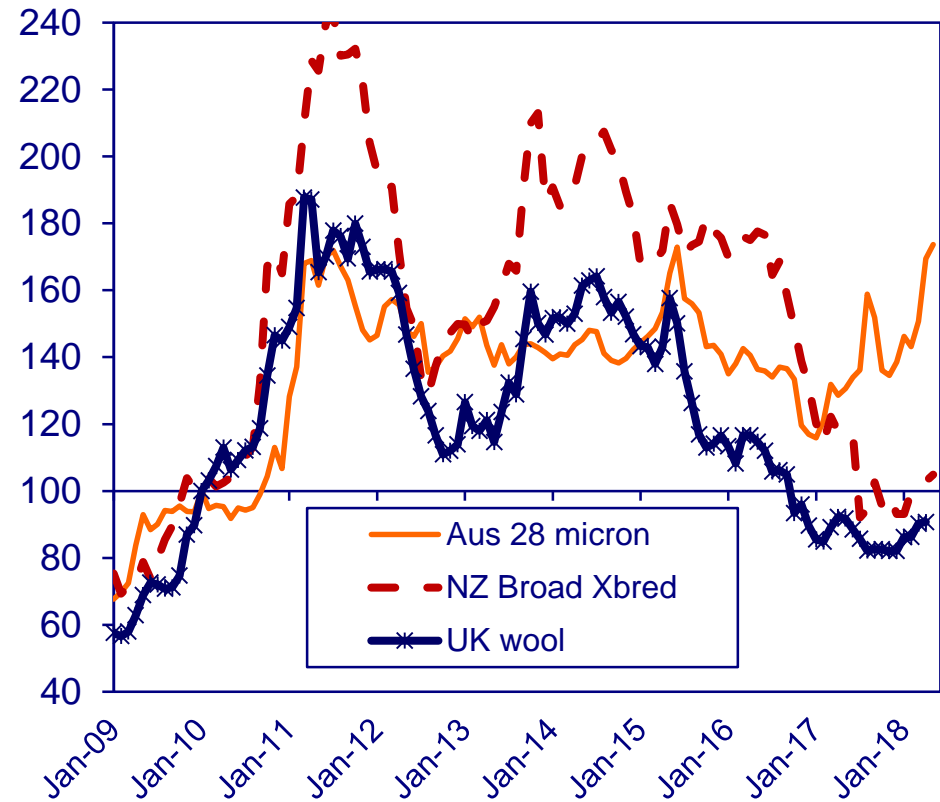
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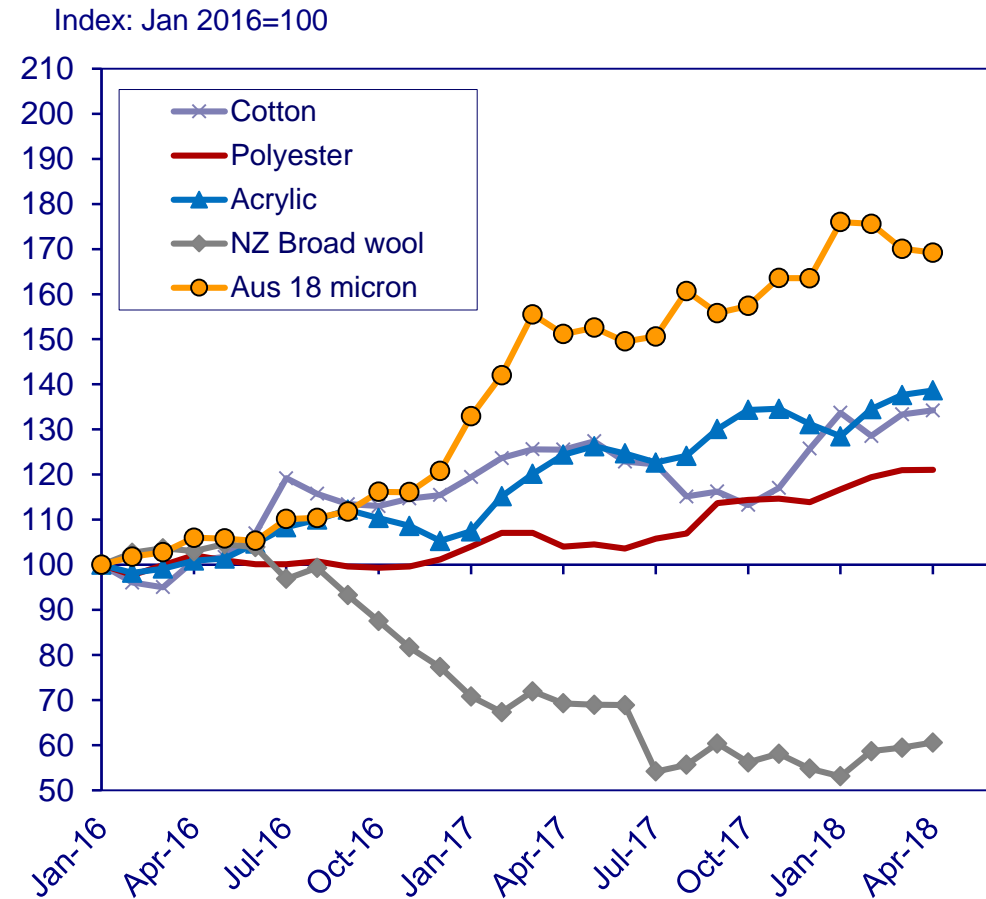
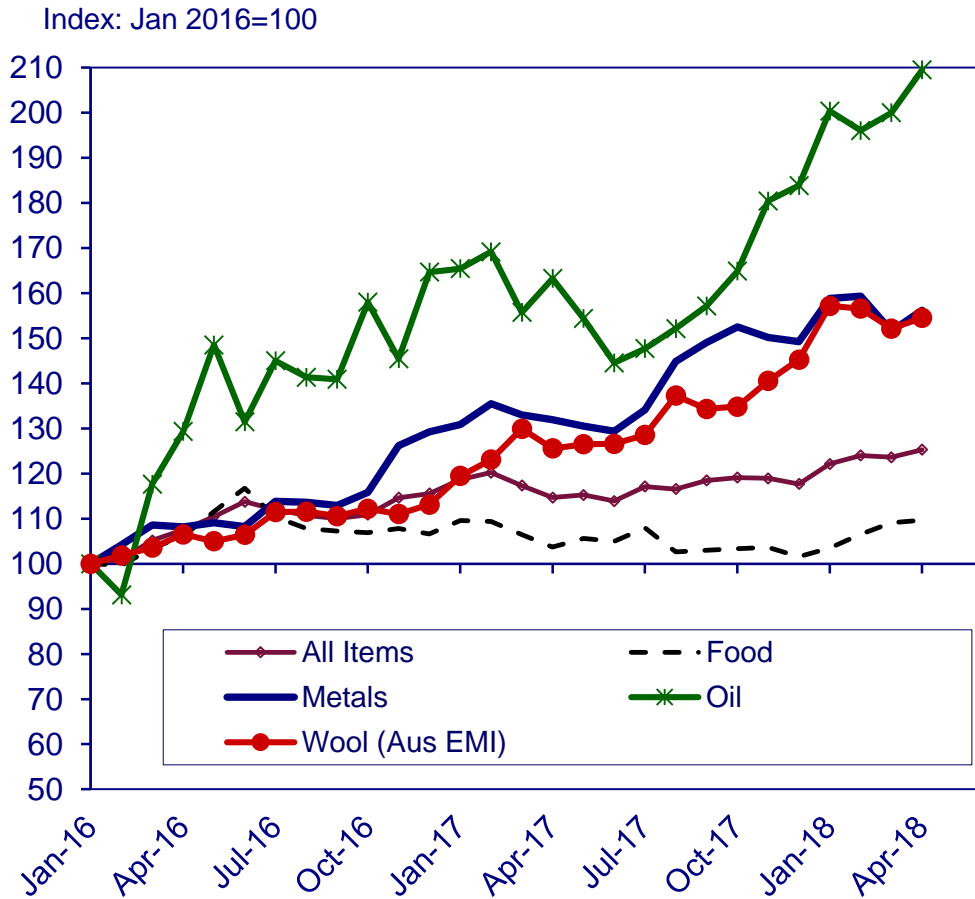
Index
Jan 2010 =100

US\$



Source: AWEX, NZ Wool Services, BWMB
Data to 11th May 2018

Broad-based Price Rise for Commodities (US\$ basis)



Source: The Economist metals and commodity prices US\$ index; AWEX EMI in US\$. Cotton Outlook for cotton and Mackenzie Wood PCI Fibres for polyester staple and acrylic
Data to 27th April 2018

Merino Wool Price Supercycles

Date	Peak Price*		Price change - start to peak*		Weeks - start to peak	Comments
	UScents	Acents	UScents	Acents		
February 1986 to May 1988	1203	1582	+743 (+162%)	+925 (+140%)	111	Strong co-ordinated economic growth, Soviet Union buying, China begins, positive fashion styles
April 1993 to March 1995	707	949	+379 (+116%)	+496 (+107%)	97	World economic recovery, post Reserve Price Scheme collapse “bounce”, China emerges
November 2001 to January 2003	709	1211	+350 (+97%)	+501 (+71%)	59	Last bale of the Australian wool stockpile sold – kicks off price rise
May 2010 to June 2011	1512	1434	+789 (+109%)	+564 (+65%)	57	Global economic recovery after GFC and cotton prices to 100+ year highs
April 2016 to May 2018	1439	1891	+540 (+60%)	+644 (+53%)	111+	Synchronised economic growth in US & EU, general commodity price rise. Constrained Merino wool production.

* Based on the Australian Eastern Market Indicator, 2017/18 basis
 + Peaked in USD on 2nd March 2018 and in AUD on 10th May 2018



Production and Supply



Total and Merino Wool Production Stable At Lows

2017 total production

1,138.3 mkg clean

2018 total production

1,141.3 mkg clean

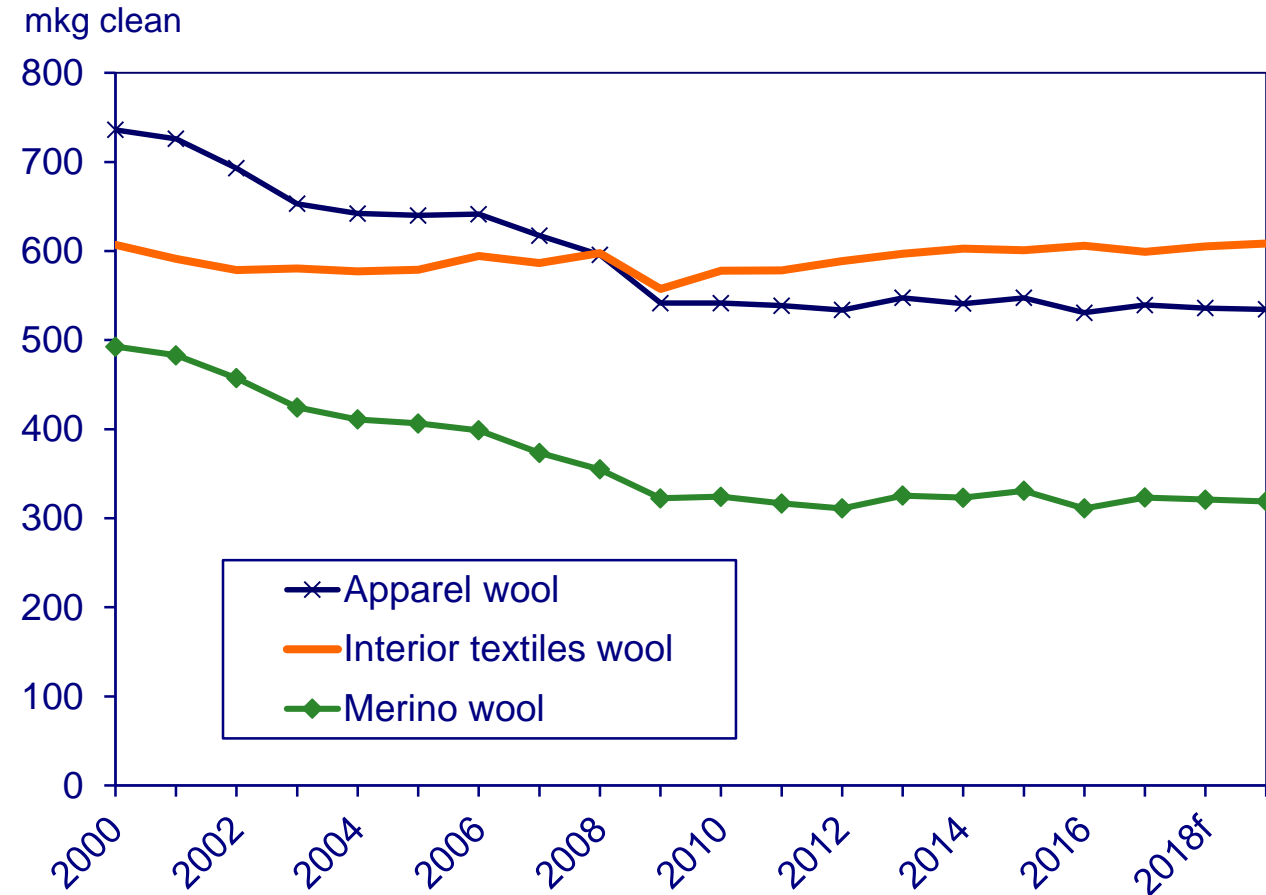
2019 total production

1,143.1 mkg clean

Near 70 year lows

Low stocks of Merino wool

High stocks of broad wool in NZ



Source: IWTO, Country statistics, Poimena Analysis
Updated April 2018

World Wool Production

Total wool production - mkg clean

mkg clean	2017	2018f	% change	2019f	% change
“Apparel” wool IWTO countries					
Australia	272.0	269.2	-1.0%	265.9	-1.2%
South Africa	27.0	25.1	-7.1%	25.8	+2.7%
Argentina	26.1	25.9	-0.7%	25.9	+0.1%
Uruguay	17.9	18.3	+2.3%	18.8	+3.0%
USA	6.6	6.4	-4.0%	6.0	-5.3%
“Interior textile” wool IWTO countries					
China	180.0	179.9	-0.1%	180.0	+0.1%
New Zealand	102.8	104.0	+1.2%	104.7	+0.7%
India	33.2	33.4	+0.8%	33.7	+0.9%
UK	25.2	25.8	+2.5%	25.6	-0.6%
Mongolia	18.5	20.5	+11.1%	21.7	+5.6%
Other countries	429.2	432.8	+0.8%	435.0	+0.5%
Global	1,138.3	1,141.3	+0.3%	1,143.1	+0.2%

Source: IWTO national committee reports, FAO and Poimena Analysis
 Note: 2016 = 2015/16 for Australia, NZ, Uruguay, Argentina, South Africa.
 Updated: 23rd April 2018

Key Points from Country Reports to IWTO

- Dry seasonal conditions in **Australia** holding back growers from increasing flocks and wool production. No stocks of Merino wool.
- Strong international prices for lamb and mutton will mean sheep numbers maintained in **New Zealand** despite long period of low broad wool prices. Less second shearing. High stocks of crossbred wool held on farm and in warehouses.
- Excellent fine wool prices bringing increased interest in wool production in **South Africa**, but severe drought in western parts has seen lower sheep numbers and holding back wool production. No stocks held.
- Normal seasonal conditions and high wool prices encouraging growers to rebuild flocks in **Argentina** but competition from other enterprises restricting growth
- Favourable seasonal conditions in **Uruguay** and better prices for wool relative to other enterprises encouraging an increase in wool production
- In the **United Kingdom**, uncertainty around the impact of Brexit on the lamb trade and the subsidy level is weighing on industry
- High international wool prices, strong lamb demand in the **United States** and steady US military wool purchases providing a boost to sheep numbers
- Growers in **Mongolia** responding to increased international buyer demand for raw (unprocessed) wool from Mongolia
- **Indian** Government working to persuade growers to focus on wool production rather than meat production



Change in Australian Wool Production After Each Merino Price Supercycle

Merino Supercycle	Peak Price*		Change in production in next 2 seasons		Comments
	UScents	Acents	mkg greasy	%	
February 1986 to May 1988	1203	1582	+188	+22%	Excellent season conditions, low prices for other agricultural enterprises and high Reserve Price
April 1993 to March 1995	707	949	-21	-3%	Post-Reserve Price Scheme collapse, more profitable competing enterprises
November 2001 to January 2003	709	1211	-24	-5%	Millennium drought and long period of low medium Merino prices see further reduction in production
May 2010 to June 2011	1512	1434	+7	+2%	Some recovery helped by breaking of extended period of drought
April 2016 to May 2018	1439	1846	-7	-2%	Growers keen to lift flock numbers but dry seasonal conditions and high lamb and mutton prices holding back recovery

* Based on the Australian Eastern Market Indicator, 2017/18 basis

Constraints on Wool Production

- Seasonal conditions
- Available land in a suitable climate
- Investment in and relative profitability of competing land uses
 - Cropping
 - Forestry
 - Dairy
 - Beef
- Lamb and sheepmeat demand and prices
- Technology and productivity

Demand for Wool

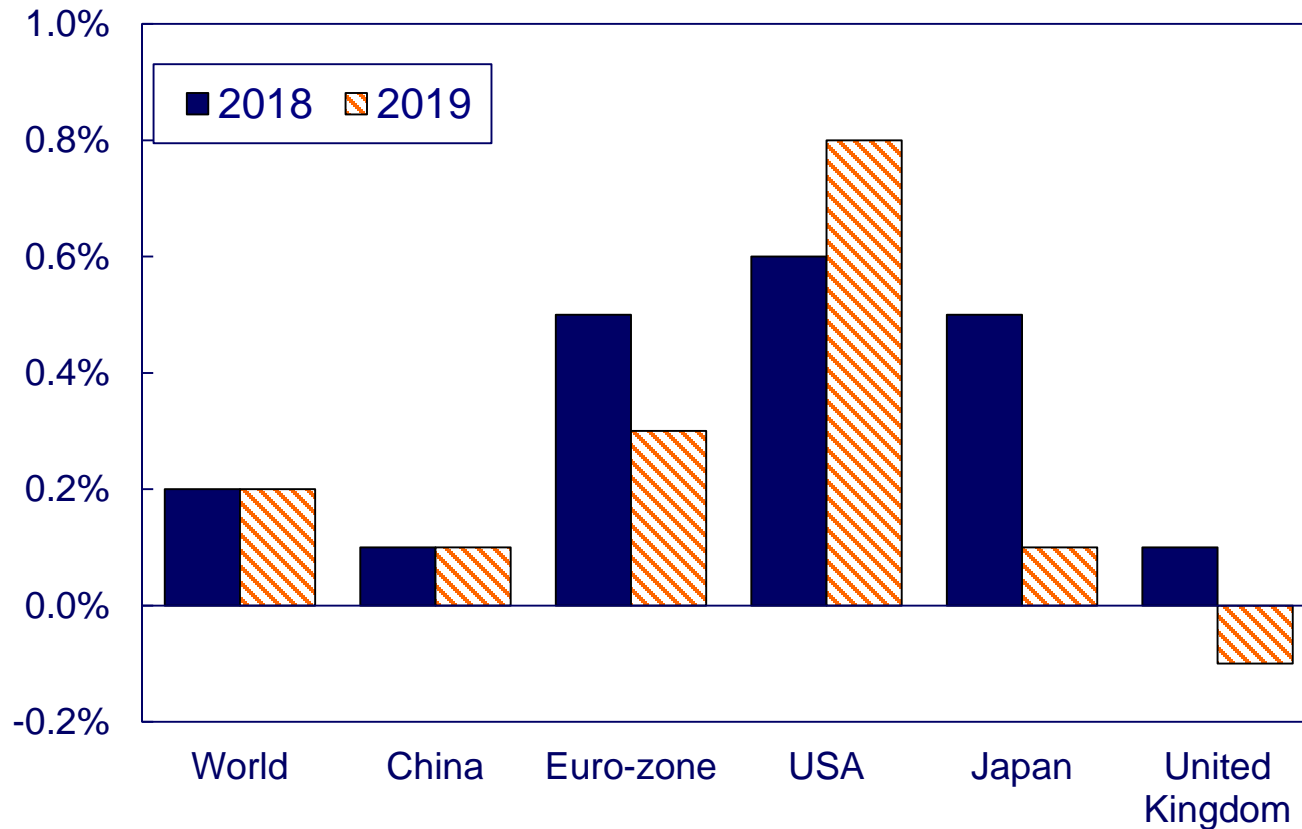


Drivers of Demand for Wool

- Economic conditions, consumer incomes and consumer confidence
- Retail sales of clothing
- Stocking and destocking of the wool textile pipeline
- Consumer tastes and preferences
 - Business vs casual or a blend?
 - Fast fashion
 - Sustainability
 - Luxury
 - Housing investment
 - Hard floors vs floor coverings
- Prices for competing fibres
- Marketing

Synchronised Economic Upturn in 2018 and 2019

Improvement in forecast April 2018 vs October 2017



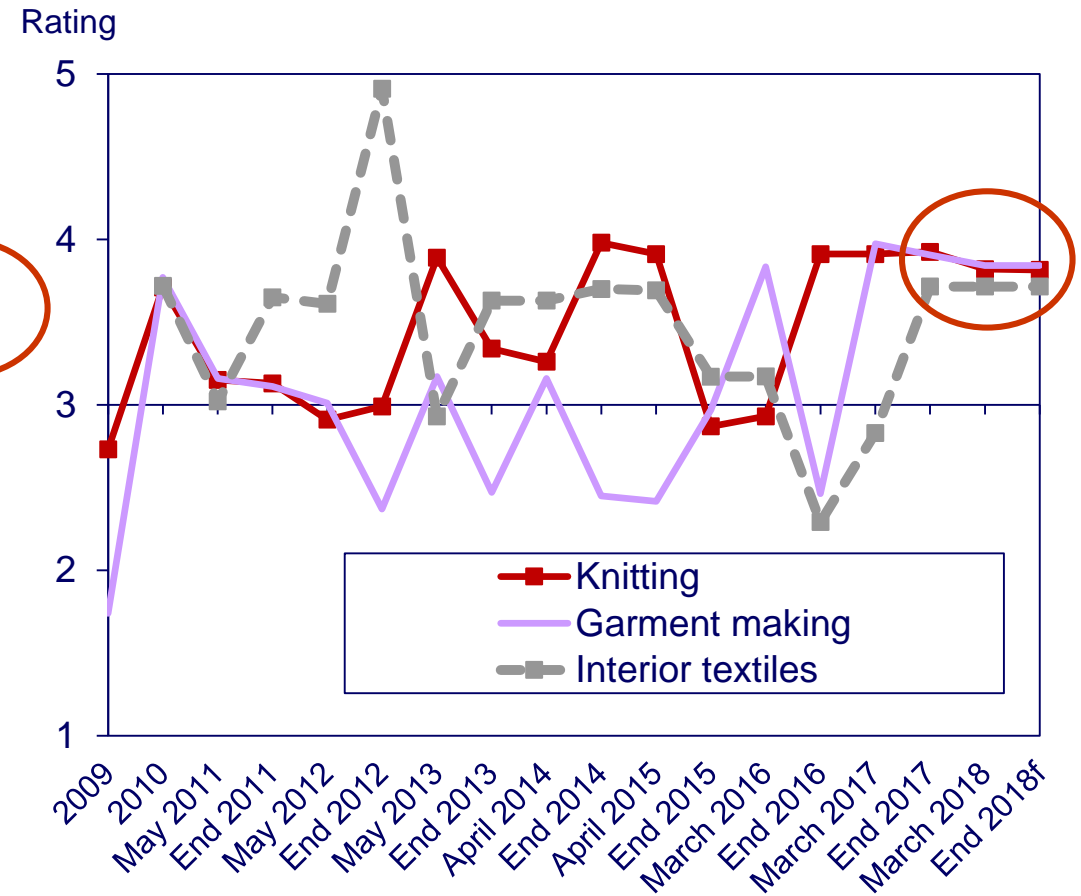
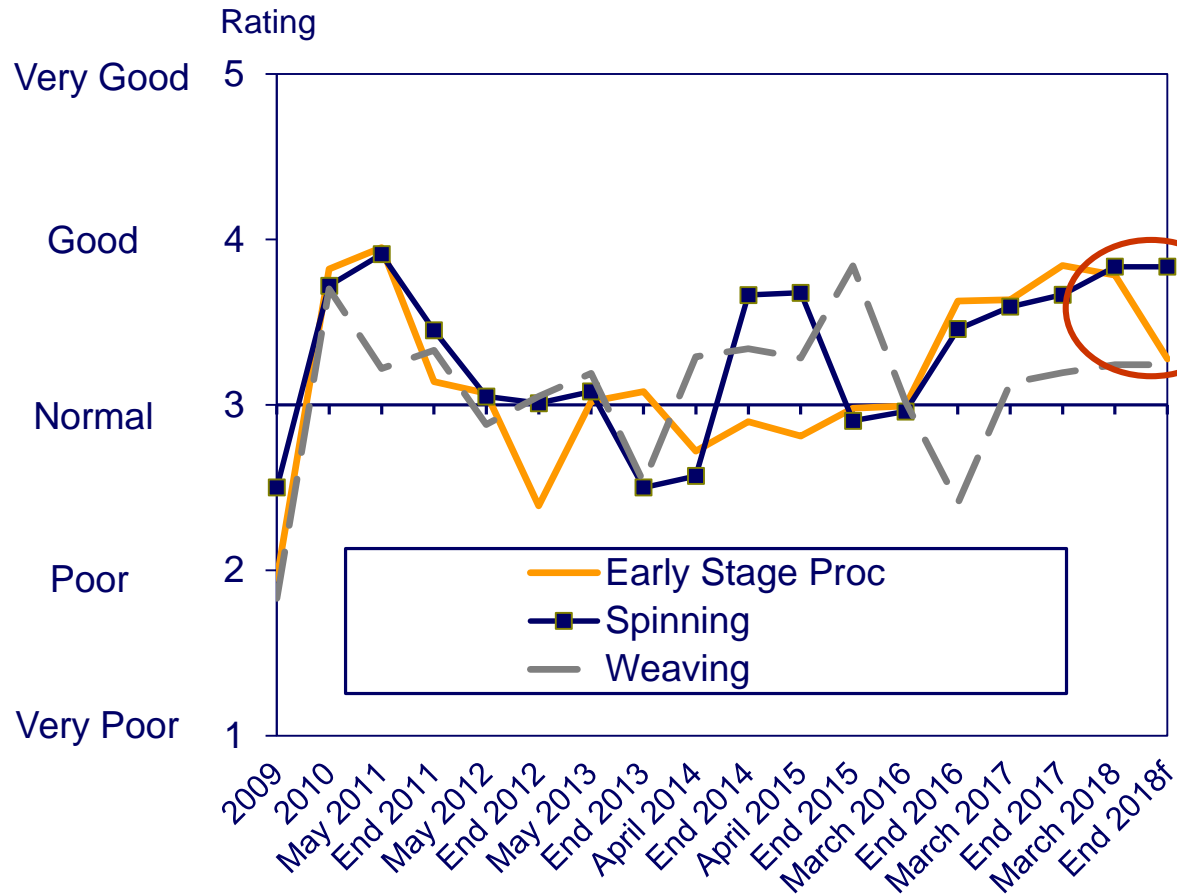
- Improved economic growth forecasts in all key countries:
 - China, Germany, Japan, France, Italy, US, UK and Korea
- Driven by higher investment, trade, helpful economic and financial policies and improved confidence
- Consumer confidence at near 20 year highs in US and EU
- Clothing retail sales better in most major wool consuming countries in A/W
- Interior textiles retail sales lifts in some countries in 2017

Source: International Monetary Fund, April 2018

IWTO Wool Textile Business Survey 2018

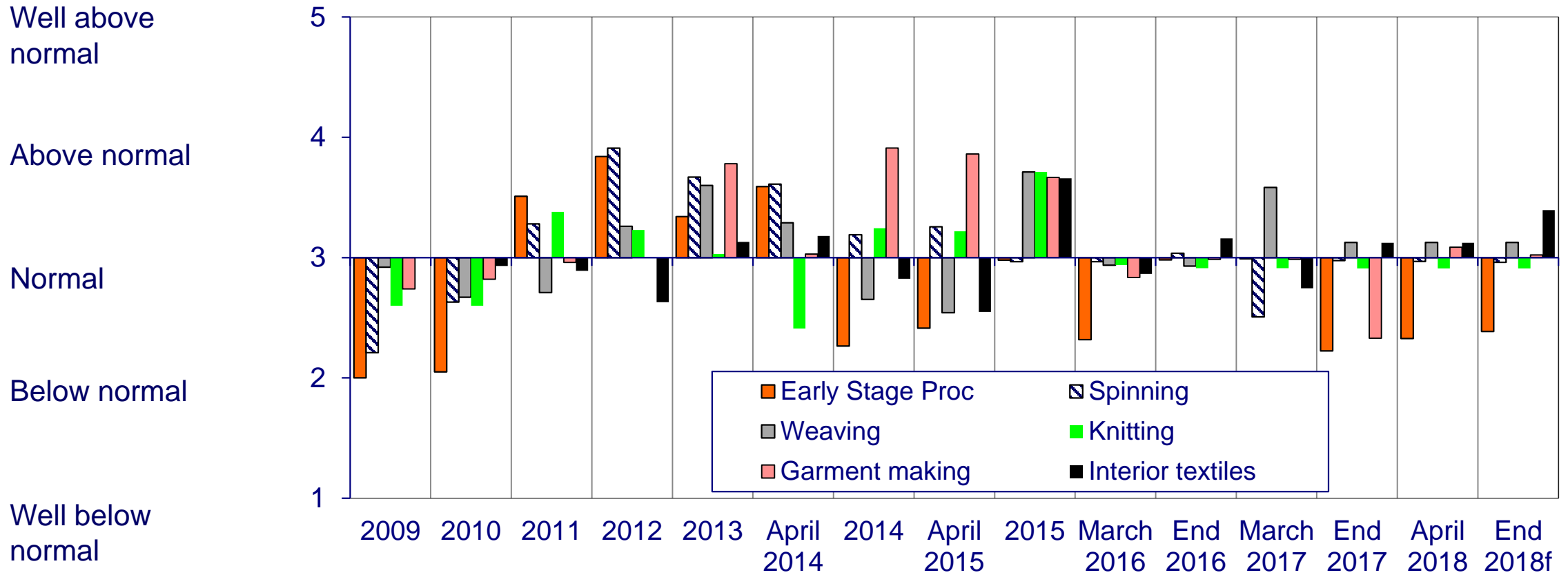
- Ten countries reported
 - China, Italy, Japan, Germany, Uruguay, Mongolia, Argentina, India, Thailand and United Kingdom
- Positive aggregate activity levels for all stages sectors
 - Improvement on a year ago across the board
- Improvement in interior textiles
- Positive or normal conditions and outlook all reporting countries except for Japan
- Stocks below normal in early stage processing and normal in all other sectors

Wool Textile Industry Production Activity: Positive Levels Reported for All Sectors



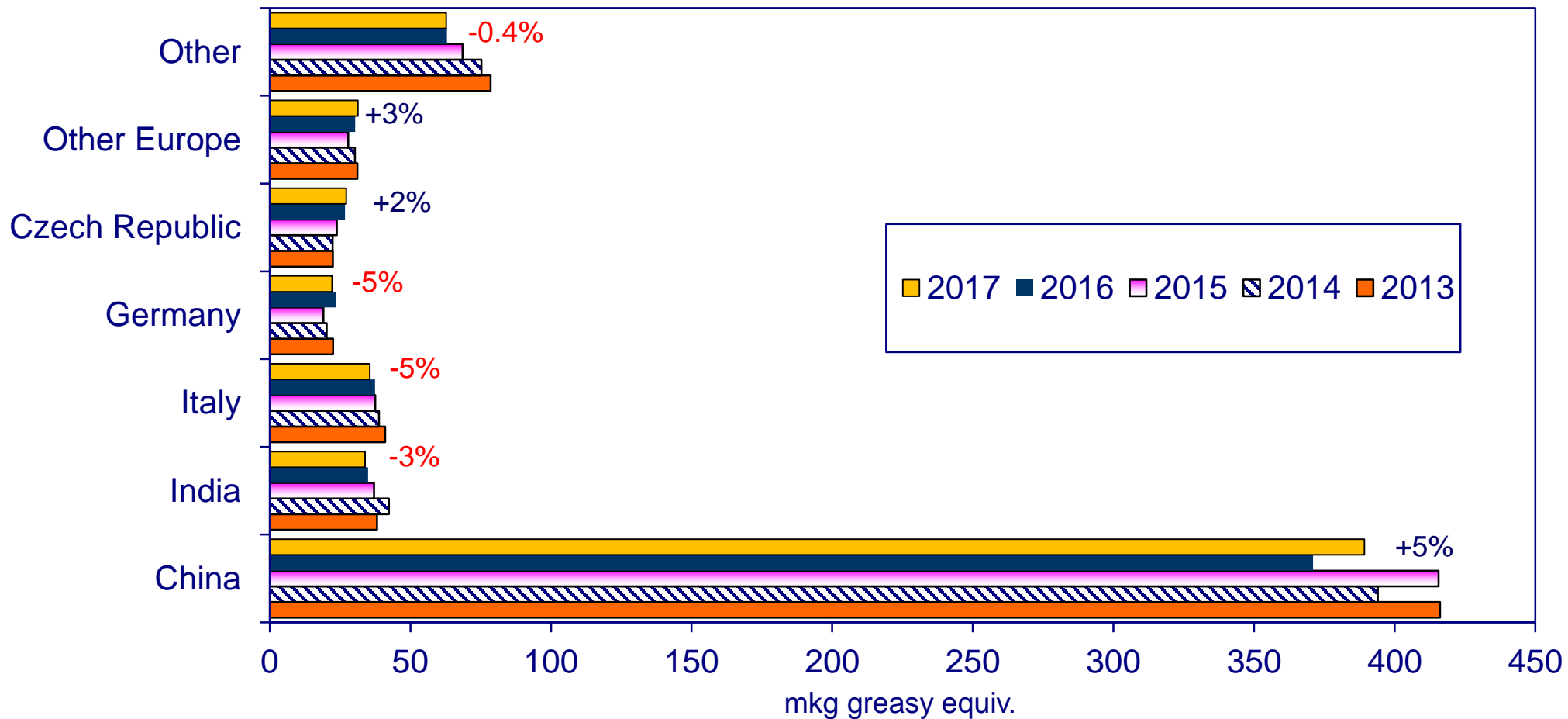
Source: IWTO Wool Textile Business Survey. Updated April 2018
 Weighted results for China, Italy, Japan, Germany, Uruguay, Mongolia, Argentina, India, United Kingdom and Thailand

Wool Textile Industry Stock Levels Below Normal in Early Stage Processing



Source: IWTO Wool Textile Business Survey. Updated April 2018
Weighted results for China, Italy, Japan, Germany, Uruguay, Mongolia, Argentina, India, United Kingdom and Thailand

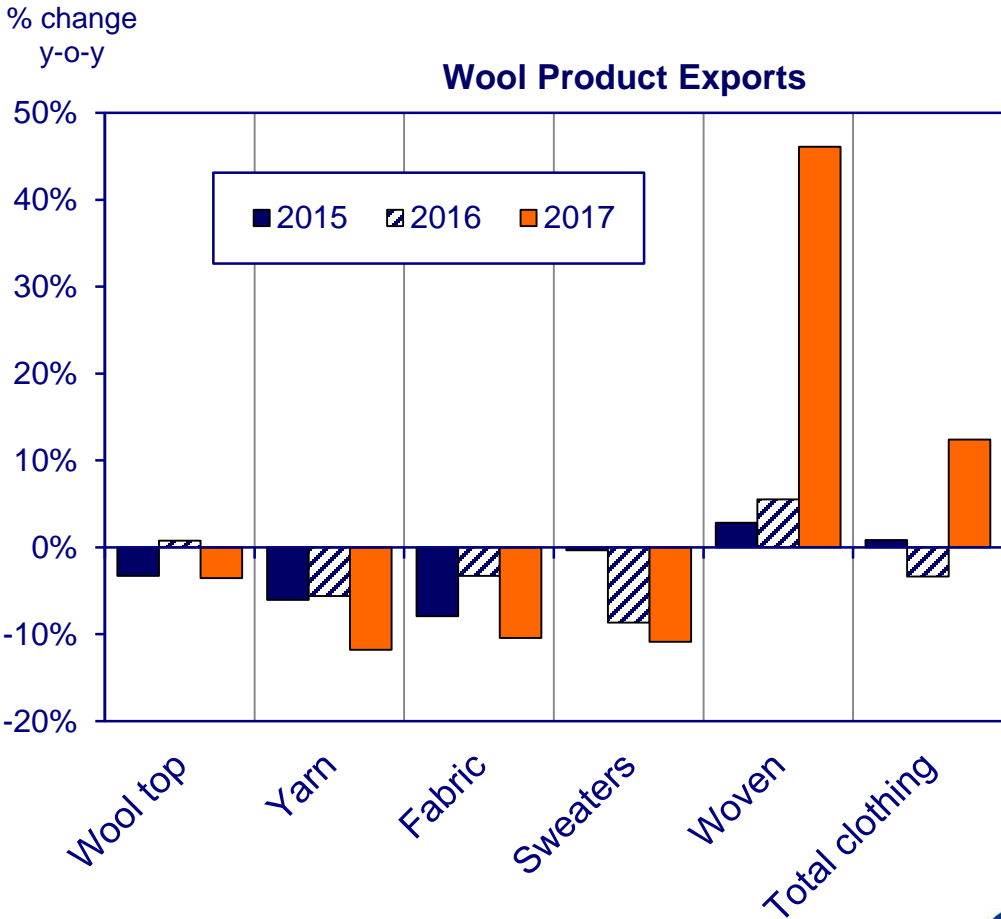
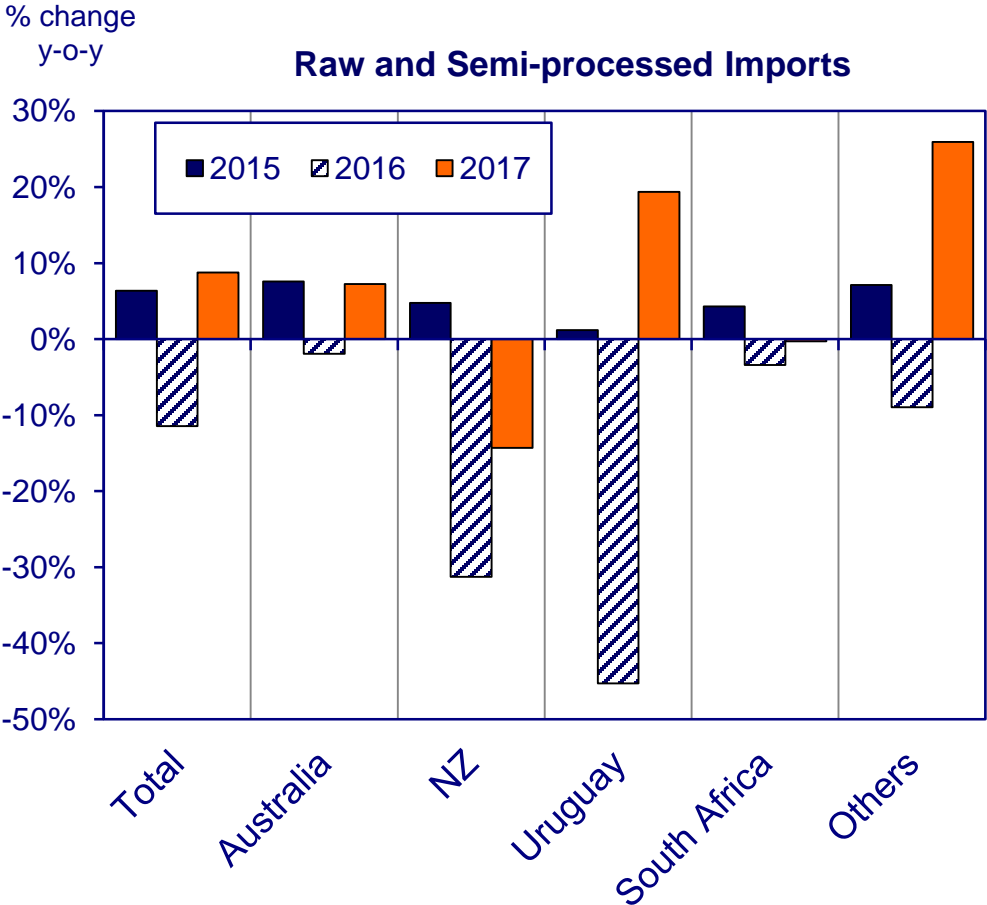
China Drives the Increased Demand for Wool Calendar Year



Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)

Source: Australian Bureau of Statistics, FLA, SUL, Capewools, Beef + Lamb NZ

China's Exports of Most Wool Products Decline in 2017 (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)





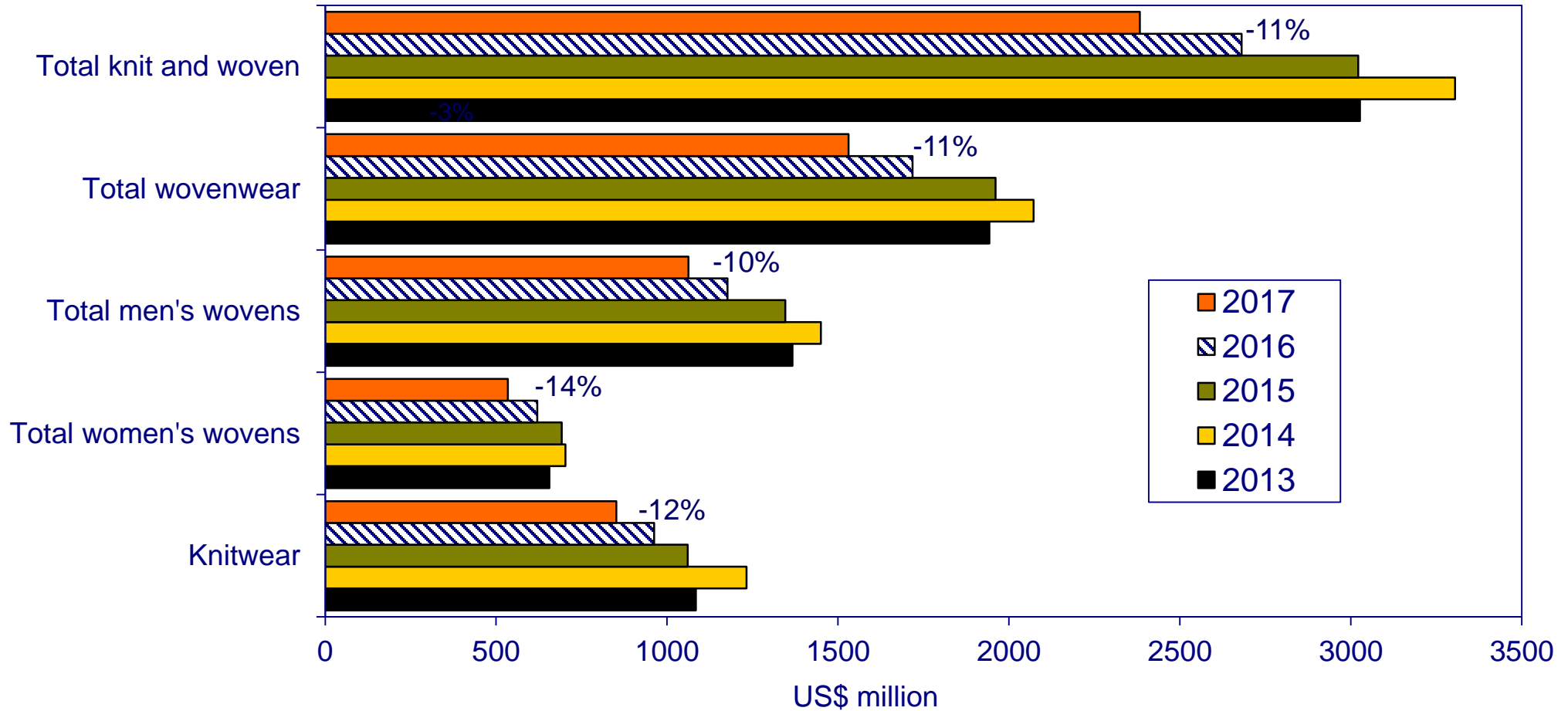
Prospects for 2018/19



Risks to Global Economic Growth

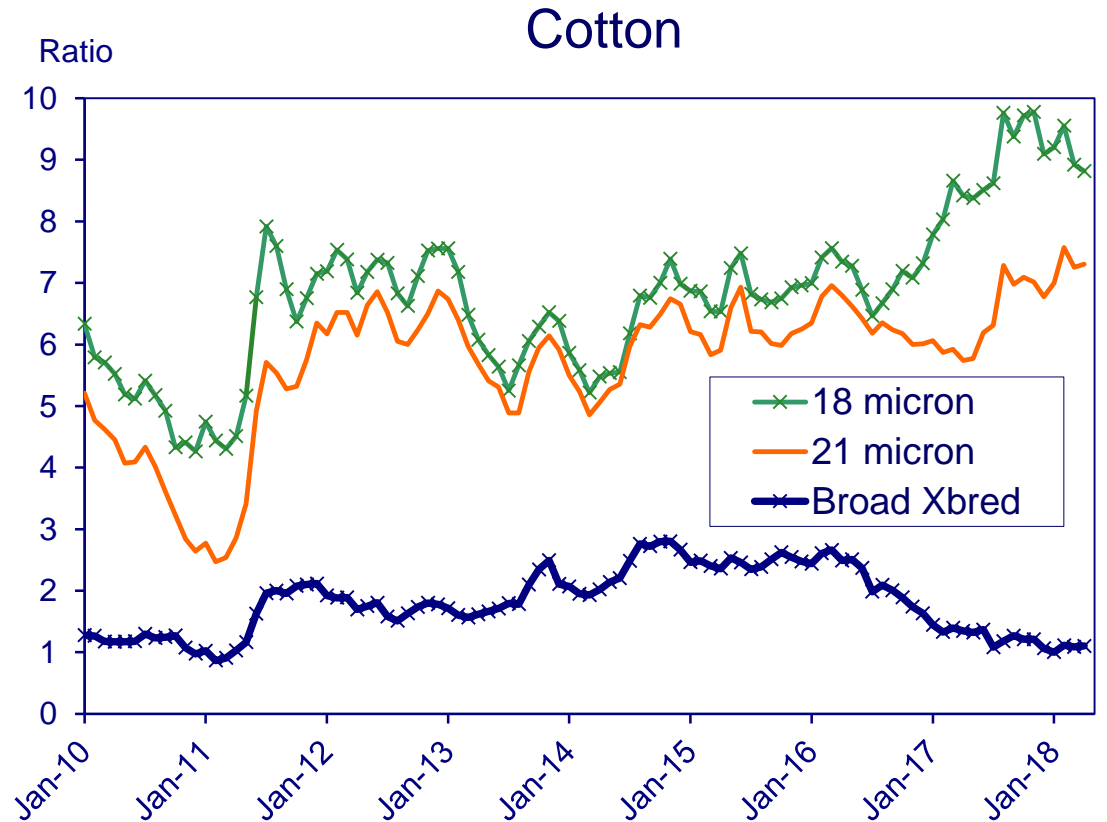
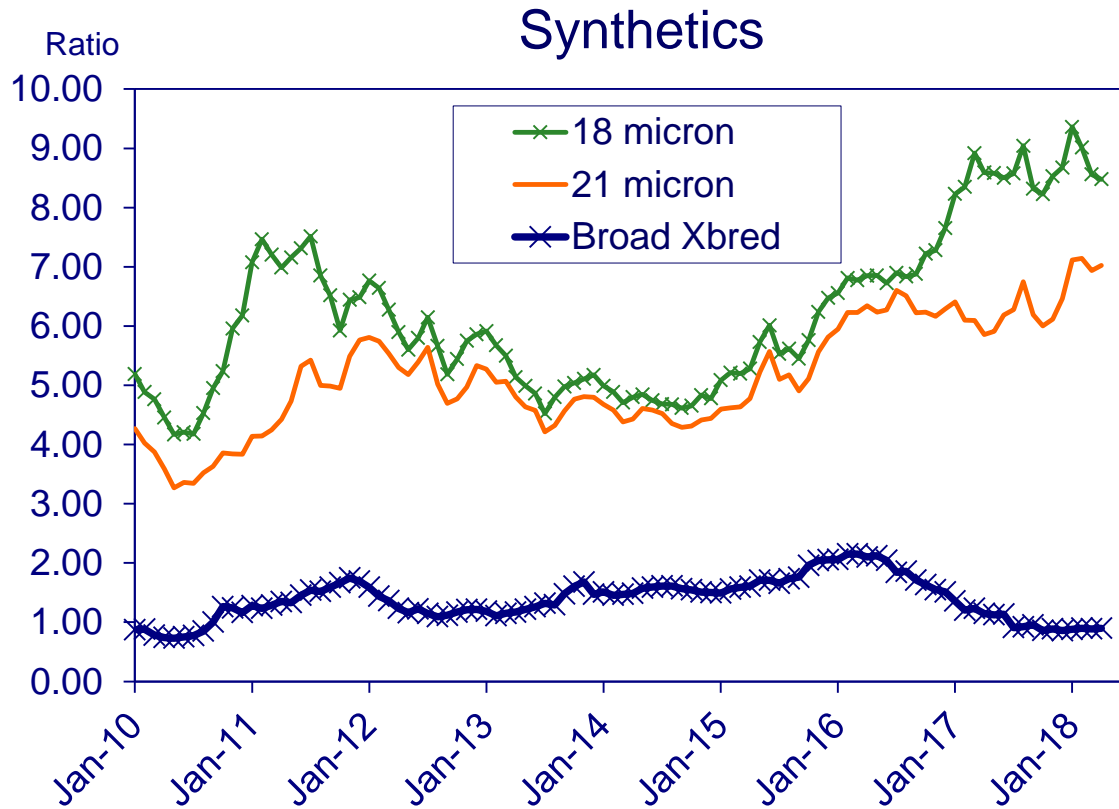
- Rising interest rates
- Debt and credit risks in China
- Potential for a trade war – US unilateral action and China's response
- Exchange rate volatility

Wool Garment Imports by the US Value



Source: OTEXA

Fine Merino Wool Price Ratio at Highs; Broad Wool Price Ratio Falls Back US\$ terms



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis, Wool Services International NZ
Data to April 2018

Note: For 18 micron and 21 micron wool it is Australian wool
For Broad Xbred it is New Zealand broad wool and the synthetic ratio is against acrylic fibre



Summary of Drivers of Prospects

Apparel Wool

1. Low production of finer wool
2. Virtually no stocks left
3. Increased raw wool demand, notably from China
4. Higher economic growth leading to upturn in commodity prices (including Merino wool)
5. High consumer confidence and higher clothing retail sales growth
6. Good business conditions in the wool textile industry
7. Increased use of Merino wool in active and leisurewear

BUT

1. Risks to global economy
2. High price relativity against competing fibres
3. Lower imports of wool clothing

Broad Wool

1. Increased production of broader wool
2. High stocks held in New Zealand
3. Demand from China for broad wool fell in 2016/17, recovering now
4. Substitution of broad wool by acrylic and nylon?
5. Slowdown in use of broad wool in apparel products in China?
6. Patchy retail sales for furnishings
7. Trade in wool carpets falls

BUT

1. Broad Crossbred wool price relativity at lows
2. High consumer confidence in key countries
3. Improved business conditions
4. New style knitting products using broad wool in China



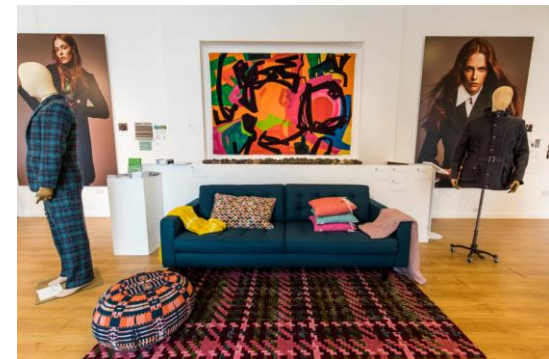
Prospects for 2018/19

- World wool production remains low for foreseeable future
- Global production and supply of Merino wool remains low
- Supply of broad wool supplemented by stocks in grower countries
- Merino wool prices at highs - nearing a super-cycle peak?
- Mid-micron and broad wool prices to rise slowly
- Longer term demand trends and prospects positive for Merino wool
- Product development will be key for mid-micron and broad wool



Information Gaps

- Wool consumption for next-to-skin garments for active/leisurewear.
 - Size
 - Annual change
- Wool product consumption in China's domestic market
 - Size
 - Annual change
- Where mid-micron and broad wool has been losing
 - What product segments are using less mid-micron and broad wool?
 - What products have fallen in sales and what has replaced them?



Thank You!

