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

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and
Chairman, Market Intelligence Committee of IWTO

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14 May 2018
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

Source: AWEX, NZ Wool Services, Capewools, BWMB
Data to 11th May 2018
Broad Wool Prices at Nine Year Lows

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Peak Price*</th>
<th>Price change - start to peak*</th>
<th>Weeks - start to peak</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UScents</td>
<td>Acents</td>
<td>UScents</td>
<td>Acents</td>
</tr>
<tr>
<td>February 1986 to May 1988</td>
<td>1203</td>
<td>1582</td>
<td>+743 (+162%)</td>
<td>+925 (+140%)</td>
</tr>
<tr>
<td></td>
<td>707</td>
<td>949</td>
<td>+379 (+116%)</td>
<td>+496 (+107%)</td>
</tr>
<tr>
<td>November 2001 to January 2003</td>
<td>709</td>
<td>1211</td>
<td>+350 (+97%)</td>
<td>+501 (+71%)</td>
</tr>
<tr>
<td>May 2010 to June 2011</td>
<td>1512</td>
<td>1434</td>
<td>+789 (+109%)</td>
<td>+564 (+65%)</td>
</tr>
<tr>
<td>April 2016 to May 2018</td>
<td>1439</td>
<td>1891</td>
<td>+540 (+60%)</td>
<td>+644 (+53%)</td>
</tr>
</tbody>
</table>

* 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

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

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.
<table>
<thead>
<tr>
<th>Merino Supercycle</th>
<th>Peak Price*</th>
<th>Change in production in next 2 seasons</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UScents</td>
<td>Acents</td>
<td>mkg greasy</td>
</tr>
<tr>
<td>February 1986 to May 1988</td>
<td>1203</td>
<td>1582</td>
<td>+188</td>
</tr>
<tr>
<td>April 1993 to March 1995</td>
<td>707</td>
<td>949</td>
<td>-21</td>
</tr>
<tr>
<td>November 2001 to January 2003</td>
<td>709</td>
<td>1211</td>
<td>-24</td>
</tr>
<tr>
<td>May 2010 to June 2011</td>
<td>1512</td>
<td>1434</td>
<td>+7</td>
</tr>
<tr>
<td>April 2016 to May 2018</td>
<td>1439</td>
<td>1846</td>
<td>-7</td>
</tr>
</tbody>
</table>

* 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

- 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
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)

% change y-o-y

Raw and Semi-processed Imports

Wool Product Exports

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

<table>
<thead>
<tr>
<th>Apparel Wool</th>
<th>Broad Wool</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Low production of finer wool</td>
<td>1. Increased production of broader wool</td>
</tr>
<tr>
<td>2. Virtually no stocks left</td>
<td>2. High stocks held in New Zealand</td>
</tr>
<tr>
<td>3. Increased raw wool demand, notably from China</td>
<td>3. Demand from China for broad wool fell in 2016/17, recovering now</td>
</tr>
<tr>
<td>4. Higher economic growth leading to upturn in commodity prices (including Merino wool)</td>
<td>4. Substitution of broad wool by acrylic and nylon?</td>
</tr>
<tr>
<td>5. High consumer confidence and higher clothing retail sales growth</td>
<td>5. Slowdown in use of broad wool in apparel products in China?</td>
</tr>
<tr>
<td>6. Good business conditions in the wool textile industry</td>
<td>6. Patchy retail sales for furnishings</td>
</tr>
<tr>
<td>7. Increased use of Merino wool in active and leisurewear</td>
<td>7. Trade in wool carpets falls</td>
</tr>
<tr>
<td><strong>BUT</strong></td>
<td><strong>BUT</strong></td>
</tr>
<tr>
<td>1. Risks to global economy</td>
<td>1. Broad Crossbred wool price relativity at lows</td>
</tr>
<tr>
<td>2. High price relativity against competing fibres</td>
<td>2. High consumer confidence in key countries</td>
</tr>
<tr>
<td>3. Lower imports of wool clothing</td>
<td>3. Improved business conditions</td>
</tr>
<tr>
<td></td>
<td>4. New style knitting products using broad wool in China</td>
</tr>
</tbody>
</table>
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

Photo acknowledgments
The Woolmark Company, Campaign for Wool, British Wool Marketing Board
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?

Photo acknowledgments
The Woolmark Company, Campaign for Wool, British Wool Marketing Board
Thank You!

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