A Tale of Two Markets:

Merino versus Broad Wool

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Key Points

1. Fine Merino prices surge, Medium and Broad wool prices plunge
2. Global production edges higher
3. Production from Merino wool producing countries to slide?
4. Gap between interior textile wool and apparel wool production widens
5. Positive wool textile business conditions for apparel
6. Raw wool exports from Merino producing countries lifts…
7. …but exports from broader wool producing countries drops
8. Fine Merino wool price relativity against competing fibres at highs…
9. …Broad Crossbred wool price relativity at lows
10. Lacklustre retail sales for clothing and carpets/furnishings
11. World economy starting to strengthen

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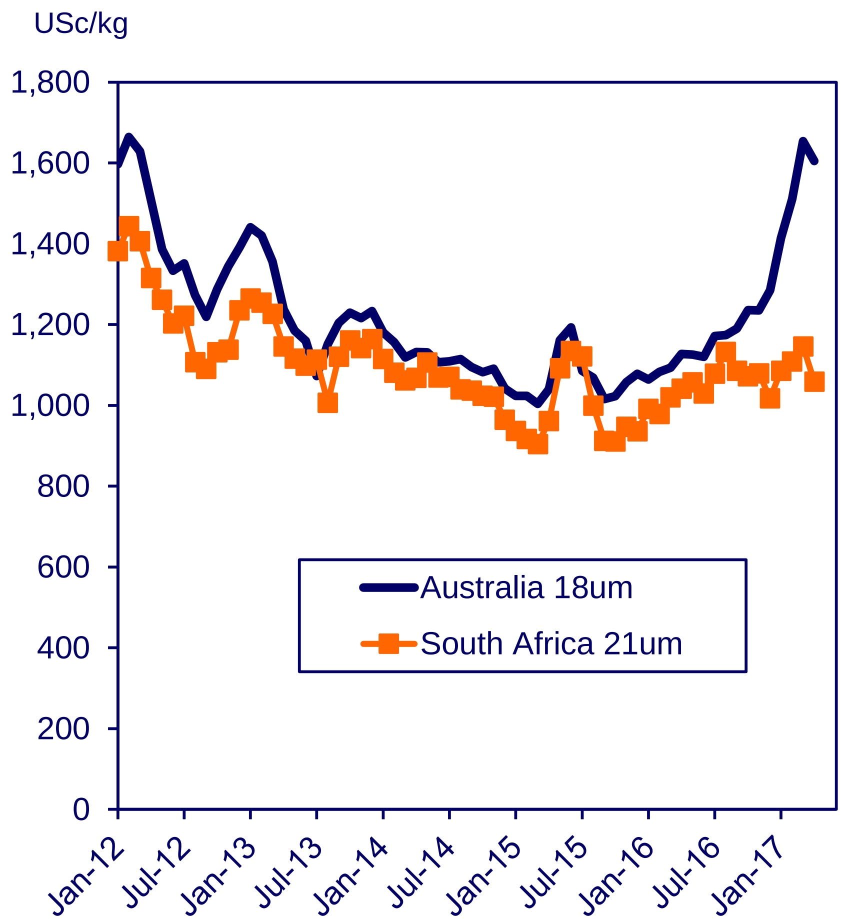
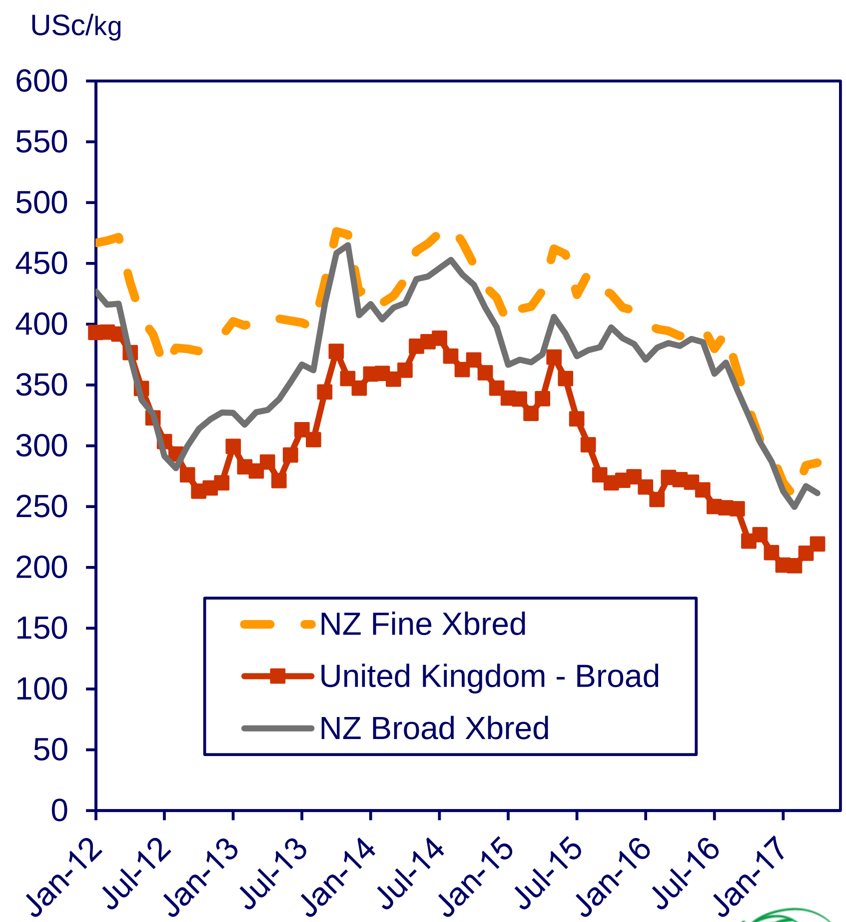
Fine Merino Wool Prices Surge; Medium and Broad Wool Prices Dive





Source: AWEX, Capewools, BWMB, NZ Wool Services
Prices to week ending 14th April 2017.
NZ Fine crossbred wool is 25-32 micron and NZ Broad crossbred wool is 33-38 micron.
The UK wool price is the British Wool Marketing Board Indicator.

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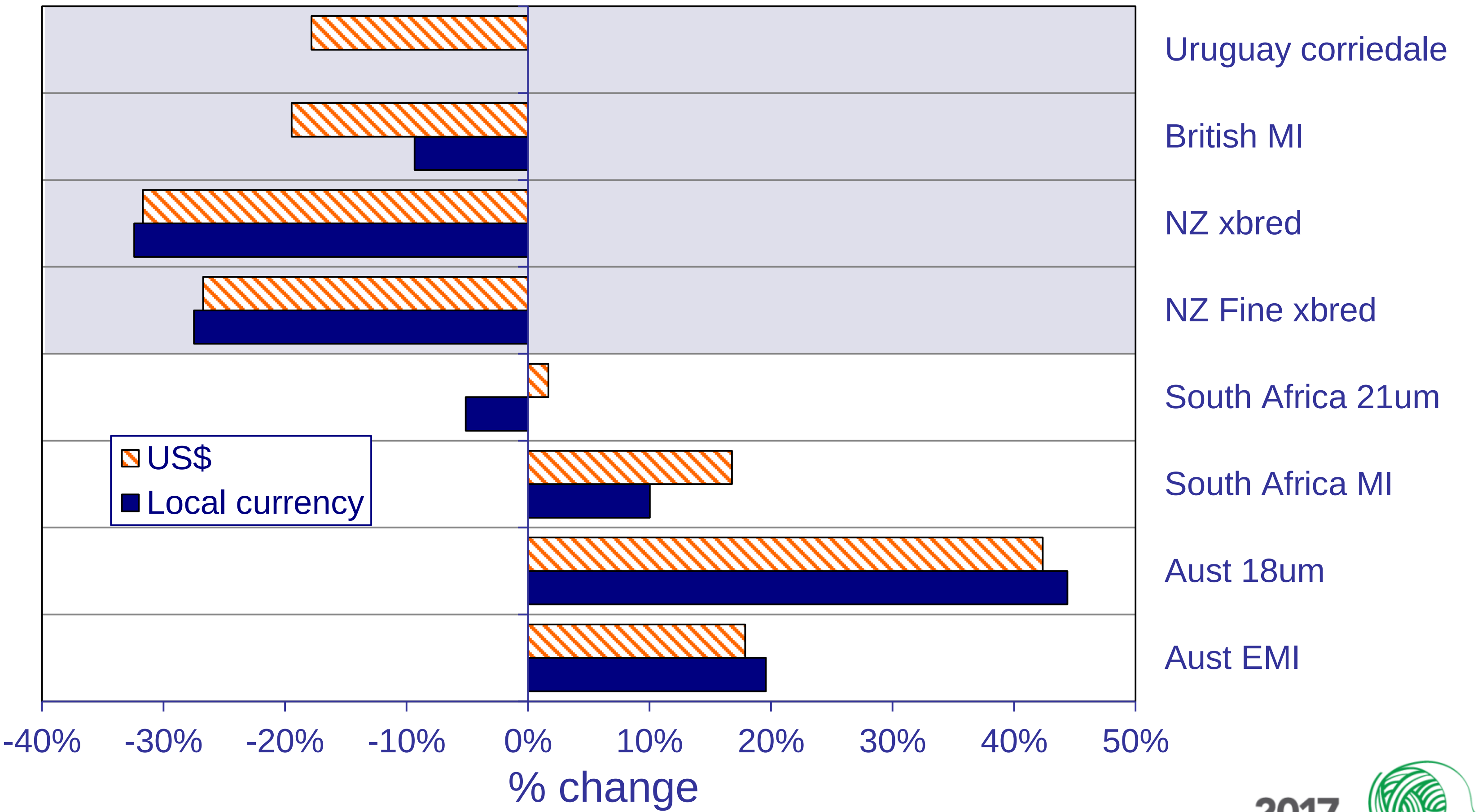
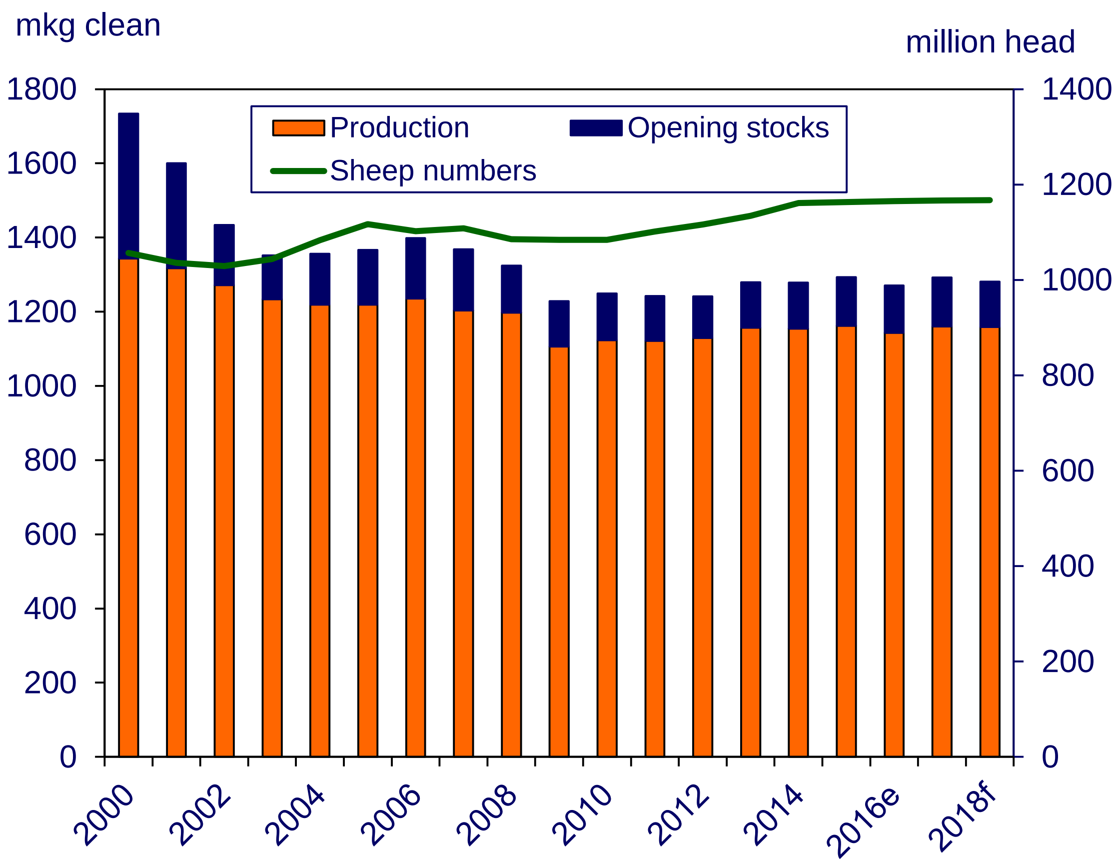
Fine Merino Wool Prices Surge; Medium and Broad Wool Prices Dive

(% change April 2017 compared with April 2016)



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

Wool Production Increases Modestly in 2017



2016 production
1,143.2 mkg clean

2017 production
1,160.7 mkg clean

2018 production
1,159.0 mkg clean

Near 70 year lows

Stocks:Use ratio
~11%

Source: Poimena Analysis, International Wool Textile Organisation, Food and Agricultural Organisation
Note: The year refers to the season ending eg 2000 = 1999/2000
Data in 2016 is an estimate and data in 2017 and 2018 is a forecast
Updated April 2017

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World Wool Production Changes

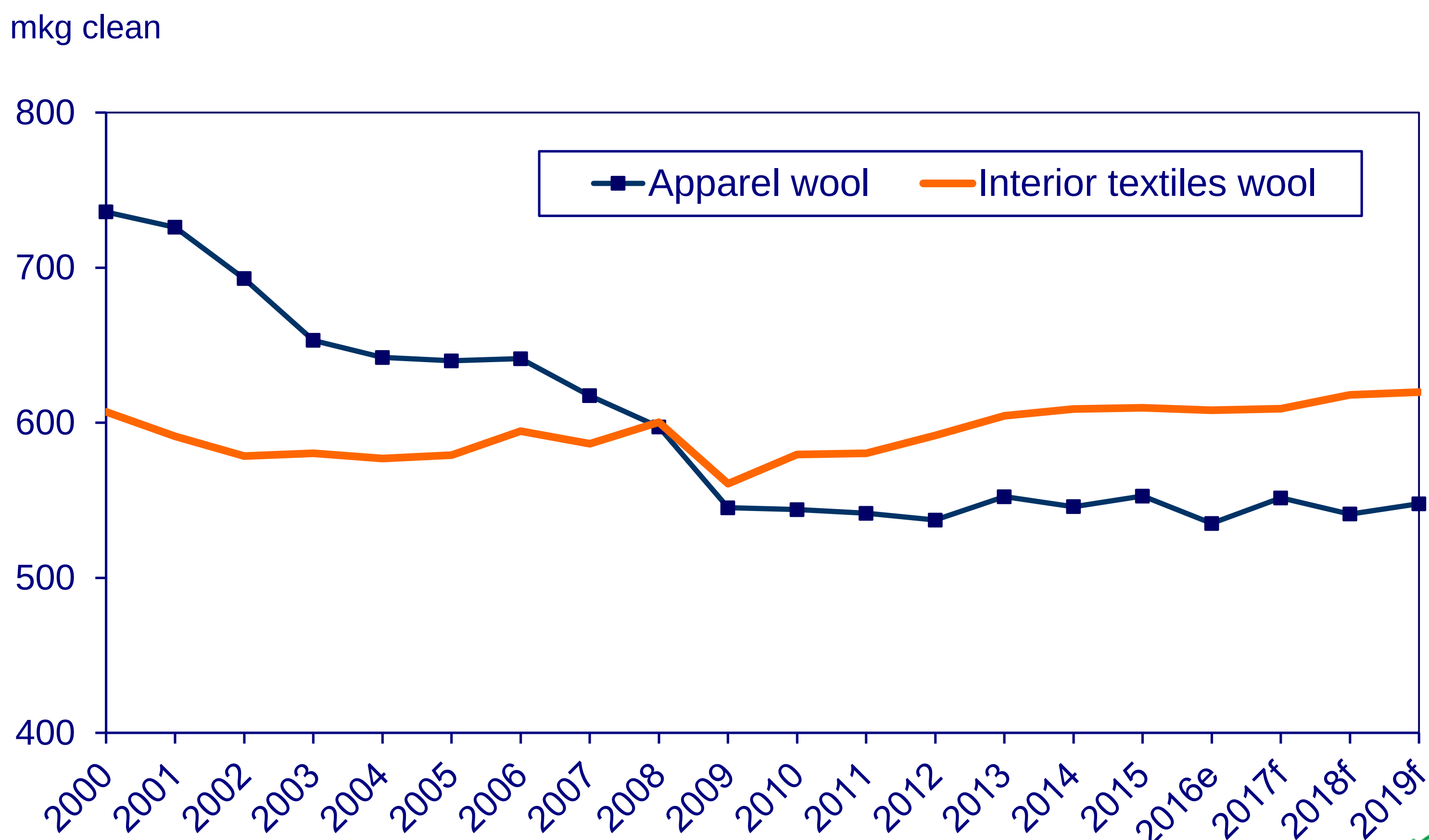
Total wool production - mkg clean

mkg clean	2016	2017f	% change	2018f	% change
"Apparel" wool IWTO countries – shading shows 60% or greater of production is Merino					
Australia	260.2	276.9	+6.4%	267.3	-3.4%
South Africa	30.3	30.7	+1.6%	31.4	+2.0%
Argentina	26.4	26.4	0.0%	26.1	-1.3%
Uruguay	18.3	18.4	+0.7%	18.4	+0.0%
USA	6.9	6.9	-0.7%	6.8	-0.9%
"Interior textile" wool IWTO countries					
China	179.6	180.1	+0.3%	180.0	0.0%
New Zealand	108.6	103.1	-5.1%	103.5	+0.4%
India	32.5	33.3	+2.4%	34.0	+2.1%
UK	23.5	23.5	0.0%	23.8	+1.2%
Mongolia	19.0	10.6	+8.1%	22.7	+10.2%
Other countries	446.4	449.2	+0.6%	453.5	+1.0%
Global	**1,143.2**	**1,160.7**	**+1.5%**	**1,159.0**	**-0.1%**

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

Updated: 11th April 2017

Mind the Production Gap: Interior Textile versus Apparel Wool

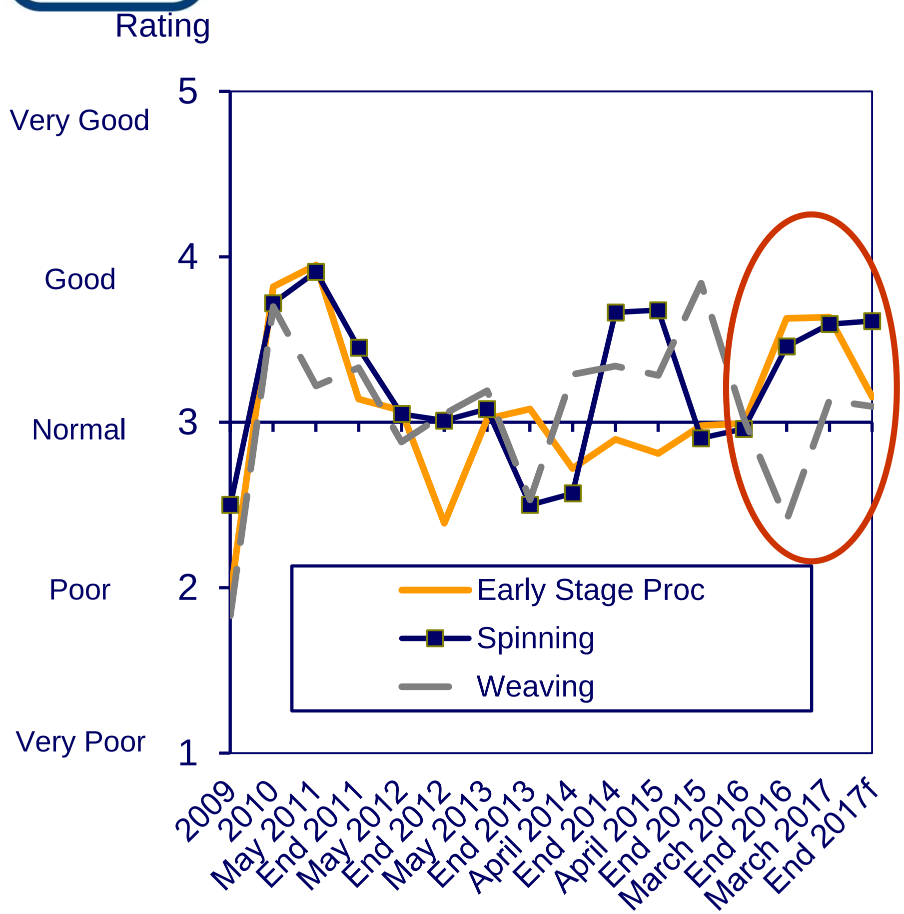


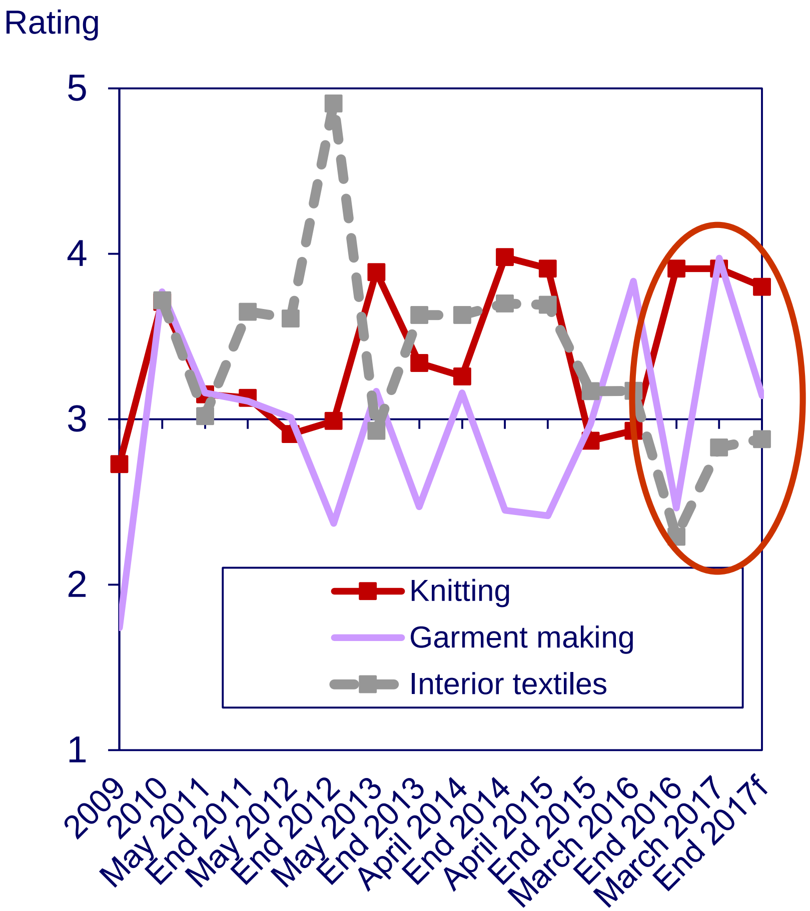
Source: IWTO, Country statistics, Poimena Analysis
Updated April 2017

IWTO Wool Textile Business Survey 2017

- Thirteen countries reported
- Positive aggregate activity levels for stages from early stage processing to knitting
  - Improvement on a year ago
- Interior textiles less positive
- Positive conditions and outlook in China, India, Italy, Mongolia, France, Germany,
- Negative conditions in New Zealand, Uruguay, Japan, Turkey
- Stocks under control except in weaving?

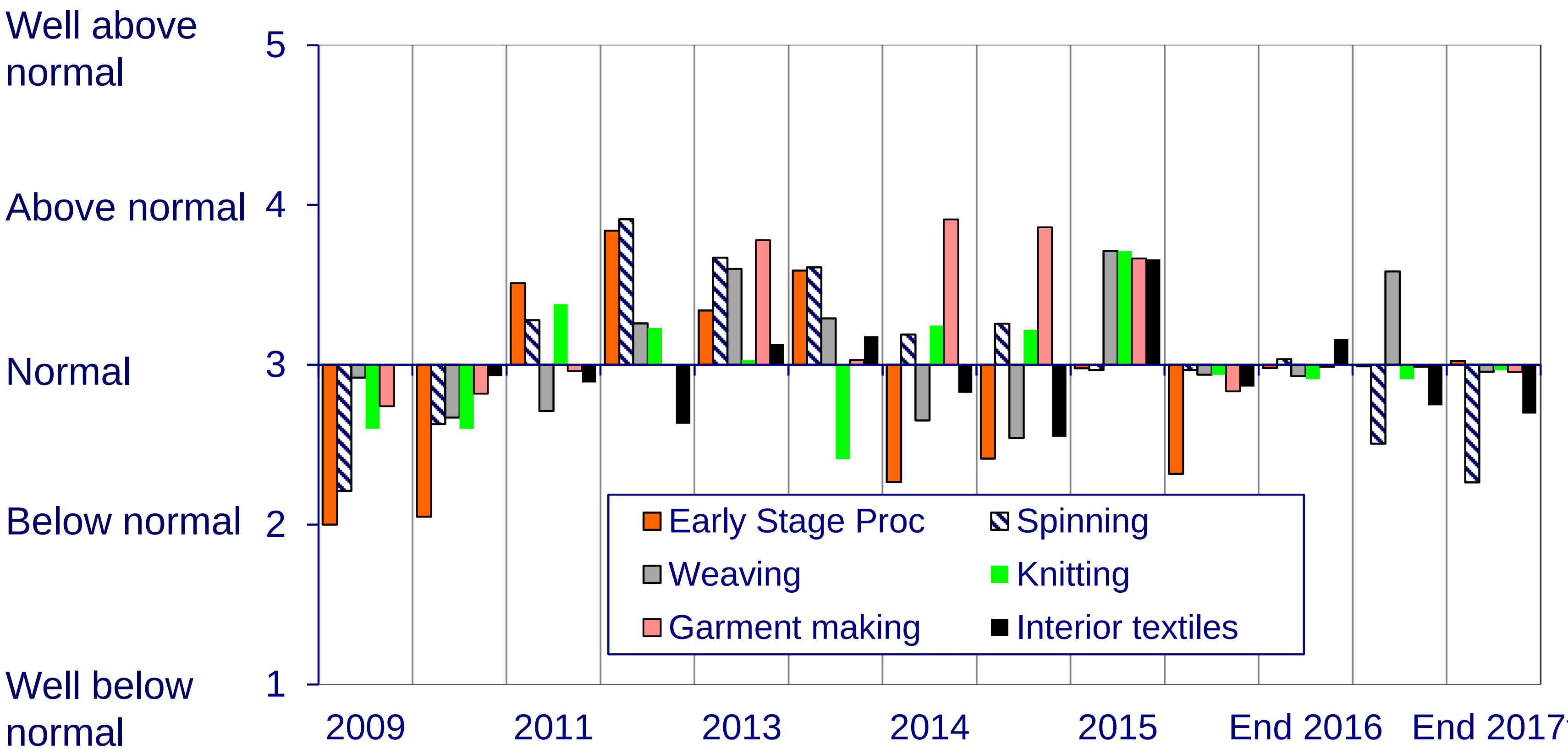
Wool Textile Industry Production Activity: Positive Levels Reported for Apparel





Source: IWTO Wool Textile Business Survey. Updated April 2017
Weighted results for China, Italy, Germany, Uruguay, Mongolia, Argentina, South Africa, Japan, France, India, the United Kingdom, New Zealand and Turkey

Wool Textile Industry Stock Levels Normal and Below



Source: IWTO Wool Textile Business Survey. Updated April 2017
Weighted results for China, Italy, Germany, Uruguay, Mongolia, Argentina, South Africa, Japan, France, India, the United Kingdom, New Zealand and Turkey

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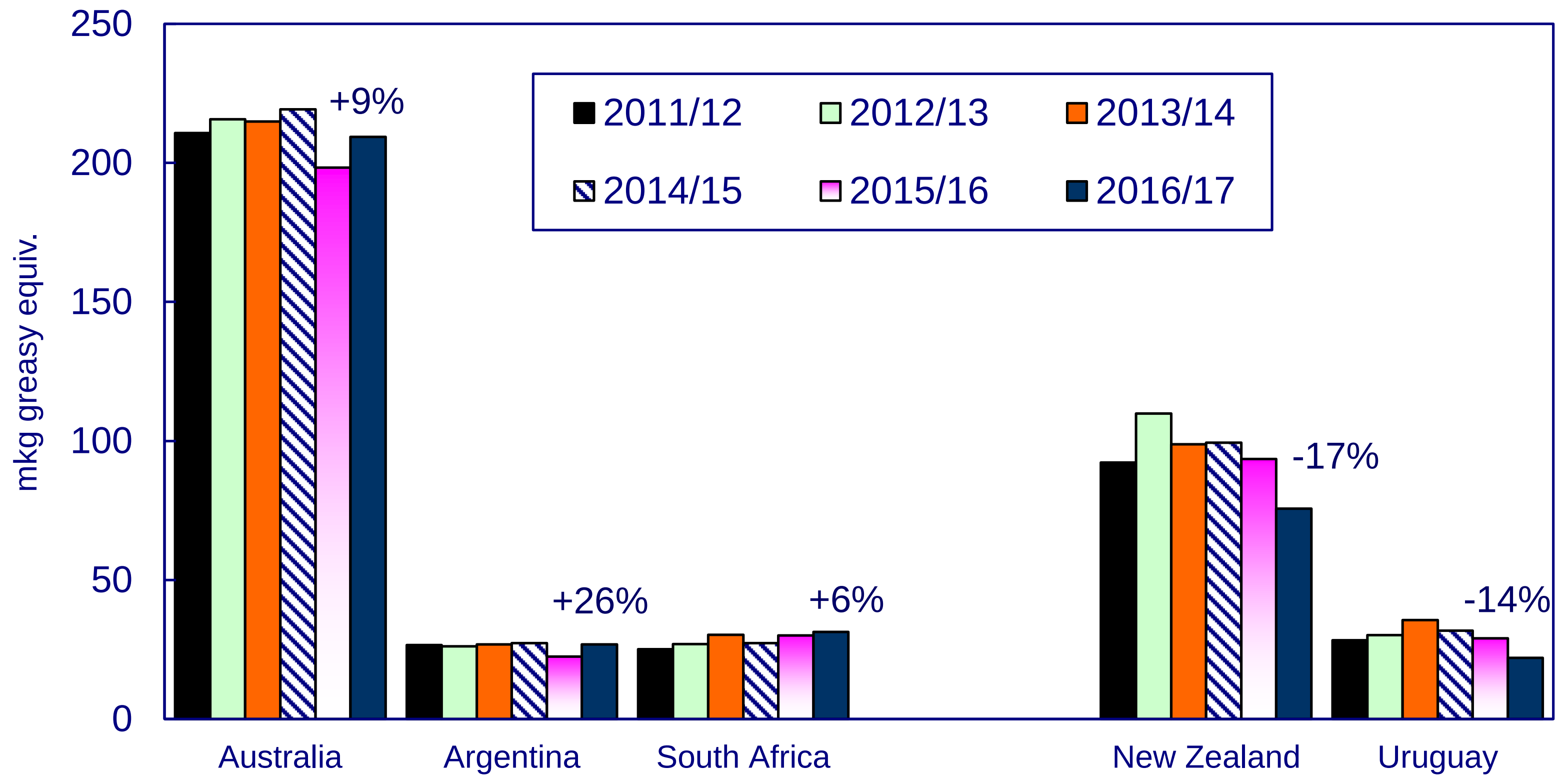
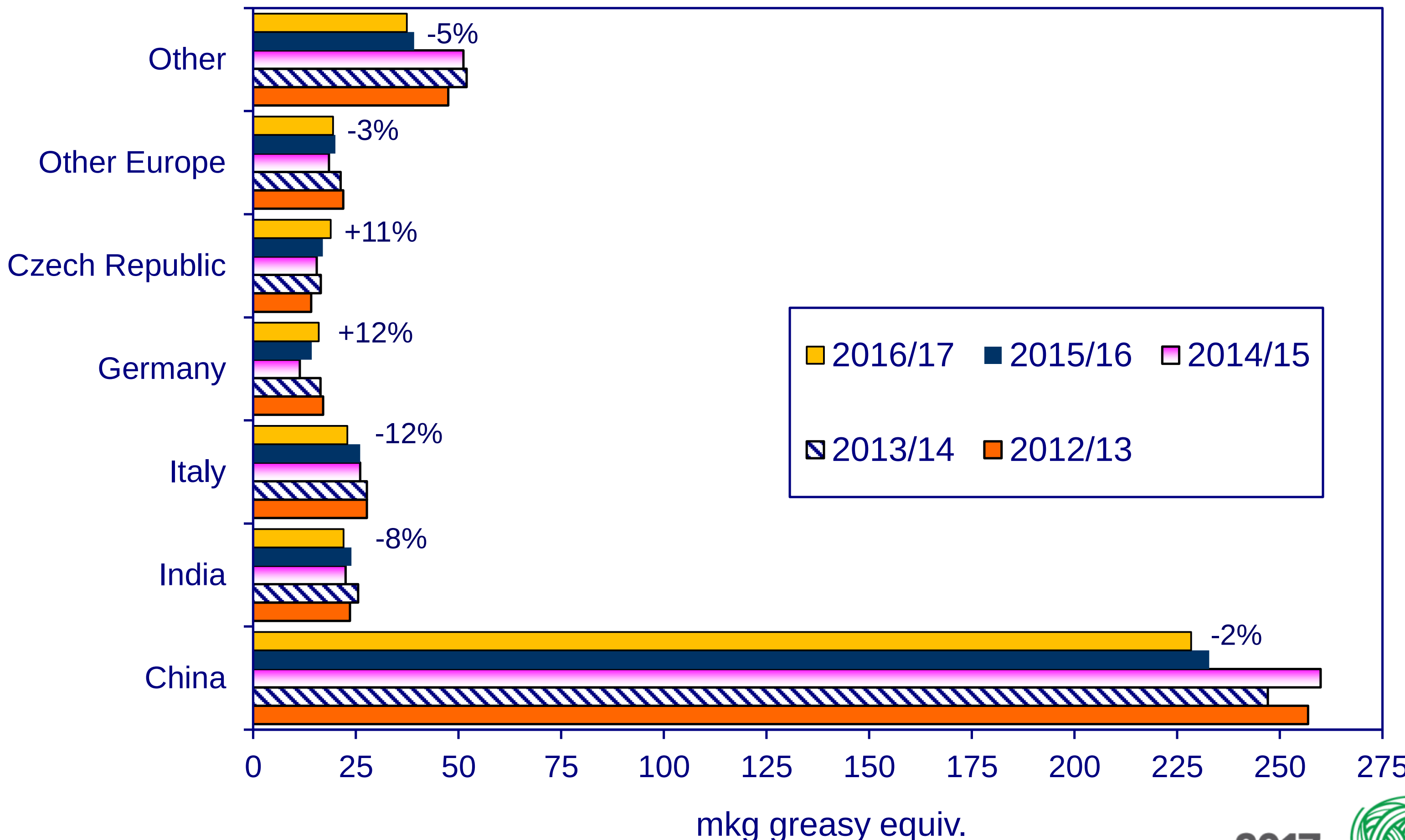
Diverging Results for Wool Exports by Major Exporting Countries
Financial Year to February



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

Wool Imports by Major Processing Countries

Financial Year to February



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

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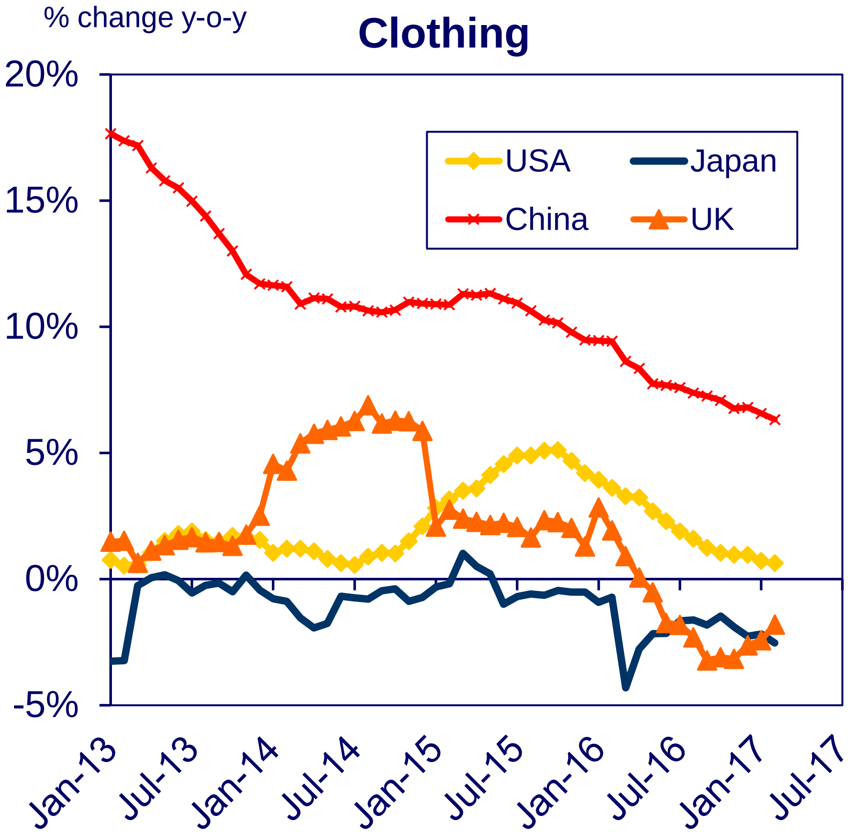
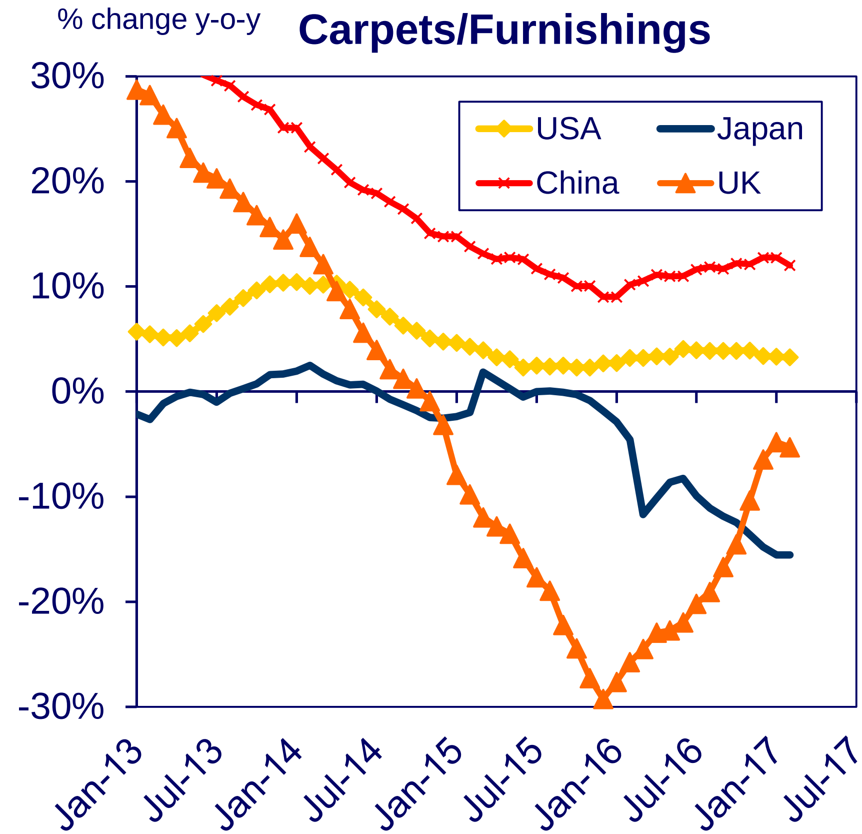
Lacklustre Retail Sales: Clothing and Carpets/Furnishings

12 month moving aggregate - % change





Source: Government statistical services. Includes data on retail sales or private expenditure on clothing and on carpets or furnishings
Data to February 2017

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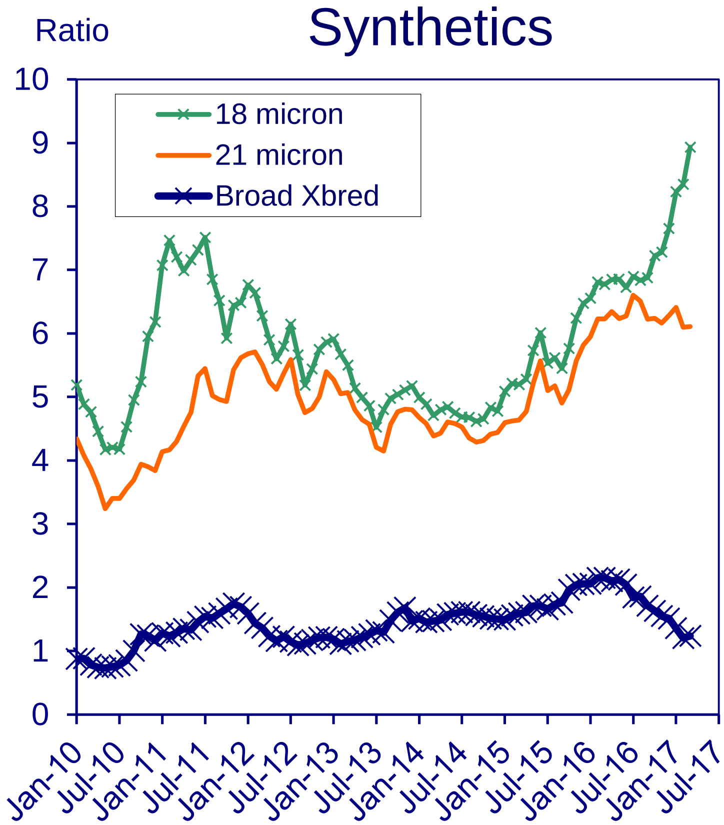
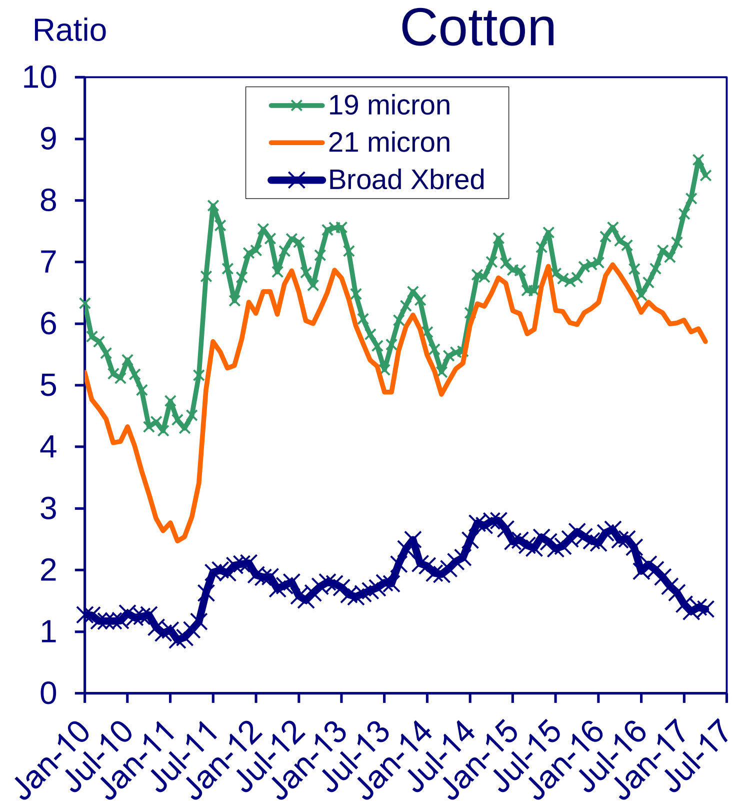
Fine Merino Wool Price Ratio at Highs; Broad Wool Price Ratio at Lows
US$ terms





Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis, Wool Services International NZ
Data to March 2017

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

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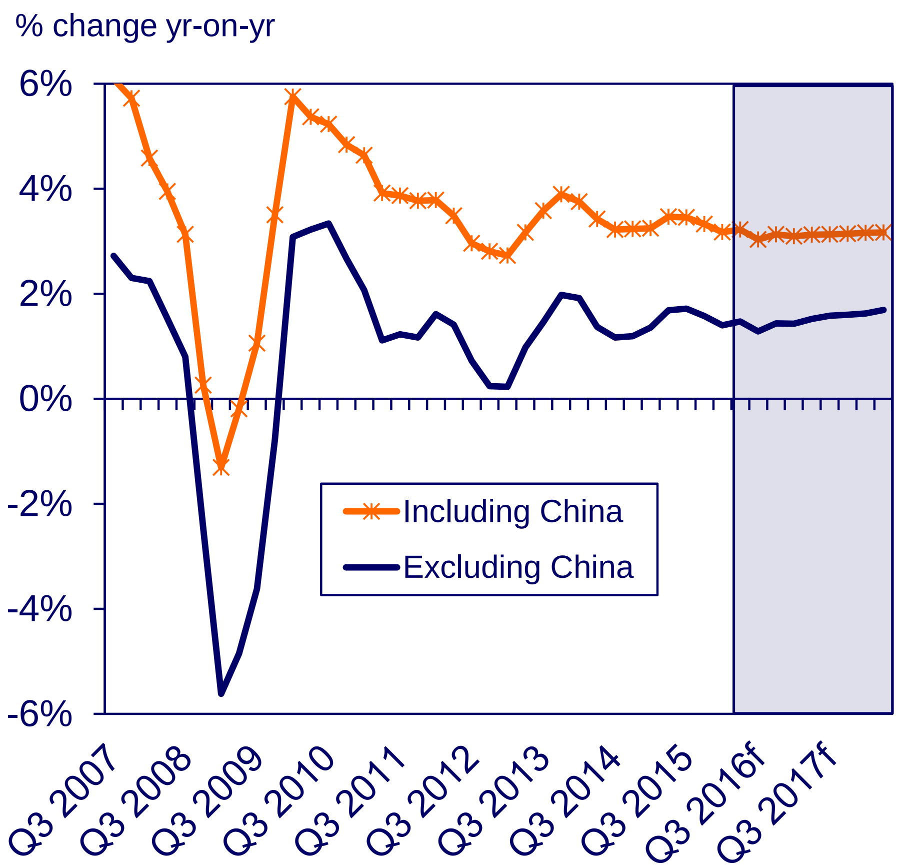
Economic Growth Recovers in Major Wool Consuming Countries
(% change year on year)



- Improved forecasts for US, Germany, France, Italy and Korea
- Economic growth in China moderates
- UK economy forecast to weaken due to Brexit
- Japan's economy drifts sideways

Source: IMF, Consensus Forecasts , International Wool Textile Organisation and Poimena Analysis
Note: Economic growth in China, Japan, USA, UK, Germany, Italy, France and South Korea, weighted by wool consumption

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Drivers and Prospects for 2017/18

Positives

- World economic growth strengthening
- High consumer confidence in US, Europe & Japan
- Positive conditions and outlook in major wool processing countries
- Wool textile industry stocks under control
- Low price ratio for broad wool against cotton and synthetic fibres

Negatives

- Disappointing retail sales for clothing and carpets/furnishings
- High price ratio for fine Merino wool against cotton and synthetic fibres
- Weak demand for broad wool
- Higher global production of “interior textiles” wool

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Thank You!

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