

A Changing Dynamic?

The Current Situation and Short Term Outlook for the Global Wool Industry

Chris Wilcox

Executive Director, NCWSBA
and
Chairman, Market Intelligence Committee of IWTO

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Demand Environment

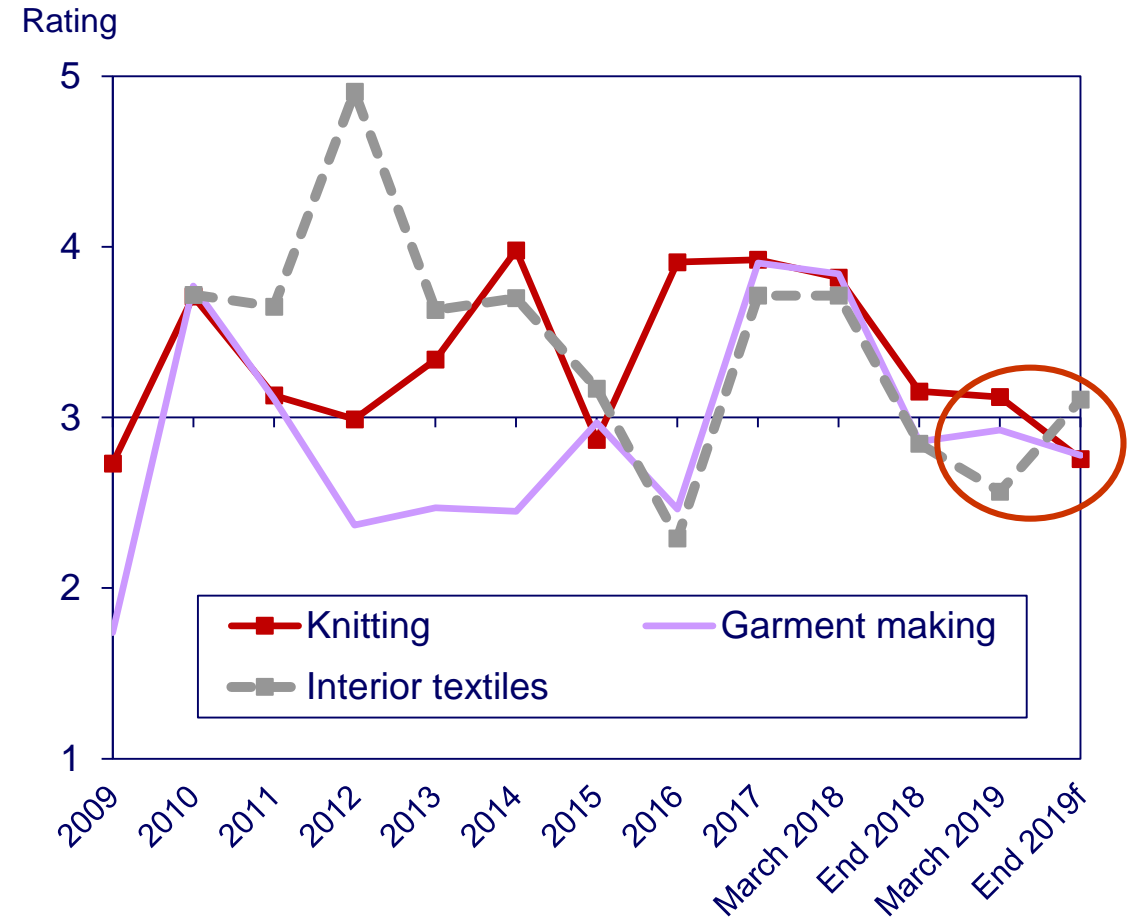
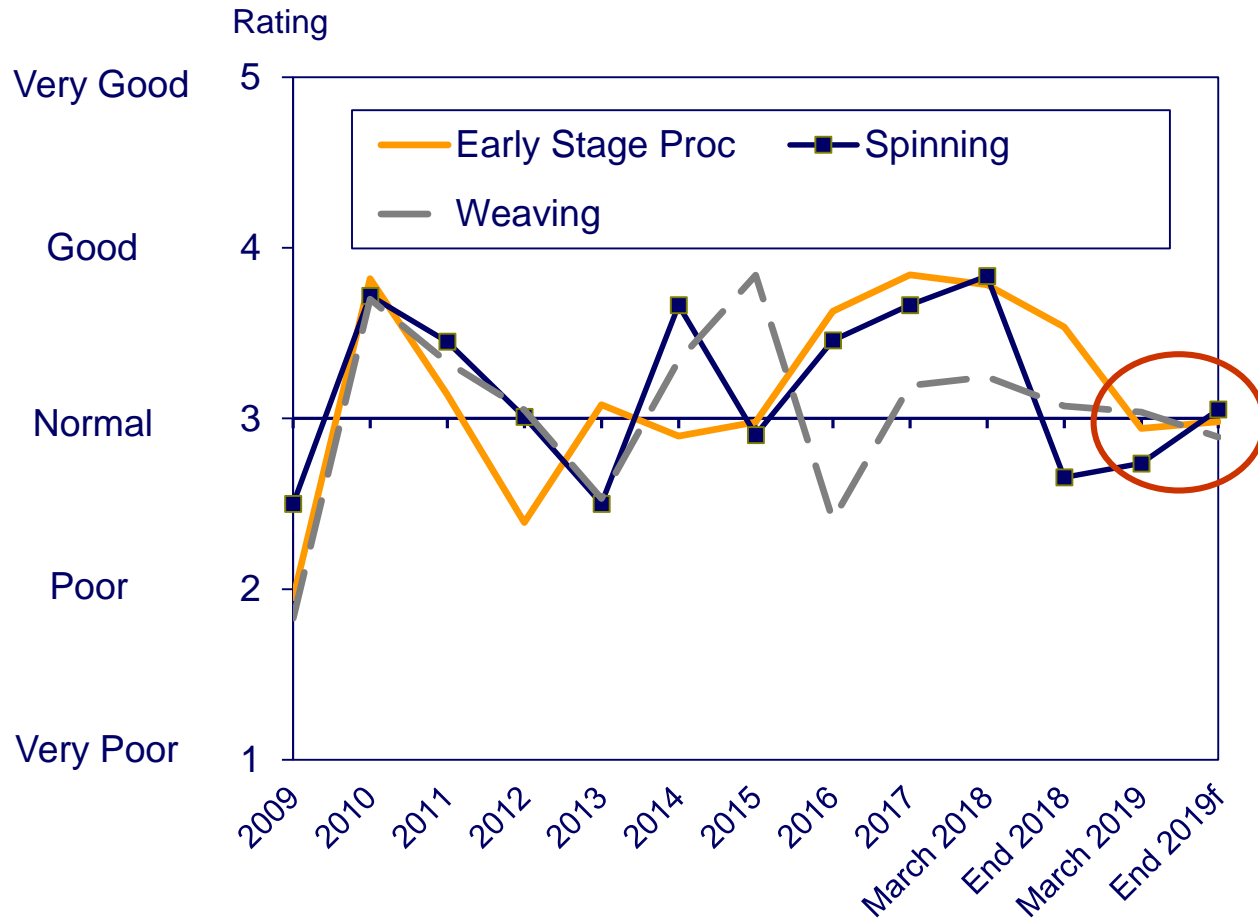
- Slowing global economic conditions, notably in China, but strong in the US
- High level of macro-economic and political uncertainty
- High consumer confidence in key countries
- Mixed retail sales results



IWTO Wool Textile Business Survey 2019

- Nine countries and two companies reported
 - China, Italy, Japan, Germany, Uruguay, Mongolia, India, Thailand and United Kingdom
 - Südwolle and Schlumberger
- Production activity levels lower for all stages and sectors
 - Interior textile sector below normal
- Very mixed conditions and outlook across the reporting countries
 - Some positive, some negative
- Low stock levels in early stage processing and high in garment making.
Normal in other sectors

Wool Textile Industry Production Activity: Dropped Back from 12 Months Ago



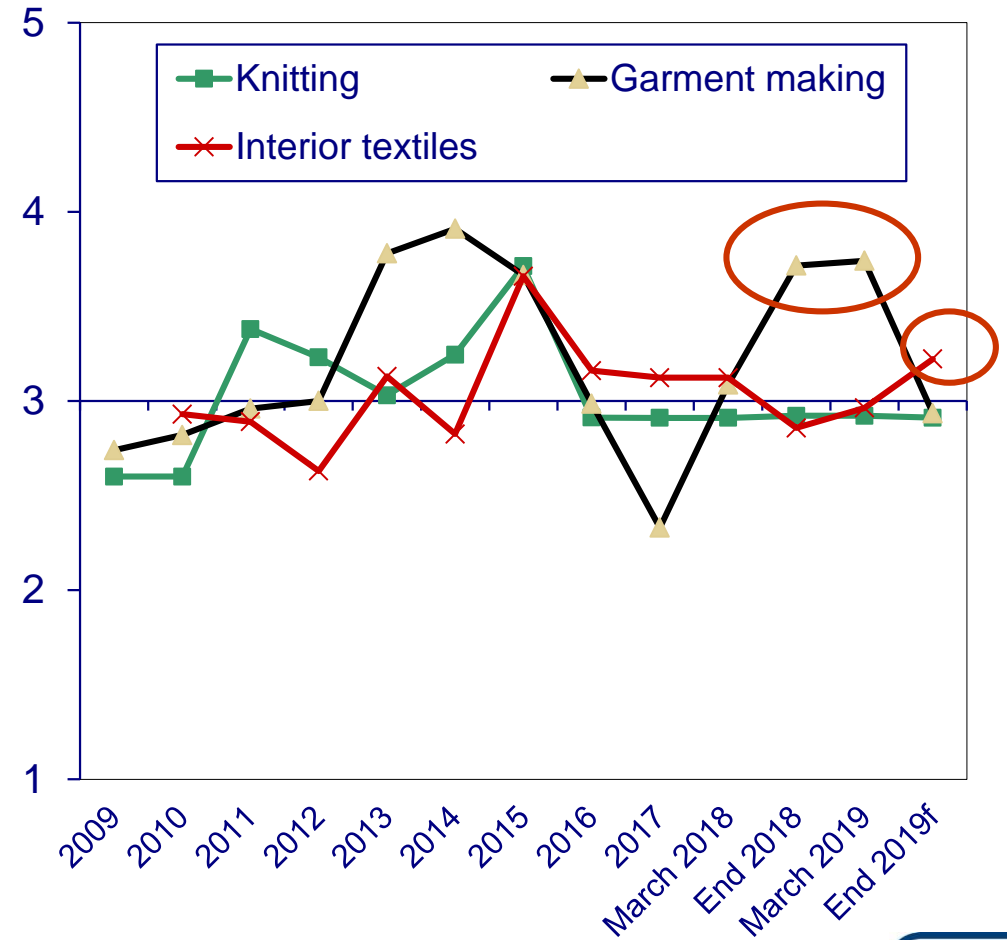
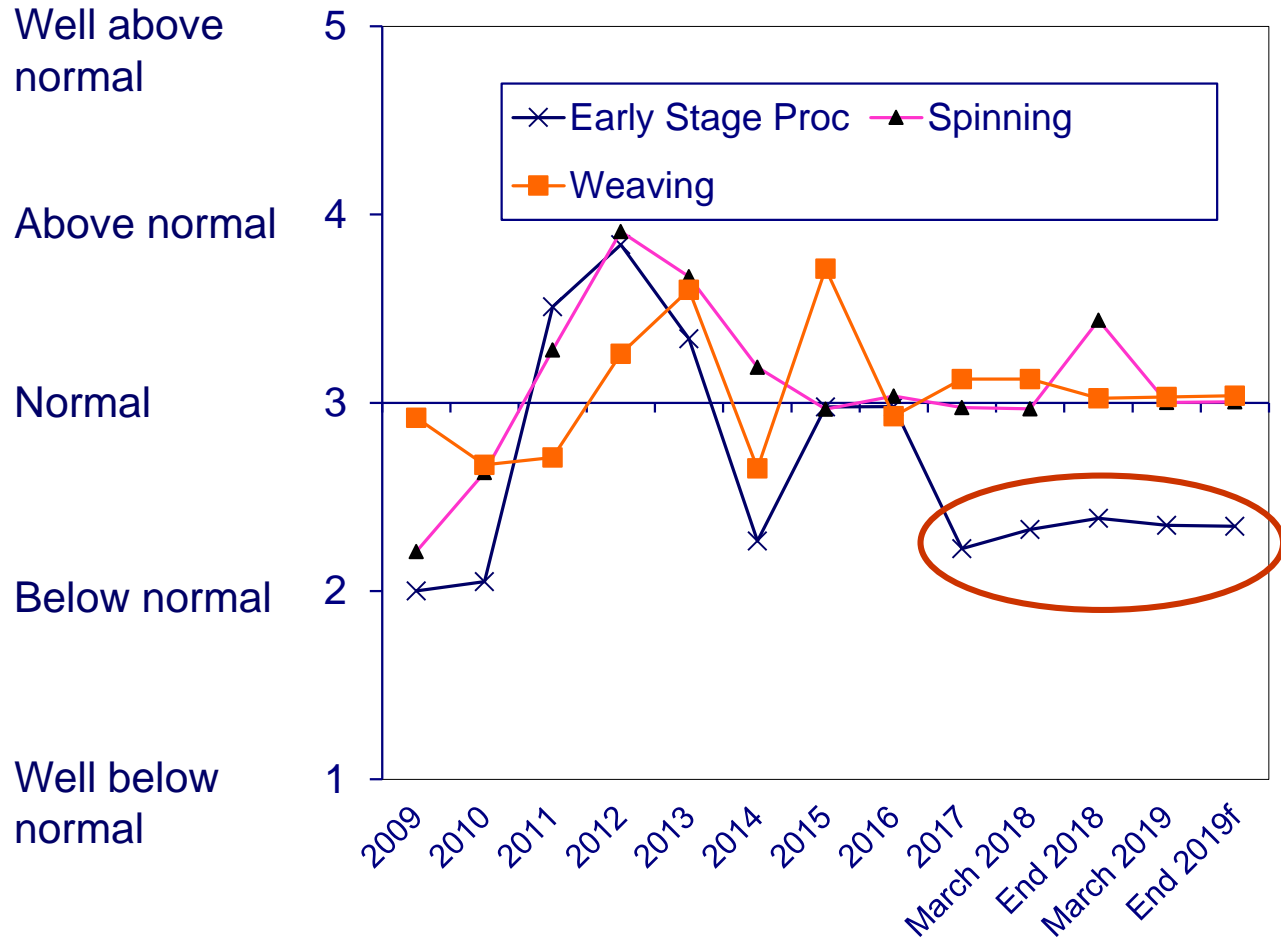
Source: IWTO Wool Textile Business Survey. Updated March 2019
 Weighted results for China, Italy, Japan, Germany, Uruguay, Mongolia, India, United Kingdom, Argentina, Thailand and Sudwolle



Wool Textile Industry Stock Levels

Low in Early Stage Processing

High in Garment Making

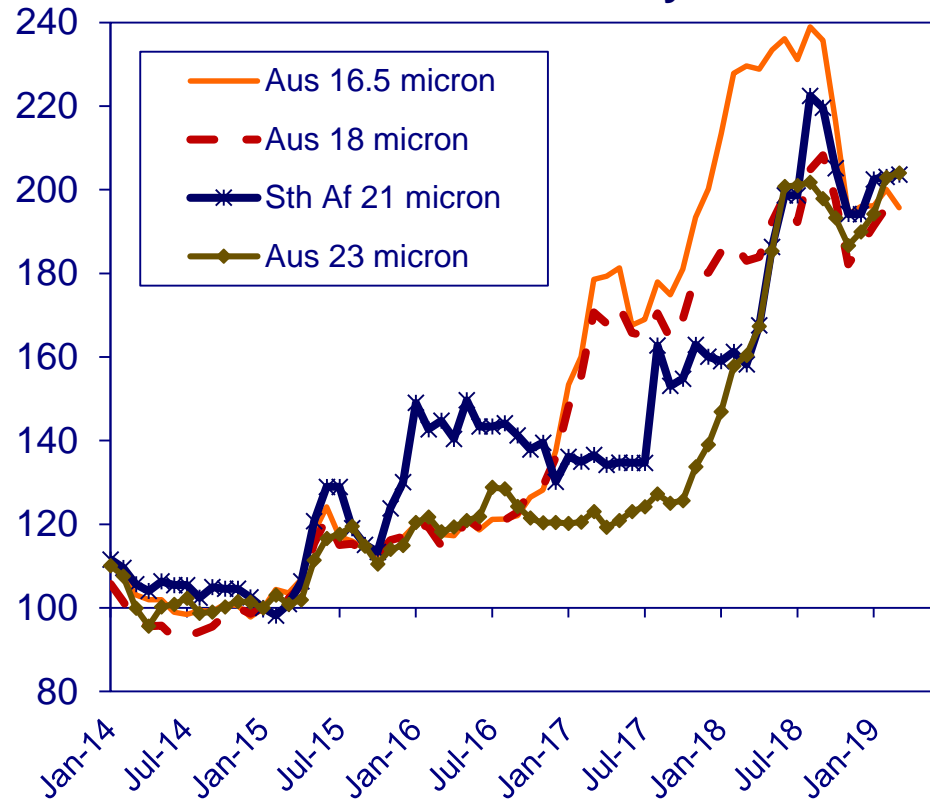


Source: IWTO Wool Textile Business Survey. Updated March 2019
 Weighted results for China, Italy, Japan, Germany, Uruguay, Mongolia, India, United Kingdom, Argentina, Thailand and Sudwolle

Changing Dynamic? Merino Wool Prices Remain on a High

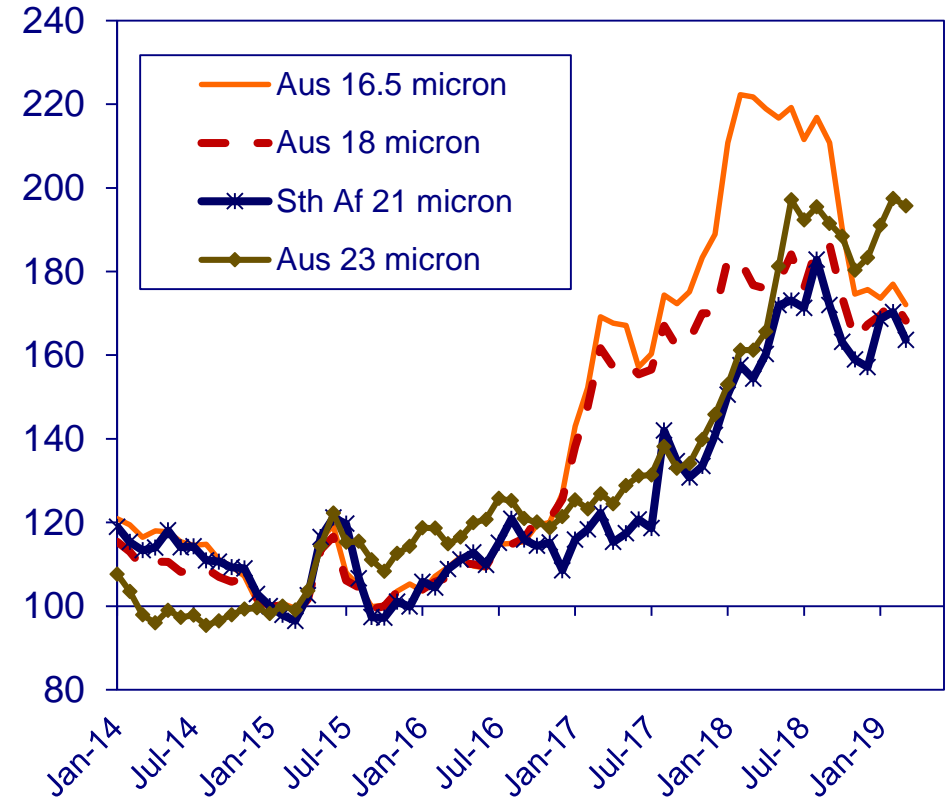
Index
Jan 2015 =100

Local Currency



Index
Jan 2015 =100

US\$

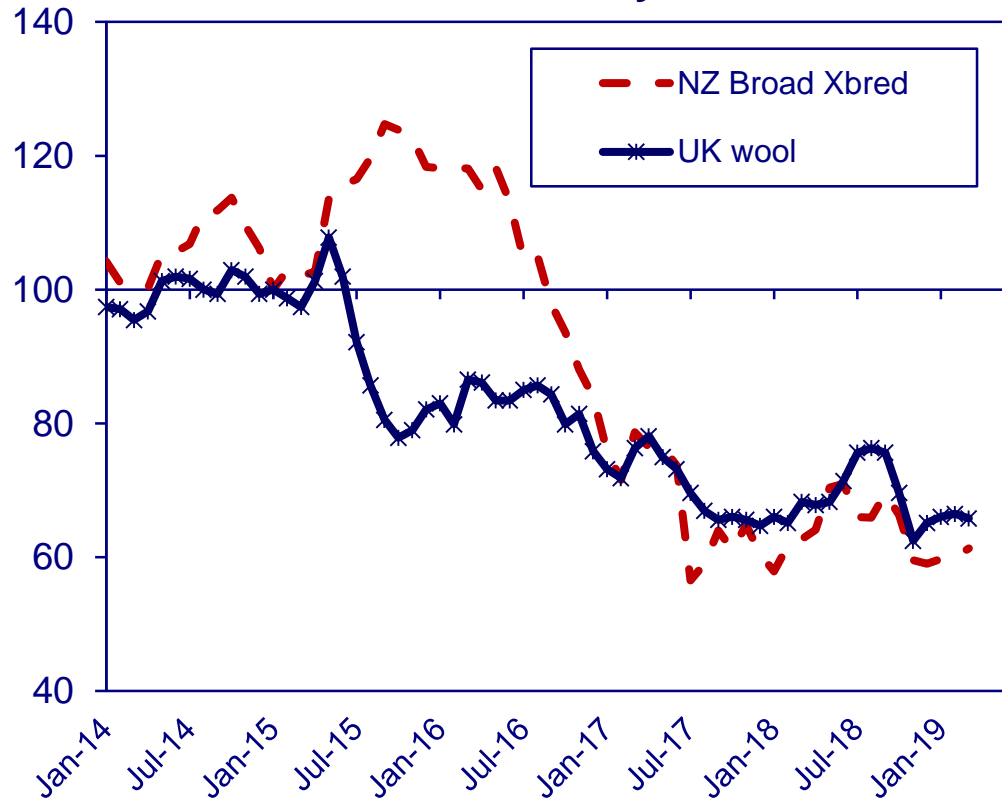


Source: AWEX, NZ Wool Services, Capewools, BWMB
Data to 29th March 2019

Changing Dynamic? Broad Wool Prices Remain at Lows

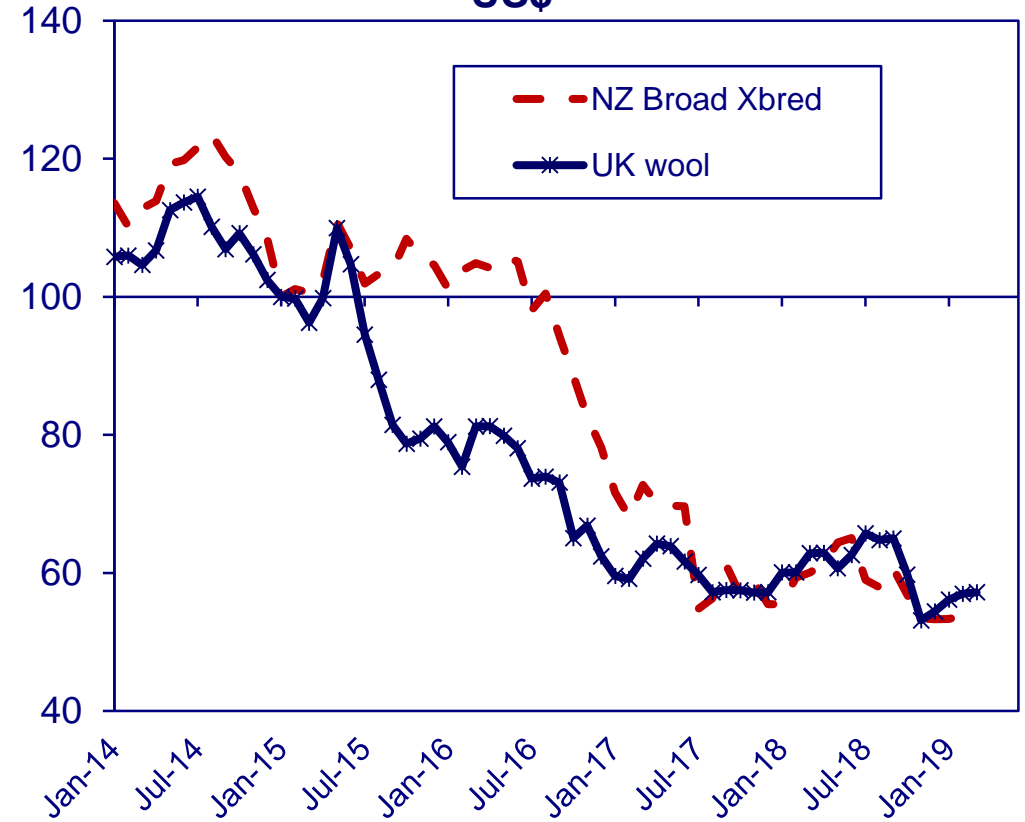
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Local Currency



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Jan 2015 = 100

US\$

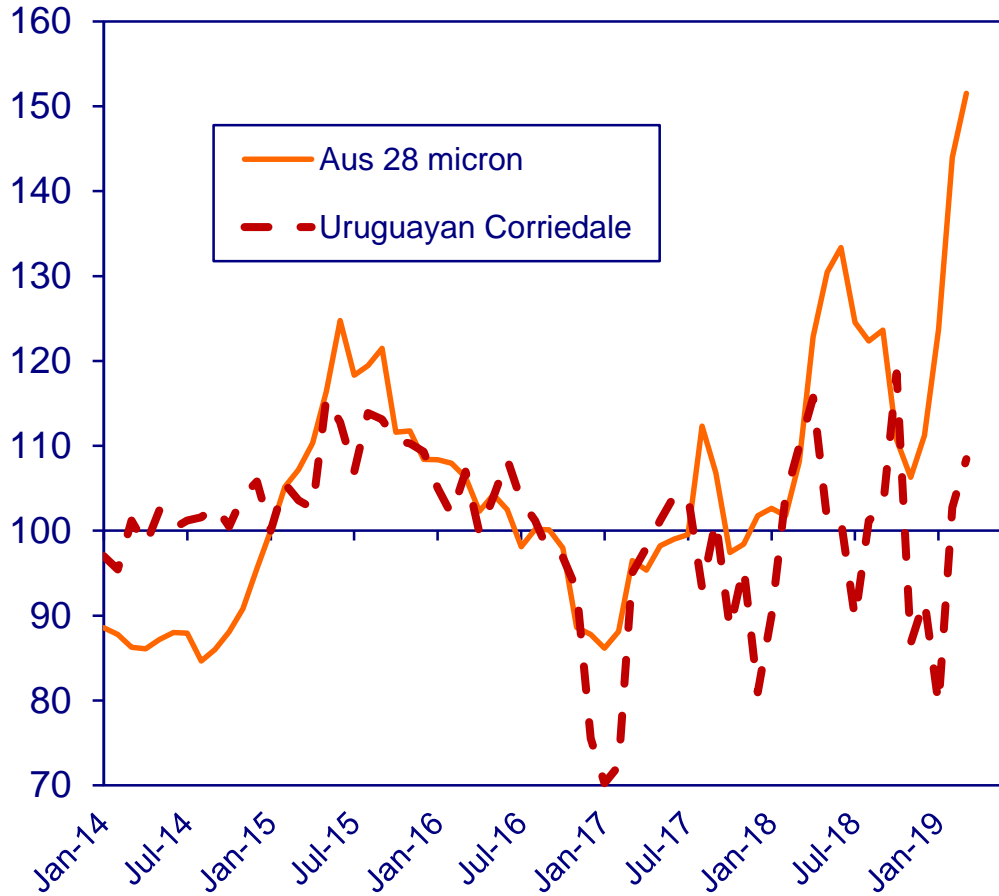


Source: NZ Wool Services, BWMB
Data to 29th March 2019

Volatile Medium Wool Prices

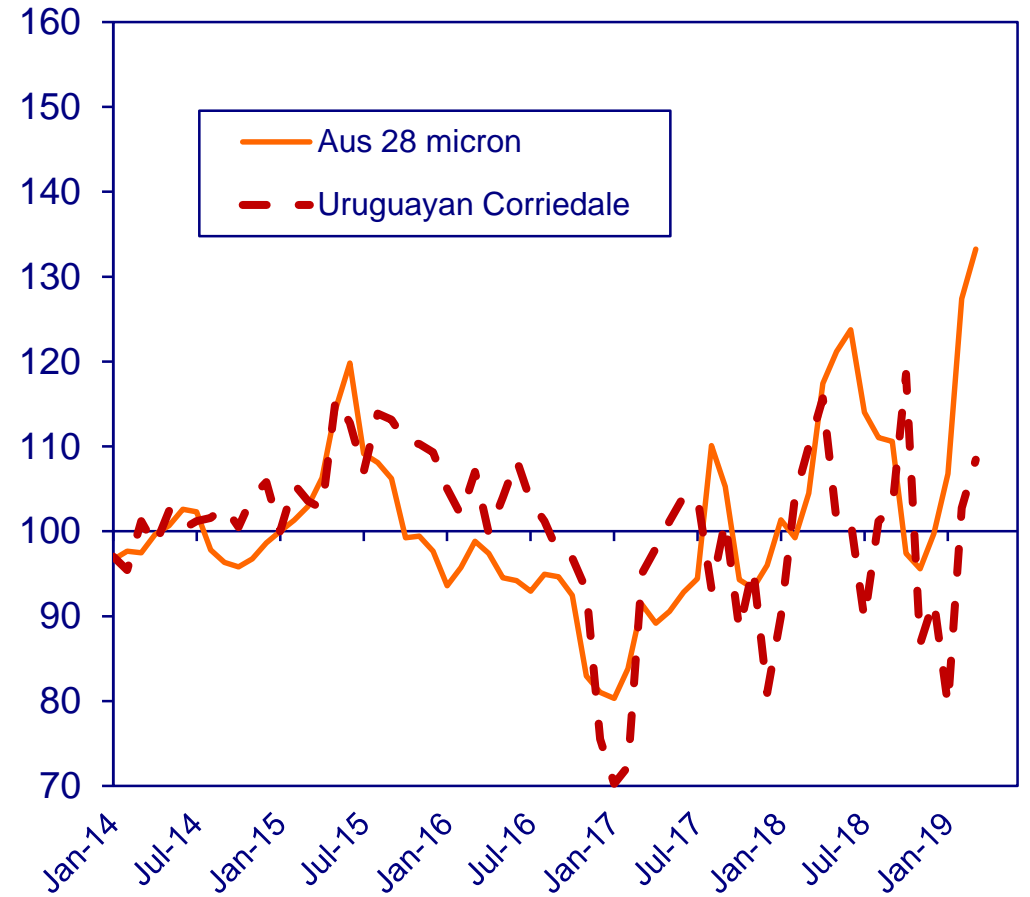
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Local Currency



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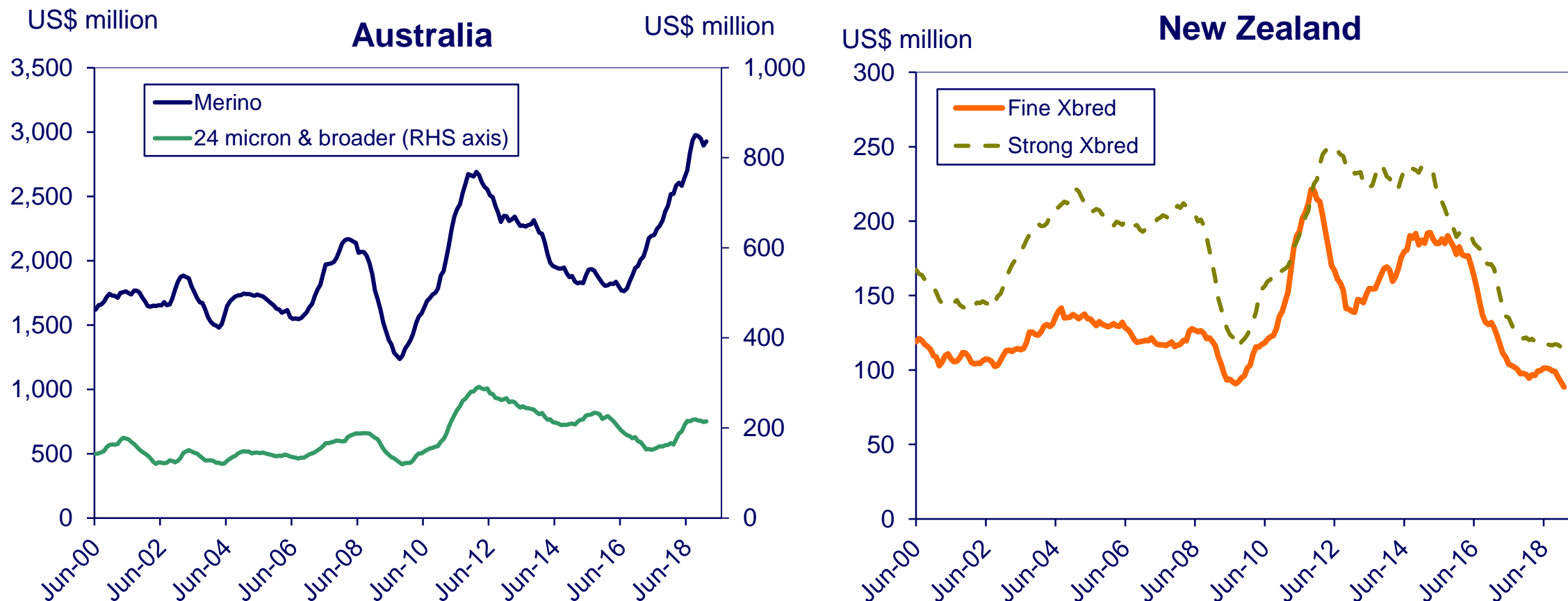


Source: AWEX, Zambrano & Cia (Uruguay)

Data to 29th March 2019

Note: Uruguayan wool prices only quoted in US\$

Australian Merino Wool Exports Up NZ Crossbred Wool Exports Down



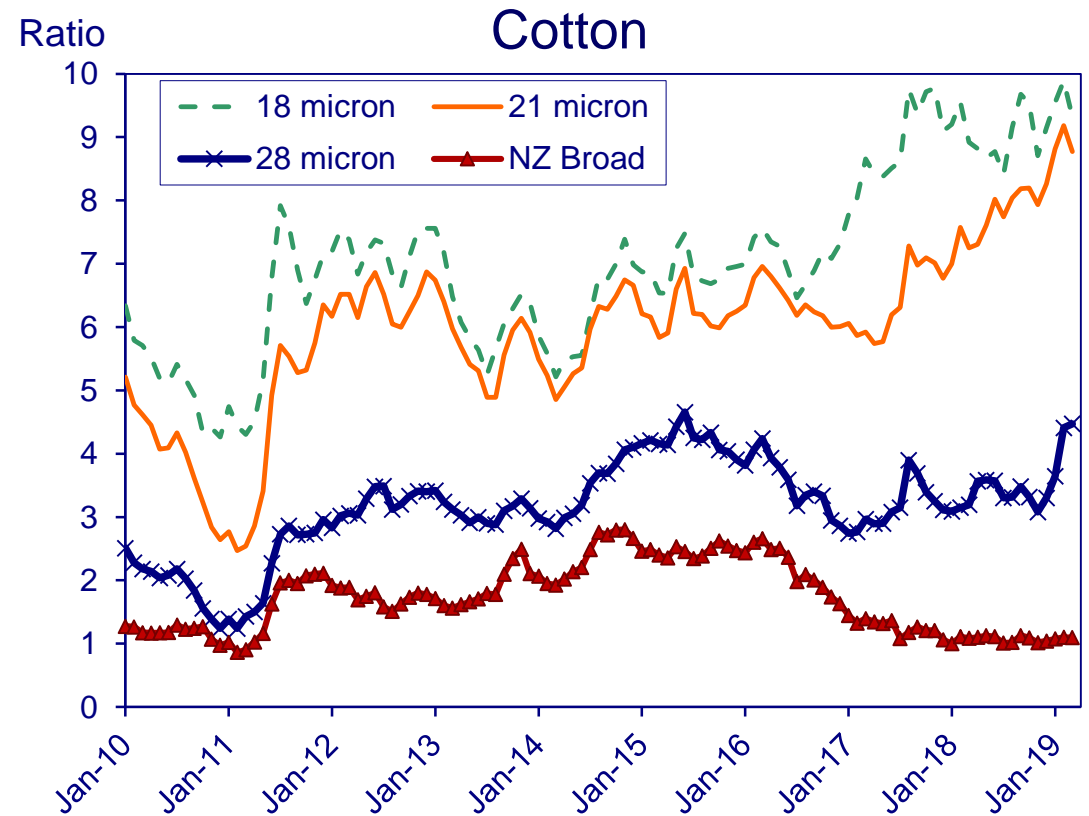
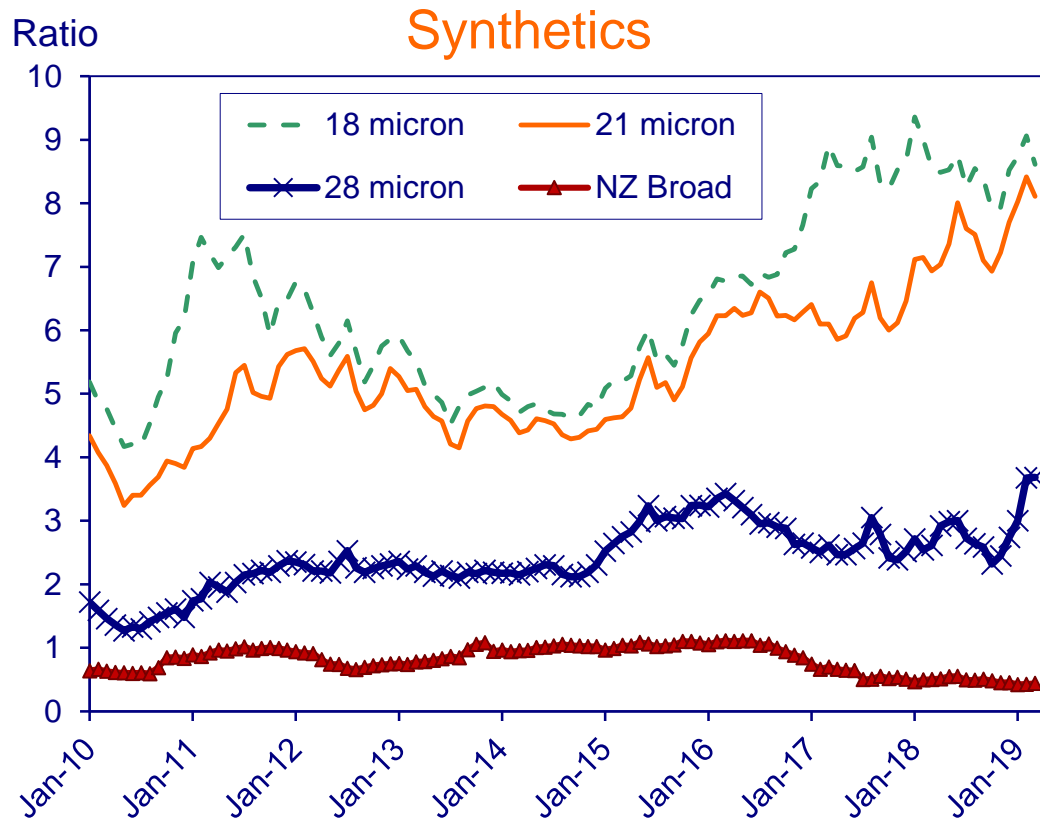
Source: Australian Bureau of Statistics, Australian Wool Industries Secretariat, Beef+Lamb NZ, Poimena Analysis
 Data to January 2019
 12 month rolling aggregate
 Merino for Australia is 23 micron and finer

A Changing Dynamic? Merino wool and Broad wool

- Marketing
- Fibre competition
- Production
- Sustainability



Wool Price Competitiveness US\$ terms



Source: AWEX, Cotton Outlook, PCI Wood Mackenzie, CIRFS, Woolmark, Poimena Analysis
Data to March 2019

Note: for 28 micron wool the ratio is against acrylic and for NZ broad wool the ratio is against nylon (polyamide)

Lower Fine and Medium Wool Production

2018 total production

1,154.1 mkg clean

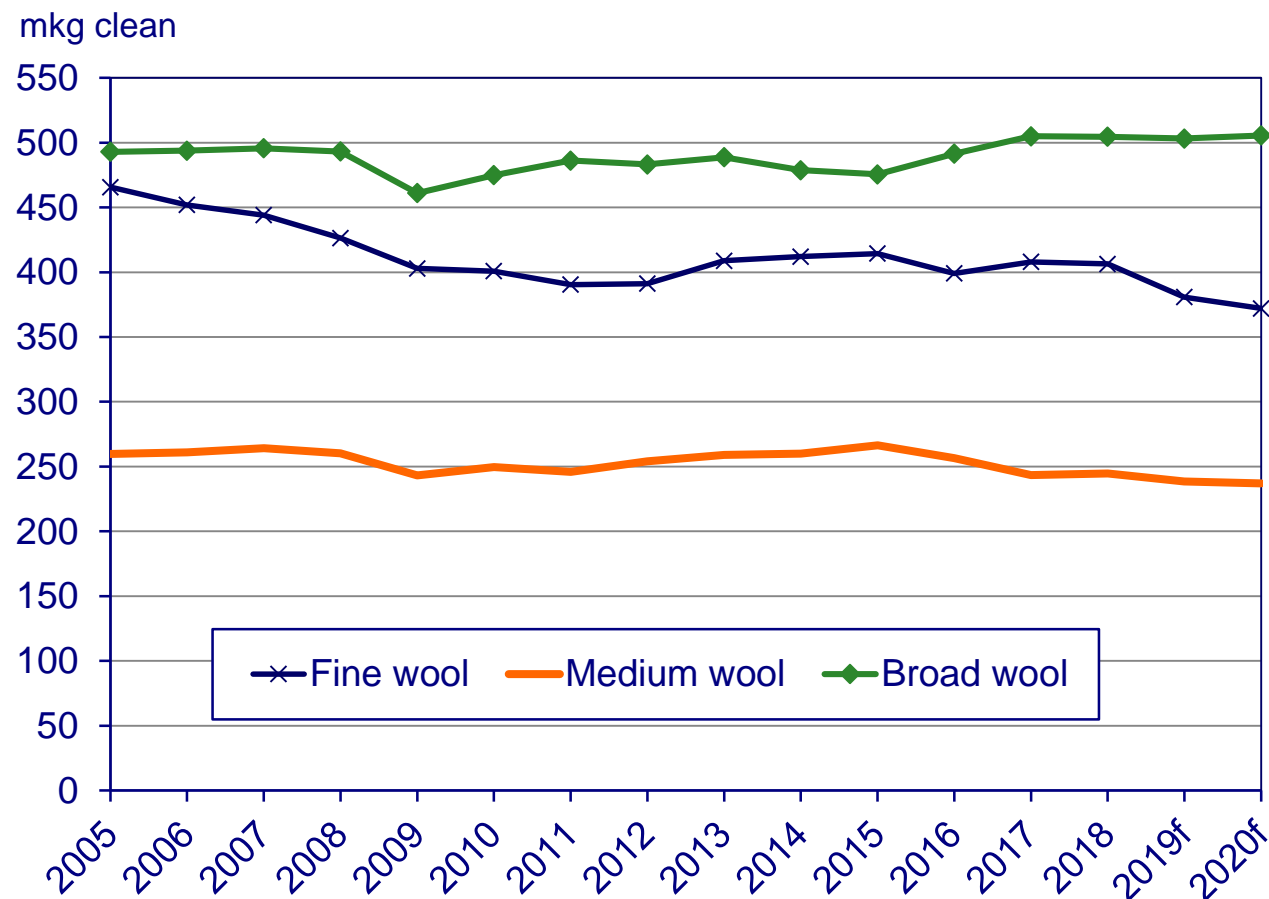
2019 total production

1,123.2 mkg clean (-2.7%)

2020 total production

1,114.8 mkg clean (-0.7%)

**Merino wool supply
at extreme lows**



World Wool Production

Total wool production - mkg clean

mkg clean	2018	2019f	% change	2020f	% change
“Apparel” wool IWTO countries					
Australia	270.0	237.2	-12.1%	227.3	-4.2%
South Africa	29.8	29.2	-1.8%	29.2	0.0%
Argentina	25.9	26.7	+3.2%	26.5	-0.6%
Uruguay	18.3	18.8	+3.0%	18.8	+0.1%
USA	6.5	6.3	-3.5%	6.3	+0.3%
Falkland Islands	1.17	1.17	+1.6%	1.18	+2.0%
“Interior textile” wool IWTO countries					
China	178.8	178.9	+0.1%	178.8	0.0%
New Zealand	103.2	102.2	-1.0%	104.4	+2.1%
India	33.4	33.7	+0.9%	33.7	+0.0%
UK	23.5	23.9	+1.8%	23.6	-1.2%
Mongolia	20.9	21.2	+1.6%	21.1	-0.1%
Other countries	442.8	444.01	+0.3%	443.8	-0.1%
Global	1,154.1	1,123.2	-2.7%	1,114.8	-0.7%

Key Points from Country Reports to IWTO

- Intense drought conditions in eastern **Australia** causing sell-off of stock and lower wool production in 2018/19 and 2019/20. Merino prices continue at very high levels, but high lamb and mutton prices provide incentive to sell stock.
- Reasonable prices for lamb and mutton will mean sheep numbers maintained in **New Zealand**. Very low prices for broad wool and 20% increase in shearing cost - much less second shearing. Broad wool stocks back to normal at start of 2019/20. Crossbred wool producers desperately need a boost to their wool price.
- A large percentage of **South Africa's** wool production area is still affected by drought. Some farmers have started to rebuild their flocks where there has been rain. Biosecurity, predatory animals, climate change and cash flow are all key challenges.
- In **Argentina**, there is a shift finer in the wool production and a small shift to dual purpose (meat and wool) sheep. Competition for land from other enterprises, notably the guanaco restricting growth as is predator animal threat and high labour costs.
- Despite improved prices for wool, flock numbers in **Uruguay** are unlikely to increase because of competition for land from beef production and forestry.
- Post-Brexit issues dominate in the **United Kingdom**, with the possible impact on the lamb trade and subsidy level. Sheep numbers down due to Brexit uncertainty and a poor season in 2018. But better season so far for 2019.



Key Points from Country Reports to IWTO (continued)

- High international wool prices and strong lamb demand in the **United States** which should see sheep numbers increase. The possibility of higher Chinese import duties ahead of the 2019 season is the main concern. Seasonal conditions have been very dry.
- Despite increased opportunities for meat production and export from the **Falkland Islands**, high meat processing and transport costs and high wool prices are encouraging farmers to retain more lambs to increase wool production.
- Changing flock profile in **Mongolia** with fewer goats (for cashmere) but Government keen to maintain goat numbers at the expense of sheep. Growers lifting exports of raw wool.
- **Indian** Government continues to work to enhance the production of finer wool. There has been a shift towards sheep for meat, rather than wool.

Full details in the country reports available
on the IWTO 2109 Congress website



Study on the demand for higher animal standards

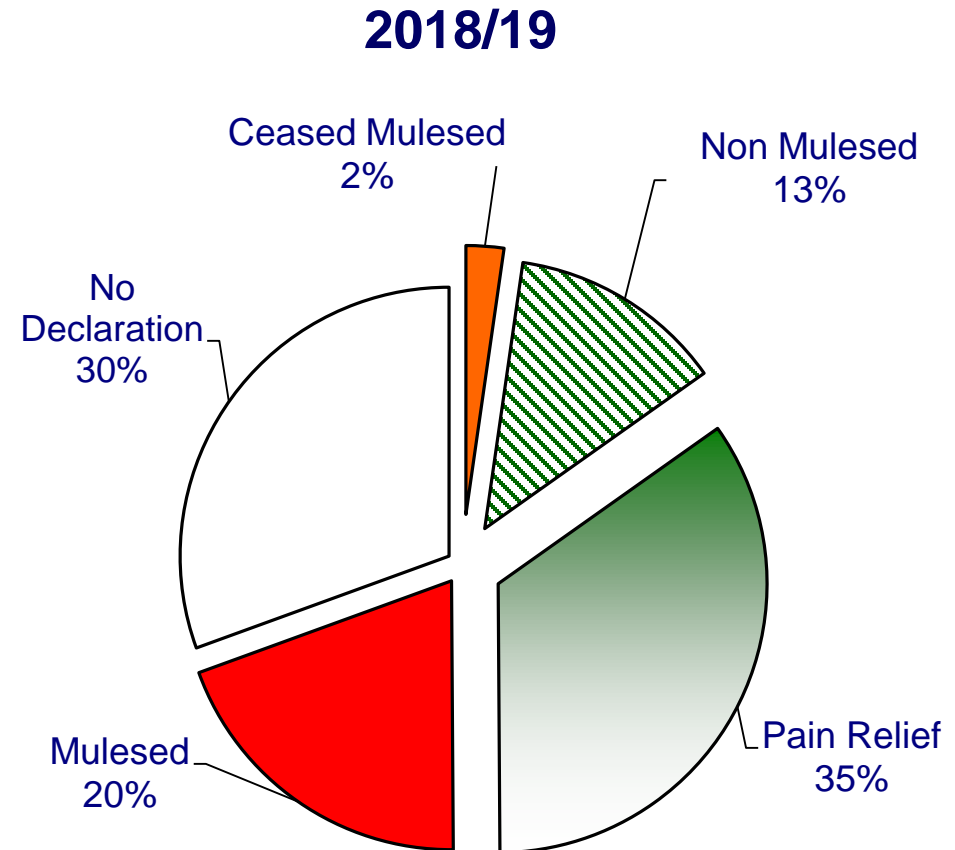
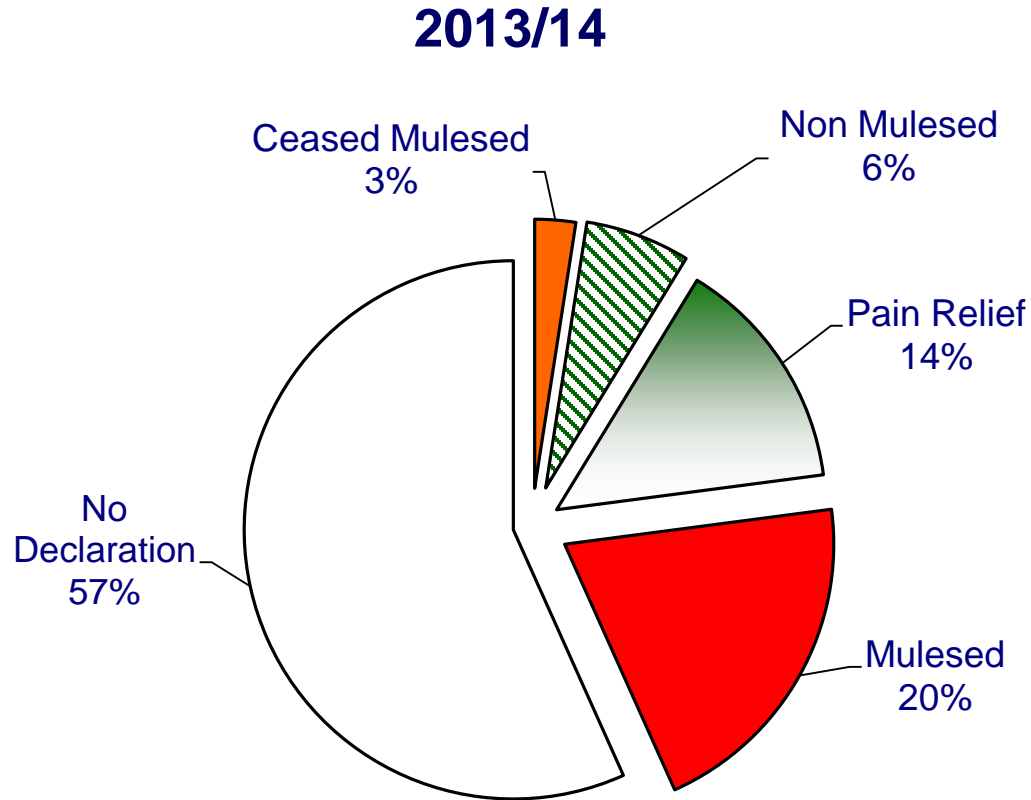
Findings and Conclusions

- Demand for higher animal welfare standards will continue to grow and is likely, ultimately, to develop in Asia.
- Retailers in Europe and in North America are leading the journey for welfare-assured wool.
- Traceability back to source rising in importance.
- Consumers will pay more for products with higher welfare standards, if they believe that the quality of the product is higher as a result.
- Animal welfare is embedding in the commercial world and commercial transactions.

Findings and Conclusions (cont'd)

- Mulesing is the only animal welfare issue of interest and is strongest in Europe and the US.
- Retailers/brand companies concerned with the mulesing issue only want non-mulesed wool.
- The mulesing issue is most significant in the next-to-skin product segments.
- A number of large international brands and retailers targeting Millennial and GenX consumers have implemented a mulesing-free sourcing policy.
- Companies increasingly sourcing their Merino wool from countries other than Australia, such as South Africa, South America and New Zealand.

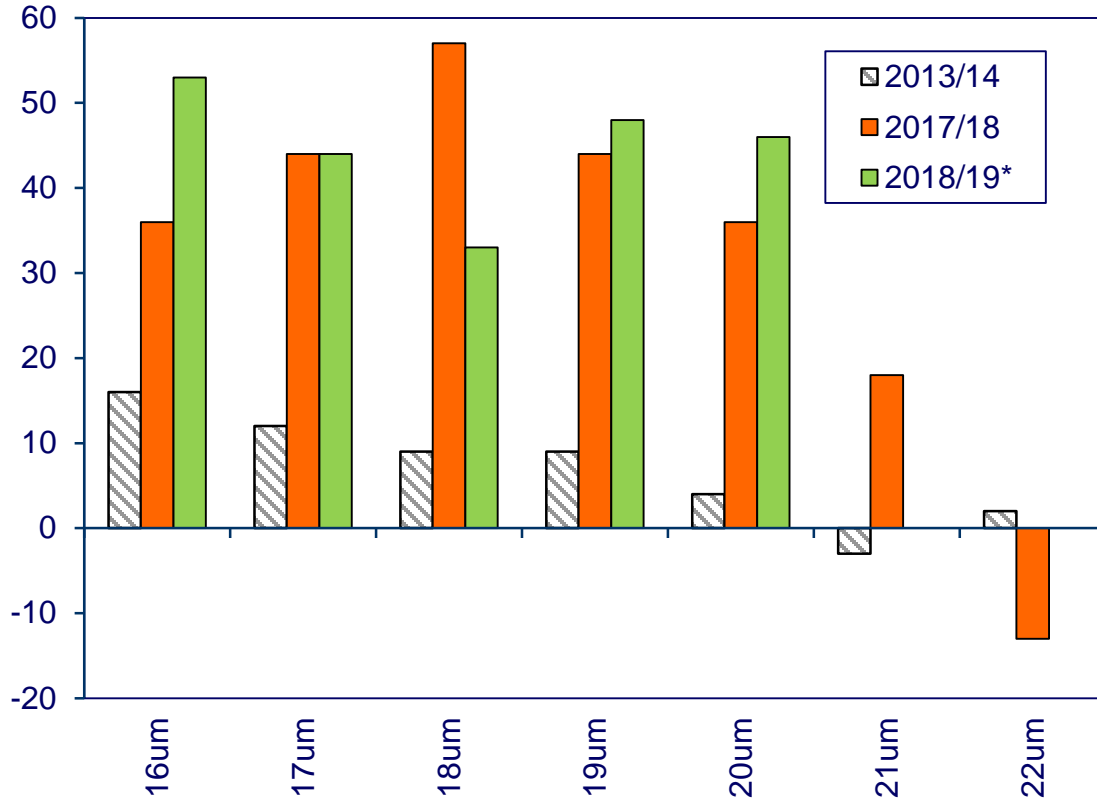
Increased Shares of Non-Mulesed and Pain Relief in Australia 2013/14 and 2018/19 (to Mar)



Price Difference for Non-Mulesed Wool~ in Australia

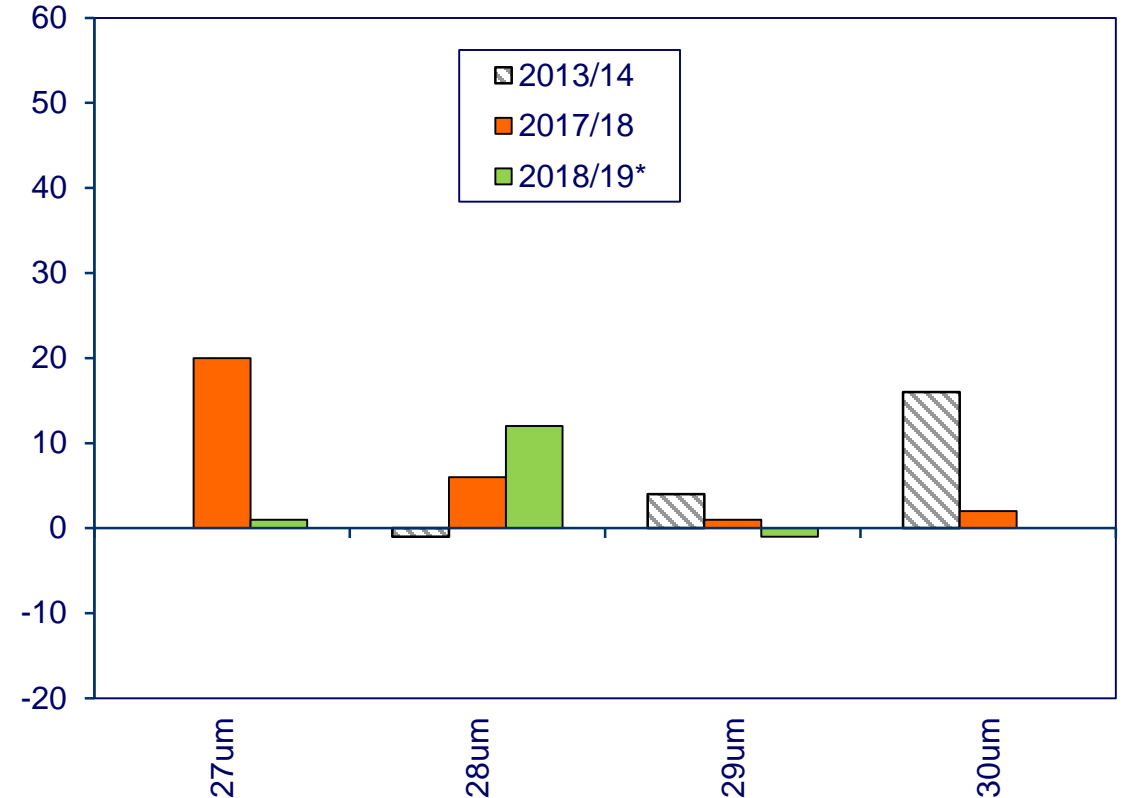
Price difference
c/kg clean

Merino Wool



Price difference
c/kg clean

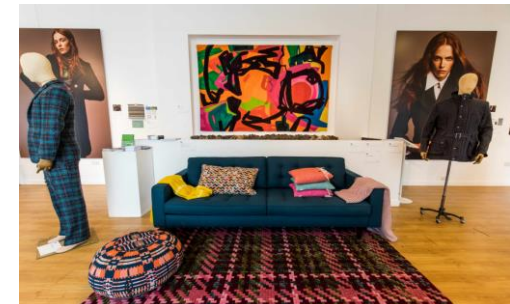
Non-Merino Wool



Prospects for 2019/20

Check-list

	Merino	Medium	Strong
Production	xx	x	✓
+ Economic growth	x	x	x
+ Wool textile industry conditions	✓	✓	x
+ Stocks in the industry	✓	✓	✓
+ Wool demand	✓	✓	x
+ Price ratio with other fibres	xx	x	✓✓
= Prices	Softer	Volatile/ seasonal	Improving

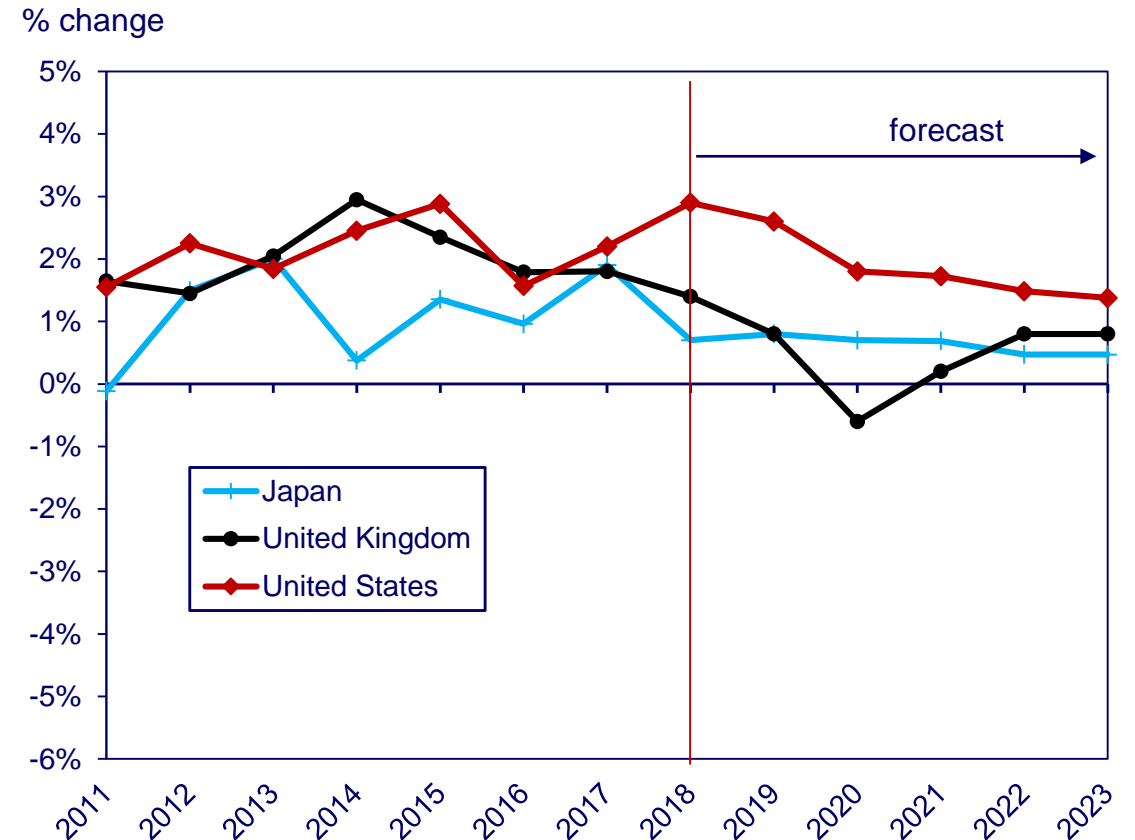
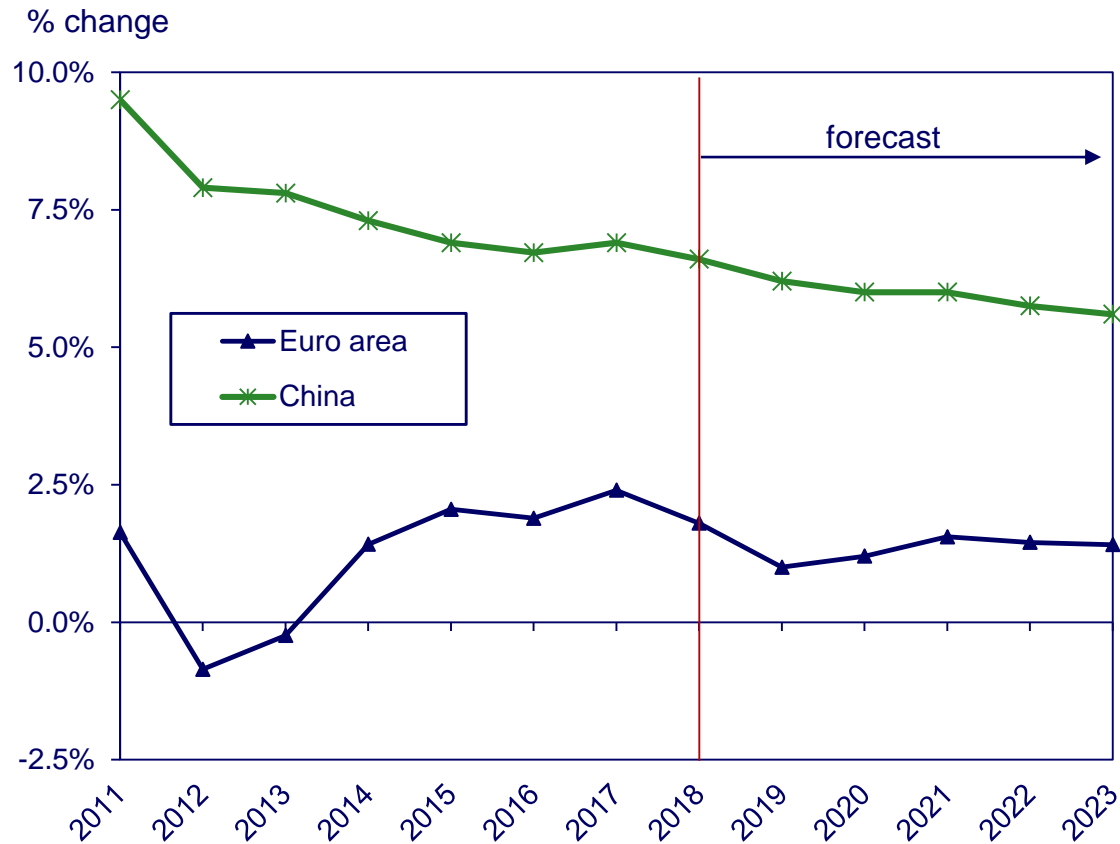


Thank You!



Spares

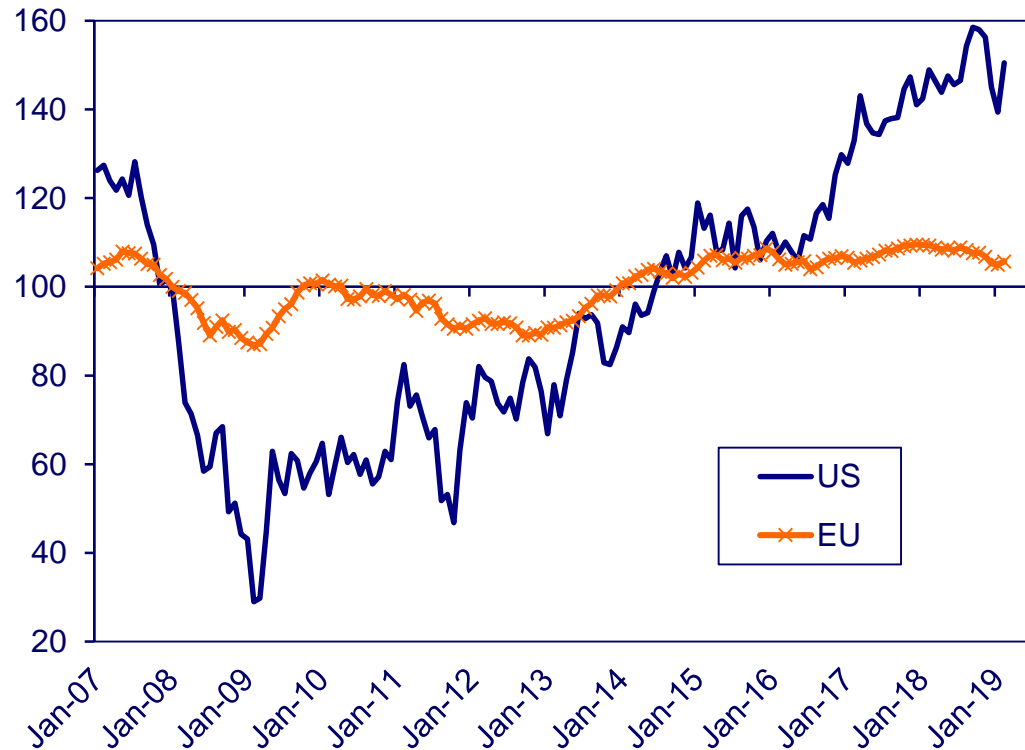
Slowing Economic Growth Rates in Key Markets



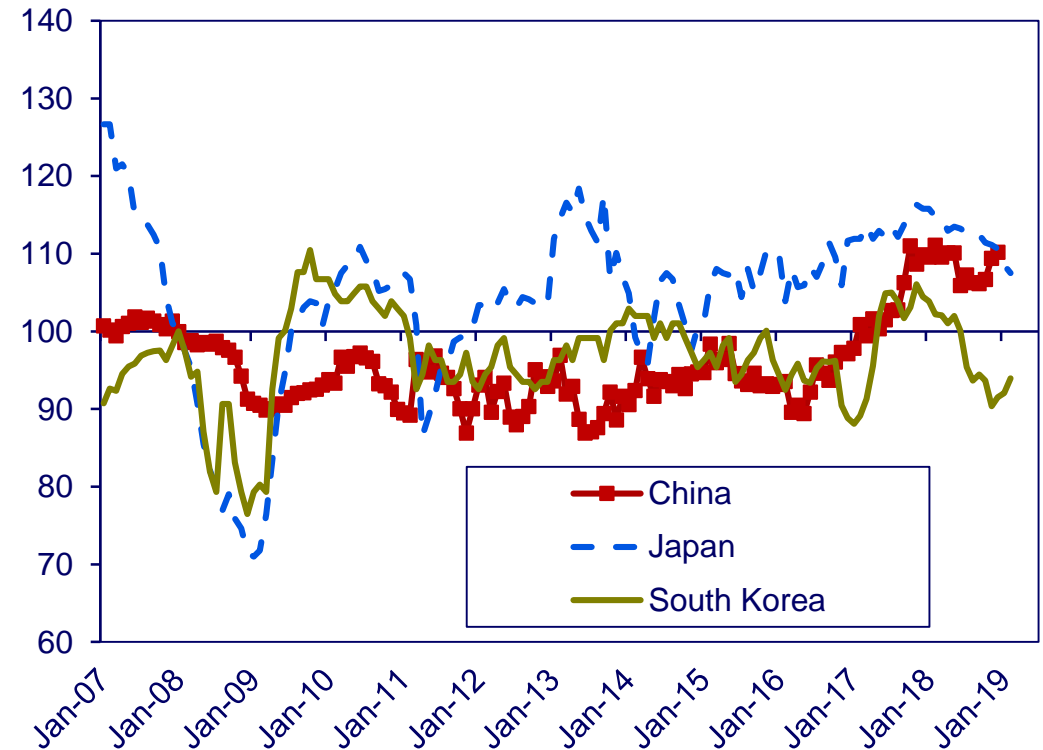
Source: IMF, *World Economic Outlook Update*, January 2019 and OECD *Interim Economic Outlook*, March 2019

Consumer Confidence in the Major Wool Consuming Countries

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Jan 2008 = 100



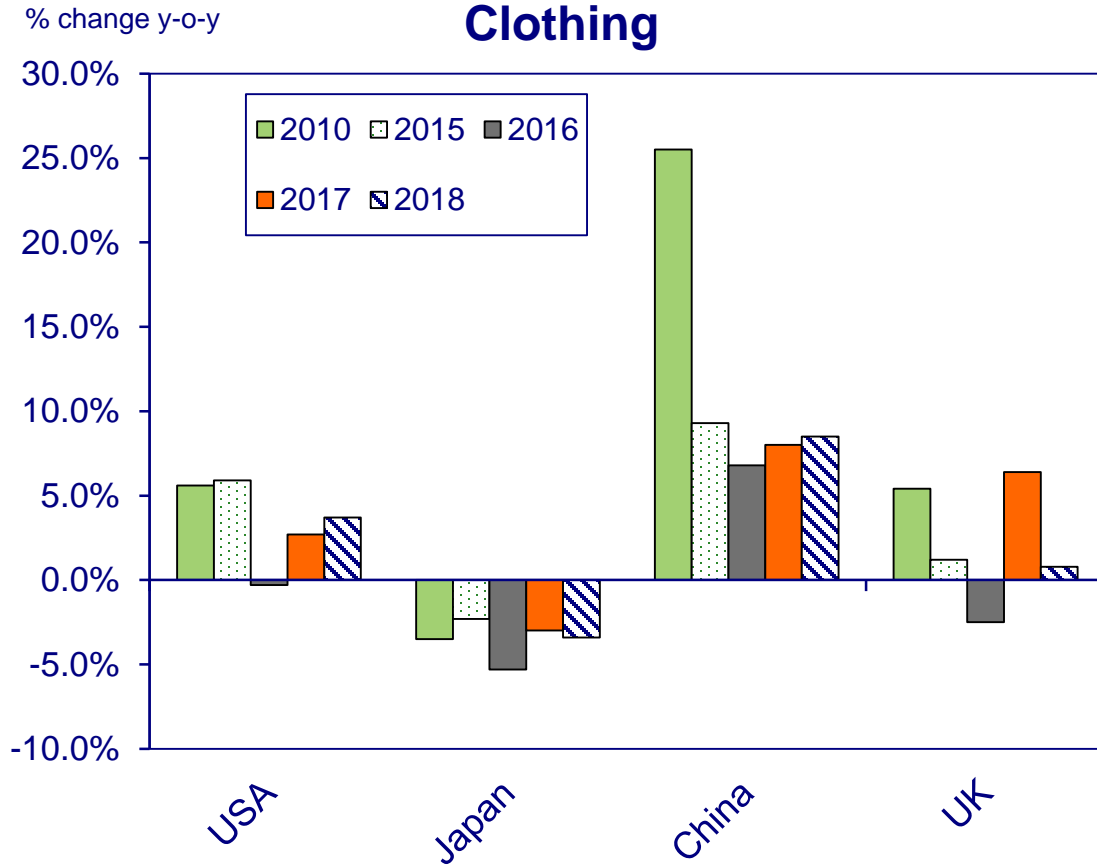
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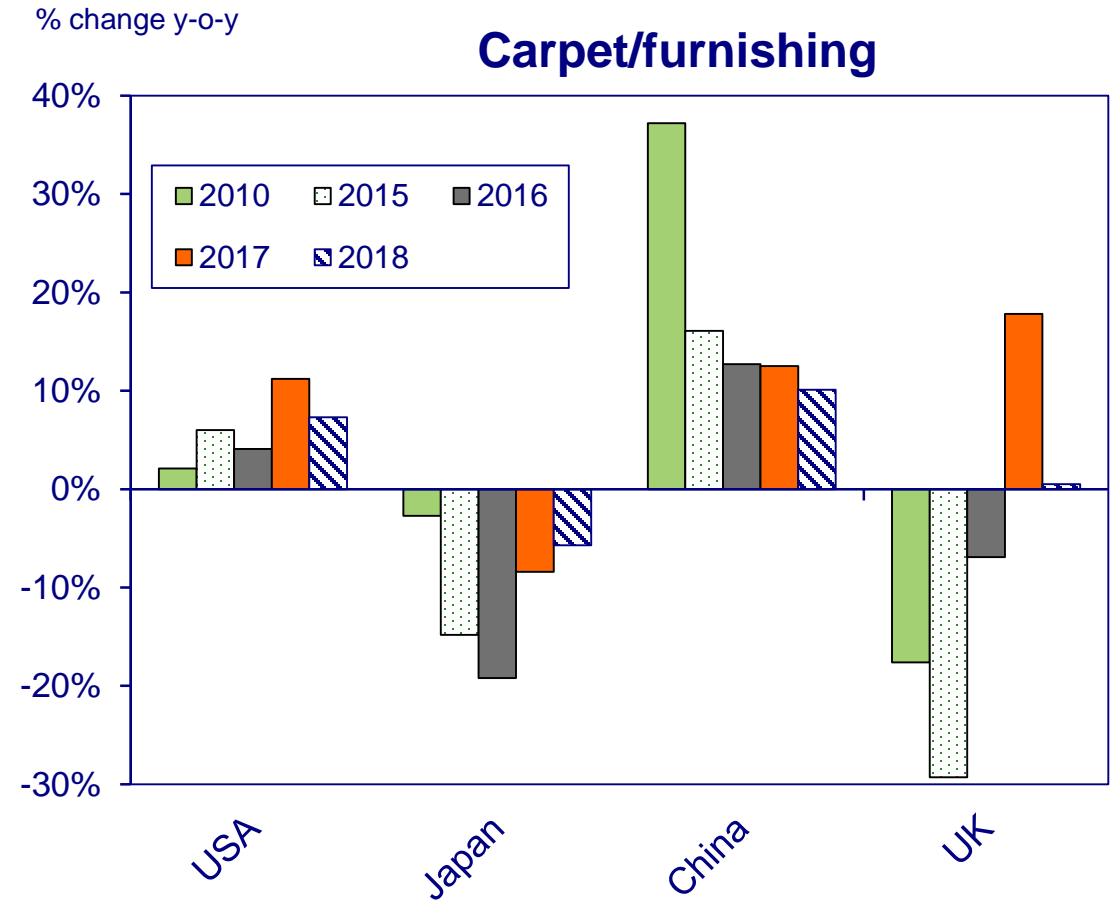
Source: The US Conference Board, the European Commission and www.tradingeconomics.com
Data to February 2019

Mixed Retail Sales Results in 2018

Clothing

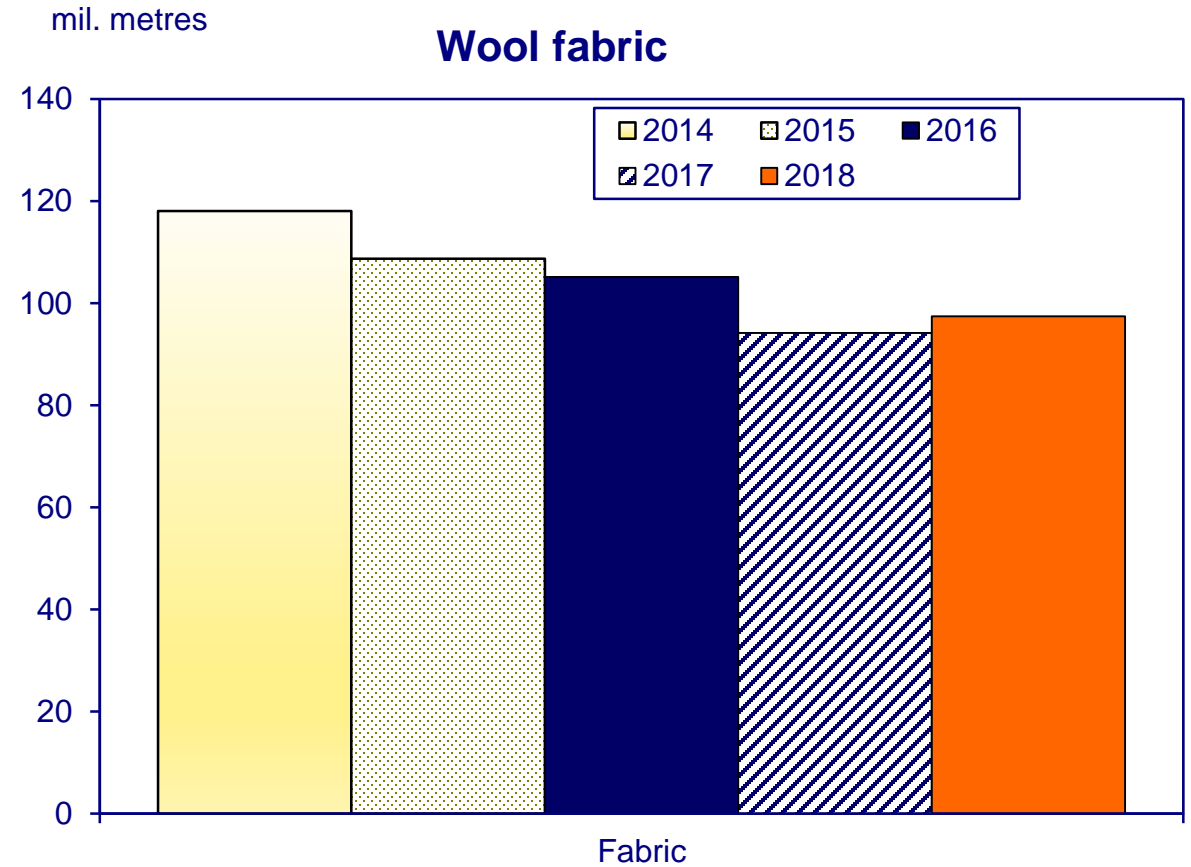
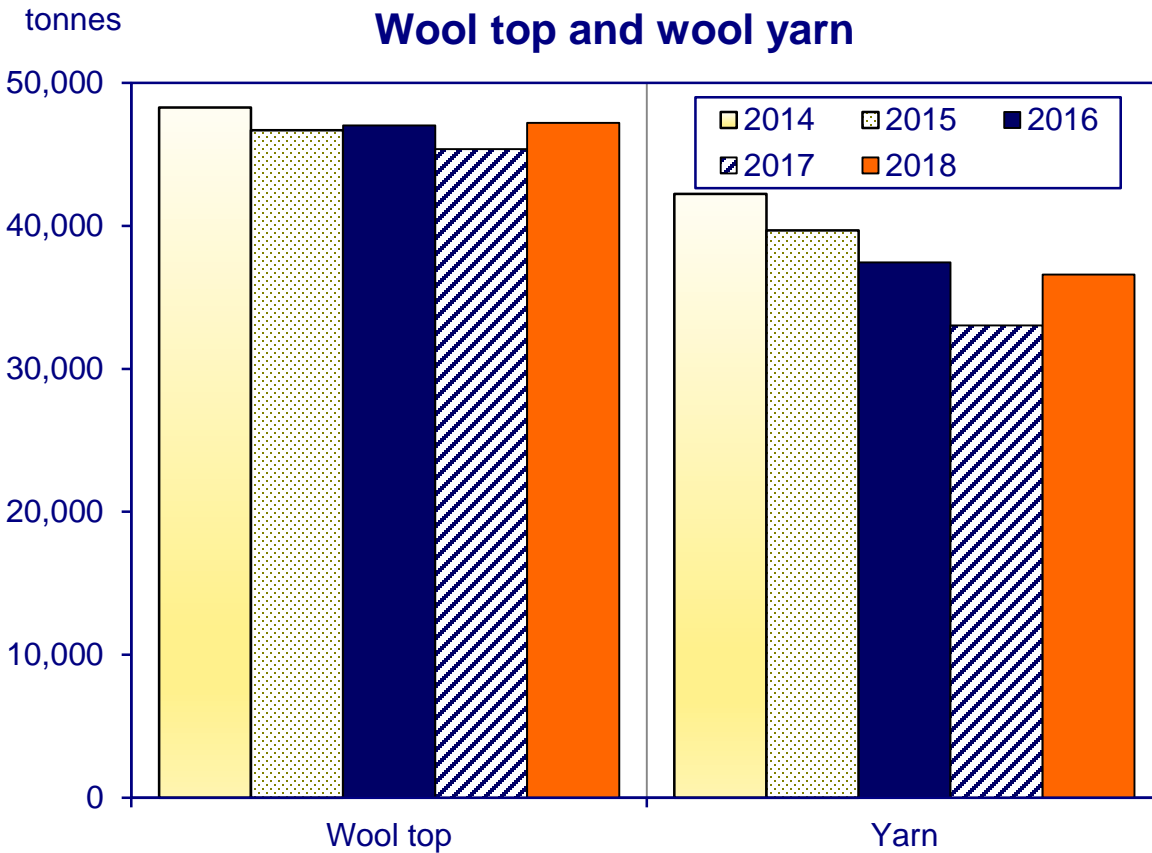


Carpet/furnishing



Source: Government statistical services. Includes data on retail sales or private expenditure on clothing and on carpets and/or furnishings

China's Exports of Intermediate Wool Products up in 2018

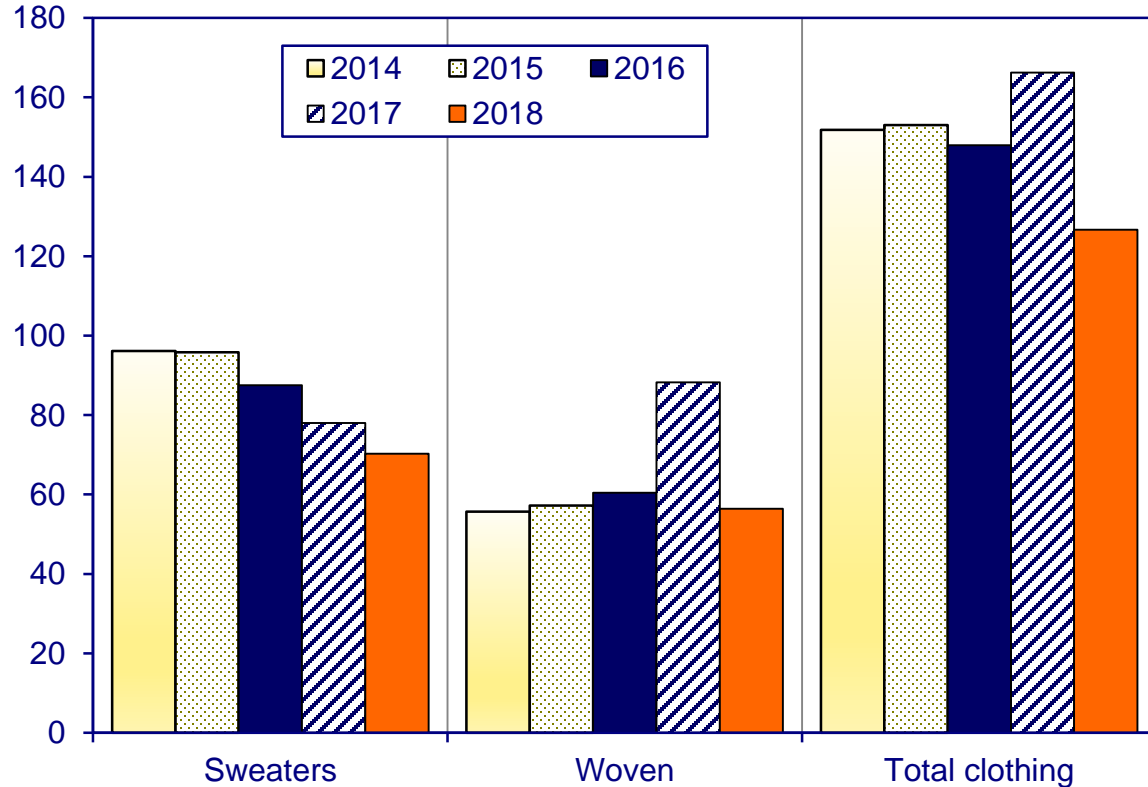


Source: China Customs and China Wool Textile Association

China's Exports of Finished Wool Products Down in 2018

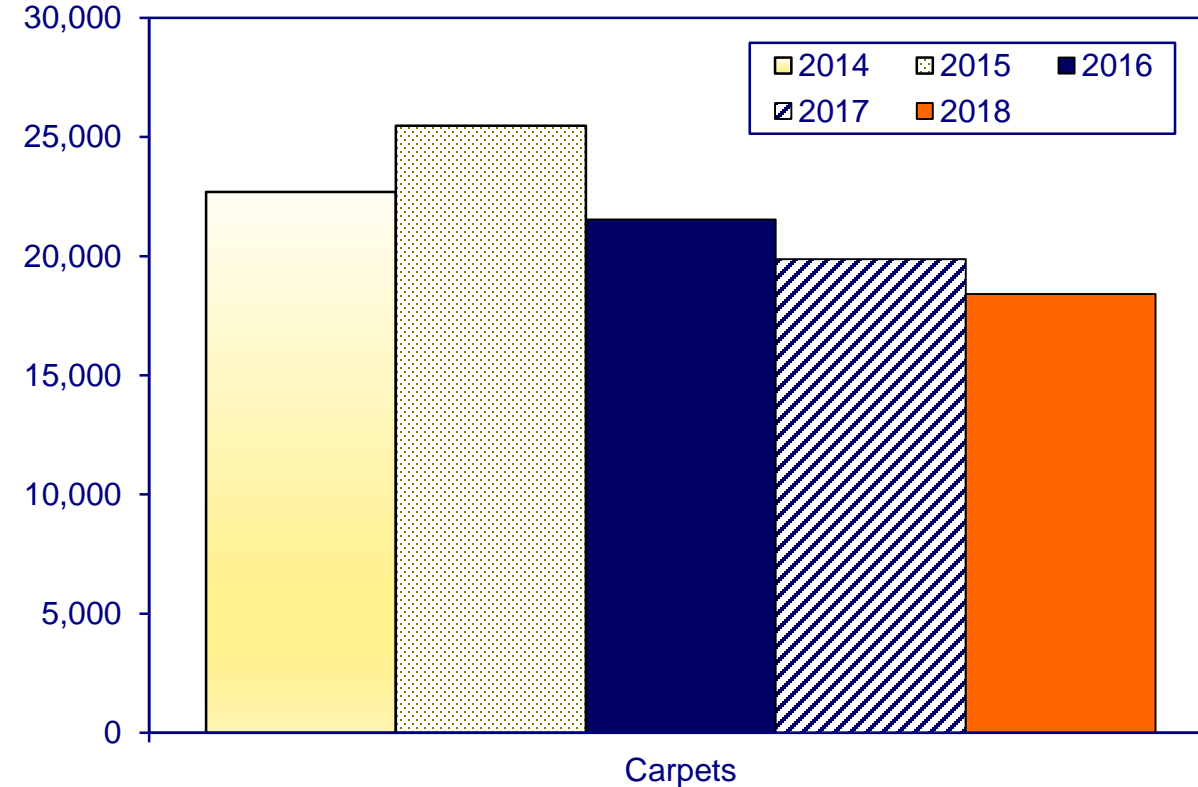
mil. pieces

Sweaters and woven

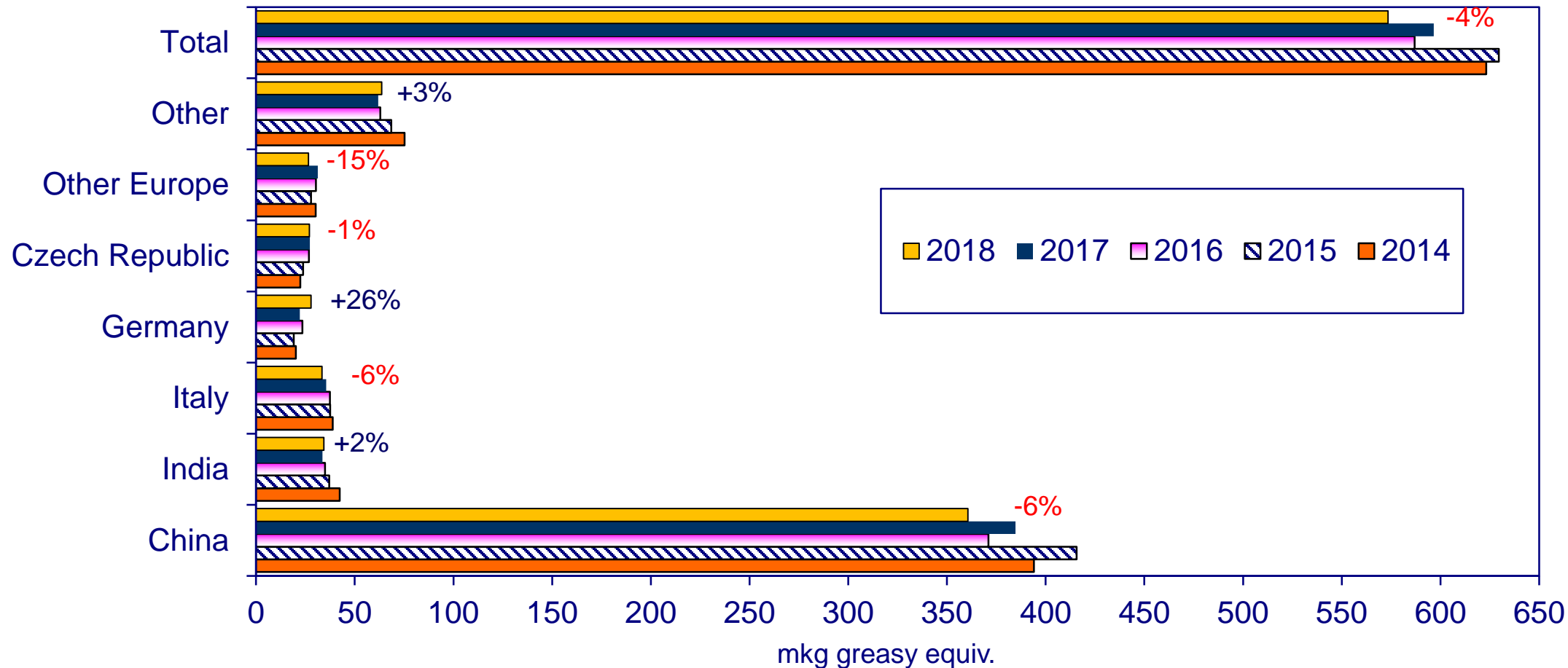


tonnes

Carpets



Volume Demand for Wool Falls in 2018 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