

The Merino Wool Market: What Has Gone Right and Can it Continue?

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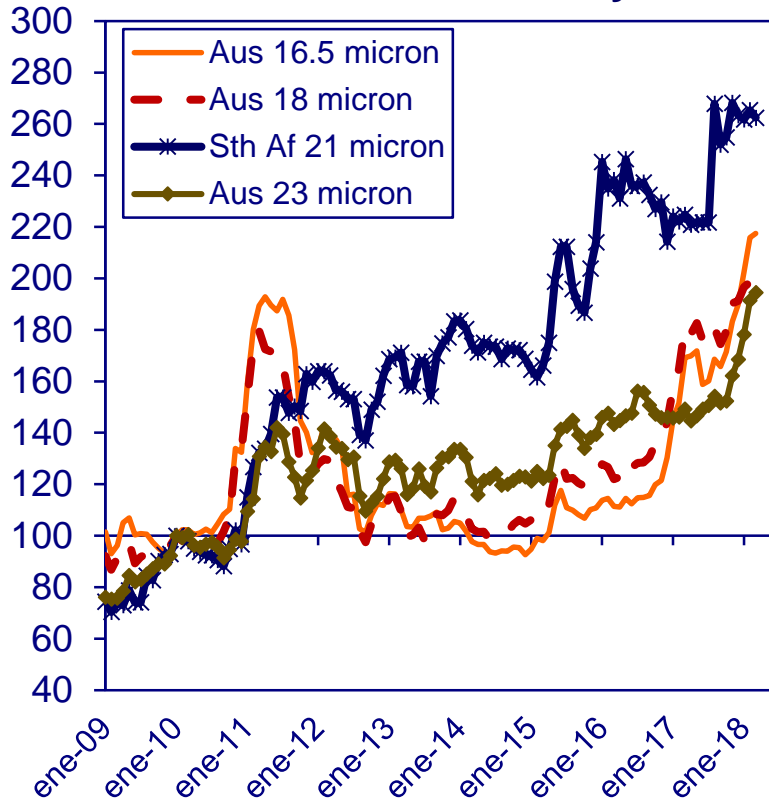
What Has Gone Right for Merino Wool?



Merino Wool Prices on a High: Australia and South Africa

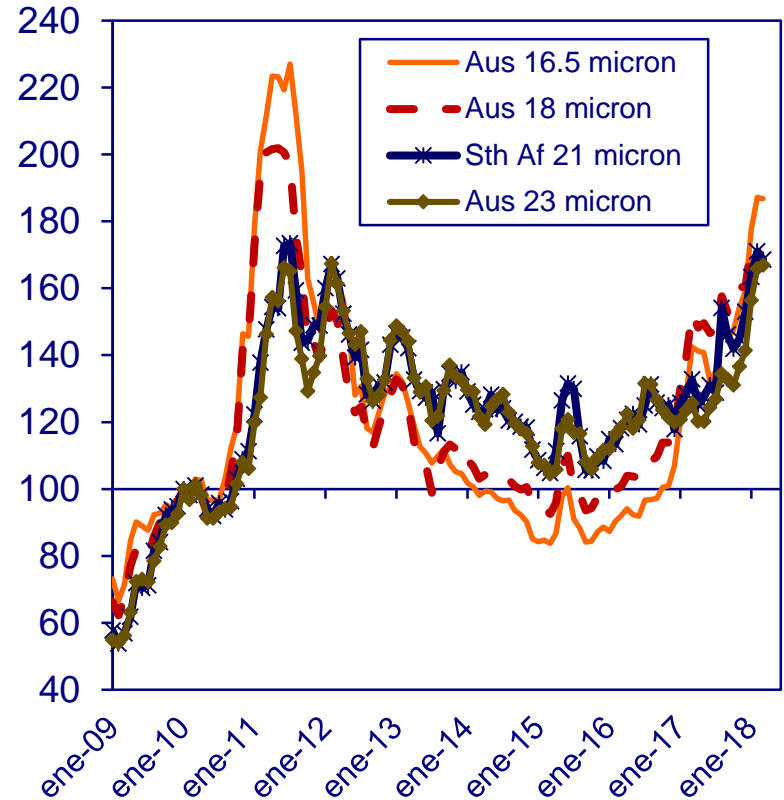
Index
Jan 2010 = 100

Local Currency



Index
Jan 2010 = 100

US\$



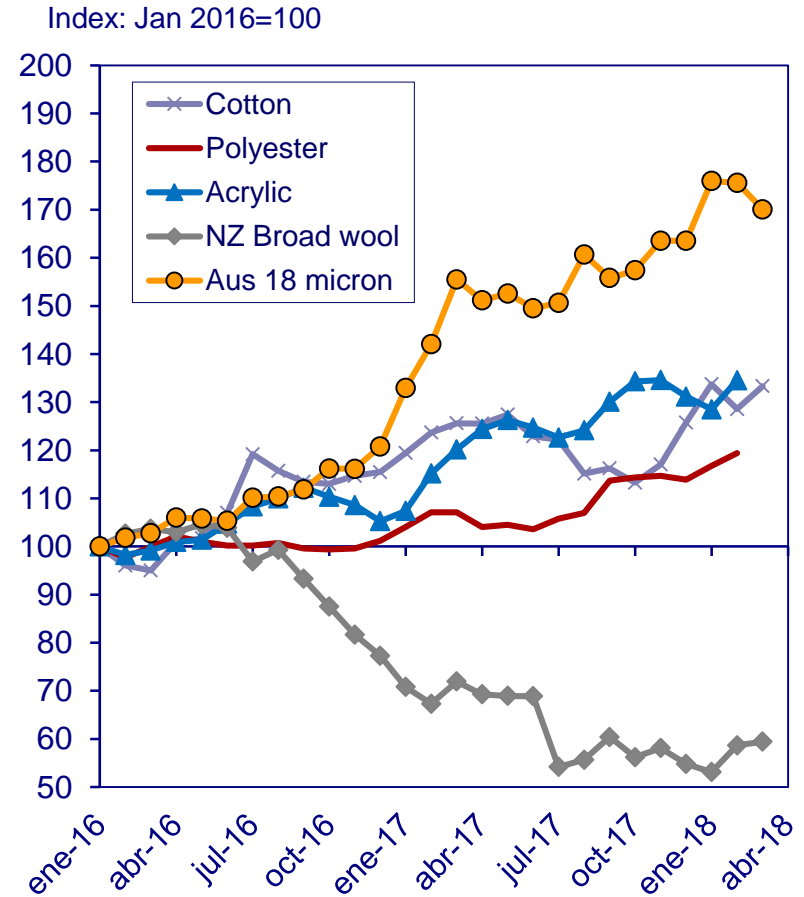
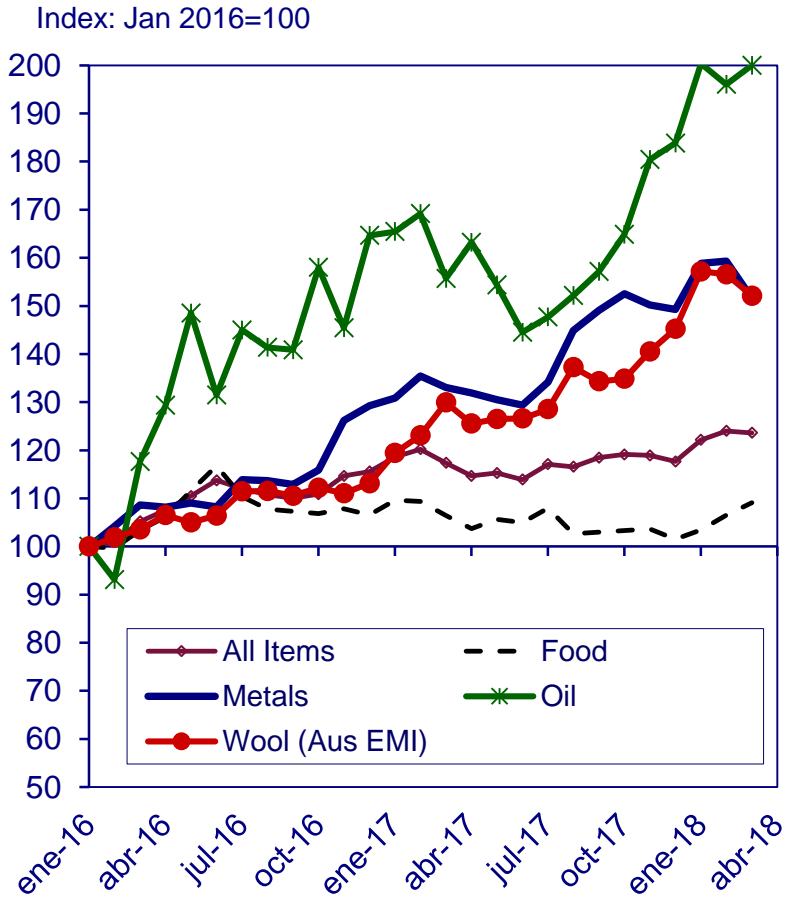
Merino Wool Price Supercycles

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 March 2018	1439	1830	+540 (+60%)	+586 (+48%)	99+	Solid economic growth in US & EU, general commodity price rise. Constrained Merino wool production.

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

+ Peaked at 2nd March 2018

General 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 29th March 2018



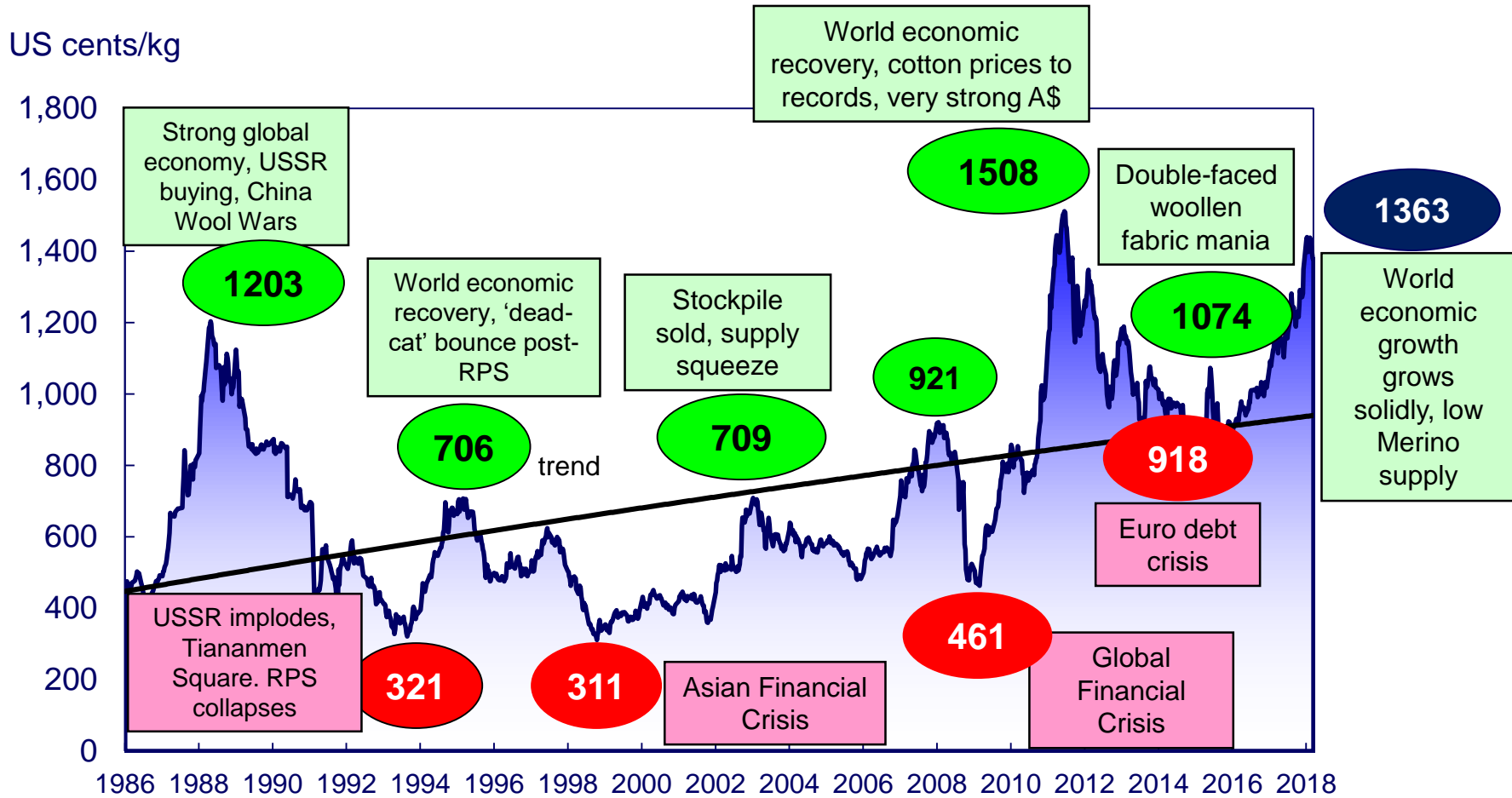
Drivers of Demand for Merino Wool

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



World Economic Events and Merino Wool Prices

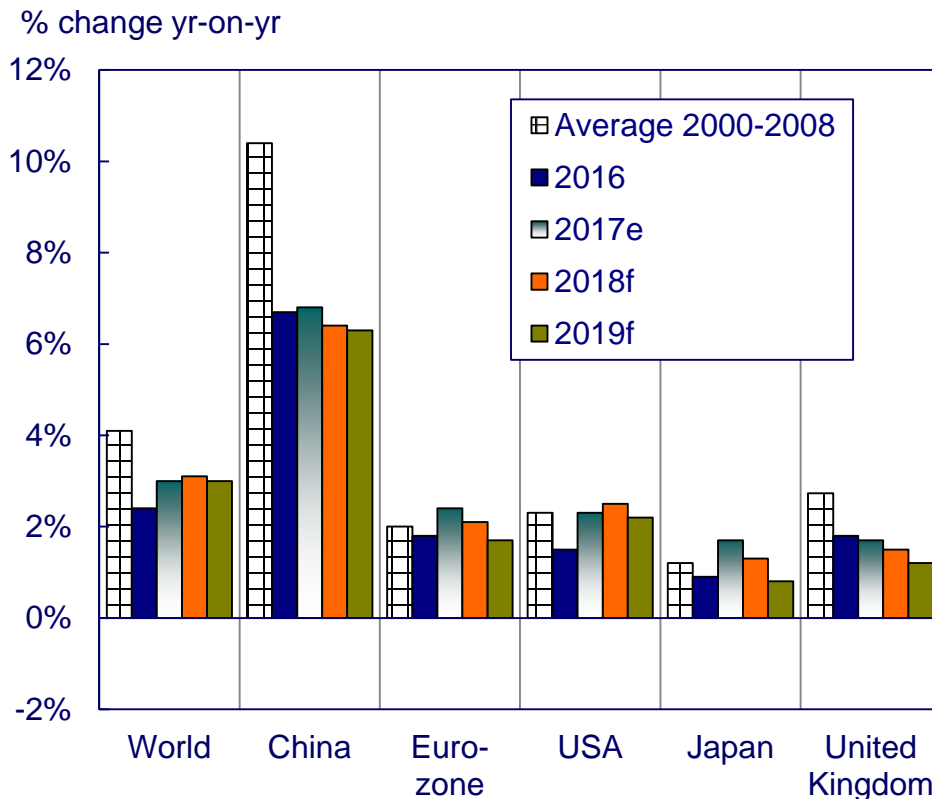
Australian Eastern Market Indicator



Source: AWEX – 2017/18 basis
Data to 29th March 2018



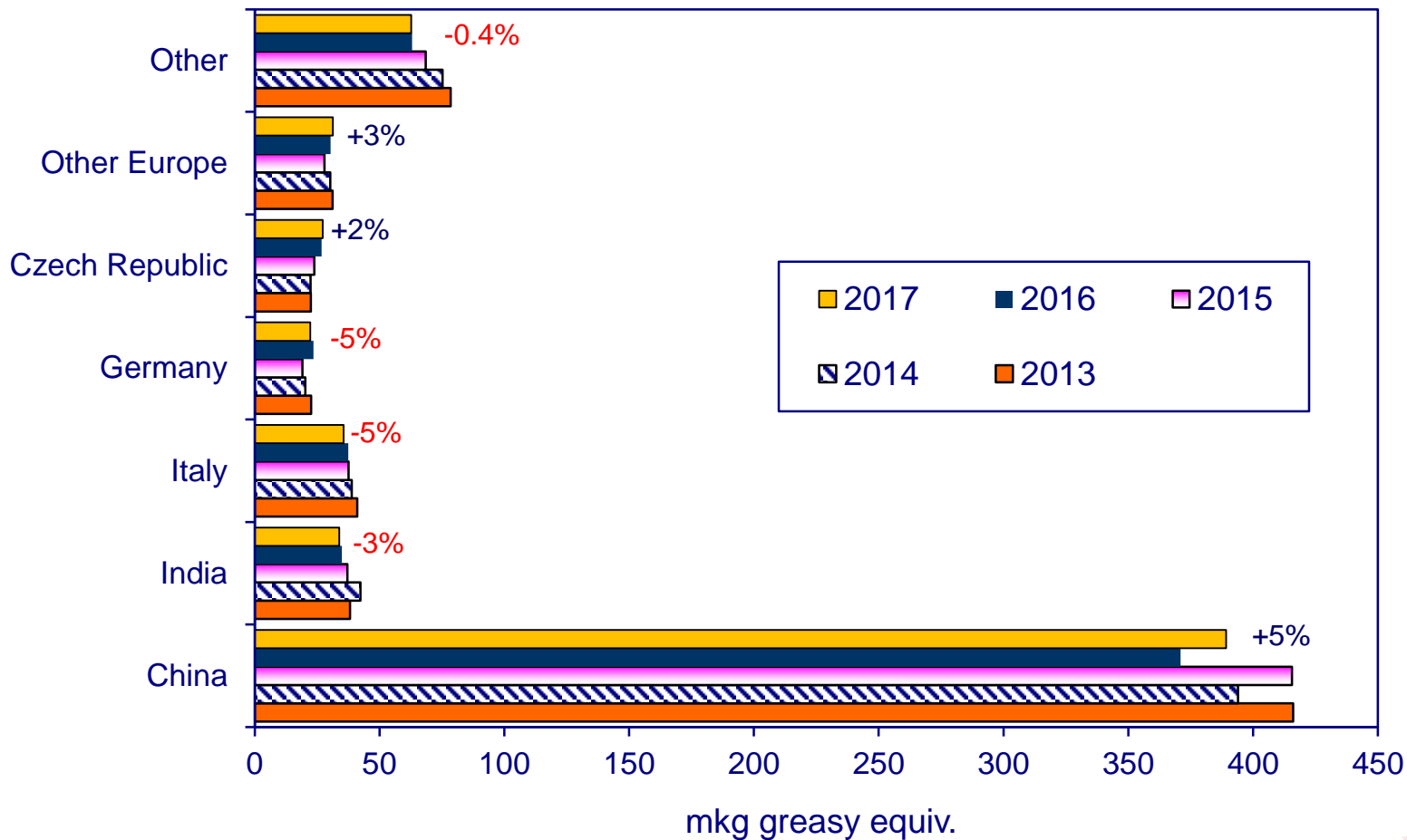
Broad-Based Economic Upturn in 2017 and 2018



- 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

Source: World Bank, *Global Economic Prospects*, January 2018

China Drives the Increased Demand for Wool Calendar Year

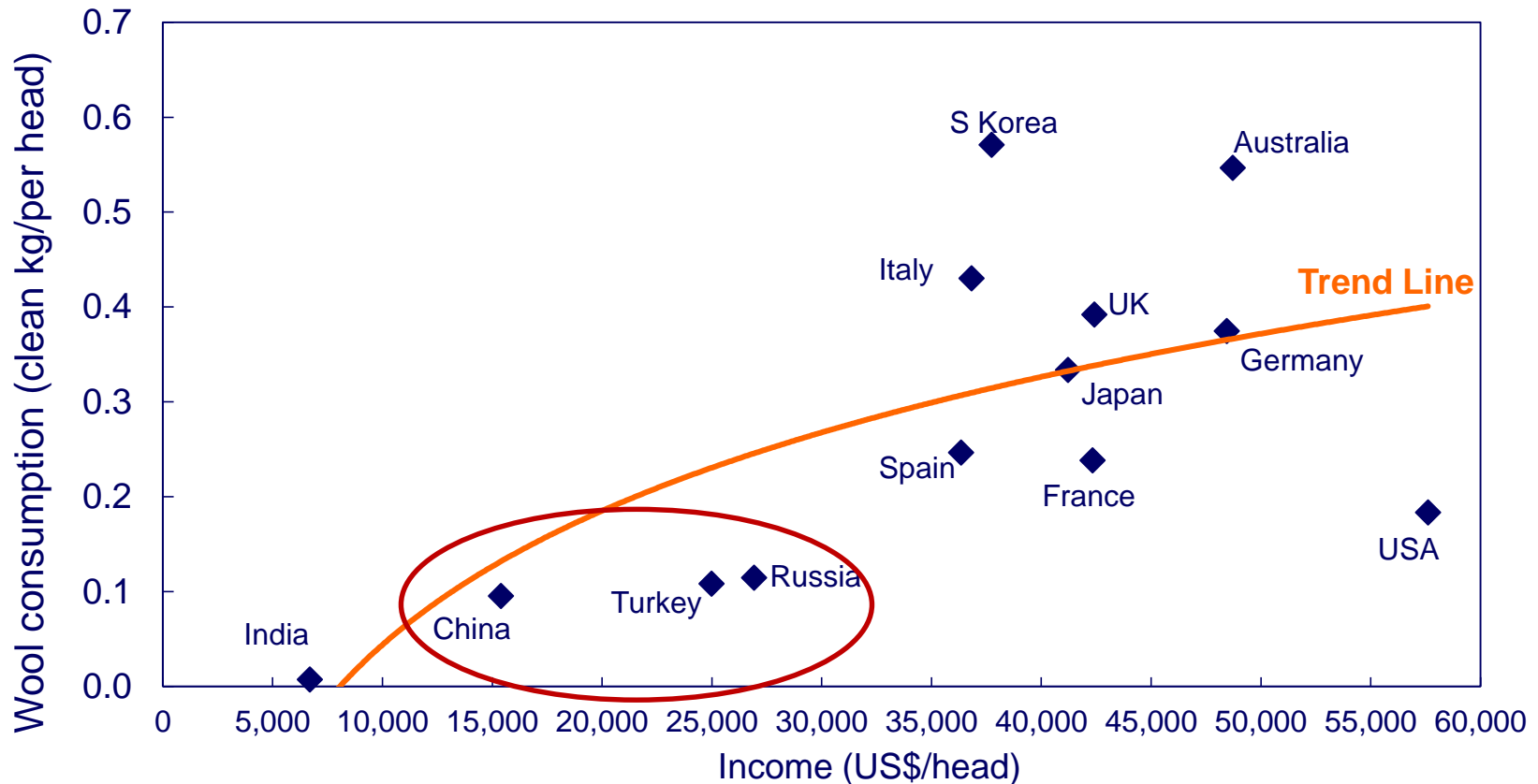


Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)

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

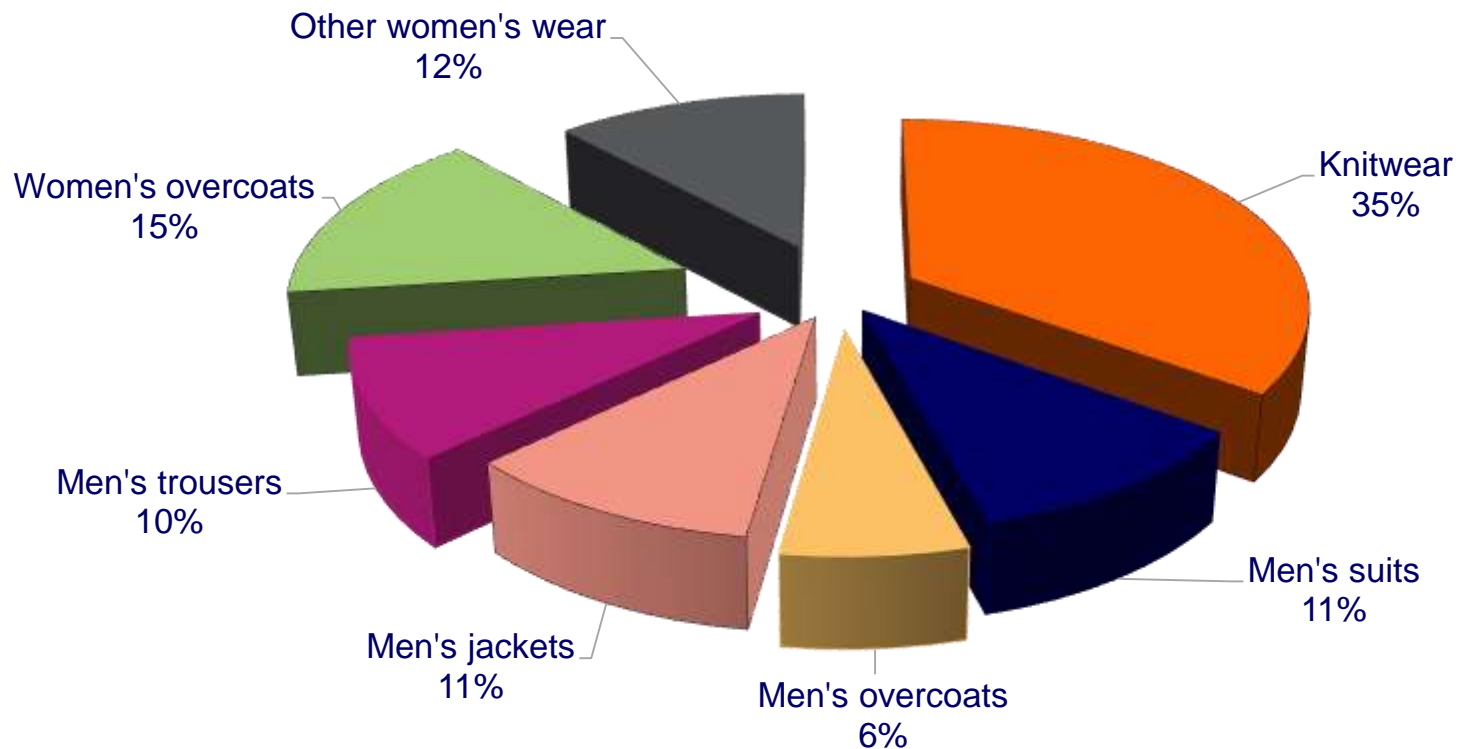


Apparel Wool Consumption Rises as Incomes Lift



Source: International Monetary Fund and Woolmark
Apparel wool consumption is apparel NDA at retail average 2015-2017 as estimated by Poimena Analysis. Income is US\$ GDP per head in 2017 on a purchasing power parity basis.

World Trade in Wool Clothing in 2016 (% share)



Longer Term Outlook Positive

- 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 recovering a little



Product Segment Prospects: Growth Opportunities For Merino Wool

Growth



Mainstay



Decline



Total and Merino Wool Production Stable At Lows

2016 total production

1,130.8 mkg clean

2017 total production

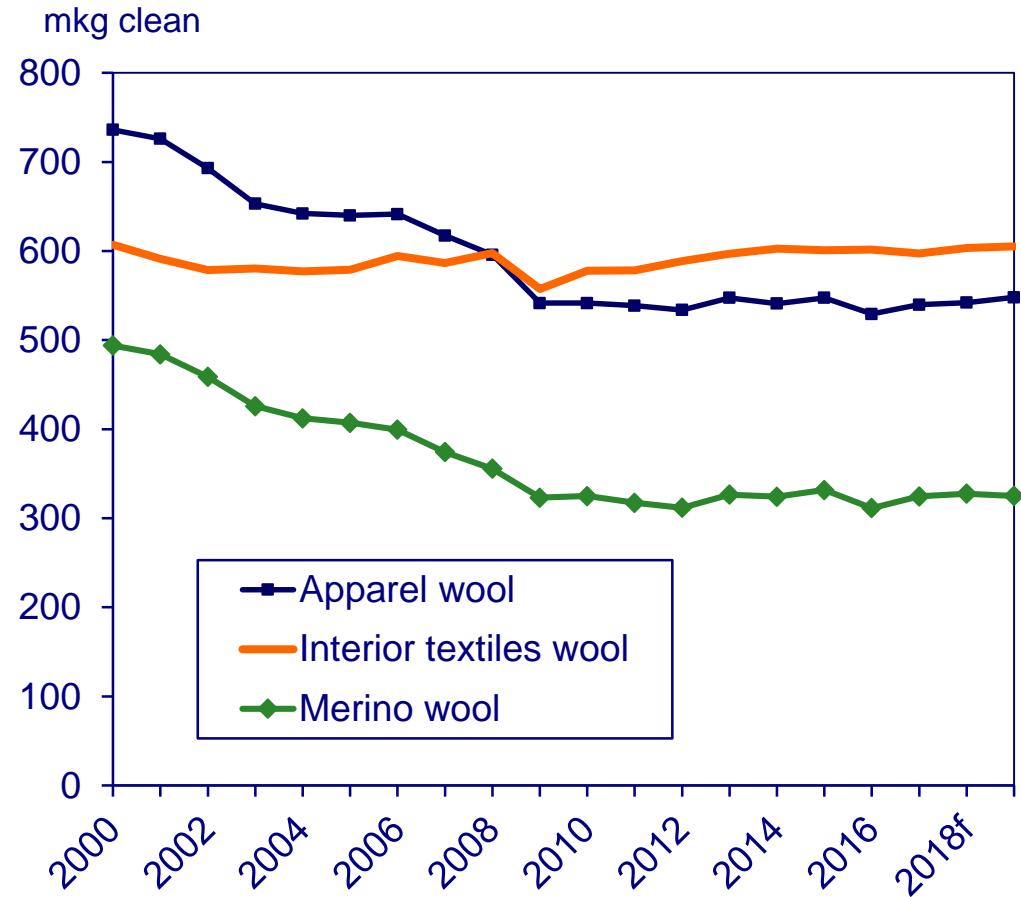
1,136.9 mkg clean

2018 total production

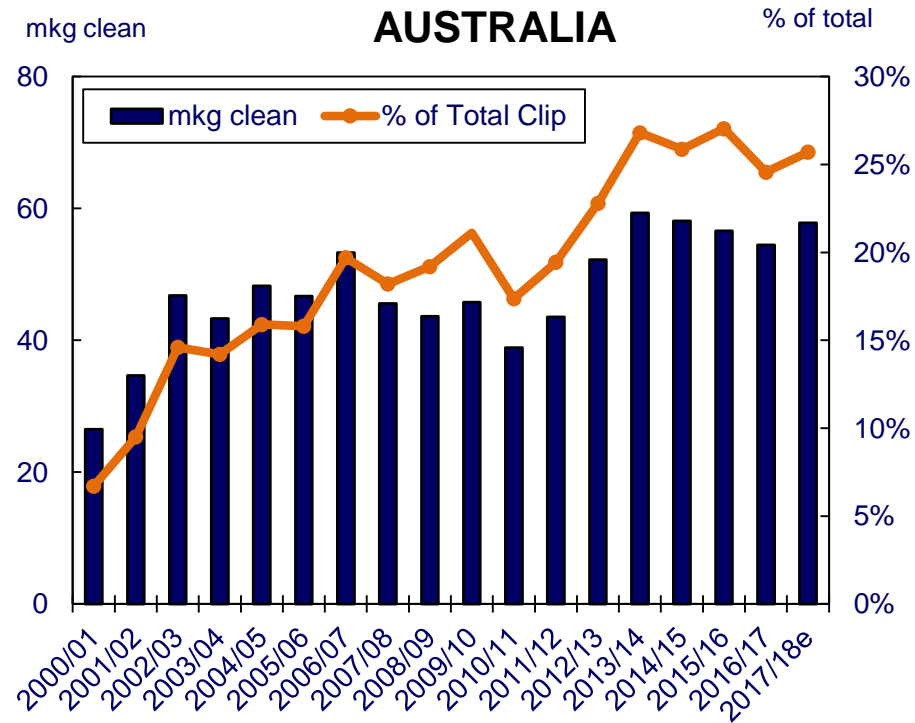
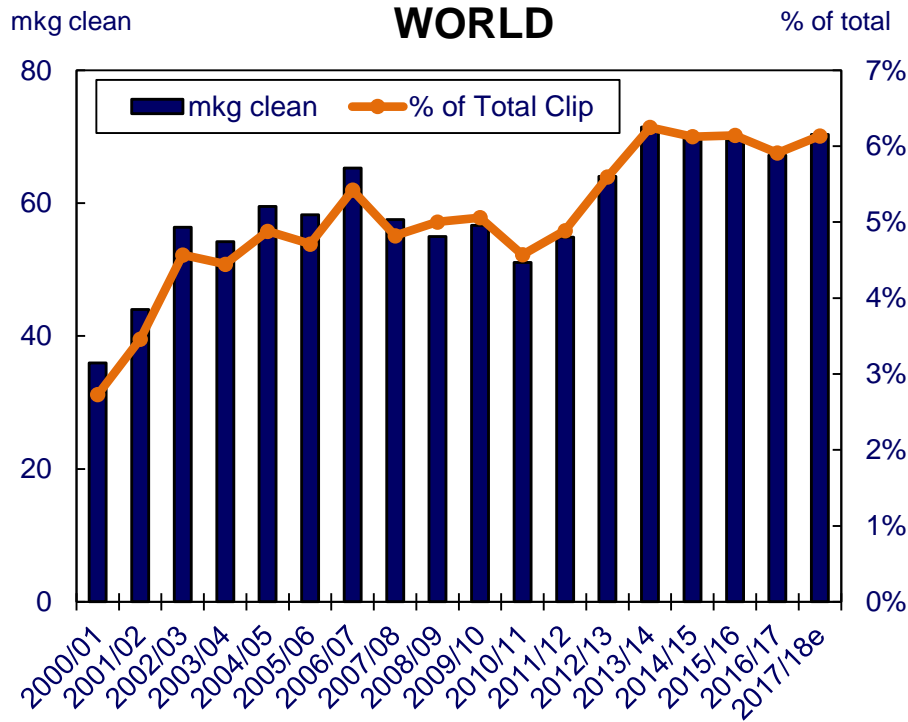
1,145.7 mkg clean

Near 70 year lows

Stocks:Use ratio
~8%



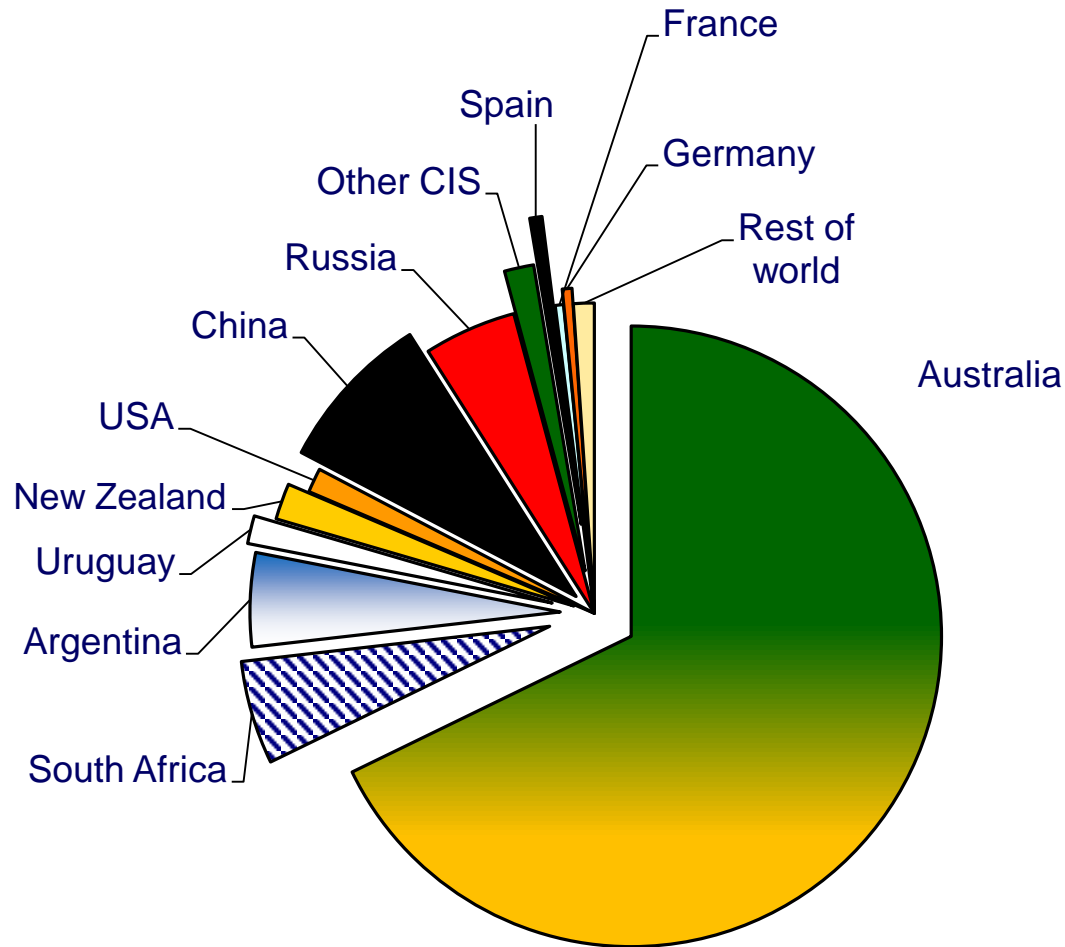
But, Superfine Wool Production Remains High



Source: Poimena Analysis, AWTA, NZWTA, Cape Wools, FLA, Delta, American Sheep Industries, China Wool Textile Association.
 Updated March 2018



Australia Dominates Global Merino Wool Production share - 2017



Source: AWTA, AWEX, NZWTA, CapeWools, FLA, ASI, Delta Consultants, estimates by Poimena Analysis



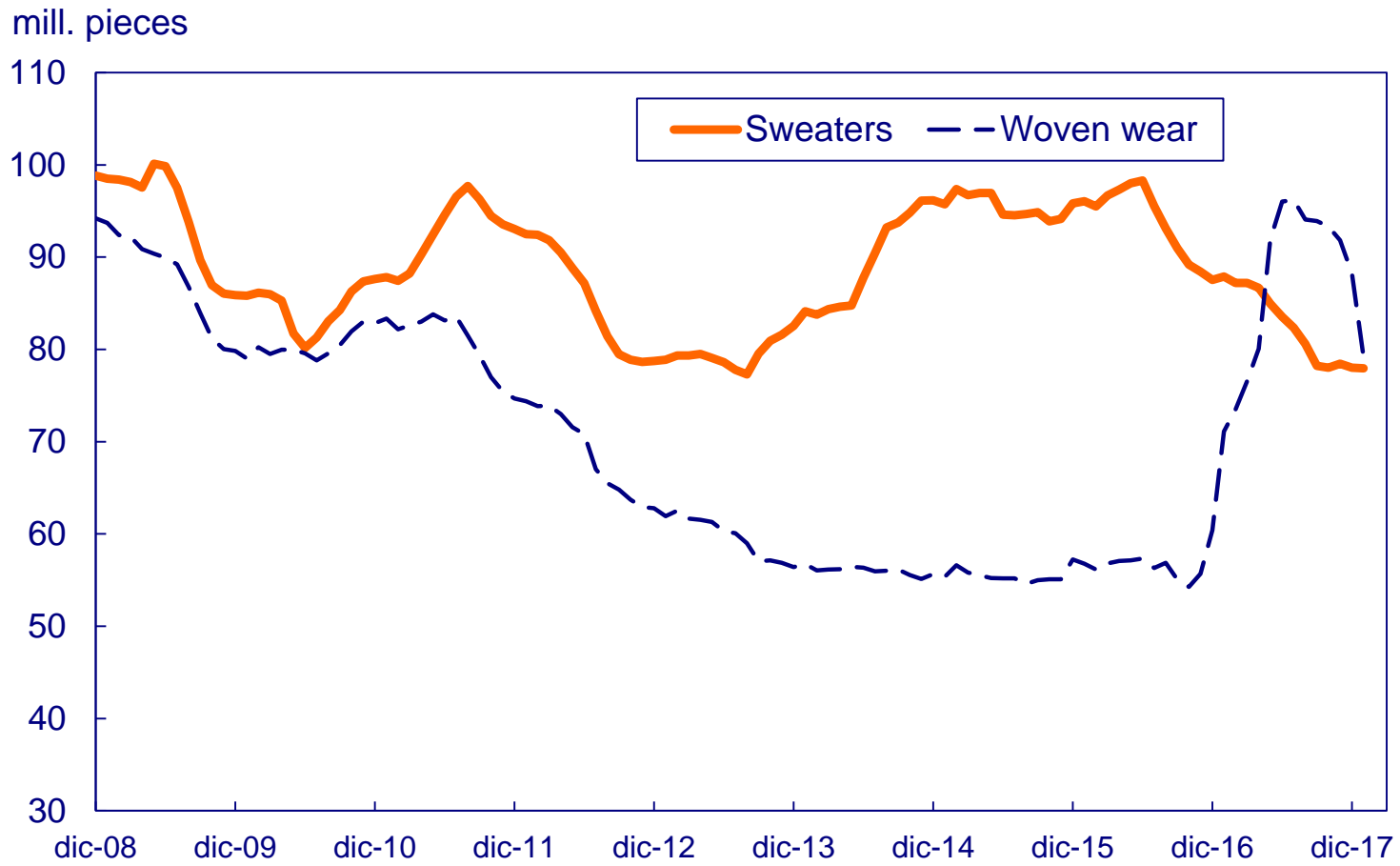
Can It Continue for Merino Wool – What Are The Risks?



Risks to Global Economic Growth

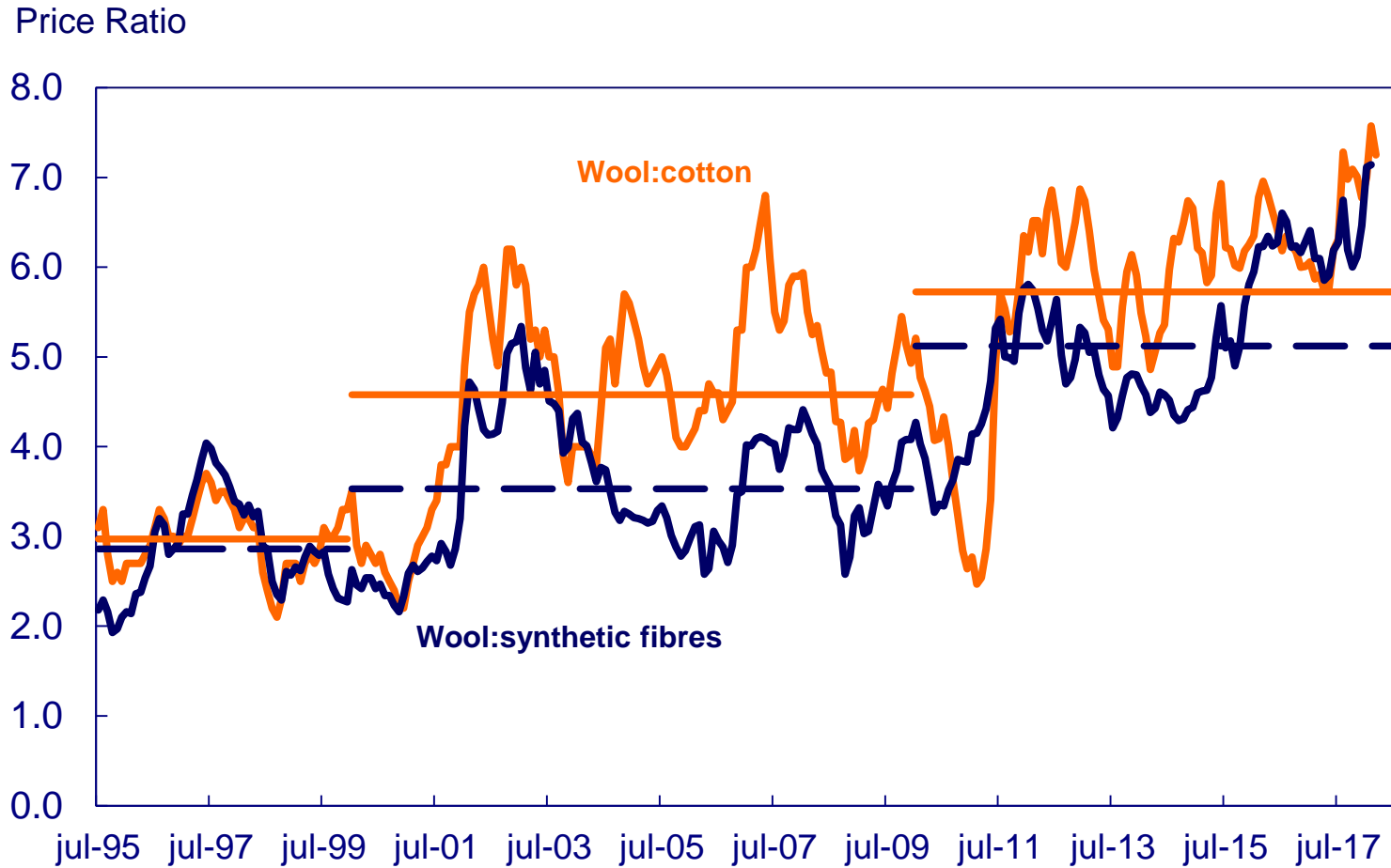
- Rising interest rates
- Global financial imbalances
- Credit risks in China
- Potential for a trade war – Trump Administration's unilateral action

Wool Garment Exports from China Falling Back (12 month moving aggregate)



Source: China Customs and China Wool Textile Association
Data to January 2018

Merino Wool's Price Ratios With Other Fibres Rises to New Level

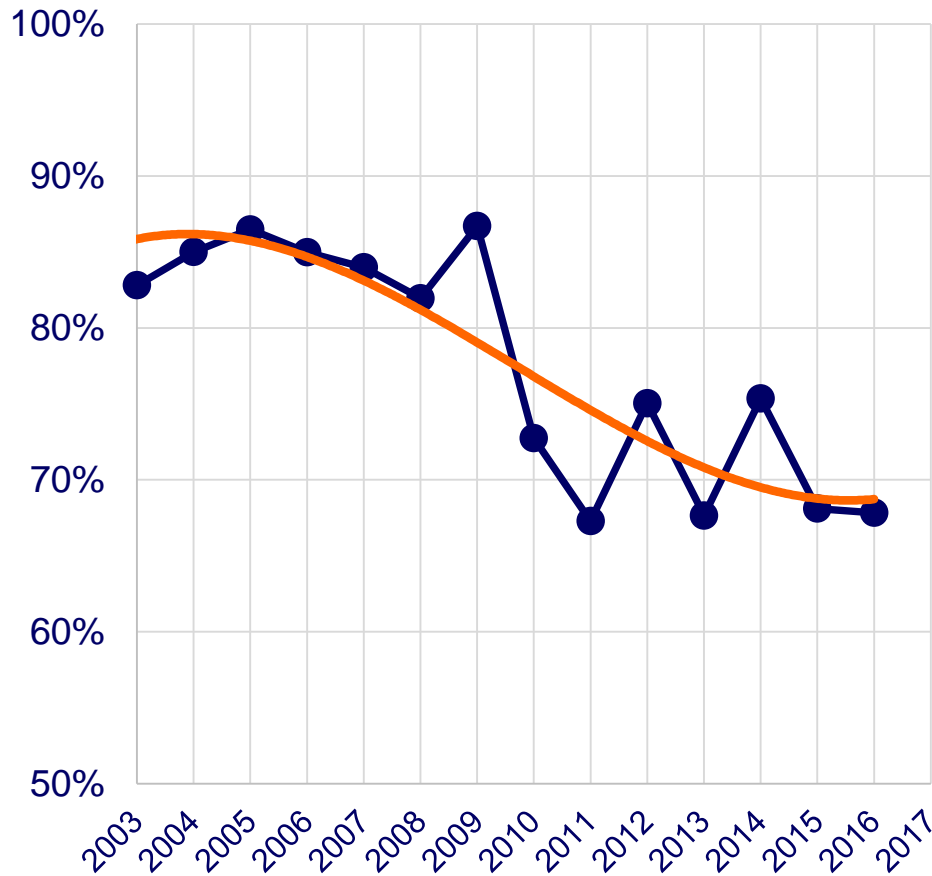


Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Poimena Analysis
Compared with 21 micron wool. Data to March 2018

Shift to Crossbred Wool in Australia

% breeding ewes

Merino Ewes of Total



Crossbred wool share of total wool production has increased

- 11% in 1991/92
- 12% in 2002/03
- 13.5% in 2008/09
- 17.2% in 2017/18

Has the Decline in Merino Breeding Ewes in Australia Come to an End?

Shift to Crossbred Wool in Australia

“Sooner or later coarse crossbred values will sink to a low level...On the other hand, the world’s supply of merino wool is decreasing steadily... Is it not time to pause and consider well whether the outlook in regard to wool production is sound? If we are to preserve our wool supremacy in the future we must preserve our merino flocks.”

The Sydney Mail, 24th July 1918

Constraints on Merino Wool Production

- Available land in a suitable climate
- Competing land uses
 - Cropping
 - Forestry
 - Dairy
 - Beef
- Lamb and sheepmeat demand and prices
- Relative profitability
- Technology and productivity gains

Summary of Key Drivers

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

BUT

1. Risks to global economy
2. High price relativity for Merino wool against competing fibres
3. Lower trade in wool clothing, including men's suits
4. Increased Merino wool production constrained



Merino Wool Price Supercycles – the Downside

Date	Price change – peak to low*		Low Price*		Weeks – peak to low	Comments
	UScents	Acents	UScents	Acents		
May 1988 to March 1991	-666 (-55%)	-1045 (-66%)	418	537	118	Collapse of the Reserve Price Scheme, Soviet Union falls apart, Tiananmen Square
March 1995 to May 1996	-232 (-33%)	-343 (-36%)	475	606	51	Market adjusts to massive stockpile in Australia after 'dead-cat' bounce post-collapse of Reserve Price Scheme
January 2003 to December 2005	-229 (-32%)	-562 (-46%)	480	649	136	Economic slowdown, excess stocks in wool textile industry, SARS outbreak in China triggers price fall
June 2011 to September 2012	-549 (-36%)	-501 (-35%)	963	933	57	Global cotton prices drop as China builds up massive cotton stockpile, causing drop in all fibre prices. Excess stocks in wool textile industry

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

Thank You!

