

The Outlook for Wool Prices and Implications for Growers

Steven Read

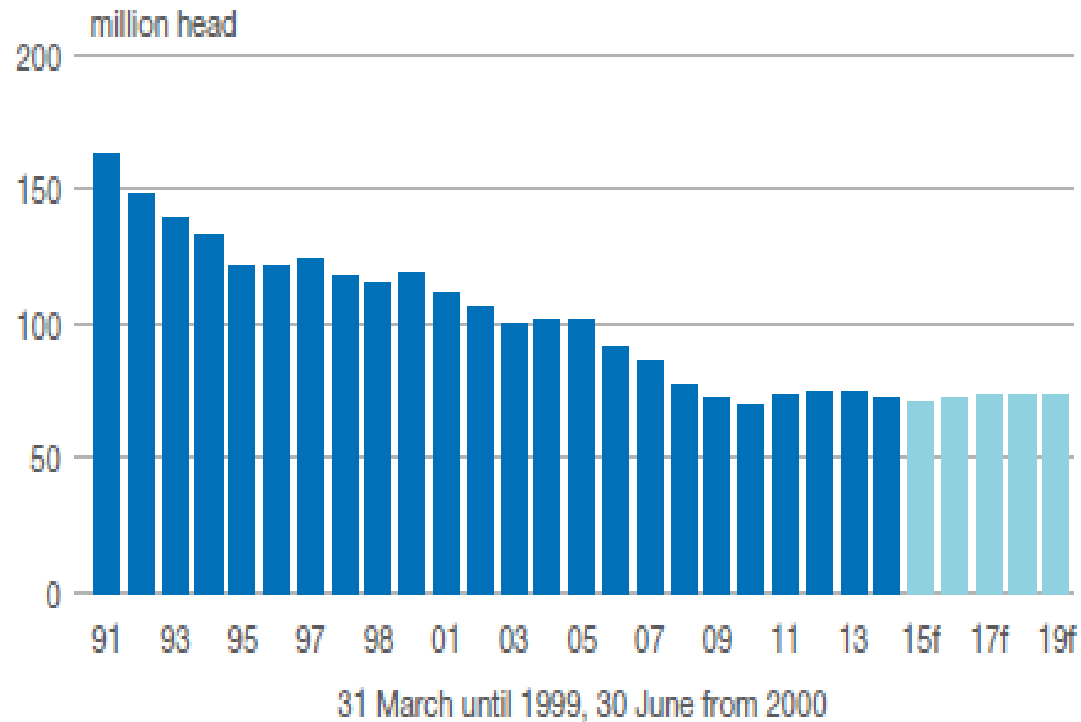
CEO Michell Wool

April 2016



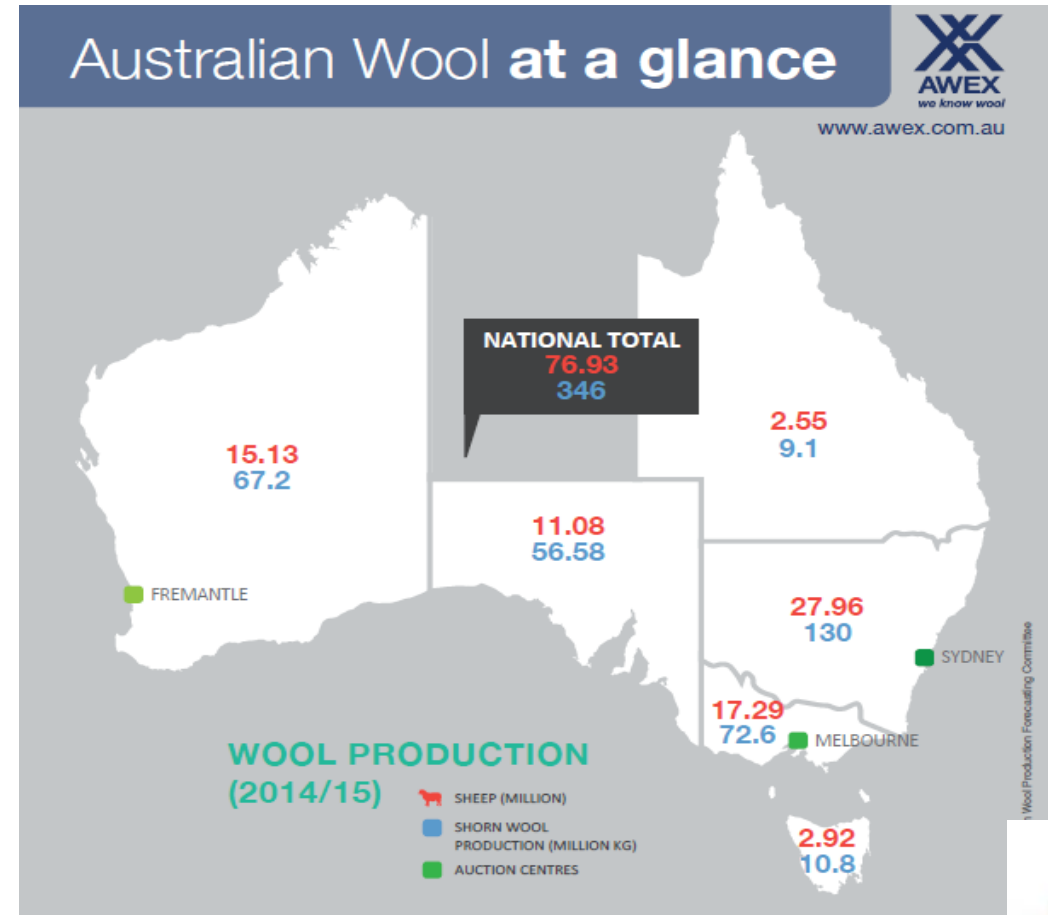
Wool production – sheep numbers to stay low

Figure 4 Australian sheep flock



Source: ABS, MLA forecasts

f = forecast



Wool production today.

AUCTION SALES 2015

AUSTRALIA
 SYDNEY
 MELBOURNE
 FREMANTLE

	AUSTRALIA	SYDNEY	MELBOURNE	FREMANTLE
Total value of wool traded	\$2.39 BILLION	\$712.1 MILLION	\$1.23 BILLION	\$449.9 MILLION
Number of bales sold	1.78 MILLION	515,590 BALES	923,136 BALES	340,367 BALES
Number of lots	307,079 LOTS	103,412 LOTS	152,480 LOTS	51,187 LOTS
Average weight of a wool bale	177.6 KILOGRAMS	177.4 KILOGRAMS	178.1 KILOGRAMS	177.1 KILOGRAMS
Average number of bales/lot	5.8 BALES/LOT	5.0 BALES/LOT	6.1 BALES/LOT	6.6 BALES/LOT
Average value per bale	\$1,348.26 PER BALE	\$1,381.17 PER BALE	\$1,339.60 PER BALE	\$1,321.91 PER BALE

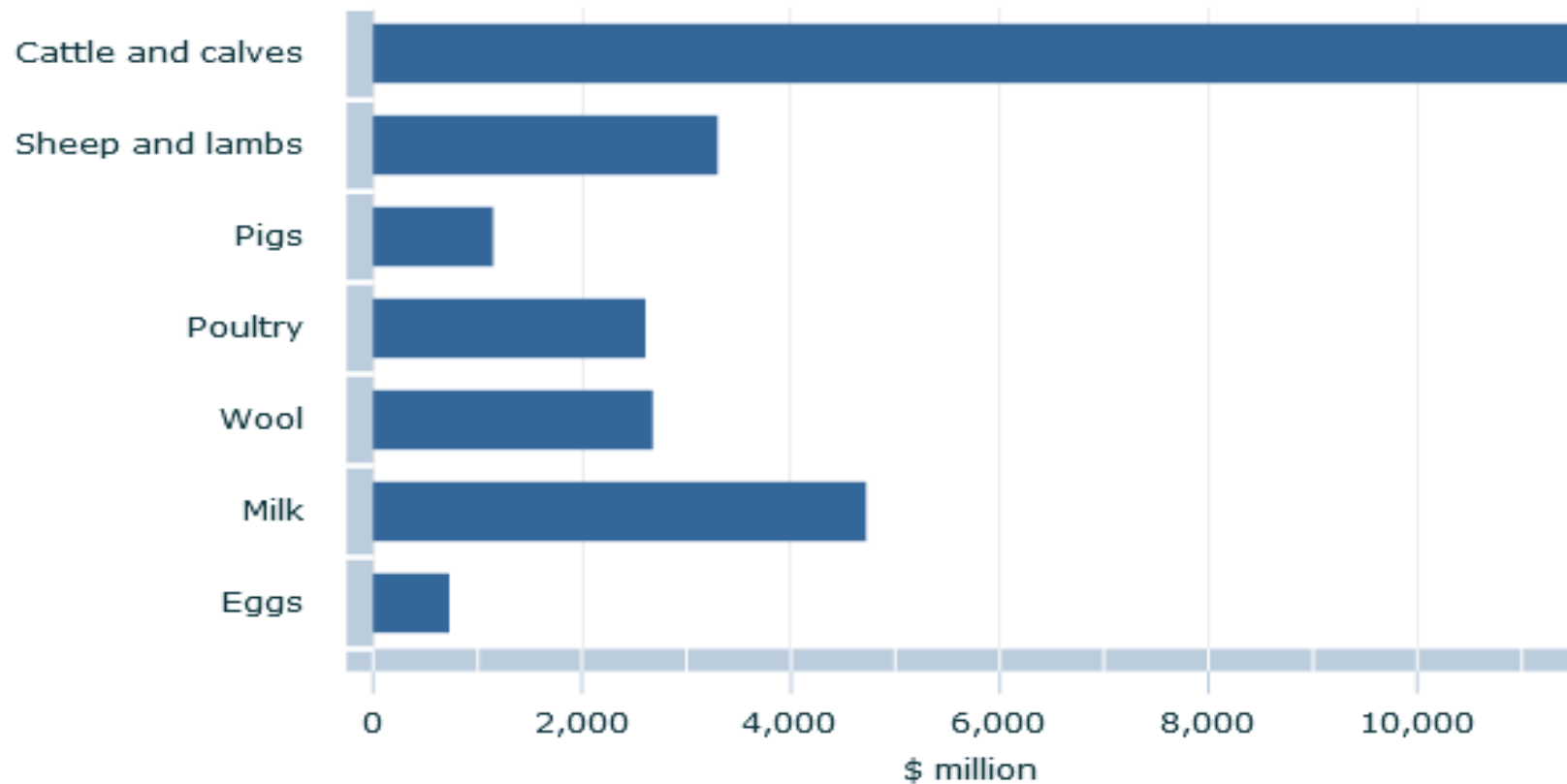
Source: Australian Wool Exchange Ltd.



Wool production – vs other livestock (source ABS)

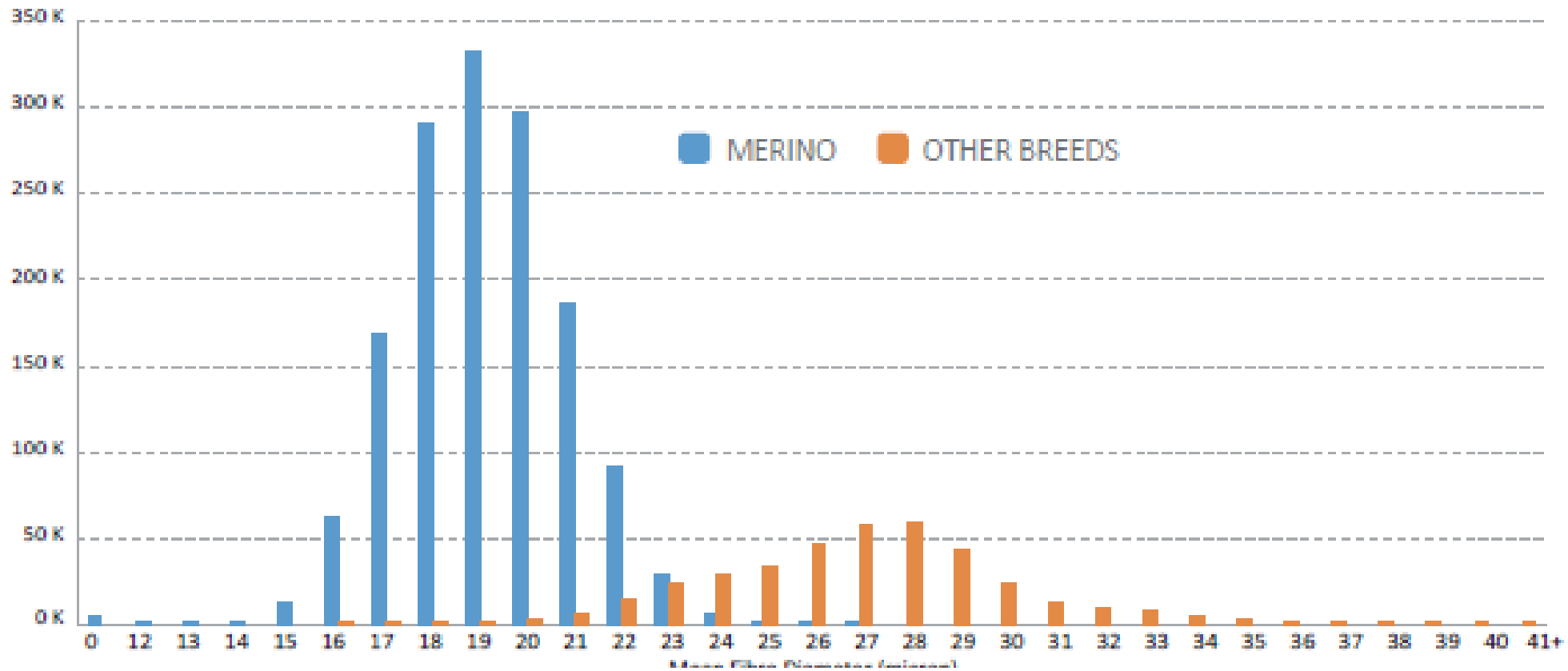
Value of Agricultural Commodities Produced, Livestock slaughterings & other disposals & livestock products

2014-15



Wool production – clip profile.

BALES BY MEAN FIBRE DIAMETER & BREED Auction Sales 2015



Wool production – exports and types.

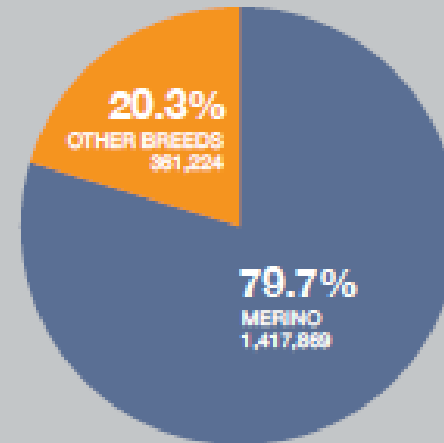
PRIMARY EXPORT DESTINATIONS (%)

68.8	China
8.0	India
5.6	Italy
5.3	Sth. Korea
4.7	Czech Rep.
1.5	Malaysia
1.1	Egypt
0.8	Taiwan
0.7	Japan
0.7	Thailand
2.8	Other



Source: ABS

BALES SOLD BY BREED 2015

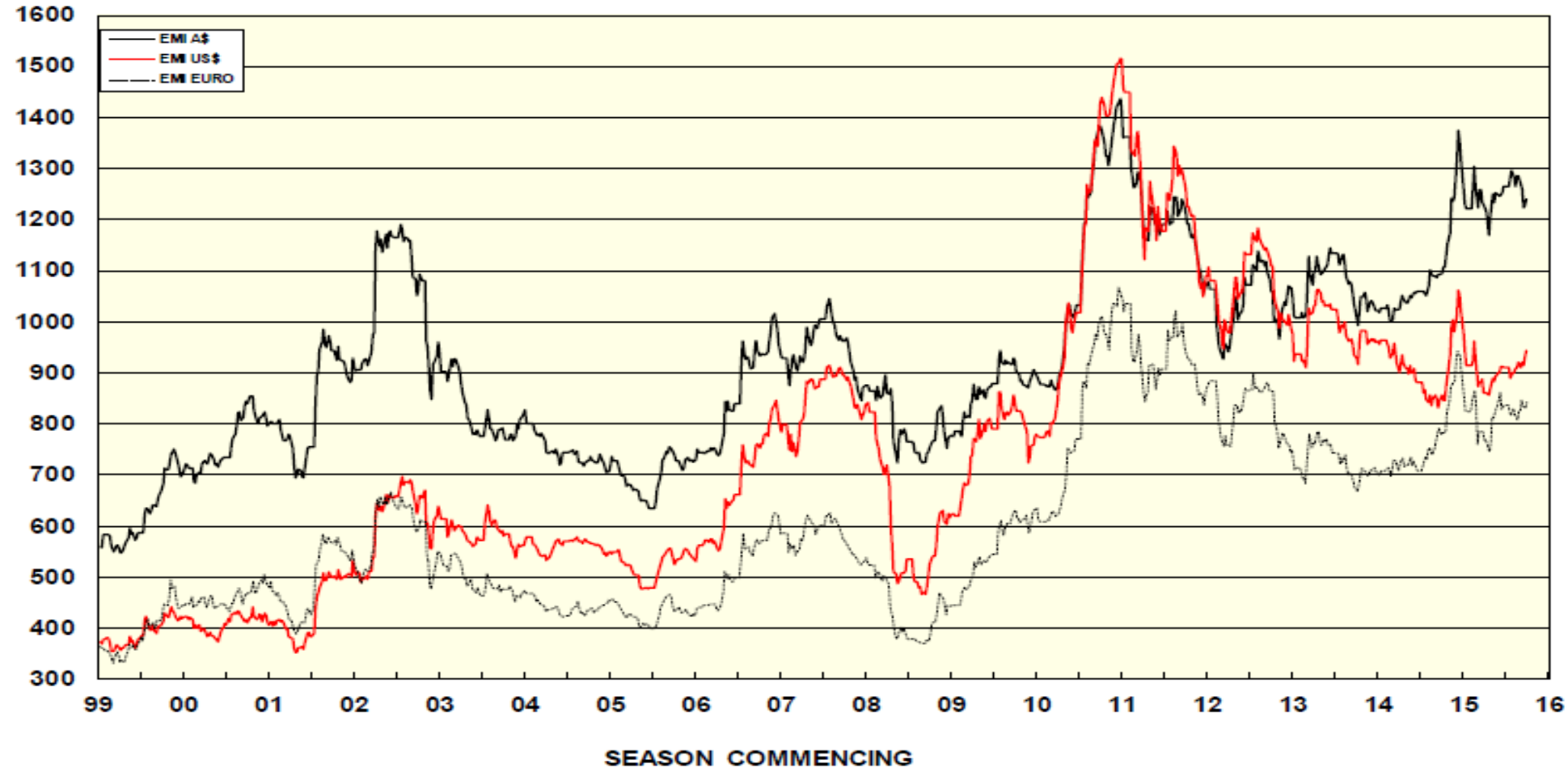


Source: Australian Wool Exchange Ltd.



Wool prices – 15 year movements

EASTERN MARKET INDICATOR (EMI) SINCE 1999/00 (¢/kg clean)
(In Australian, United States and European Currencies)

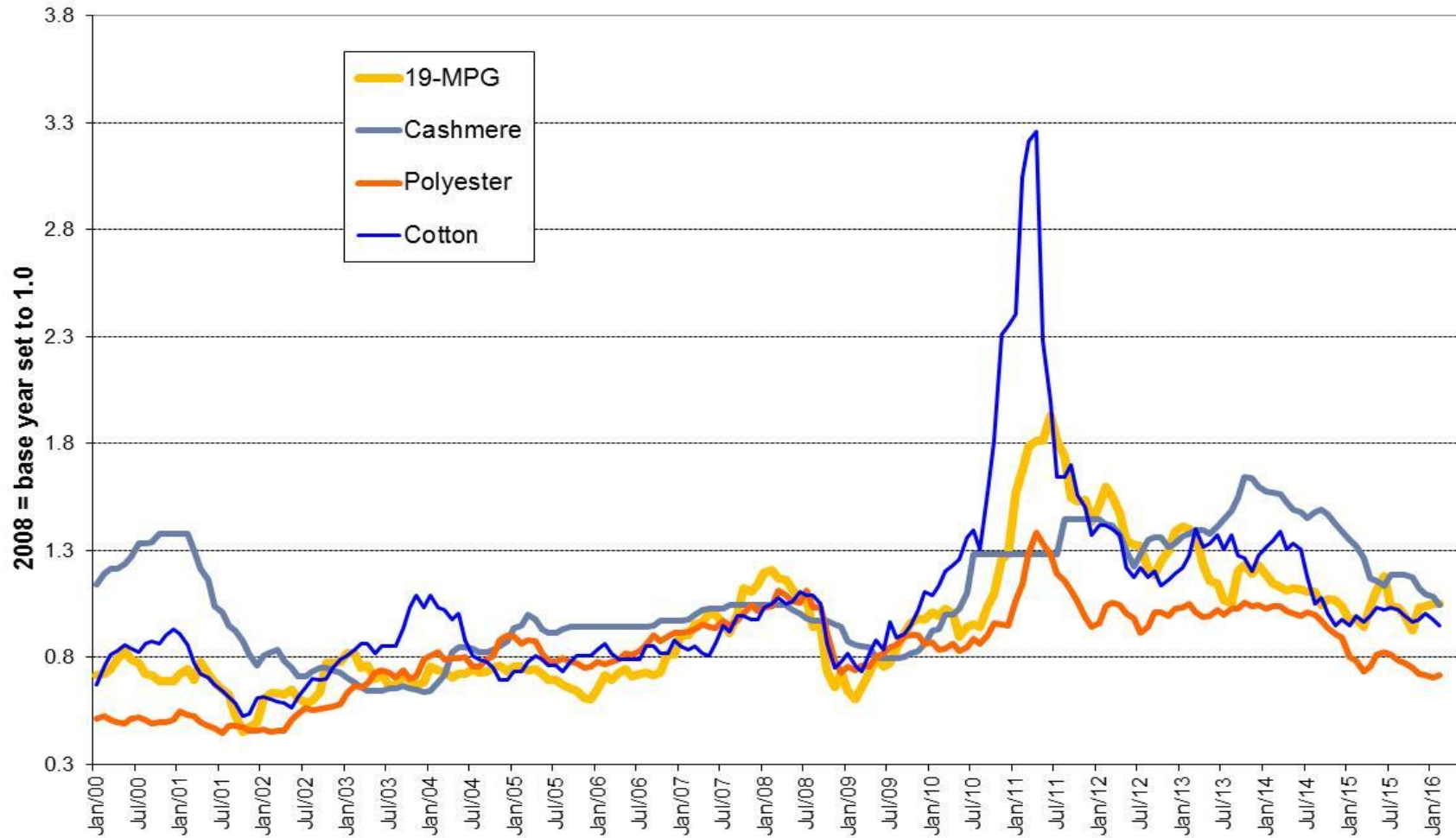


Wool prices – Decile table (2000-2016) source: ICS

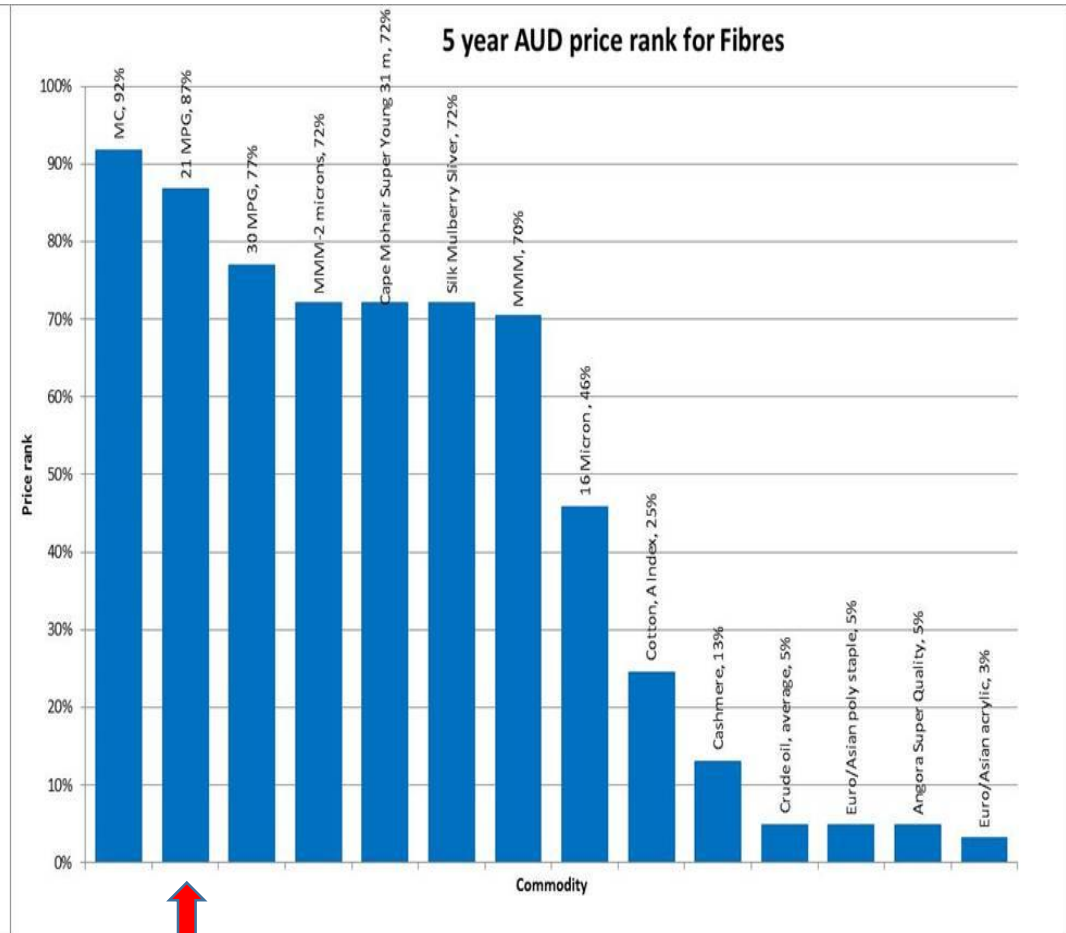
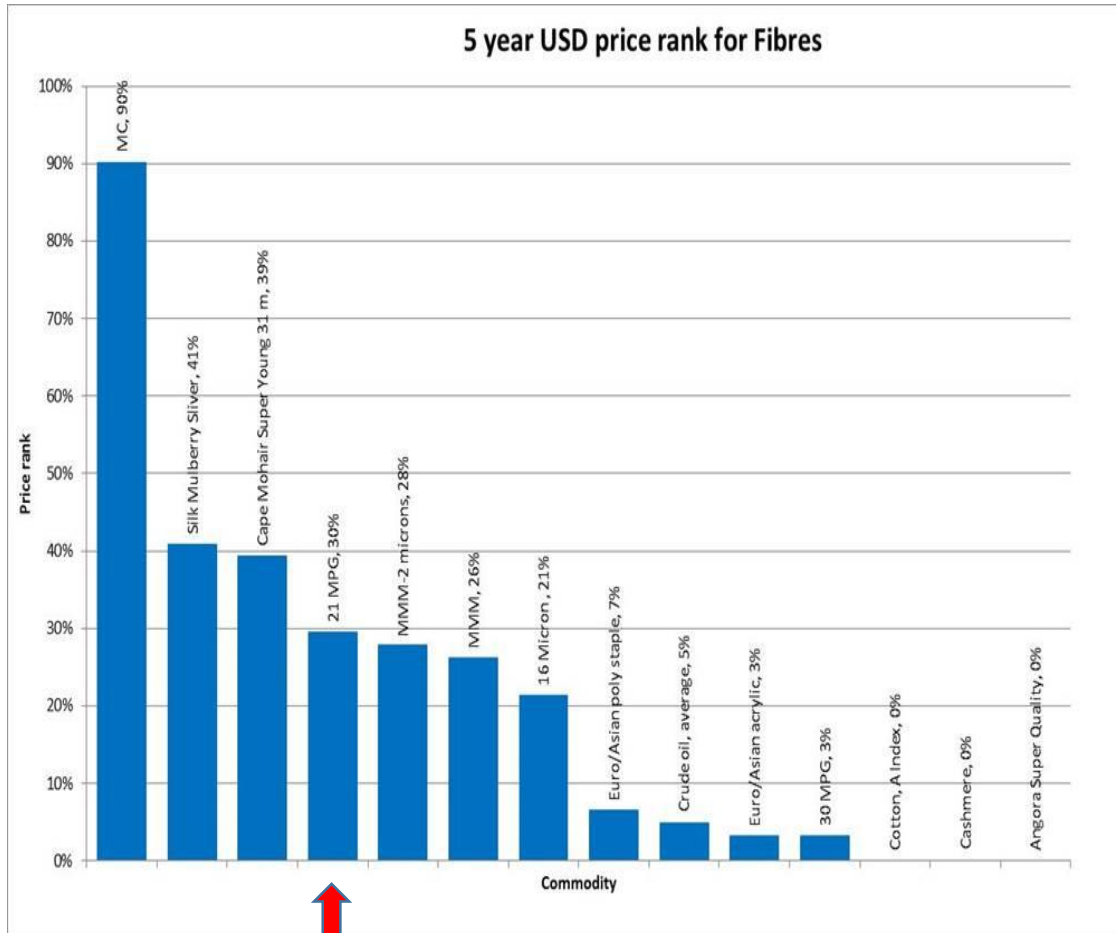
2000 - 2016	17	18	19	20	21	22	23	24	25	26	28	30	32	MC	EMI
0%	1078	885	774	638	580	514	460	448	420	410	412	319	284	319	642
10%	1214	1038	923	760	669	660	649	638	574	530	444	387	342	400	731
20%	1248	1101	960	813	745	716	697	674	613	564	460	404	365	427	755
25%	1264	1132	998	831	760	732	713	686	630	574	466	415	378	434	771
30%	1280	1159	1024	857	788	765	739	703	644	589	472	424	388	446	793
40%	1336	1211	1082	909	873	844	819	779	672	612	486	434	401	484	846
50%	1381	1276	1140	981	958	929	895	828	705	639	534	472	430	538	906
60%	1451	1357	1203	1044	1006	986	969	946	840	754	592	535	480	595	953
70%	1583	1446	1259	1138	1126	1104	1074	1010	899	807	638	583	521	654	1023
75%	1760	1503	1290	1170	1157	1142	1126	1047	913	825	658	605	551	705	1059
80%	2074	1563	1322	1223	1210	1188	1156	1076	932	851	677	622	564	746	1101
90%	2455	1900	1410	1319	1296	1259	1232	1150	1010	919	752	652	605	822	1205
100%	2950	2352	1772	1589	1526	1477	1396	1353	1225	1170	976	895	762	1154	1417
Current	1507	1461	1402	1362	1347	1333	1321	1260	1073	973	808	696	604	1094	1239
Rank	65.5%	71.5%	89.0%	93.9%	95.8%	96.7%	97.7%	98.9%	93.4%	92.9%	92.9%	92.5%	89.6%	97.3%	93.2%
Average	1604	1363	1156	1010	966	939	915	865	767	700	572	512	461	587	931



Wool prices – relativities (USD, 2008 = base)



Wool prices – relativities (source ICS)



Looking Forward— What our customer's customers are saying...

Knitwear

Both Worsted and Woollen

- Struggling
- Blends with MMF and competition from cotton
- Relative price to other fibres price in an issue
- Once pure wool sweaters now moving to wool poor blends at lower end of the market



Looking Forward— What our customer's customers are saying...

Classic Outerwear

Primarily Woollen Woven Jackets/Coats

- Market red hot
- Parka/Puffer jackets out of fashion
- Tailored double faced fabric coats in demand
- Pushing carding market to record high prices
- Entering third year of fashion cycle – await retail feedback in China particularly



Looking Forward— What our customer's customers are saying...

Activewear

Mainly Worsted Knitwear

- Against skin consumer products
- Fashion and performance
- Big sport brands showing interest
- Michell investment in I/O Merino



Looking Forward— What our customer's customers are saying...

Worsted Suiting

Mainly worsted woven

- Classic wool domain fashion and performance
- Survived casual Friday
- Growing demand – even footy players wear suits!
- Not really focused on ultra fine wool



Looking Forward— What our customer's customers are saying...

Ultrafine

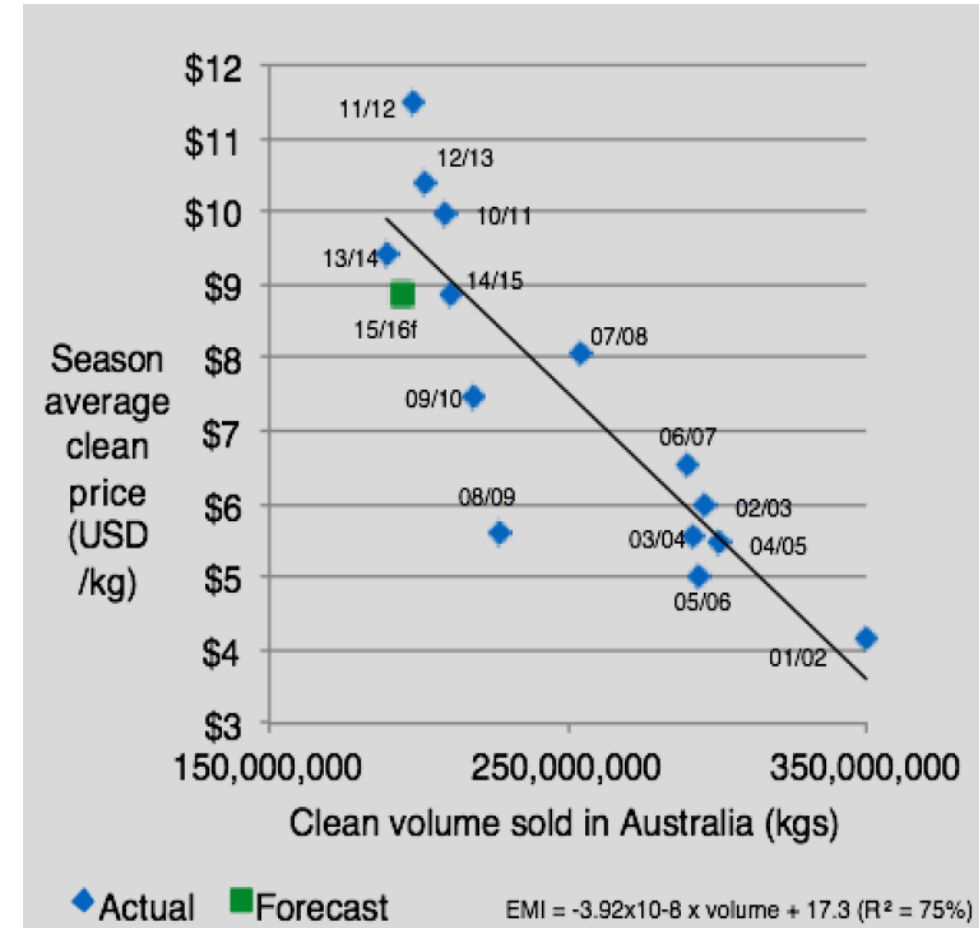
Classic and top end knitwear

- Niche consumer market
- Top end Woollen sweaters and outerwear
- Seen by many as a poor man's Cashmere
- Often blended with Noble fibres
- Huge growth in supply in last decade.



Looking Forward— What is the big picture outlook...

- Demand continue to grow
 - Population growth - middle class.
 - New working older generation – cashed up
 - More consumer markets/uses opening up
- Supply constrained
 - Protein demand
 - Ultra fine price supply rise limited
 - Strong relationship between supply & US price
- Prices should remain high
 - USD price relatively low
 - AUD outlook



Source: AWI



Looking Forward— What about growers...

- Focus on profitability
 - Kg/hectare – think clean kgs and prices
 - Increase lambing/weaning rates
 - Trade stock effectively
- Manage Risk
 - Price high but will be volatile
 - Use GMP contracts
 - Market intelligence



Summary— Where are we going...

- Wool a specialty fibre
 - US price relatively competitive
 - Supply constrained
 - World can survive without wool – but likes it and will pay for it
- Positive outlook
 - Price signal to produce more wool
 - Plenty of land use competition
 - Keep driving production efficiencies
- Marketing
 - Deal directly with in the supply chain
 - Manage price risk

