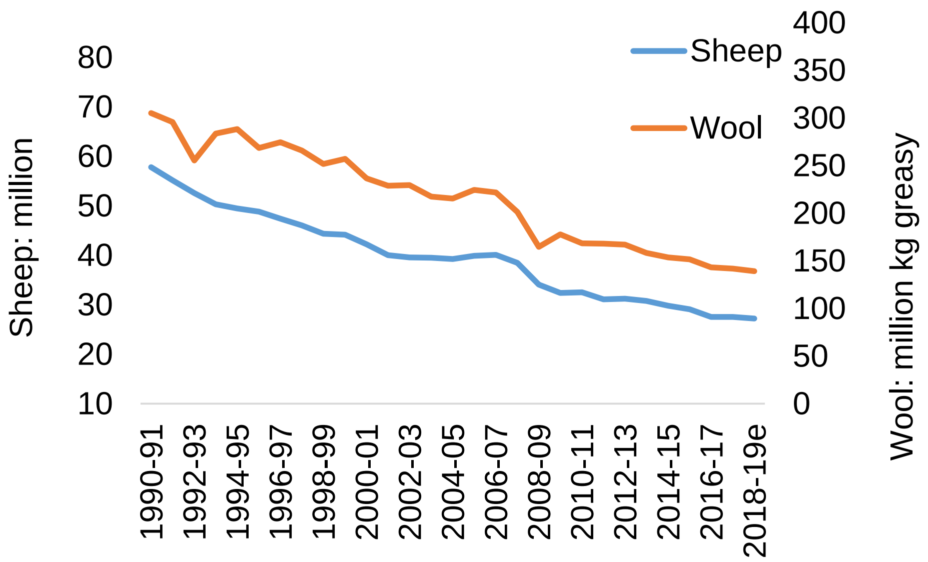
Global Wool Markets

June 2019

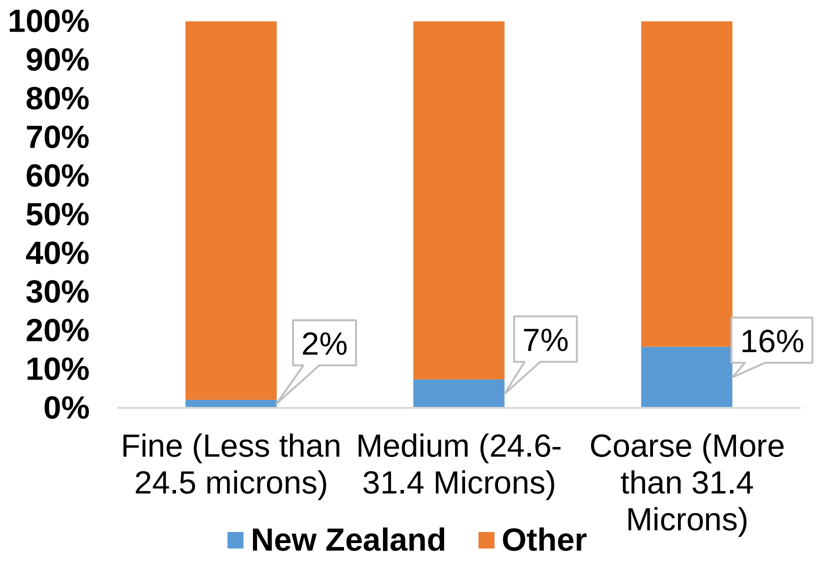
ABOUT NZ NATIONAL FLOCK

Wool has historically been an important NZ export

The majority of the national flock comprises largely Romney (46%) and crossbred (25%) varieties with under 3% Merino



The NZ flock is around 27 million sheep in 2018-19



NZ national flock is predominately coarse wool with some mid-micron

Source: Beef + Lamb New Zealand Economic Service, Stats NZ Agriculture Statistics

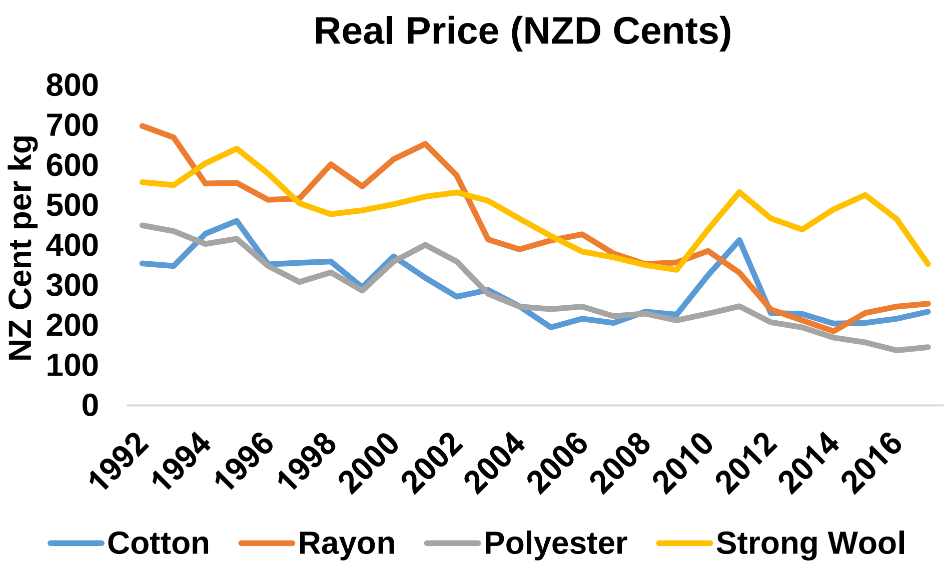
Source: IWTO Market Information Edition 14, NZ Export Statistics, Stats NZ

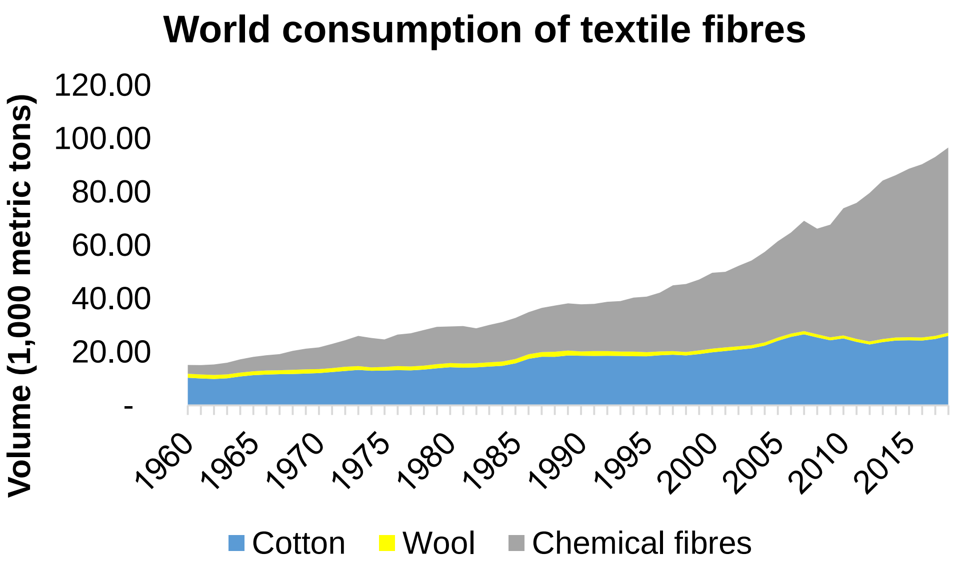
***NOTE** – Some countries use different reporting periods (calendar year vs financial year). This uses the New Zealand micron categories for New Zealand wool and IWTO categories for total data, resulting in some inaccuracy*

DECLINE IN TIME

The price of wool has been falling

Since the Korean War, the price of coarse wool has been declining





The real price of strong wool has been falling. This is a factor of disruption from cheaper synthetics and other natural fibres

At the same time, global demand for textiles has increased and this demand has been met by fibres other than wool

Source: World Textile Demand – International Cotton Advisory Committee 2018

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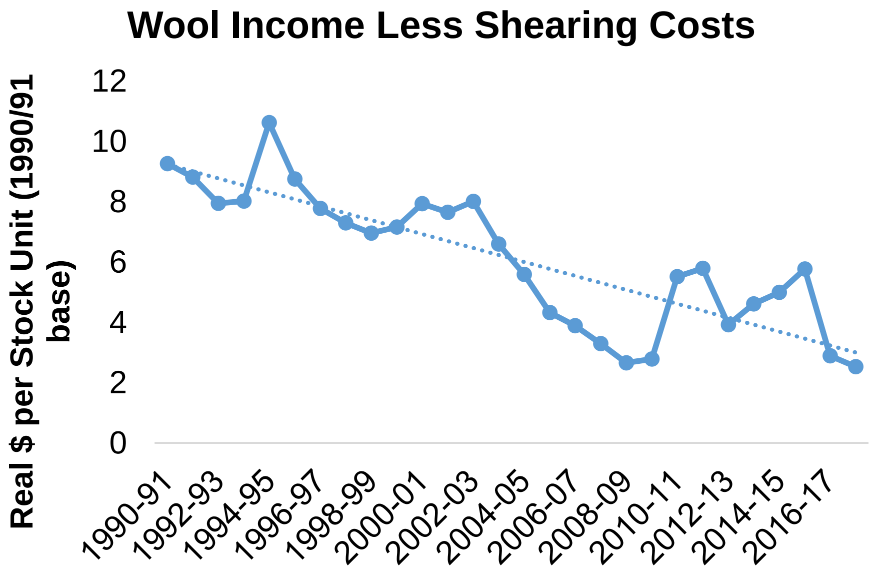
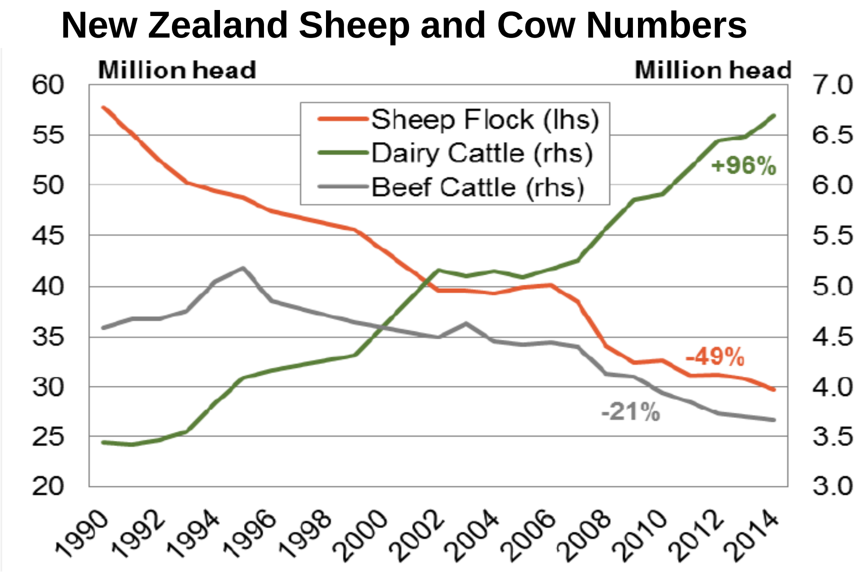
FOLLOWING THE MONEY

Reducing returns drive on farm changes

The presence of alternative, more profitable land use has seen the proportion of income from wool change





Wool production has become less profitable for farmers as costs rise and without a corresponding lift in prices

Better returns for sheep meat and other land uses, such as dairy, leads farmers to maximise their incomes sources

NOTE: This data is an amalgamation of all farm types, and may not reflect the circumstances of some farm types.
Source: Beef + Lamb New Zealand Economic Service

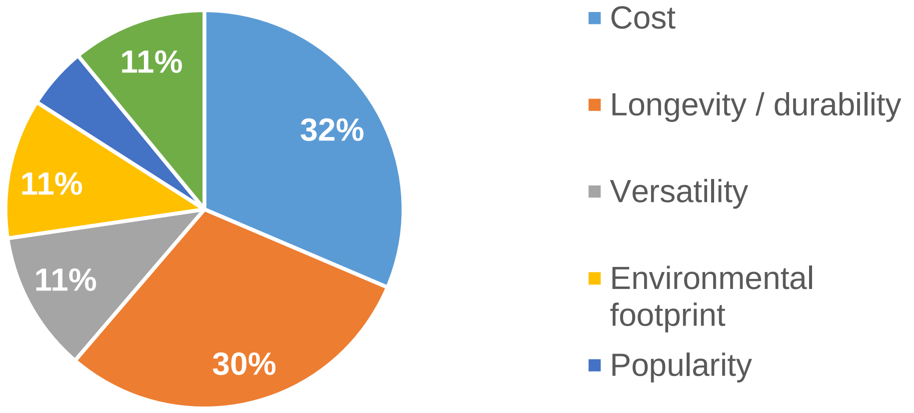
Source: Stats NZ

WOOLS AIN'T WOOLS

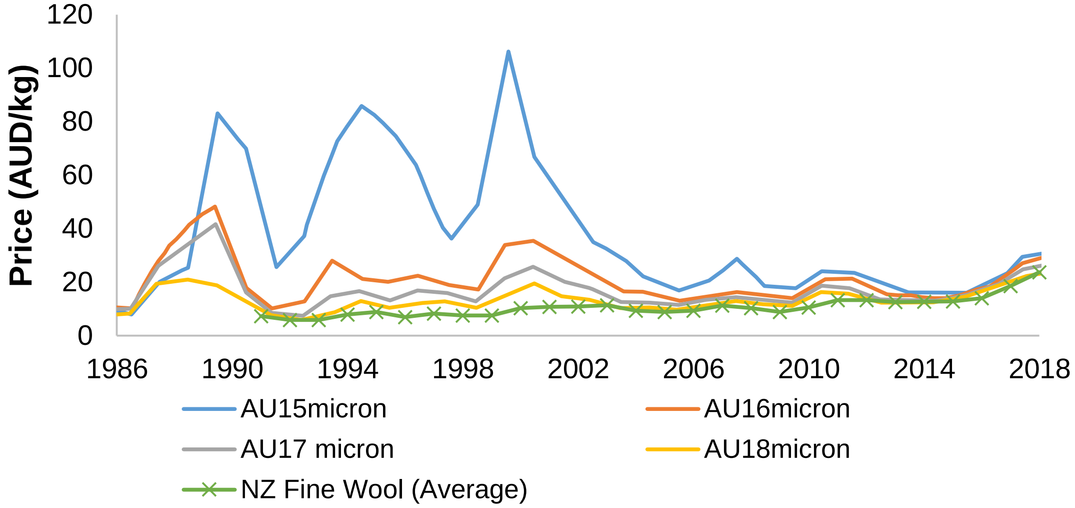
Functionality is a key factor behind demand and price

Consumer preferences for natural fibres with specific functions are being captured by fine wool

What are the key factors that influence your decision to purchase a particular fabric?



Australia and New Zealand Price of Fine Wool



Fine wools have successfully tapped into consumer demand for sustainable, environmentally friendly textiles, with 'next to skin functionality'

Consequently, fine wool prices continued to occupy a much higher price bracket, stratified by micron

Source: EIU Consumer Surveys 2018

Source: Mecardo Analysis (AWEX, ICS)

BUILT OFF THE SHEEPS BACK

A number of countries are growing wool export returns

Despite global supply challenges, most fine wool producers are growing export revenue

National Export Value ($NZ million)

	2007	2017	Trend
Australia	3,038	3,954	↑ 30%
New Zealand	637	523	↓ -18%
Sth Africa	219	498	↑128%
UK	67	125	↑ 87%
Uruguay	84	124	↑ 48%
Argentina	116	91	↓ -22%
World	3,598	4,288	↑ 19%

Many fine wool producing countries have been able to ride the current price cycle to their export benefit

National Export Volume (thousand tonnes)

	2007	2017	Trend
Australia	419	349	↓ -17%
New Zealand	154	101	↓ -34%
Sth Africa	35	50	↑ 44%
UK	19	37	↑ 94%
Uruguay	22	15	↓ -31%
Argentina	25	12	↓ -51%
World	946	807	↓ -15%

This has been against a backdrop of declining volumes

National Wool Type

Australia	Mostly all Fine
New Zealand	Mostly Strong
Sth Africa	Over ½ Fine
UK	Mostly Strong
Uruguay	About 1/3 fine
Argentina	
World	-

But what is common to each is the proportion of fine micron output in the national flock

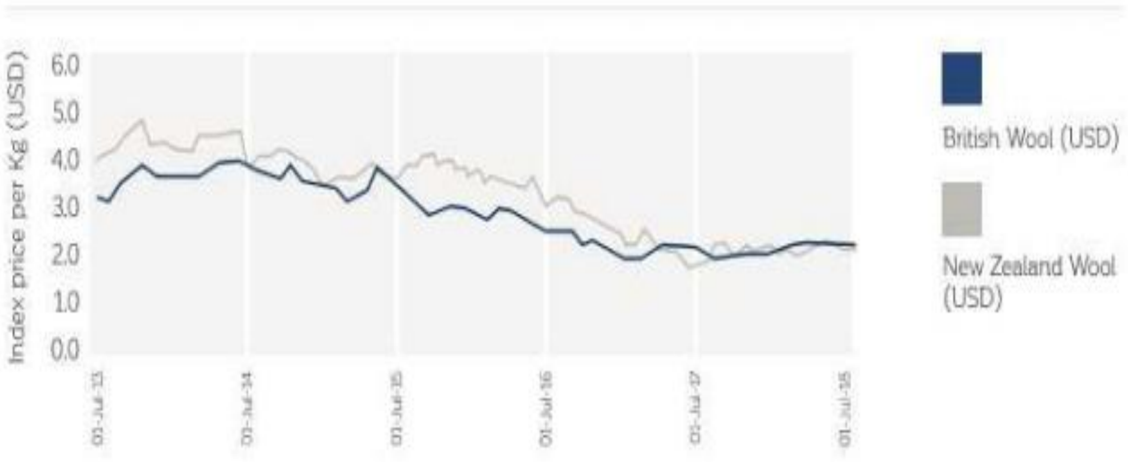
Source: Wools of Uruguay, AWI Wool Production Forecast Report 2017, Stats NZ, UN COMTRADE, IWTO, ABSTRACT OF Agricultural Statistics South Africa 2018

FOCUS: UK

The UK has increased its exports and volume

It has a similar national flock size, similar micron ranges and has traditionally sold at a 20% discount to NZ wool

British and New Zealand Strong Wool Prices



UK strong wool prices have closed the gap on NZ strong wool. British Wool attributes this to their structuring of their auctions over time

Source: British Wool Annual Report 2018

British Wool Statistics 2018

British wool uses	
Carpets	55%
Knitwear/Hand knitting	23%
Clothing	8%
Bedding	8%
Other	6%

Markets by geography	
UK	50%
China	25%
Europe	15%
Other	10%

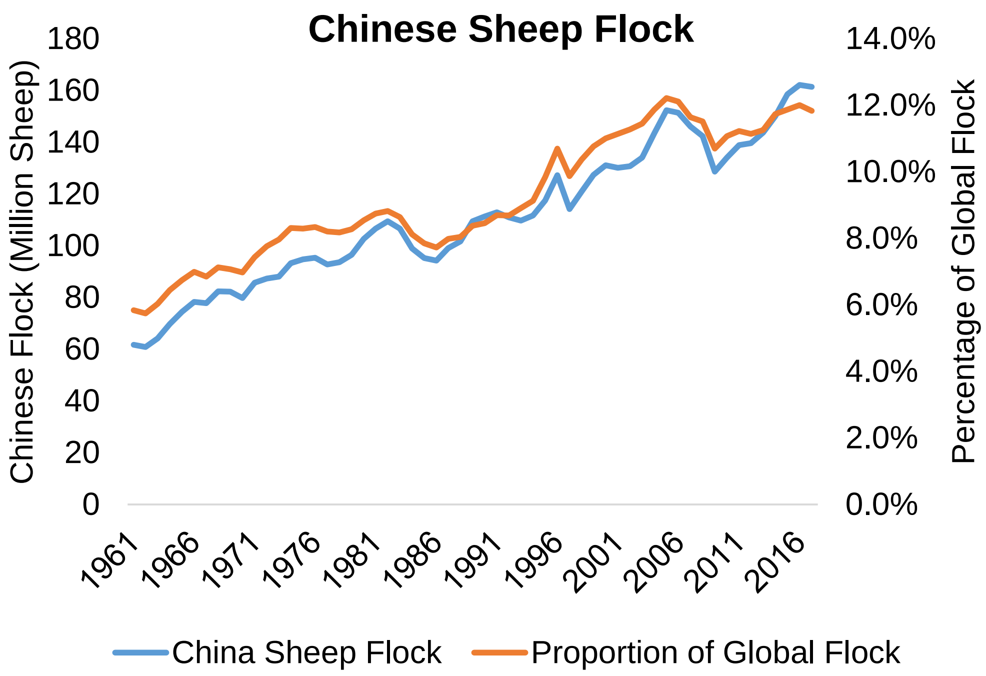
Interestingly, the British wool clip has largely the same end uses as NZ wool, however it has a large domestic market and a large close market (EU)

Source: British Wool Press Briefing Pack 2018

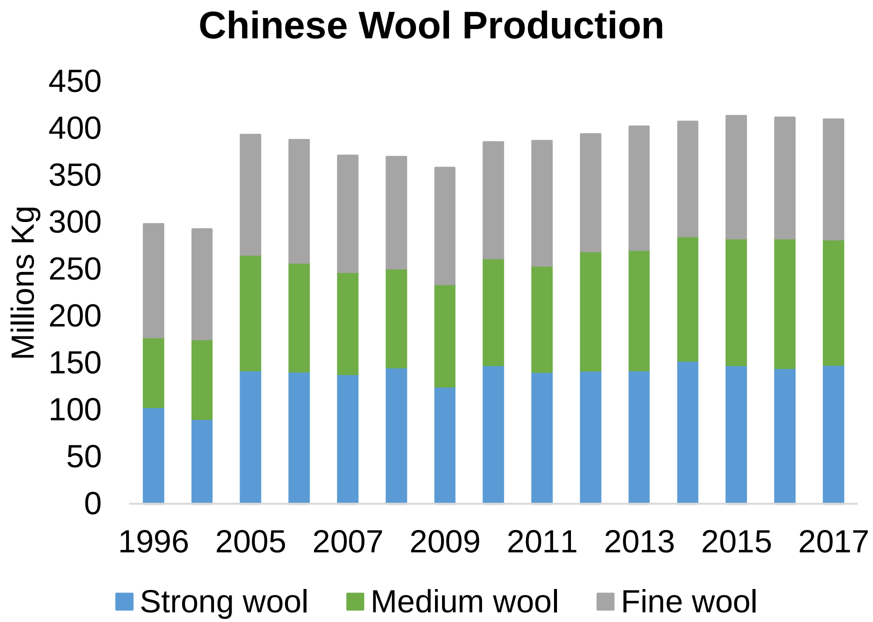
FOCUS: CHINA

One of the largest herds and wool producers

China also accounts for most of the world's wool imports and processing



A concerted effort to develop the national flock for meat and wool has enabled China to become a key producer of wool products



Its flock has expanded across all wool micron ranges and competes with NZ

Source: FAO Stat

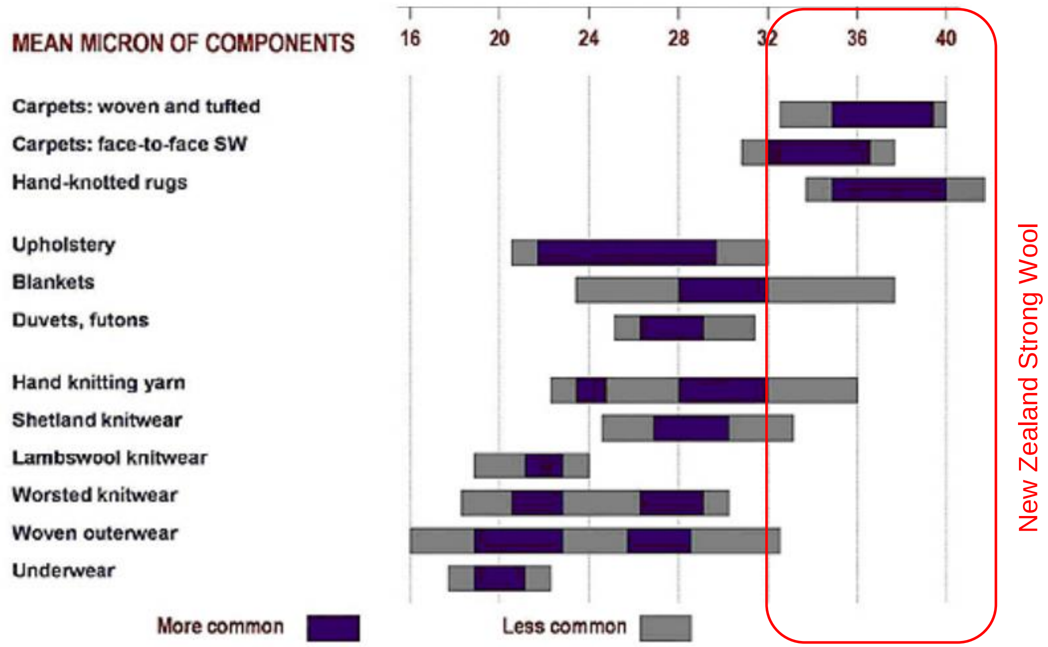
Source: China Statistical Yearbook 2018

NZ WOOL USES

Where does NZ wool go?

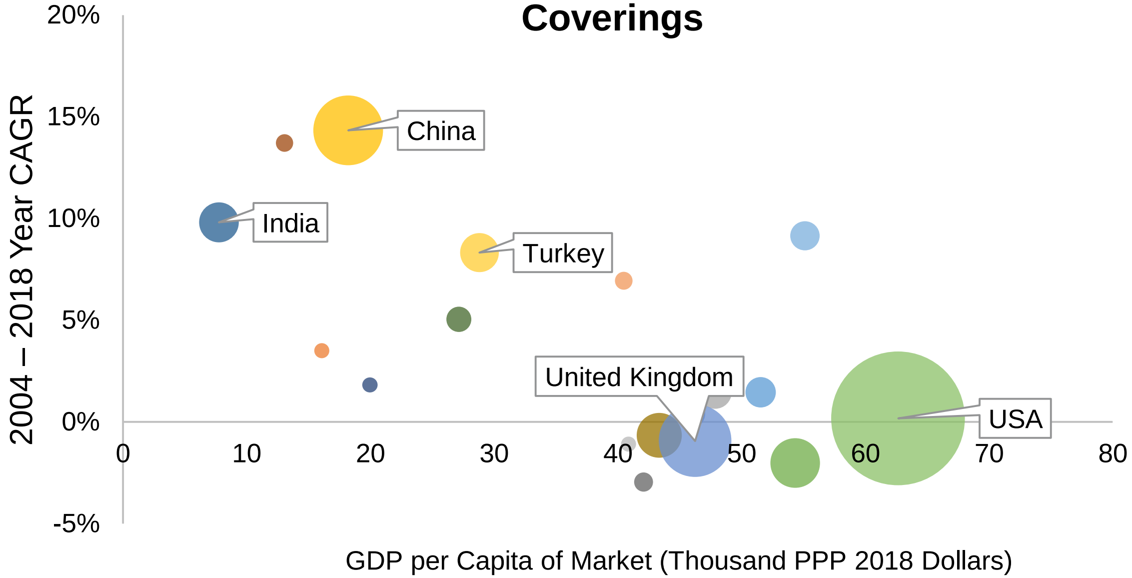
Despite low prices New Zealand's wool is still being exported – so who is buying and for what

Wool Uses



NZ wool has a range of uses though it is far less likely to be for apparel

Market Growth vs GDP per capita - Carpets and Floor Coverings



Growth in carpets and floor coverings has been driven by low income countries, who are likely more price sensitive than higher income countries

Source: Value and Use of Wool – Errol Wood

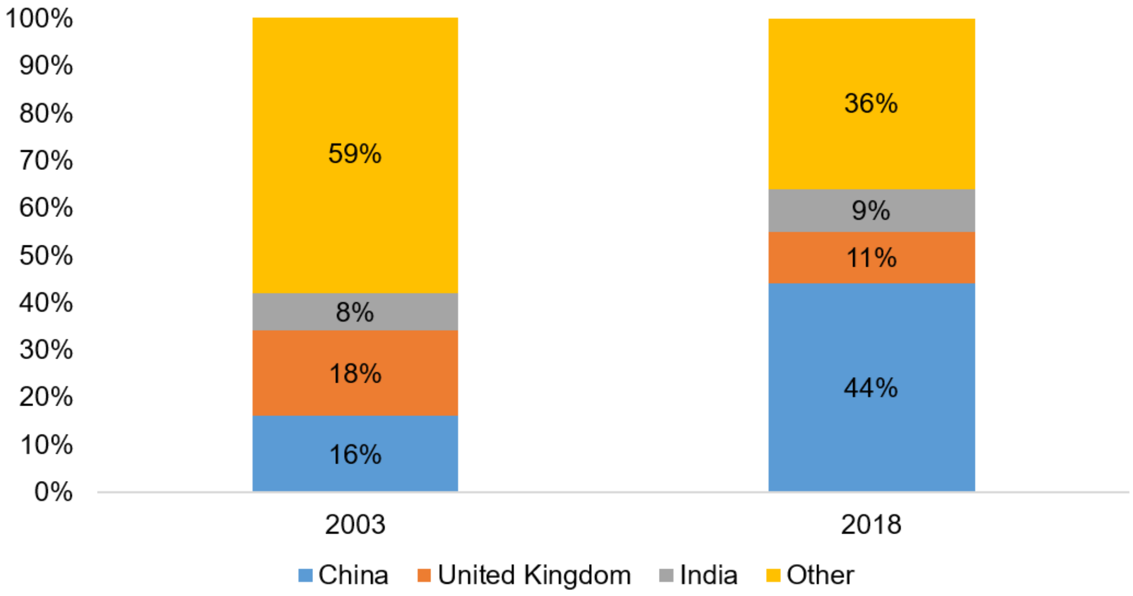
Source: Euromonitor, World Bank data, EIU calculations

WHO'S BUYING

China is the largest export destination for NZ strong wool

From 2003 to 2018 the range and diversity of export destinations for NZ strong wool reduced

Strong Wool Export Destinations



China accounts for just under 50% of NZ strong wool exports.

Source: Stats NZ

Strong Wool Export Destinations

Share	2003	2018
Total Countries	49 countries	41 countries
Total Export value	NZD$ 551M	NZD$ 300M
Total Export volume	114M kg	81M kg
Real 2017 $ per kg	$6.40	$3.60

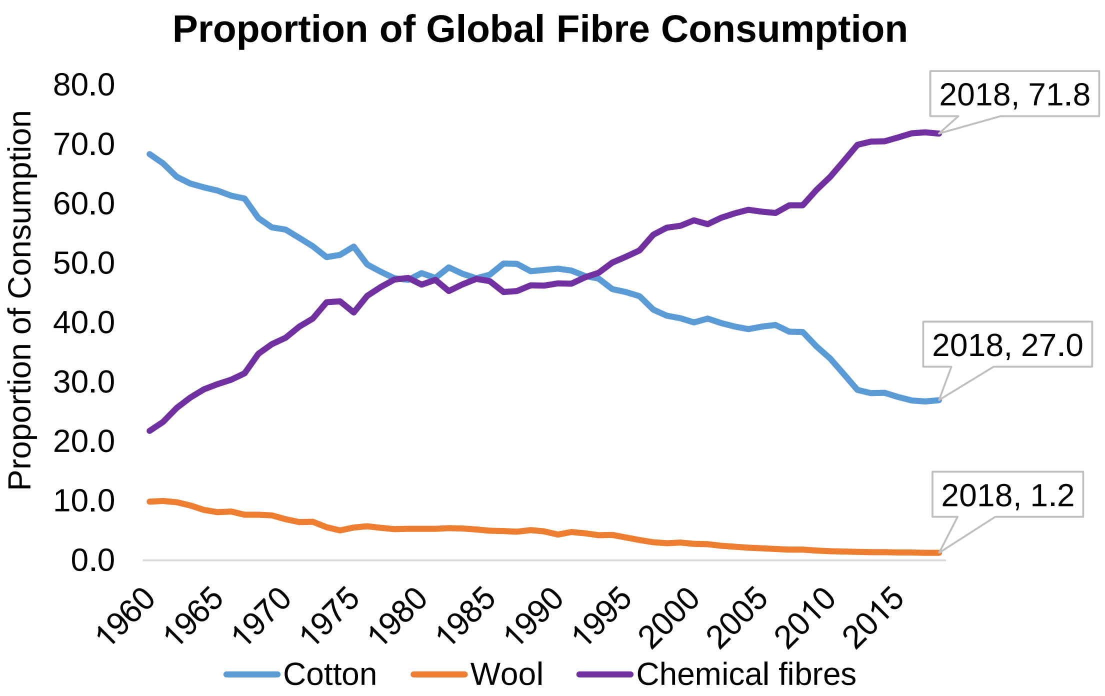
Fewer export destinations and lower diversity increases market dependency and associated risks

Source: Stats NZ

FINAL THOUGHTS

The challenge for strong wool remains

How to compete in such a globalised market?



Wool's proportion of global fibre consumption is likely to remain low

Source: World Textile Demand – International Cotton Advisory Committee 2018