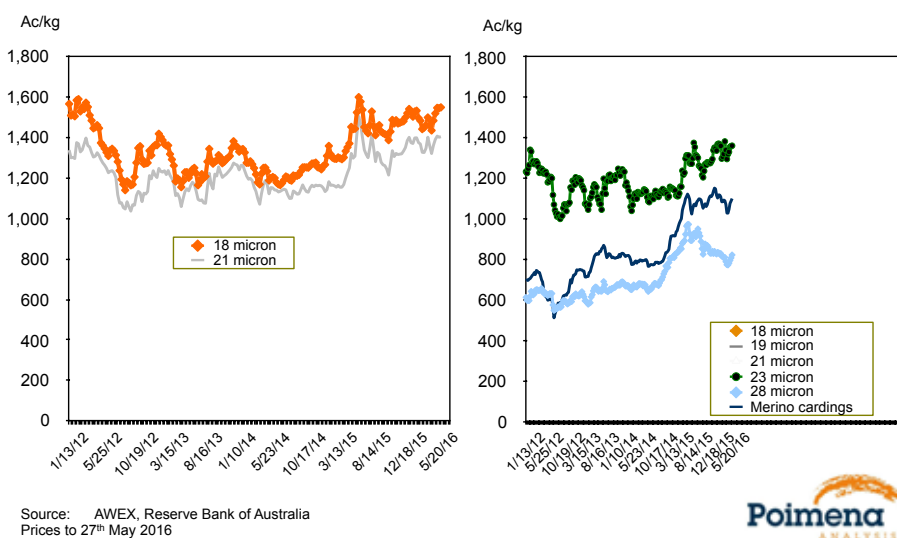


MARKET SNAPSHOT

**Chart 1
Merino Wool Prices On the Rise**



The second half of the 2015/16 season has been solid with a steady rise in Merino wool prices, helped by lower wool supplies and improved raw wool demand from India and Europe. The improved prices have come even though China's purchases have moderated and retail sales of clothing in the recently completed Autumn/Winter season in the Northern Hemisphere were a little subdued. The outlook for the first half of 2016/17 is moderately positive amid considerable uncertainty.

WOOL PRICES LIFT TO NEAR SEASON HIGHS IN THE LAST QUARTER OF 2015/16

Merino wool prices have been rising, albeit in an uneven trend, throughout the 2015/16 season and were at or near-season highs by the end of May. At the same time, prices for crossbred wool have slid. As at 27th May, the Eastern Market Indicator was 1,297 Ac/kg, close to the highest level for the season (which was 1304 c/kg, recorded in July as the market was sliding back from the June 2015 spike) since the start of the season to the end of May,

the EMI increased by 34 c/kg, up by 3%.

Prices for all Merino price guides increased for the 2015/16 season up to the end of May. The most significant increases have been for 17.5 to 18.5 micron wool, with increases of 100-120 cents per kilogram, or more. Prices for wool in the 19 to 23 micron range also recorded strong gains. In contrast, prices for Crossbred wool fell over the 2015/16 season, led by falls of around 100 c/kg for 25 and 26 micron wool. The Merino Cardings Indicator eased back from the record levels seen earlier in the 2015/16 season but remain very strong.

Chart 1 shows the trends in prices since the start of 2012 for a selection of micron price guides and for the Merino Carding Indicator.

Current price levels for Merino wool of 18.5 micron and broader are at the 94th percentile level or better compared with prices since 1991 (that is, current prices are better than 94 per cent of prices since 1991). For wool finer than 18.5 micron, current price levels are at 82nd percentile or better for 17 to 18 micron wool, and at 75th percentile for 16.5 micron wool.

The improvement in wool prices has come even amid significant volatility in the A\$. Since January the A\$ strengthened unexpectedly against the US\$ to over 78 UScents in late April (an increase of 7 UScents), then dipped back to 72 UScents, the same level as in December. It lifted to 73 UScents in early June. The latest forecasts are that the A\$ that it will fall back through 70 UScents in coming months, although this is highly dependent on a combination of interest rate movements in Australia and the US, as well as commodity price movements.

Wool prices in US\$ have also been on a rising trend since reaching a low point in October 2015, although prices have only recovered back to levels seen at the start of the 2015/16 season. By the end of May, the EMI was at 936 USc/kg, compared with 942 USc/kg at the start of the season.

Change of direction

In this edition of Network News, we take a different approach focusing on the all-important matter of Market News. A more comprehensive and editorial styled Network News will be released later this year in spring to coincide with activities at our knitwear manufacturing division and the 'winter selling' period for MerinoSnug.

We look forward to bringing you more news from wool growers, wool processors and consumers later this year!

This newsletter proudly brought to you by

Can higher Merino wool prices be sustained?

AUSTRALIAN WOOL PRODUCTION DECLINES

Australian wool production has fallen in 2015/16 in response to lower sheep numbers and dry conditions in regions (until very recently) which has reduced the average wool cut per head. The wool test statistics from AWTA Ltd shows that the total weight of wool tested for the eleven months of the 2015/16 season to end May was down by 5.9% compared with the same period in 2014/15.

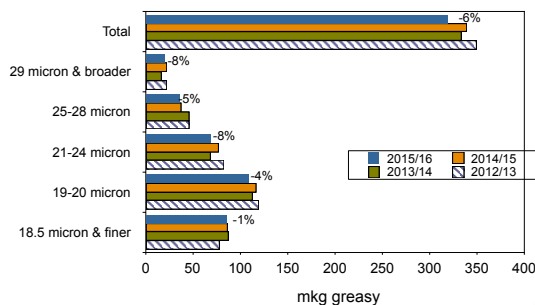
As can be seen in Chart 2, wool test volumes were well below all the previous seasons. This indicates that Australian wool production for the full season in 2015/16 is on track to be at the lowest level for 90 years!

The most significant declines have been recorded for wool of 21 to 24 micron and for 29 micron and broader wool (see Chart 2). In contrast, the weight of wool tested of 18.5 microns and finer is only slightly below the levels in 2014/15 to date and not much behind the record levels seen in 2013/14. Production of this wool had been expected to fall back this season after persistently low price differentials in recent years. However, the dry seasonal conditions (which means that there is more 'hunger-fine' wool) and a shift to Merino blood-lines which produce superfine wool but much higher average fleece weights has meant that production of this wool has been maintained.

By state, the most significant declines have been seen in the two smallest wool producing states, Queensland (down by 21%) and Tasmania (a decline of 14%). However, there has also been a significant 10% drop in the weight of wool tested in Victoria (the second largest producing state in Australia). Wool test volumes have fallen by 5% in New South Wales and South Australia and by 2% in Western Australia.

While the weight of wool tested in Australia for the season has fallen by 5.9%, the number of bales offered at auction to the end of May dropped by 9.1% while the number of bales sold was down by 9.5%.

Chart 2
Australian Wool Production Falls
Wool Tests By Micron Category - July to May



Source: Australian Wool Testing Authority



EXPORT VALUE ON A RISING TREND

Given that Australian wool production and the number of bales sold at auction has declined in the 2015/16 season, it is no surprise to see that the volume of wool exports from Australia in the first three quarters of 2015/16 was down by 9%. The real measure of the strength of demand is the value of exports, as this indicates whether or not price improvements have offset the decline in volumes.

Chart 3 shows the longer-term trends in Australia's wool exports and in value, in both A\$ and US\$. These longer term trends are on a 12 month moving average basis, to remove month-by-month volatility. As can be seen, the trends in the volume of exports is on a steep decline but the value of exports in A\$ has been on a strong upturn over the past 18 months which points to an increase in demand over this period. Furthermore, the most recent data suggests that this rising demand may have just started to peak.



An example of just how dry it was in parts of Australia this autumn – here is an image from Tasmania in April this year. Tassie 'formerly' known as the green island - not so green in the southern midlands – desperate, desperate times!

In US\$ terms, there has been some ups and downs around a flat trend over the same period, reflecting in part the changes in the exchange rate.

RAW WOOL DEMAND SOFTENS

Raw wool demand by China has fallen back over the past seven months, which has only been partly offset by improved demand by Europe and, to a lesser extent, India (see Chart 4).

China accounts for 65% of the raw wool exports by the five major wool producing and exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa). After a strong increase in raw wool imports over six months around mid-2015, China's demand has dropped. As a result, exports of raw wool to China by these five major exporters in the 12 months to March are 2% below the year before. This could be because China replenished raw wool stocks in mid-2015 and are now operating at a comfortable level.

In contrast to the pull-back by China, raw wool exports to Europe are up by 3% for the past 12 months. While exports to India remain below a year ago, there has been a clear recovery in recent months.

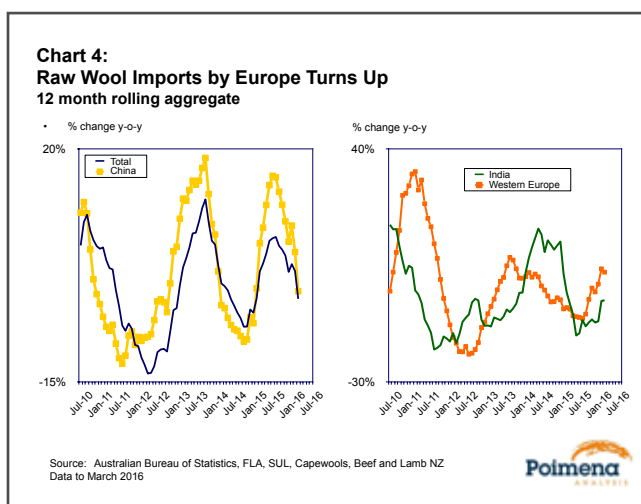
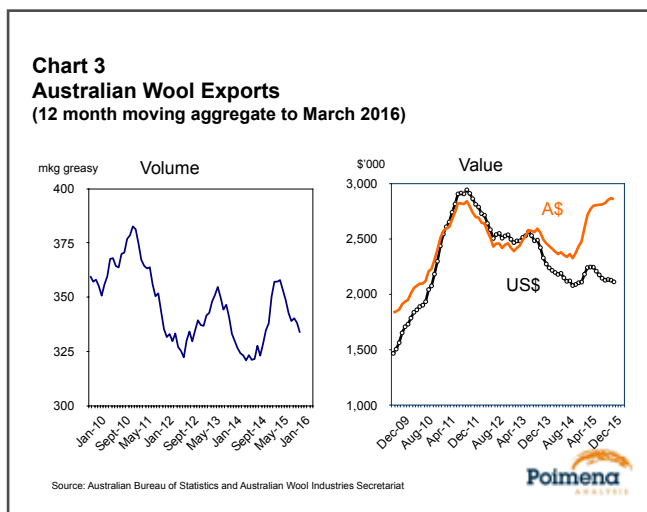
EXCESS STOCKS HAVE BEEN RUN-DOWN

The latest results from the International Wool Textile Industry's annual survey of business conditions in the wool textile industry indicate that by the end of 2015, stocks in the weaving, knitting, garment making and interior textiles sectors of the global wool textile industry had moved to well above 'normal' levels. This may have caused a blockage to orders to the early stage processing (ESP) and spinning sectors. This could, therefore, explain the recent decline in raw wool purchases from the five major wool exporting countries.

The good news is that survey respondents say that these excess stocks have now been cleared with stocks reported to be at 'normal' levels for all sectors except for the ESP sector. For this sector, stocks are below normal and will need to be replenished soon. At the same time, the Survey results show that a period of steady production activity levels throughout the global wool textile industry is expected over the next six months.

DISAPPOINTING RETAIL DEMAND IN AUTUMN/WINTER

As has been noted in previous editions of the AWN Newsletter, the Autumn/Winter period in the Northern Hemisphere is a crucial period for wool clothing sales at retail, with a bit under



two-thirds of the world's annual sales made in the four months between October and January. Clothing retail sales over this period at the end of 2015 and into 2016 were disappointing. Only two of the eight major wool apparel consuming countries recorded improvements in the growth rate of clothing sales over the Autumn/Winter period. Given the weak growth rates, retailers will be cautious in their ordering for the forthcoming 2016 Autumn/Winter period. This ordering began in April.

COMPETING FIBRE PRICES START TO RECOVER

After an extended period of decline, prices for competing fibres such as cotton, polyester staple and acrylic lifted a little in the past two months. The improvement has only been restrained but indicates a change of direction after excess stocks for cotton and high production levels for synthetic fibres bore down on the prices.

In spite of this improvement, wool's price premium over these fibres remains at or near record levels. Wool is at or near record levels against both synthetics and cotton (see Chart 5 - next page).

While the price relativity for wool against other fibres has become less important than it was in the 1990s and 2000s, particularly for wool used in apparel, it remains an influence at the margins in terms of decisions about fibre mixes by wool textile mills.

“By the time AWN clients get to read this, I hope it is freezing and everyone needs a jumper, or two!”

Rod Murray CEO, Hysport Pty Ltd (AWN's knitwear manufacturing division, Victoria) lamenting the slow start to winter this year!

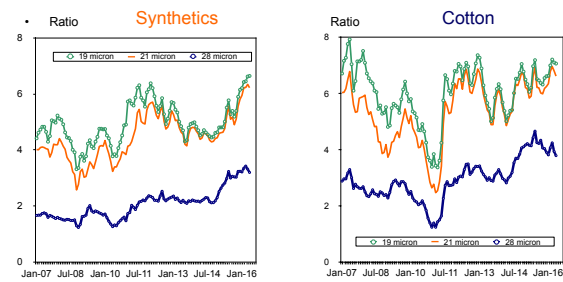
OUTLOOK FOR THE FIRST HALF OF 2016/17

After a rising trend in prices over the past nine months or more, the outlook for wool prices remains moderately positive, with some risks and uncertainties. There are a number of factors which will affect the outlook for the better.

First, the modest improvement in the prices for competing fibres is helpful for the outlook, reducing to a small extent the high price relativity for wool against these fibres.

Second, raw wool demand by China has been constrained by a combination of excess stocks along the wool textile pipeline and by weak exports of wool products in the past 6 months or more. However, stocks are said to have been brought under control (partly as a result of the lower raw wool purchases in the

**Chart 5
Wool Price Competitiveness
US\$ terms**



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to May 2016
Note: for 28 micron wool, the ratio is against acrylic fibre



**Chart 6
Mixed News from Household Consumption Growth Rates in Key Wool Consuming Countries**

Country	Country share of world wool consumption at retail	Private Consumption Growth Rate					
		Av 2004-06	2013	2014	2015e	2016f	2017f
China*	23%	10.7%	7.7%	7.3%	6.9%	6.5%	6.3%
USA	11%	3.2%	1.7%	2.7%	3.1%	2.6%	2.5%
Japan	9%	1.5%	1.7%	-1.0%	-1.2%	0.2%	0.0%
Italy	5%	1.0%	-2.5%	0.6%	0.9%	1.3%	1.2%
Germany	5%	0.4%	0.6%	0.9%	1.9%	1.9%	1.5%
Korea	5%	3.0%	1.4%	1.7%	2.2%	2.4%	2.4%
UK	4%	2.4%	1.9%	2.6%	2.8%	2.6%	2.2%
France	3%	2.4%	0.5%	0.6%	1.4%	1.4%	1.5%

(f) forecast.
Source: Poimena Analysis for wool at retail, Consensus Forecasts (April 2016) for private consumption growth rates
Notes: China is GDP growth rate



past seven months). As well, the most recent monthly data on China's exports was much improved. Hopefully, this improvement continues and mills in China see better orders from retailers from the US, Europe and Japan for the 2016 Autumn/Winter season.

Third, it is hoped that the recent improvement in raw wool purchases by Europe and by India continues.

Fourth, wool supply will continue to be tight. The Australian Wool Production Forecasting Committee's first forecast for 2016/17 is for production to be at 320 mkg greasy, around the same as in 2015/16 which is in turn at 90 year lows. Farm and broker-held stocks would have been run down in the May-July 2015 period when prices spiked, so wool availability will be low. This will provide a solid base for wool prices.

Nevertheless, it is hard to envisage a sharp improvement in order levels, given the lacklustre clothing retail sales in the recent Autumn/Winter period in the Northern Hemisphere. As well, prospects for growth in household consumption in the major wool consuming countries over the next two years are clouded, with some improvement possible, albeit at relatively slow growth rates. Growth in private or household consumption is one measure

of how much disposable income consumers in these major retail markets have to spend.

Chart 6 shows the rate of growth in private consumption in the eight largest wool consuming countries for each year between 2013 and 2015, the average between 2004 and 2006, and the latest forecasts for 2016 and 2017.

As can be seen, a number of the key countries have recorded very low (less than 2%) or even negative growth in private consumption in the past three years. As well, growth in China has slowed substantially from the previous double digit growth rates. The forecast for growth in 2016 and 2017 shows improvements for some countries, such as Italy. However, growth throughout much of Europe is expected to be below 2%. This may restrain wool clothing purchases.

Of course, while the outlook for wool prices is moderately positive, it will to an extent remain hostage to the continued vagaries of currency movements and decisions by central banks on interest rates.

**by Chris Wilcox, Poimena Analysis
for Australian Wool Network, July 2016**



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For the latest on what's happening in the wool industry, market updates, sale rosters, price trends, wool marketing and price risk management tools visit our website.

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Stud Stock Sale Calendar

July – December 2016

Proudly brought to you by the Australian Wool Network

JULY

15 - 17	Australian Sheep & Wool Show	Bendigo	VIC
18	Australian Sheep & Wool Show Ram Sale	Bendigo	VIC
25	Midstate Merino Field Day	Dubbo	NSW
27	Southeast Merino Field Day	Keith	SA
28	Mullooie Merino & Poll Merino Ram Sale	Tintinara	SA
29	Karoonda & Districts Stud Merino Field Day	Murray Bridge	SA
27	Toldu Prime SAMM On-Property Sale	Keith	SA

AUGUST

1-2	Hamilton Sheepvention & Ram Sale	Hamilton	VIC
3	Carcuma North Poll Merino On-Property Sale	Peake	SA
8	Glenelg Field Days	Douglas	VIC
8	Ridgeway Poll Merino On-Property Sale	Lameroo	SA
9	North East Merino Ram Sale	Benalla	VIC
9-11	Eyre Peninsula Field Days	Cleve	SA
12	Glenlea Park On-Property Sale	Pinaroo	SA
12	Radnor Poll Merino & Merino Ram Sale	Murray Bridge	SA
17	Collandra North Merino Stud On-Property Sale	Tumby Bay	SA
18-19	Rabobank Katanning Sheep Show & Sale	Katanning	WA
19	Andoma Poll Merino Ram Sale	Mundulla	SA
23	Australian Wool Network Fleece Show	Dubbo	NSW
23-25	Rabobank National Merino Sheep Show & Sale	Dubbo	NSW
26	Galaxy Park Prime SAMM On-Property Sale	Tintinara	SA
26	Karawatha Park Poll Merino On-Property Sale	Buckleboo	SA
29	Lorelmo Keynton Station Poll Merino Ram Sale	Keynton	SA
31	Ulooloo Dohne Ram Sale	Hallett	SA

SEPTEMBER

1	Gunallo Merino & Poll Merino Ram Sale	Pinnaroo	SA
1	South West Slopes Stud Merino Field Day	Greenethorpe	NSW
4-9	World Merino Insight	Adelaide	SA
5	Classings Classic Merino & Poll Merino Sale	Murray Bridge	SA
5	Wendouree On-Property Sale	Grenfell	NSW
6	Karoola Downs Poll On-Property Sale	Adelong	NSW
7	Royal Adelaide Show School Merino Wether Challenge	Adelaide	SA
7	Winyar Merino & Poll Merino On-Property Sale	Canowindra	NSW
8	New Armatree Border Lei On-Property Sale	Armatree	NSW
8	Ridgehaven Poll Dorset On-Property Sale	Cudal	NSW
8	Rocklyn Merino Stud On-Property Sale	Greenethorpe	NSW
9	Merryville On-Property Sale	Boorowa	NSW
9	Royal Adelaide Show Merino & Poll Merino Ram Sale	Adelaide	SA
12	Yarrowonga On-Property Sale	Harden	NSW
13	GullenGamble Merino On-Property Sale	Yeoval	NSW
13	Leahcim On-Property Stud Sale	Snowtown	SA
14	Calga & Uardry Dohne Ram Sale	Coonamble	NSW
14	North Ashrose On-Property Ram Sale	Gulnare	SA
14	Nyowee Poll Merino Ram Sale	Balaklava	SA
15	Bunyara Merino & Poll Merino Ram Sale	Moculta	SA
15	Glen Holme Dohne Ram Sale	Manoora	SA
15	Roseville Park Merino Stud On-Property Sale	Dubbo	NSW
15	Wunnamurra Poll Dorset On-Property Sale	Jerilderie	NSW
16	Springvale North Poll Merino Ram Sale	Burra	SA
16	Towalba On-Property Sale	Peak Hill	NSW
19	Karbullah On-Property Sale	Goondiwindi	QLD
19	Mullooie Merino & Poll Merino Sale	Brinkworth	SA
19	Woodpark Poll Merino Sale	Hay	NSW
20	Demondrille On-Property Sale	Murrumburrah	NSW
20	Gillmore Poll Dorsets On-Property Sale	Yeoval	NSW
20	Gullendah Merino & Dhone Sale	Baldry	NSW
20	Kardinia Dohne Sale	Corowa	NSW
21	Cora Lynn Merino Stud On-Property Sale	Peakhill	NSW
21	Koonwarra On-Property Sale	Boorowa	NSW
21	Macquarie Dohne Sale	Warren	NSW
21	Tattykeel Poll Dorset Sale	Oberon	NSW
23	Langdene Merino Stud On-Property Sale	Dunedoo	NSW
23	Majella Poll Dorset Sale	Shepparton	VIC
24	Allendale Merino Stud On-Property Sale	Wellington	NSW

24	Ashmore White Suffolk & Border Lei Ram sale	Wasleys	SA
24	Merrengreen Poll Dorset On-Property Ram Sale	Finley	NSW
26	Toland Merino & Poll Merino Sale	Violet Town	VIC
26	Waratah Poll Merino Stud	Bigga	NSW
27	Pindari Merino & Dohne Ram Sale	Waterloo	SA
28	Vortex White Suffolk On-Property Sale	Benalla	VIC
29	Kangaroo Island Field Day	Kingscote	SA
30	Castle Camps White Suffolk & Border Lei Sale	Willalooka	SA

OCTOBER

1	Koonawarra White Suffolk & Border Lei Sale	Angaston	SA
5	Loch River On-Property Sale	Darbys Falls	NSW
6	Calga & Uardry Dohne On-Property Ram Sale	Wanganella	NSW
6	Chrome Maternal & Terminal Ram Sale	Hamilton	VIC
6	GRASS Merinos Field Day & Ram Sale	Armatree	NSW
7	Merignee Merino Stud Sale	Boorowa	NSW
7	Pemcaw Merino Stud Sale	Dunedoo	NSW
7	Pemcaw On-Property Sale	Dunedoo	NSW
8	Bocoble On-Property Sale	Moolarben	NSW
10	Grassy Creek On-Property Sale	Boorowa	NSW
10	Kilfeera Park Merino Stud Ram Sale	Benalla	VIC
11	Mount Yulong Poll Merino Stud Sale	Telangatuk East	VIC
11	Wyuna Merino Stud On-Property Sale	Armatree	NSW
12	Egelabra Ram Sale	Warren	NSW
13	Firgrove Poll Merino Sale	Dunkeld	VIC
13	Hillcreston Park On-Property Sale	Bigga	NSW
14	Bogo On-Property Sale	Bookham	NSW
14	Deloraine Dorset Sale	Coleraine	VIC
14	Glenpaen Merino & Poll Merino sale	Brimpaen	VIC
14	Glenwood On-Property Sale	Wellington	NSW
14	Lauridale White Suffolks On-Property Sale	Wakool	NSW
14	Southern Victorian Merino Field Days	Western District	VIC
14	Stillbrook On-Property Ram Sale	Crookwell	NSW
17	Glenara Merino Stud Sale	Dunkeld	VIC
17	Grogansworth On-Property Sale	Bowning	NSW
17	Woolaroo Merino Stud On-Property Sale	Yass	NSW
18	Stud Park South Merino On-Property Ram Sale	Willaura	VIC
18	Wakefield Park Wht Suffolks & Maternal Composites Sale	Bulart	VIC
19	Boorana Merino On-Property Ram Sale	Woorndoo	VIC
19	Tallowong On-Property Sale	Yass	NSW
20	Blackford Merinos On-Property Ram Sale	Kingston	SA
20	Konongwootong Poll Dorsets	Konongwootong	VIC
21	Johnson Park Merino Stud On-Property Sale	Yass	NSW
21	Nareeb Nareeb Merino & Dohne Sale	Glenthompson	VIC
22	Carrabungla On-Property Sale	Laggan	NSW
23	Bella Lana Merino Stud Sale	Dripstone	NSW
24	Rogara Poll On-Property Sale	Goulburn	NSW
26	Clearview South Downs	Rutherglen	VIC
27	Grathlyn Merino & Lynford Poll Merino Stud On-Prop Sale	Hargraves	NSW

NOVEMBER

4	The Mountain Dam Merino Stud Ram Sale	Balmoral	VIC
11	Sorell Springs Merino Ram Sale	Oatlands	TAS
11	Brooklands Merino Ram Sale	Oatlands	TAS
11	Clearview South Downs Showgrounds	Hamilton	VIC
12	Turon Hill Merino Stud Sale	Sofala	NSW
25	Hilltop Merino Stud On-Property Sale	Mudgee	NSW

DECEMBER

2	Kurra-Wirra Merino Stud On-Property Sale	Balmoral	VIC
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Sales highlighted in red conducted by AWN Livestock

