



AUSTRALIAN WOOL ANNUAL REVIEW

JULY 2017



About the research

The Australian Wool Annual Review includes data and outlooks on production in Australia and globally, seasonal conditions, prices, demand and the financial performance of Australian farms.

Significant effort has been taken to secure the most recent data available.

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About Ag Answers

Ag Answers is a specialist insights division of Rural Bank. Recognising that good information is the key to making good business decisions, Ag Answers provides research and analysis into commodities, farmland values, farm business performance and topical agricultural issues to enable farmers to make informed decisions.

About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country. From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for 70 years.

Rural Bank is supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

The future for agriculture is bright

We provide exceptional financial services, knowledge and leadership for Australian farmers to grow.

SUMMARY

Wool producers are poised to take advantage of increasing production and strong prices.

After nearly 20 years of decline, the 2015/16 financial year appears to have marked the low point in Australian shorn wool production. Shorn wool production is forecast to reach 341,000 tonnes of greasy wool in 2016/17.

The first half of 2017 has seen wool prices rise to highs not seen for decades. The AWEX Eastern Market Indicator closed June 2017 at 1507c/kg clean and the Western Market Indicator at 1552c/kg clean, up 10% and 5% respectively since the beginning of January 2017.

The volume of wool exported from Australia to April 2017 is up 8% compared to the same time last year. The value of wool exported has increased 23% to April 2017 reflecting higher prices.

A warmer and wetter than normal autumn across most of Australia meant favourable feed conditions for graziers heading into winter. Winter rainfall likely to be below average over the southern half of mainland Australia.

Wool production rises to

341
thousand

tonnes in 2016/17

The national flock
increases to

73.6

million head in 2016/17

The AWEX Eastern
Market Indicator rose

10%

in the first half of 2017

China receives

75%

of Australian wool exports

Fine wool accounts for

50%

of Australian wool exports

The El Nino Southern
Oscillation Index remains

neutral

for July 2016 – March 2017

PRODUCTION

Wool production rises to

341
thousand

tonnes in 2016/17

The national flock
increases to

73.6

million head in 2016/17

Wool exports from New
Zealand declined by

13%

in 2015/16

After nearly 20 years of decline the 2015/16 financial year appears to have marked the low point in Australian shorn wool production. Shorn wool production is forecast to reach 341,000 tonnes of greasy wool in 2016/17, an increase of 5% compared to the previous year (ABARES, 2017). In the medium term, Australian shorn wool production is expected to continue increasing gradually.

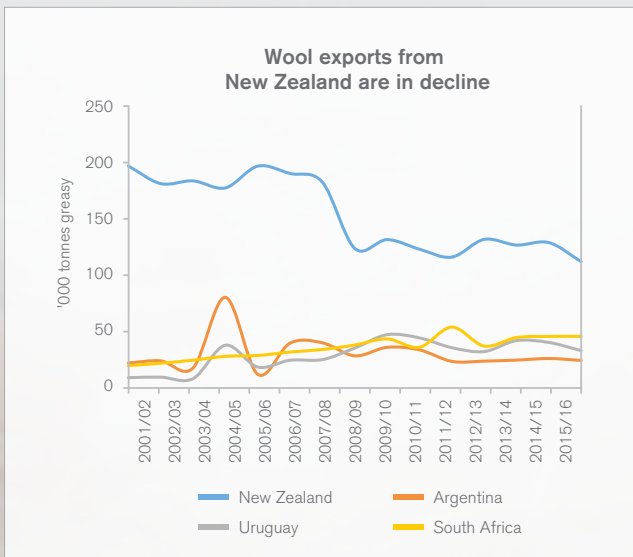
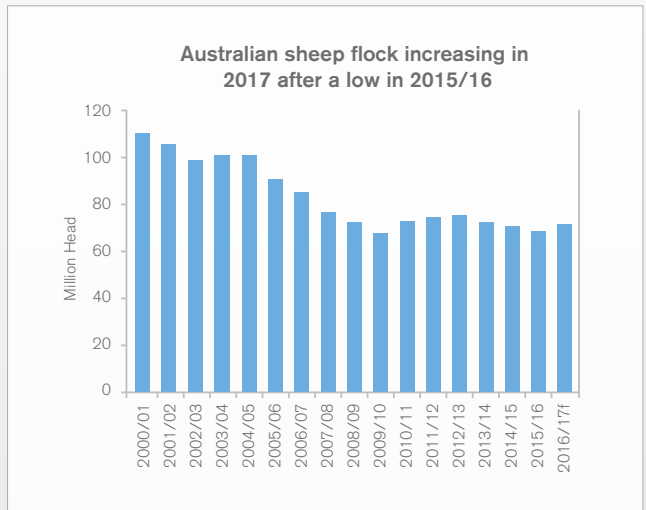
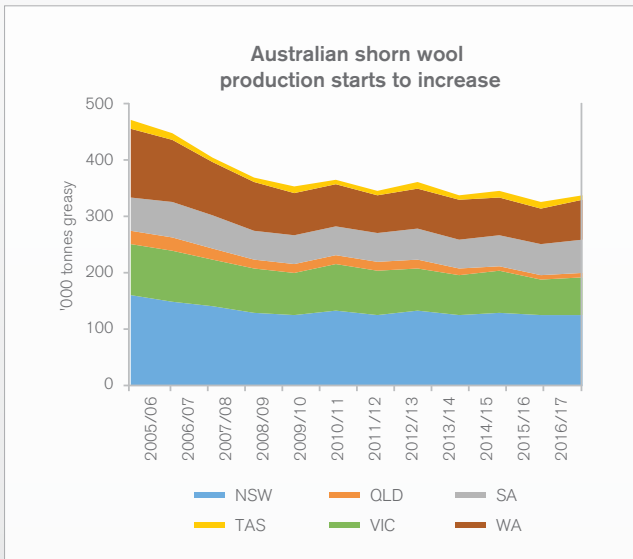
Short term drivers of the 2016/17 production increase appear to be favourable seasonal conditions, which prompted an increase in fleece weights and strengthening prices that brought stored wool (particularly fine wool) to market from farm and brokers stocks, as well as the prompt delivery of fresh shorn wool.

Taking a medium term view, the now expanding national flock is a key driver increasing wool production. Furthermore, strong prices will encourage producers to hold sheep, particularly wethers, for wool production. Also an emerging trend to shear more frequently appears to offer some gains in wool production per head.

Wool production increased in 2016/17 across all states except for Tasmania, which was unchanged year-on-year. In particular, wool producers in northern regions and Western Australia benefited from favourable seasonal conditions that helped to boost fleece weights.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimates the national flock will increase by 7 per cent to around 73.6 million head by June 2017, and rise by a further 4 per cent to around 76.6 million head by the end of June 2018.

Approximately a quarter of global wool production occurs in Australia, so a switch to increasing production in Australia will have an impact on the global market. That said wool exports from some major producers such as New Zealand have been declining as well, which means Australian wool growers may be set to enjoy the rare conditions of increasing production levels and higher prices.



Outlook

ABARES forecasts a 4% increase in Australian shorn wool production in 2017/18 to 353,000 tonnes greasy. Wool production will continue to grow with an expanding flock. Producers are expected to increase ewe numbers in response to strong wool prices and demand for lambs. Wool cut per head is expected to remain stable at around 4.5kg.

PRICES

The AWEX Eastern Market Indicators rose

10%

in the first half of 2017

The 17 micron price guide rose

45%

over the past 12 months

The national trade lamb indicator rose

12%

over the past 12 months.

The first half of 2017 has seen wool prices rise to highs not seen for decades. The AWEX Eastern Market Indicator closed June 2017 at 1507c/kg clean and the Western Market Indicator at 1552c/kg clean, up 10% and 5% respectively since the beginning of January 2017.

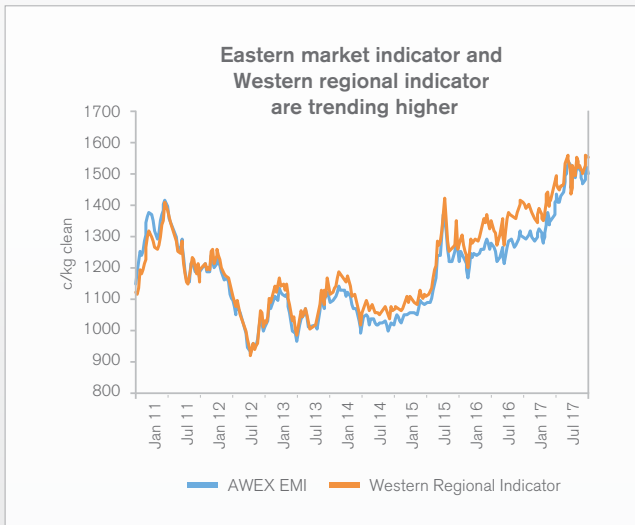
A key driver of the price increase appears to be stronger demand from processors combined with limited supplies. The recent favourable seasonal conditions have also meant broader micron fleeces exacerbating the recent drop in fine wool production. Further, it appears that buyers are willing to bid wool prices up based given some concern about future supplies.

Price performance has varied across micron categories. The price spread between fine and medium wool has been widening since late in 2016 and the spread to coarse wool

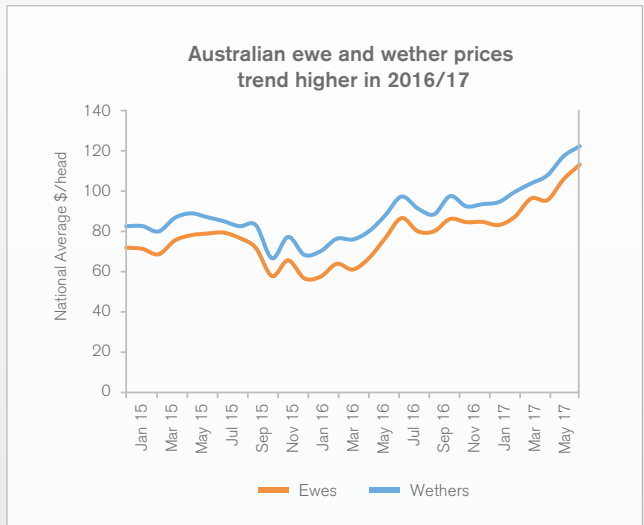
goes back to late 2015. After little price difference between fine wool and medium wool for four years, the southern market micron price guide for 17 micron wool has grown by 45% since the price uncoupled from medium wool in winter 2016. The 20 micron price has increased by 7% over the same period. The price for 28 micron wool remains flat and close to the 5 year average.

Lamb and mutton prices both had a very strong start to 2017. The national trade lamb indicator has averaged 14.5% higher in the first quarter of 2017 compared to the last quarter of 2016, more than double the 5 year average increase of 6.5%. Strong demand and anticipated low supply have been the drivers of prices trending higher. Supplies are expected to tighten further through winter, further supporting prices.

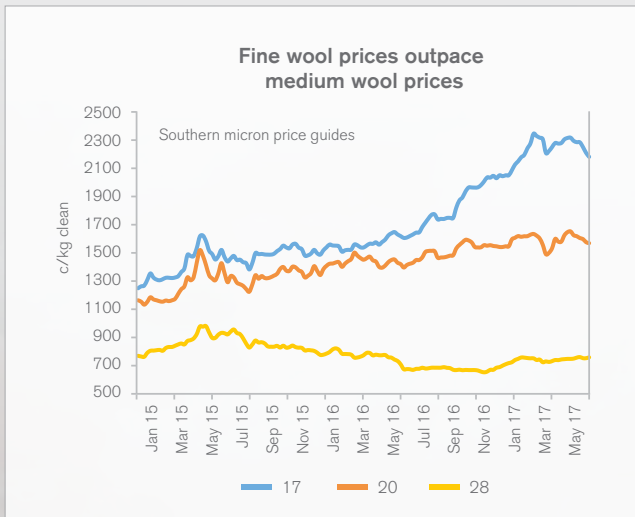
	Current (3 July)	July 2016	Five-year average	80th percentile	20th percentile
17µ MPG					
North	2200	1548	1577	1788	1304
South	2173	1527	1563	1777	1304
West (18µ)	2099	1508	1457	1598	1224
20µ MPG					
North	1634	1462	1322	1515	1149
South	1618	1458	1327	1515	1154
West (22µ)	1458	1426	1267	1383	1133
28µ MPG					
North	756	779	716	791	649
South	765	774	718	803	642
West (Mer. Card.)	1209	1091	962	1124	781
Ewes (\$/hd)					
National average	113	80	64	79	47
Wethers (\$/hd)					
National average	122	91	74	88	54
Australian dollar					
AUD/USD	0.77	0.75	0.85	0.96	0.75



Data: AWEX



Data: MLA



Data: AWEX

Outlook

Wool prices are expected to remain strong in 2017/18, particularly for fine to medium wool categories, supported by growing export demand and limited, albeit now growing, supply from Australia. Prices for ewes and wethers are also expected to remain strong in 2017/18.

TRADE & DEMAND

The value of wool exported increased

23%

Jan-Apr 2017 compared to Jan-Apr 2016

Fine wool accounts for

50%

of Australian wool exports

China receives

75%

of Australian wool exports

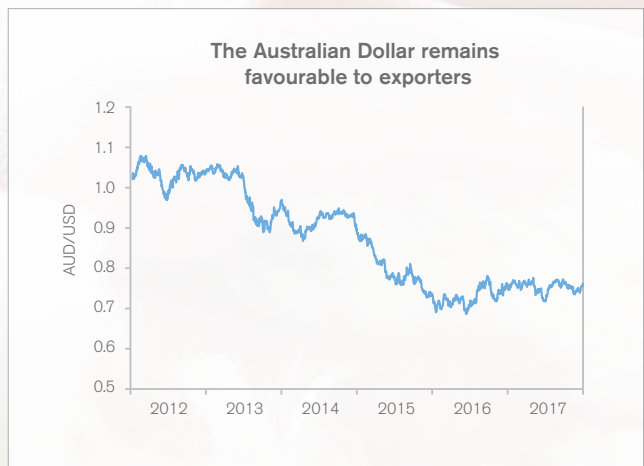
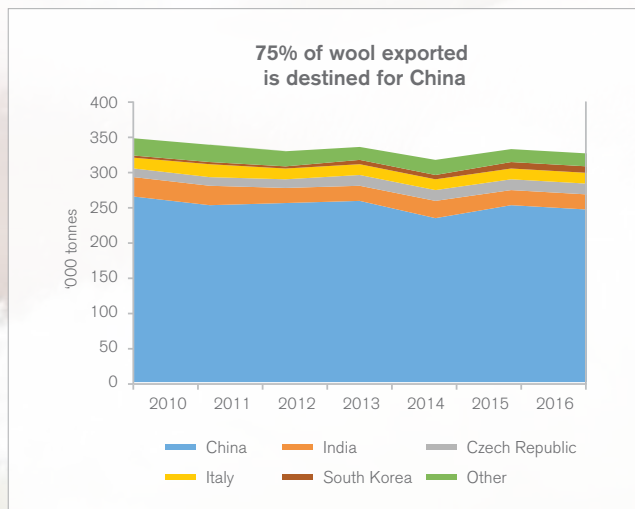
The volume of wool exported from Australia to April 2017 is up 8% compared to the same time last year. The value of wool exported has increased 23% to April 2017, reflecting higher prices.

Over the 12 months to March 2017 fine wool (19um and finer) exports accounted for 50% by quantity of all wool exported from Australia. This is an increase from 40% of all wool exports in 2010.

The 12 month rally in fine and medium wool prices will continue to be supported by limited supply. However, if an element of the recent price growth has been processors restocking their inventory, once they complete this the demand pressure will come out of the market, potentially causing wool prices to ease.

Most of Australia's wool clip is exported and most is destined for China. China is the largest producer and exporter of wool clothing as well as a large consumer. Chinese clothing export performance depends on demand for woollen clothing from Europe and the USA, which in turn is a function of economic confidence in those markets. Recently, growth in Europe and the USA has been weak although growth in Chinese domestic consumption appears to have made up for the drop in woollen clothing exports from China.

The Australian dollar continues to hover around 0.75 US cents, which remains favourable for exporters.



Outlook

The volume of wool exported in 2017/18 is expected to increase being driven by increased production. Export demand is expected to account for the additional supply from Australia keeping prices strong and thereby also increasing the value of wool exports in 2017/18.

SEASONAL CONDITIONS

The El Nino Southern Oscillation Index remains

neutral

Vegetation in major grazing regions was

'greener'

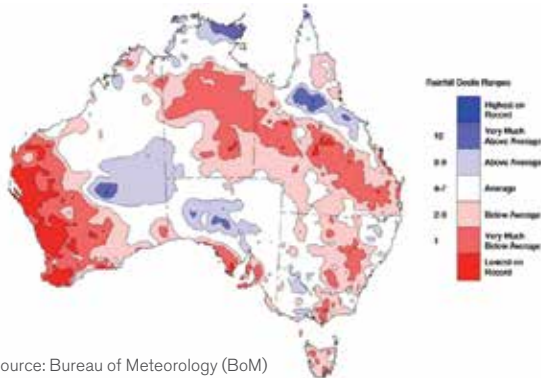
than normal for autumn

The southern half of Australia to have a

drier

than normal winter

Australian rainfall deciles
1 April to 30 June 2017

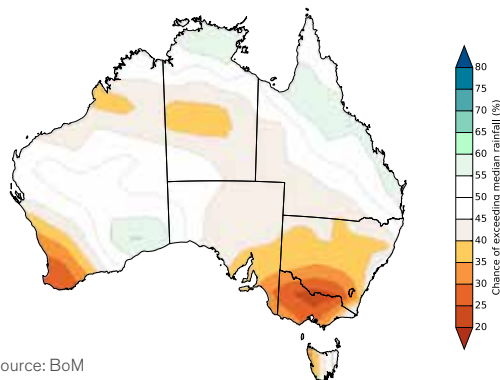


Source: Bureau of Meteorology (BoM)

A warmer and wetter than normal autumn across most of Australia meant favourable feed conditions for graziers heading into winter. Only in Western Australia was autumn rainfall below average.

Soil moisture levels in the major sheep grazing areas of South Australia, Victoria and New South Wales are currently above average for early winter. Accordingly, the normalised difference vegetation index (NDVI) map for April to June 2017 shows 'greener' than normal to normal vegetation conditions in most grazing regions in New South Wales, Victoria, South Australia and the rangelands in Western Australia. Other parts of Western Australia and Tasmania were 'less green' than is typical for May.

Chance of exceeding the median rainfall
July to September 2017

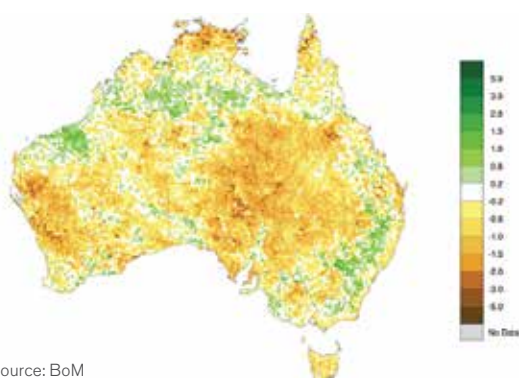


Source: BoM

Expectations of an El Nino event occurring in 2017 have weakened recently. The El Nino Southern Oscillation (ENSO) remains on a neutral setting. Nevertheless, climate models suggest that the likelihood of an El Nino development in 2017 remains approximately double what would normally be expected.

While many sheep graziers are entering winter with stock in good condition and available feed, the forecast drier than normal conditions for the second half of 2017 mean that the performance of feed production for the remainder of 2017 is far from certain.

NDVI standardised anomaly
1 April to 30 June 2017



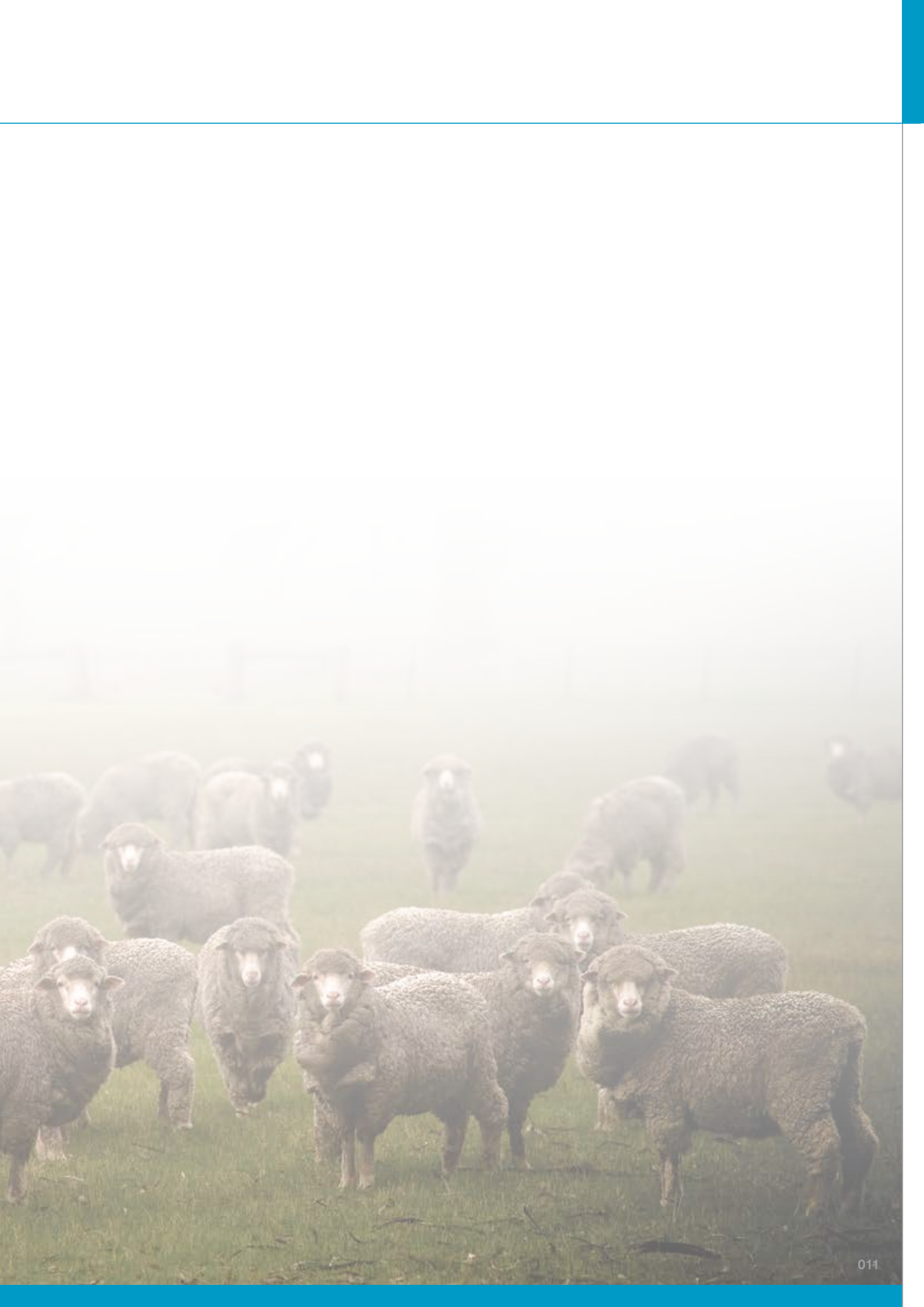
Source: BoM

Outlook

The Bureau of Meteorology expects that winter rainfall is likely to be below average and winter daytime temperatures to be warmer than normal for the southern half of mainland Australia.

EXPORT MARKETS – COUNTRY DETAIL

Destination Country	2014	2015	2016	YoY % Change	2016 % Share	2016 Jan-Apr	2017 Jan-Apr	YoY % Change
Quantity of wool exports ('000 tonnes swt)								
World	319.9	336.8	328.4	-2.5%		112.2	121.0	7.8%
China	236.6	254.1	249.3	-1.9%	75.9%	84.6	95.9	13.3%
India	25.4	23.5	22.7	-3.5%	6.9%	7.3	6.6	-9.4%
Czech Republic	14.8	15.5	15.1	-2.5%	4.6%	5.6	5.4	-3.6%
Italy	14.1	14.0	13.4	-4.8%	4.1%	4.0	4.4	10.5%
South Korea	6.4	8.7	9.2	5.7%	2.8%	3.4	3.1	-10.7%
Value of wool exports (A\$millions)								
World	2,414	2,909	3,021	3.9%		985	1,212	23.1%
China	1,683	2,098	2,202	4.9%	72.9%	702	933	33.0%
India	193	205	217	5.8%	7.2%	68	69	1.5%
Italy	144	157	162	3.3%	5.4%	49	63	29.1%
Czech Republic	106	121	123	1.5%	4.1%	43	39	-8.6%
South Korea	64	108	120	10.9%	4.0%	45	41	-8.0%
Unit price of wool exports (A\$/tonne)								
World	7,546	8,635	9,198	6.5%		8,772	10,018	14.2%
China	7,113	8,257	8,835	7.0%		8,298	9,734	17.3%
India	7,587	8,739	9,576	9.6%		9,367	10,497	12.1%
Italy	10,261	11,183	12,134	8.5%		12,237	14,291	16.8%
Czech Republic	7,156	7,820	8,142	4.1%		7,696	7,298	-5.2%
South Korea	10,024	12,399	13,005	4.9%		13,097	13,496	3.1%



For report enquiries:

AG ANSWERS

P 1300 796 101

E ag.answers@ruralbank.com.au

For banking enquiries:

RURAL BANK

P 1300 660 115

W ruralbank.com.au

ELDERS

P 1300 618 367

E bankmarketing@elders.com.au

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