



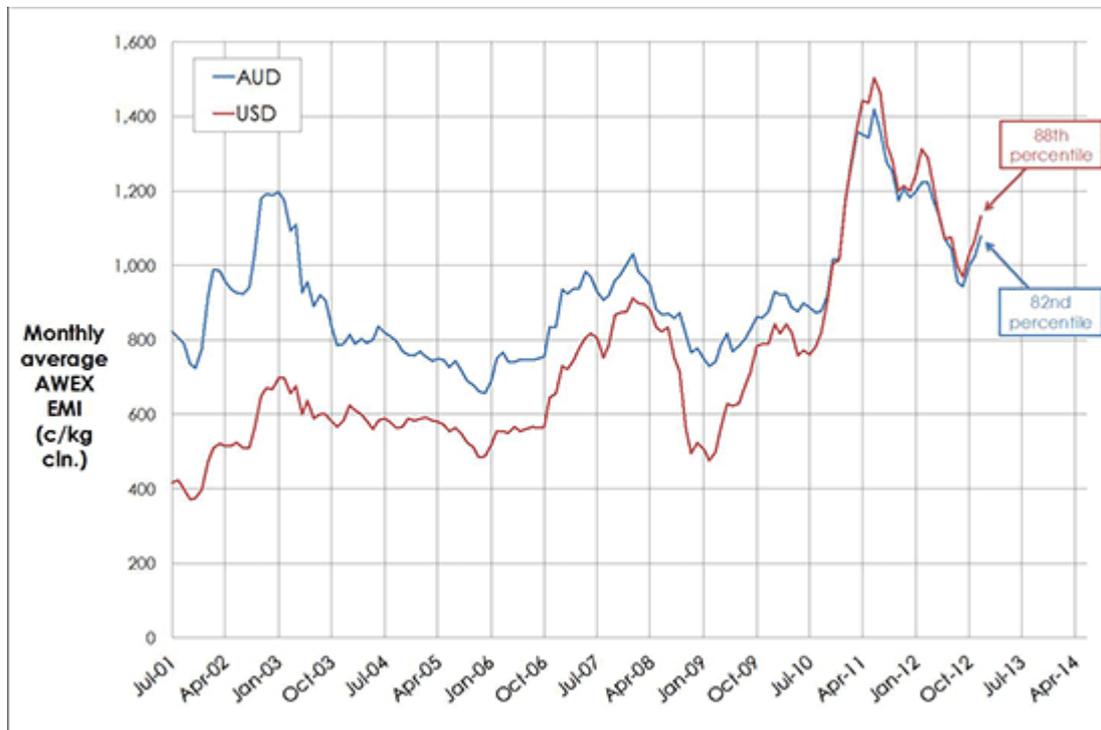
30 January 2013

In this our first monthly newsletter for 2013, we look at how the wool market has opened after the Christmas recess, and consider some demand-side indicators.

Strength in the wool market

The Australian wool auctions resumed positively after the three-week Christmas/New Year recess. Close to 110,000 bales were offered over the first two complete sale weeks, with 94 per cent of offerings sold at an EMI of around 1,100 AU cents. With the current high AU:USD exchange rate (~\$1.04), this means the international value is around USD11.50, which is close to the 90th percentile for the post-stockpile period. This positive tone reflects well on underlying demand for our fibre, which is the central goal for AWI marketing campaigns.

The graph below shows the average AWEX Eastern Market indicator for the post-stockpile era (since July 2001) in AUD and USD terms, and shows current price percentile values for this period.



As we head into smaller volume of selection for the rest of this season, we expect a largely unchanged to stronger market. While Chinese New Year is just around the corner and could have some negative price

implications, the current demand seems to be strong enough to carry our market through in a historically strong position. Looking beyond the current season, forecasters such as IMA-ASIA are seeing the global economy showing noticeable growth in the second half of 2013, and this should start to have a flow on effect on the global textile and clothing market.

Underlying resilience in the Chinese economy

While the Euro-zone and North American economic malaise has impacted China's export economy, it has also increased the importance of the Chinese domestic market, and prompted the Chinese government to take steps to stimulate economic growth. More than 55% of China's economic growth was coming from domestic consumption in 2012, up from 39.6% in 2007, and the Ministry of Commerce recently advised of its intent to keep boosting domestic demand to ensure economic growth in 2013 through the promotion of durable and semi durable consumer goods.

The export slowdown may have bottomed out. In December, China's textile and garment exports beat expectation, climbing 10.9% year on year to USD 24.1 billion. For 2012 as a whole, textile exports up 1.2% year on year to USD 95.78 billion, and garment exports rose 3.9% to USD 159.14 billion. Together total exports amounted to USD 254.92 billion, up 2.8% on an annual basis and accounting for 12.4% of China's overall exports.

Other Luxury fibres

Globally, there is a general tightening of luxury fibre supply. The latest report from The Schneider Group outlines silk prices continue to rise. In their report silk prices rose to record high due to the lack of raw materials and strong demand for the fibre. Stocks in China are low, and shortage of supply affected some top makers and some spinners throughput. Prices are forecast to remain strong through till after the next harvest in June – July 2013.

Our Superfine and Ultrafine Merino is a substitute and competitor for cashmere, and so cashmere prices and supply have some relevance for wool in the luxury apparel market. Roughly 90% of the world's supply of pure cashmere and 70% of its finished products come from China. Similar to the silk market, strong demand accompanied by limited supply are pushing up the prices. There are reports indicating one of the Chinese buyer have been building his own stockpile of greasy Cashmere, potentially pushing the market even higher.

The graph below shows average monthly prices of Cashmere and the 18.5-micron Merino MPG over the decade since July 2002, expressed in US dollars. Over this period, the USD value of our wool has grown by 8.9% p.a. while Cashmere has grown by 4.5% p.a. The correlation is 88% between the price of Cashmere and Superfine Merino wool over this period, and so there are potentially positive implications for our finest wool in the underlying trend in cashmere prices, and their relative strength.



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