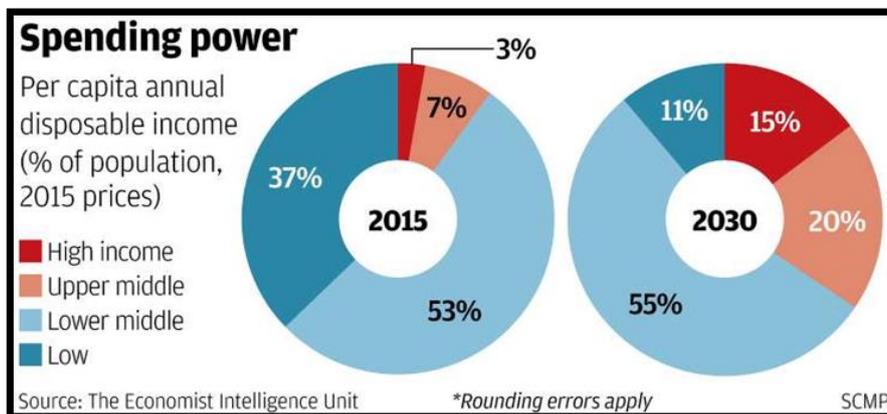




This month we examine China and explain the spectacular growth in wealth across its burgeoning middle class and how this relates to wool demand and check in to see the current prices offered into the future.

To understand the rapid acceleration of wool consumption within mainland China, we only need to look just 10 years ago when China was a mainly manufacturing and re-exporting destination for over 70% of our wool clip. China basically made wool top, yarn or garments and then on-sold to Northern Hemisphere retailers. Today, more than half of the similar quantity they import from Australia stays in China and is ultimately purchased by locals in a relatively short turn-around time.

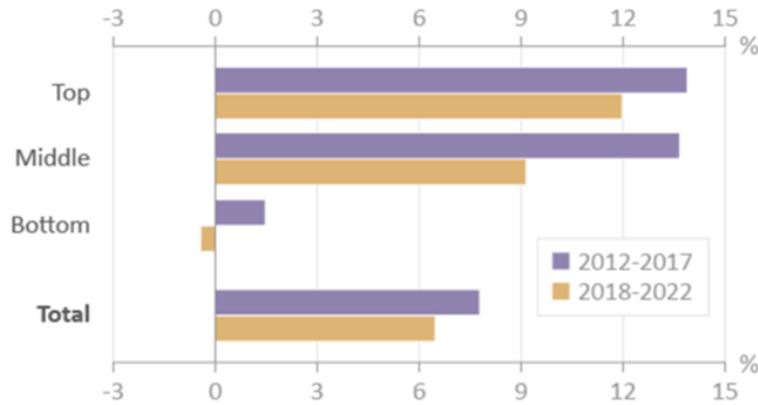
While Chinese Millennials are spending more thanks to a proliferation of consumer credit services offered by e-commerce giants such as Alibaba and JD.com, young Gen Z consumers have doubts around deferring payment. Another report, China Economic Outlook: 2018 Q2 from Euromonitor, identifies that real consumer spending has increased significantly faster than GDP growth over 2012-2017, at an annual rate of 7.8%. Growth is expected to slow down to 6.2-7.2% annually over 2018-2022, but it will continue to exceed overall economic growth.



The shift towards consumption by middle and high-income households, with annual household income above USD15000 will continue. Real spending of middle income households is expected to increase by 8.5-9.5% annually, while spending growth in the top segment (with annual household income above USD45000) is expected to reach 11-13% annually.

From a business perspective, while China's economy overall is slowing down towards growth rates of 4.5-6.5% over the next 10 years, the best segments for consumer goods and service firms are likely to continue growing at rates similar to those seen in the 2000s.

China Real Consumer Spending Growth by Household Income Segment



Source: Euromonitor International Consumer Spending by Income Bands Model

Note: Bottom segment annual household income is below 15000 USD,
Middle segment annual household income is 15000-45000 USD,
Top segment annual household income is above 45000 USD

“The Wool Across the Globe” source shows China has the highest ‘brand equity’ of 100% Wool. Brand Equity here effectively means ‘strength of wool as a brand’ or the fact that wool is recognised and valued; worth paying more for. Looking at the same reference, we can see equity has remained relatively stable across all surveys, with the only notable dip being 2016 which would be meta-trends affecting market sentiment, rather than sentiment to wool.

Nielsen defines brand equity as “Based on Keller’s and Robert’s theory, the brand equity index is based on the real world outcomes of strong equity – emotive equity and ability to command a price premium”.

China also has high purchase consideration for 100% wool at 86%, and Merino wool has a consideration of 39% which means 39% of those surveyed look for the term Merino wool when purchasing a garment.

This shift in increased consumption by China’s middle and upper income brackets began its pull-through the pipeline some years ago, and yet prices are still rising with the demand. Over the month of August yet another new EMI (Eastern Market Indicator) record was set with a week-ending close of 2116c/kg, and 1539c/kg when expressed in USD. The monthly average at the end of July 2018 of \$19.88/kg clean was \$9.79/kg higher than 5 years ago in 2013.

However, it is not just current market levels that reflect a positive market sentiment. The projected forward levels for Jan 2019 have offers of 19micron well above 2100c/kg clean and 21micron above 2000c/kg, although these prices are a discount to the current market, they are in the 95th percentile of prices over the past 10 years.

These offers are perhaps reflective of buyers worry of how the already highly in-demand Australian wool supply will be effected by the crippling drought and high lamb prices. While the true effect of the drought is yet to be fully revealed, however there are some early figures that indicate it will have an adverse effect on supply.

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