

AN INITIATIVE OF

Making More From Sheep



WELCOME & HOUSEKEEPING

Emily King



It's ewe time! 2018 – Cooma, Gunning & Cowra

- AWI and MLA collaboration
- Strict timing – no excuses!
- Evaluation bribe...
- Emergency exits
- Toilets



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SHEEP MARKET OUTLOOK

Emily King



KEY THEMES – SHEEP MARKET

- Dry weather has limited producers' intentions and driven up both lamb and sheep slaughter
- Lamb exports have reached record levels
- Exchange rates assisting exports, along with flat NZ production
- Eastern States Trade Lamb Indicator (ESTLI) has hit new highs
- Certain amount of volatility in the market to continue

Source: MLA forecasts

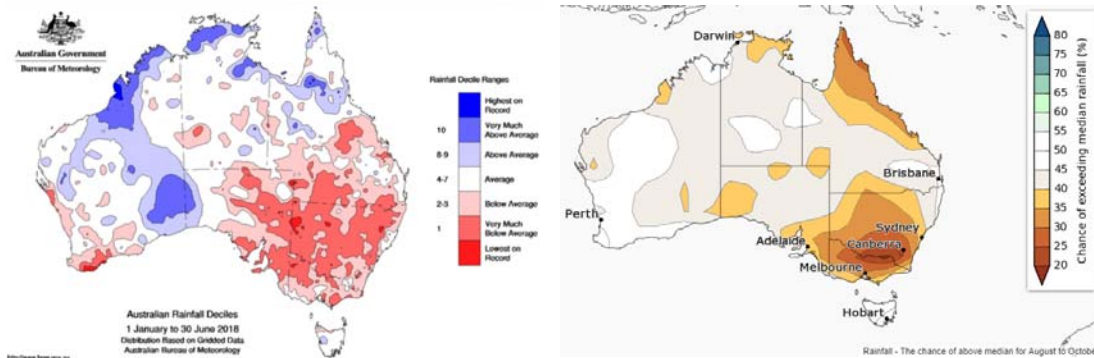


- Dry weather has limited flock expansion – driving up lamb and sheep slaughter well above 2017 levels
- Carcase weights to drop back from record levels
- Increases in production have seen exports reach record levels with growth being driven by all markets, Asia in particular
- Exchange rates have assisted Australia's competitiveness so far in 2018
- ESTLI – despite abundant supply, prices have been resilient and with recent tightening in this supply and strong international demand, has translated into a substantial lift in prices
- On-going dry conditions in key supply regions, along with a poor rainfall outlook, will likely see a certain amount of volatility in the market continue.

SEASONAL CONDITIONS – PROLONGED DROUGHT

RAINFALL DECLINES: 6 MONTHS TO JUNE 30 2018

3 MONTH RAINFALL OUTLOOK (AUGUST – OCTOBER 2018)



Source: Bureau of Meteorology



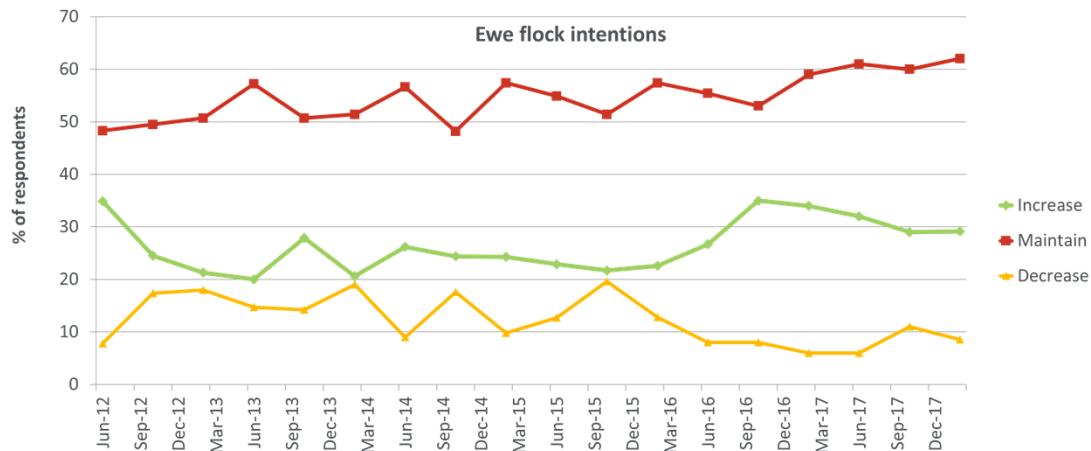
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MEAT & LIVESTOCK AUSTRALIA

While parts of central NSW received helpful falls in late June, over 99% of the state remains in 'drought watch' conditions or worse (according to NSW DPI). Elsewhere, parts of Victoria and SA saw a number of cold fronts induce rain in early June; however, meaningful falls have been scarce. Likewise, south-western WA received scattered falls throughout early June, although the season has been largely disappointing thus far. Parts of QLD also received rain in late June, though conditions are not expected to improve significantly – at least until spring.

PRODUCER INTENTIONS CHALLENGED BY DROUGHT



Source: MLA AWI wool and sheepmeat survey



February 2018 results of the AWI & MLA wool and sheepmeat survey, 91% of producers intend to either expand or maintain their flocks.

Strong wool and sheepmeat markets have been providing incentive for producers to retain stock and supplementary feed where possible.

Since then, however, a tough summer and the absence of an autumn break across most of NSW has challenged these intentions – NSW sheep slaughter for the first quarter was the highest it has been since 2009.

BOTH WOOL AND LAMB PRICES CONTINUE TO RISE



Source: MLA's NIRS, ABARES, Australian Wool Exchange
Fiscal year average prices



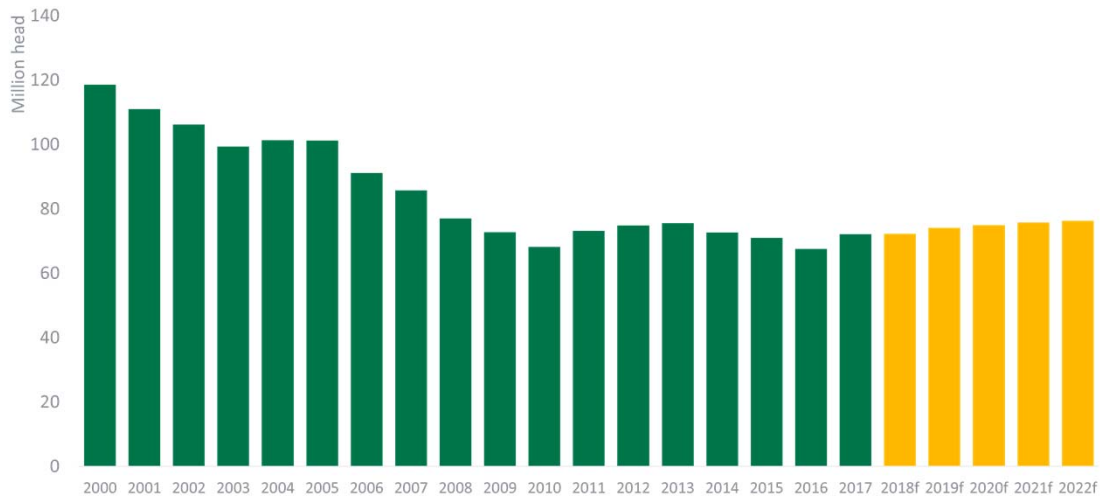
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Ewe productivity has increased over time, through increasing lamb carcass weights and higher marking rates. Combined with these productivity increases, prices for both wool and sheepmeat have risen strongly over a 20-year period. The increasing capacity for ewes to generate income plays a big part in producer intention when it comes to making decisions around flock expansion/contraction

NATIONAL FLOCK IN RELATIVELY STABLE PERIOD, WITH GRADUAL EXPANSION EXPECTED



Source: ABS, MLA forecasts



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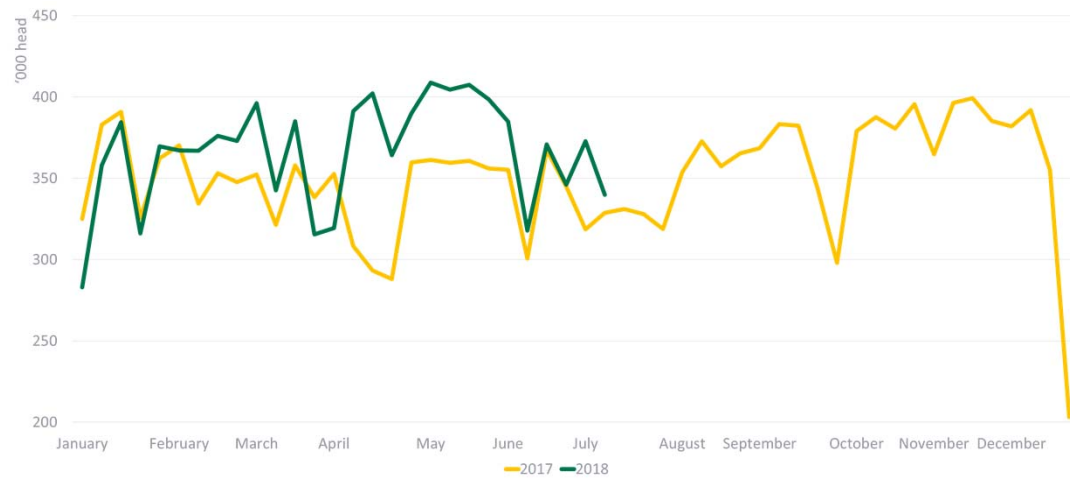


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- We have been through a relatively stable period in terms of the national flock
 - A flock 'rebuild' is expected to occur over the next few years at slow pace, with real expansion dependent on seasonal conditions.
 - Forecast minor recovery due to price signals to farmers but also limited by weather and infrastructure of producers who have left the industry into cropping
- Recent MLA/AWI survey shows strong producer confidence with a large proportion of these producers aim to lift numbers of breeding ewes by retaining more replacements.

High ewe slaughter in the first half of 2018, combined with a poor weather outlook for the remainder of the year has had implications for flock forecasts moving forward, with expansion now expected to occur at a slightly slower rate than previously projected. Depending on an improvement in seasonal conditions, several years of increasing wool and sheep prices are likely to encourage flock-rebuilding efforts to ramp up again next year.

EASTERN STATES LAMB SLAUGHTER – UP 7% YEAR ON YEAR



Source: MLA's NLRS



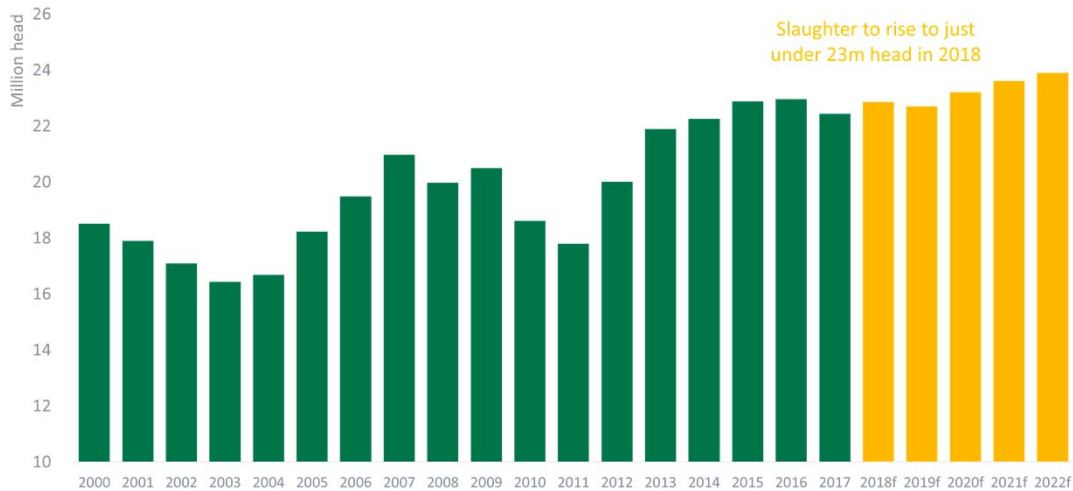
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China: up 112% yoy
Middle East: down 8% yoy
USA: flat

ANNUAL LAMB SLAUGHTER TO BUILD WITH INCREASING PRODUCTIVITY



Source: ABS, MLA forecasts



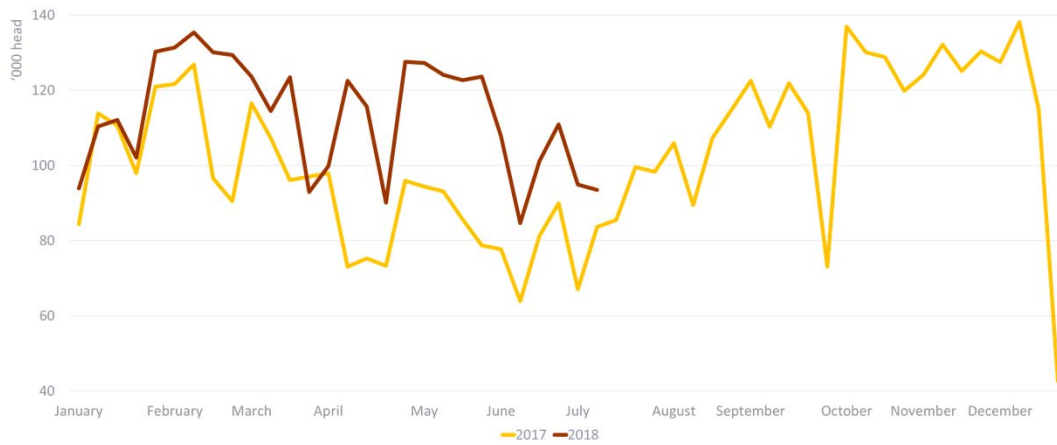
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Taking the drier-than-anticipated first quarter and June to August rainfall outlook into account, the 2018 forecasts for Australian lamb and sheep slaughter have been revised higher. The forecast number of lambs to be processed is now 22.85 million head in 2018, up 2% year-on-year

EASTERN STATES SHEEP SLAUGHTER – UP 22% YEAR ON YEAR



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Source: MLA's NERS



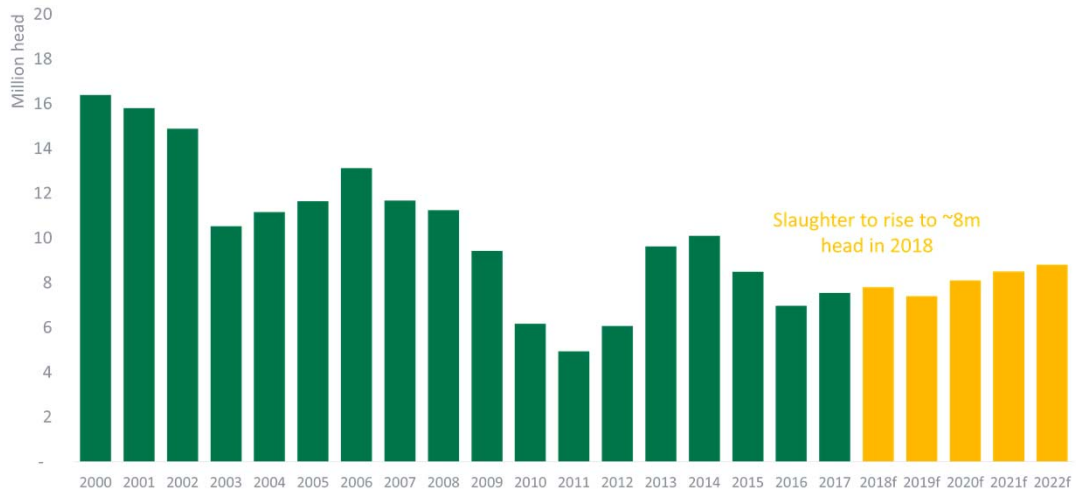
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China: up 112% yoy
Middle East: down 8% yoy
USA: flat

ANNUAL SHEEP SLAUGHTER TO STABLISE IN LINE WITH NATIONAL FLOCK



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Source: ABS, MLA forecasts



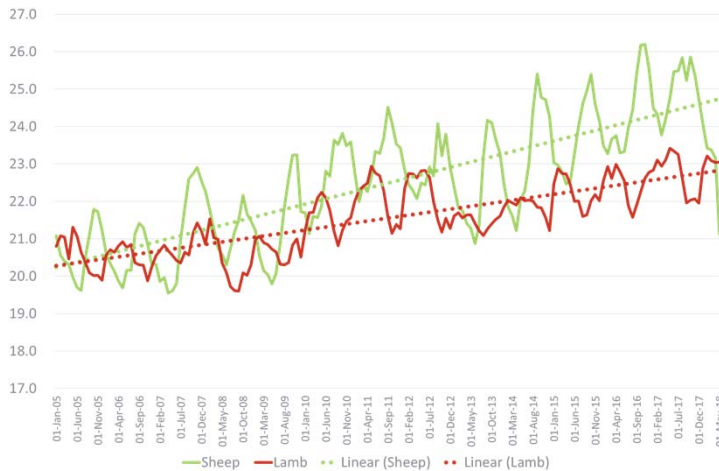
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National sheep slaughter expected to lift 4% from 2017 levels, to 7.8 million head.

BOTH LAMB AND SHEEP CARCASS WEIGHTS HAVE BEEN IN HISTORICAL GROWTH



- Over the last 10 years sheep carcass weights have increased on average 370g/year
- Over the last 10 years lamb carcass weights have increased on average 190g/year

Source: ABS, MLA forecasts



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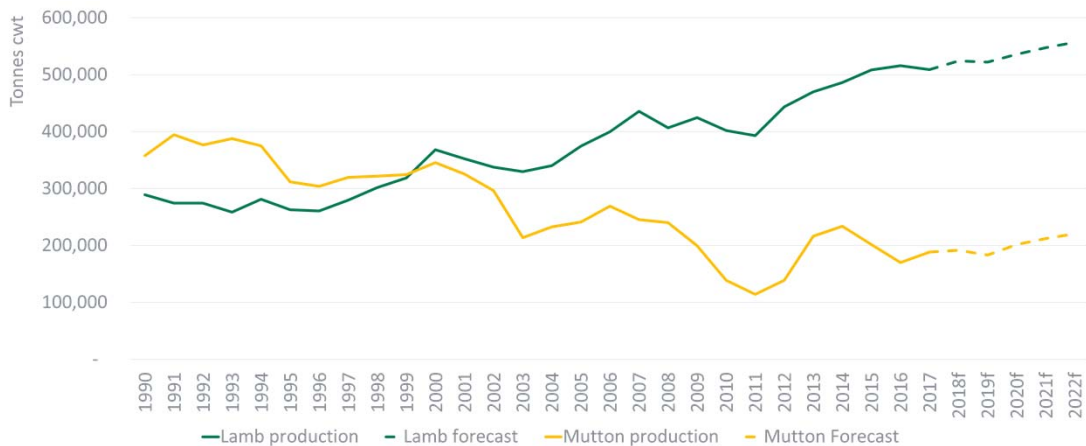


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Over the last 10 years, lamb carcass weights have increased an average of 190g/year, with sheep carcass weights up on average 370g/year. While seasonal conditions have a significant influence on carcass weights in the short-term, the long-term growth has been underpinned by a combination of several factors; the shift in the flock towards meat and dual-purpose breeds, improved genetics and better livestock management. In 2017, strong saleyard prices, as well as several major processors maintaining fairly wide grid 'sweet spots', encouraged producers to grow lambs and sheep to heavier weights to take advantage of the attractive returns.

2018 – While lamb carcass weights have been maintained despite the lack of feed, national sheep carcass weights fell to just above 21kg for the month of June 2018, which is a 5-year low. A shortage of pasture has seen ewe carcass weights fall dramatically, however, strong prices for finished lambs have incentivised producers to continue supplementary feeding programs to get their lambs up to slaughter weight.

LAMB AND MUTTON PRODUCTION BOTH FORECASTED TO BUILD ON COMING YEARS



Source: ABS, MLA forecasts



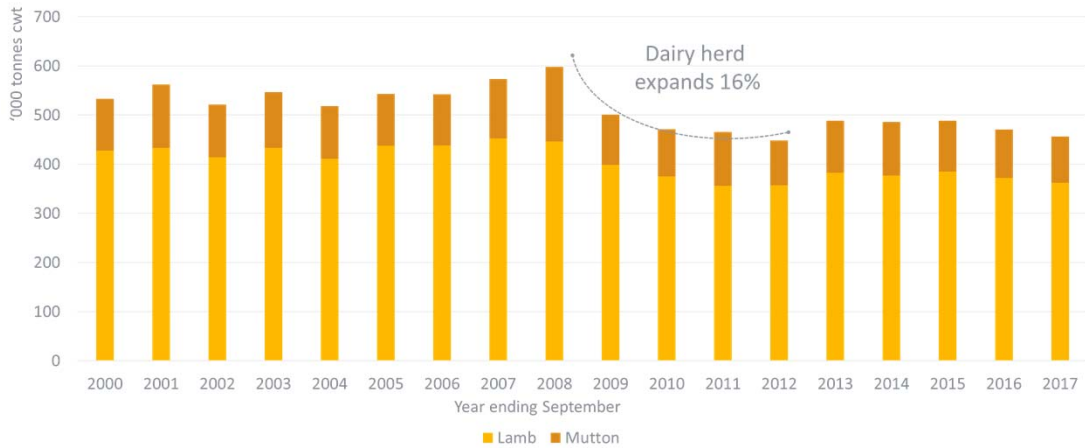
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Lamb production for 2018 is forecast to reach 524,000 tonnes carcass weight (cwt), up 3% year-on-year. Mutton production is expected to lift 2%, to 192,000 tonnes cwt. The total sheepmeat production for 2017 was 697,000 tonnes cwt. This is expected to increase to 716,000 tonnes cwt in 2018, with increased lamb production being the main driver.

AUSTRALIA'S MAIN GLOBAL COMPETITOR, NZ, HAS SEEN A DOWNWARD TREND IN SHEEPMEAT PRODUCTION



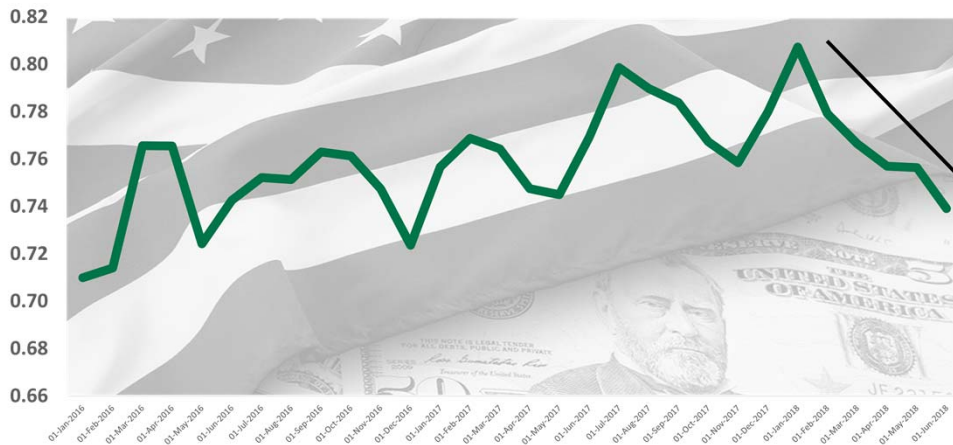
Source: FAO



Australia and NZ account for 70% of global exports, so the trends happening across the ditch have a significant impact on Australia's export market and global competitiveness

THE AUSTRALIAN DOLLAR DECREASE, INCREASE OUR GLOBAL COMPETITIVENESS

US\$/A\$ exchange rate



Source: RBA



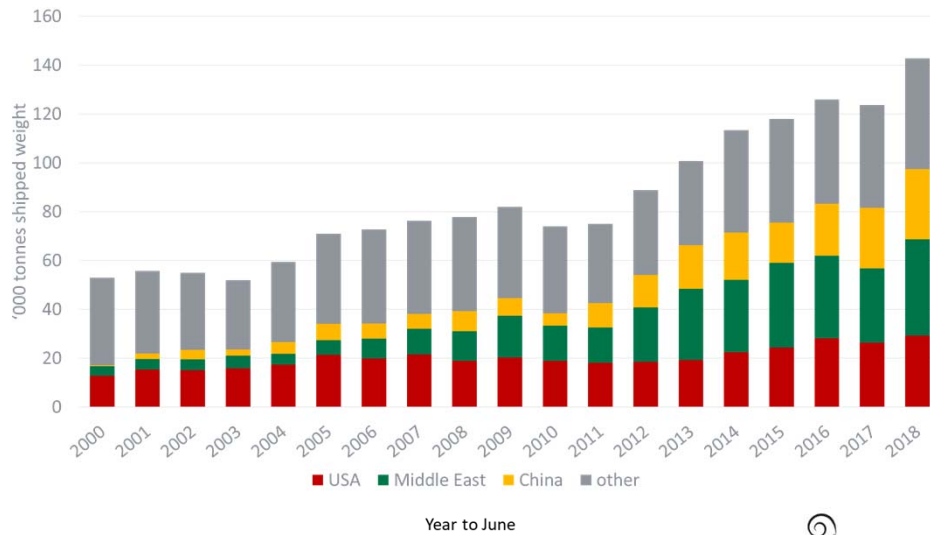
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Significant changes that have proven impossible to consistently anticipate
So far in 2018 this has been quite positive for Australia's competitiveness with a shift down from near 80c to 74c.

LAMB EXPORTS UP 15% YEAR ON YEAR



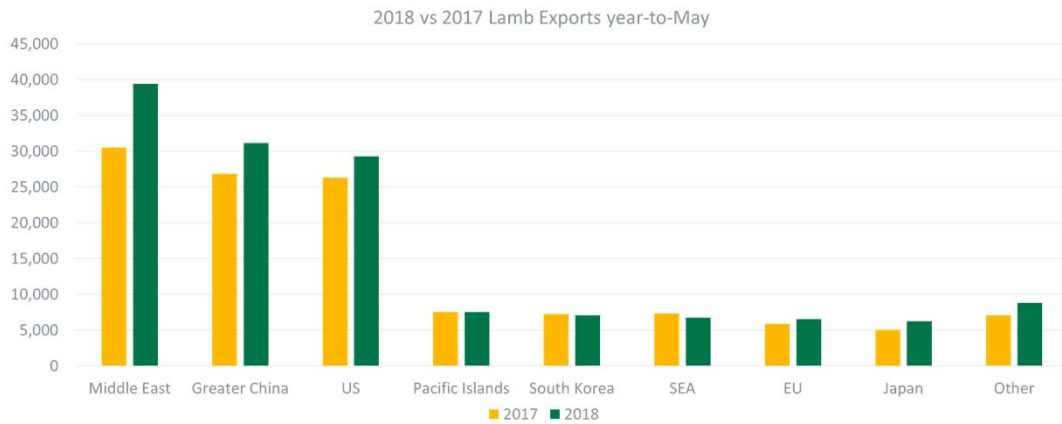
Source: DAWR



And despite record lamb export volumes, export prices continued to rise

ALL MAJOR MARKETS HAVE CONTRIBUTED TO THE GROWTH

With chilled (+18%) outgrowing frozen (+13%)



Source: DAWR



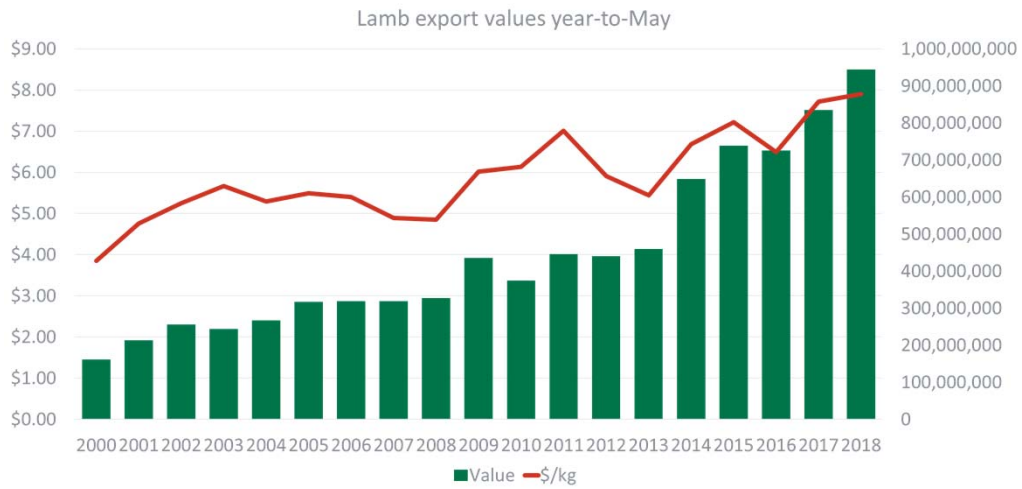
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Chilled higher quality market than frozen

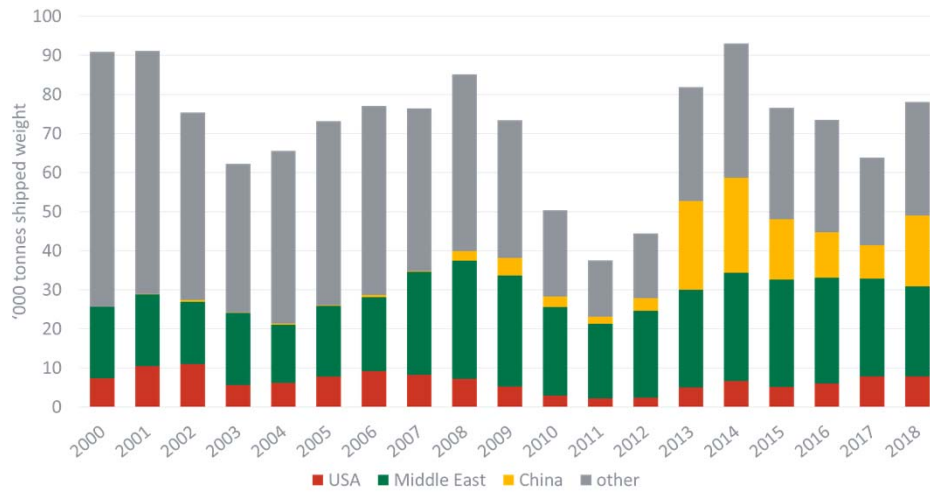
DESPITE A RECORD START TO THE YEAR FOR LAMB EXPORT VOLUME, EXPORT PRICES CONTINUED TO RISE



Source: DAWR



MUTTON EXPORTS UP 22% YEAR ON YEAR



Source: DAWR

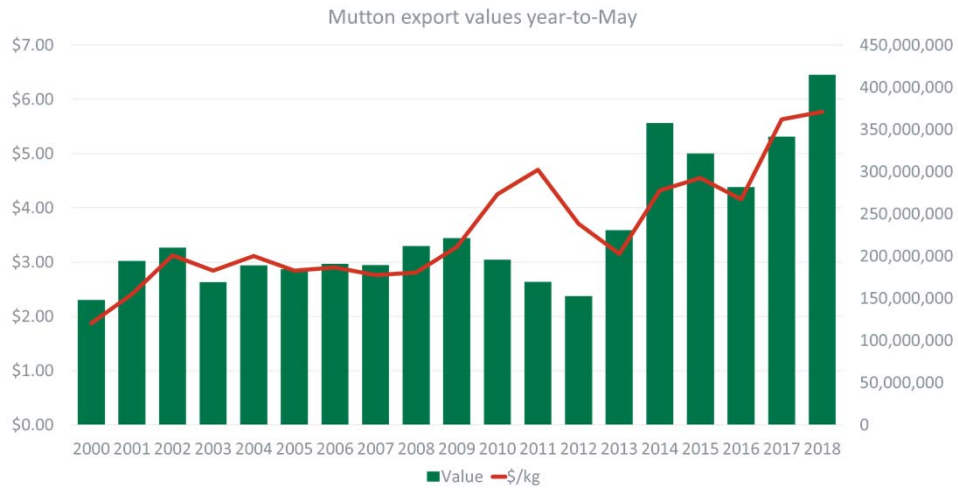
Year to June



China: up 112% yoy
 Middle East: down 8% yoy
 USA: flat

MUTTON EXPORTS ALSO REACHING RECORD PRICES

MUTTON EXPORTS ALSO REACHING RECORD PRICES



Source: DAWR



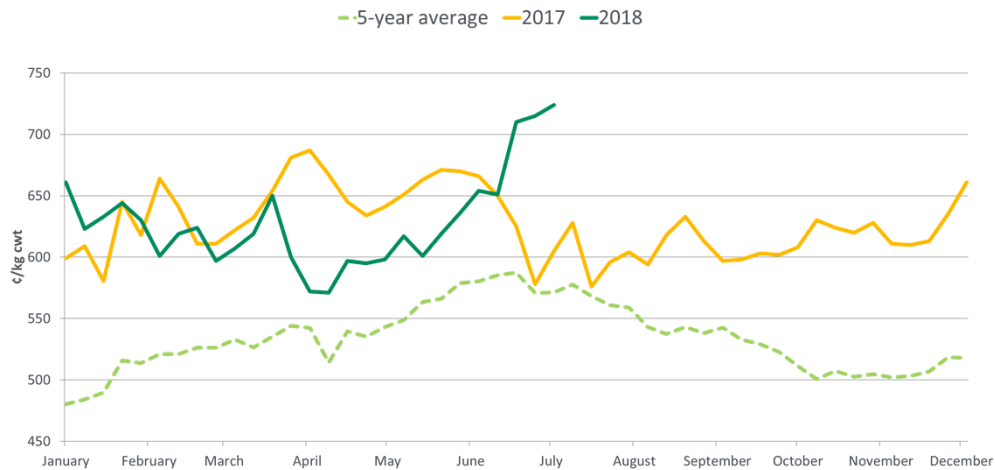
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Similar to lamb mutton exports are also getting record prices

EASTERN STATES TRADE LAMB INDICATOR



Source: MLA's NLRS - weekly (Thursday Prices)



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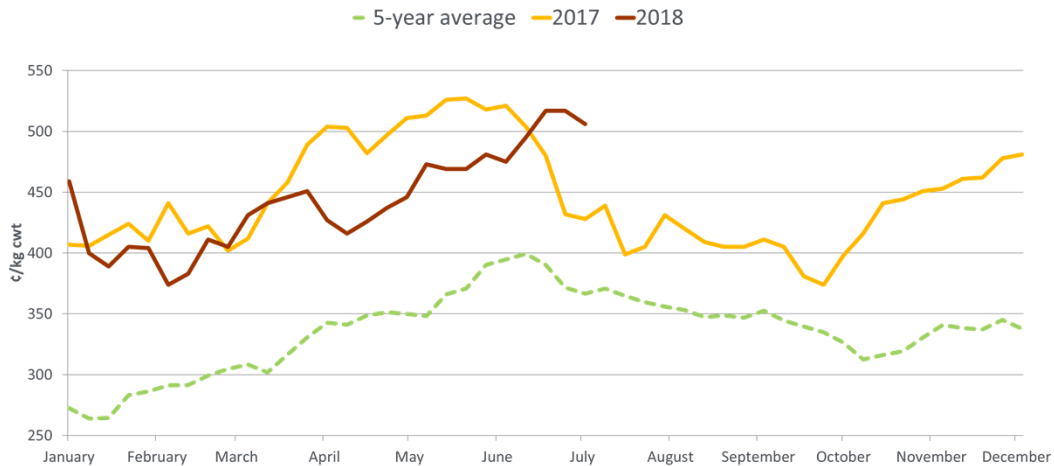
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Despite poor seasonal conditions and abundant supply, prices have been resilient in 2018. Robust export demand, combined with a slight tightening in supply in late June saw the indicator break through record price levels (above 720c/kg cw).

Major eastern states sheep and lamb saleyard indicators have rallied strongly since mid-April.

A declining supply of finished lambs has seen the Heavy Lamb indicator perform particularly well, reaching 722c/kg cwt on Tuesday July 3, up 17% since 1 June. Strong export demand has translated into rising saleyard prices, with processors competing fiercely in the face of declining supply.

EASTERN STATES MUTTON INDICATOR



Source: MLA's NLRS – weekly (Thursday Prices)



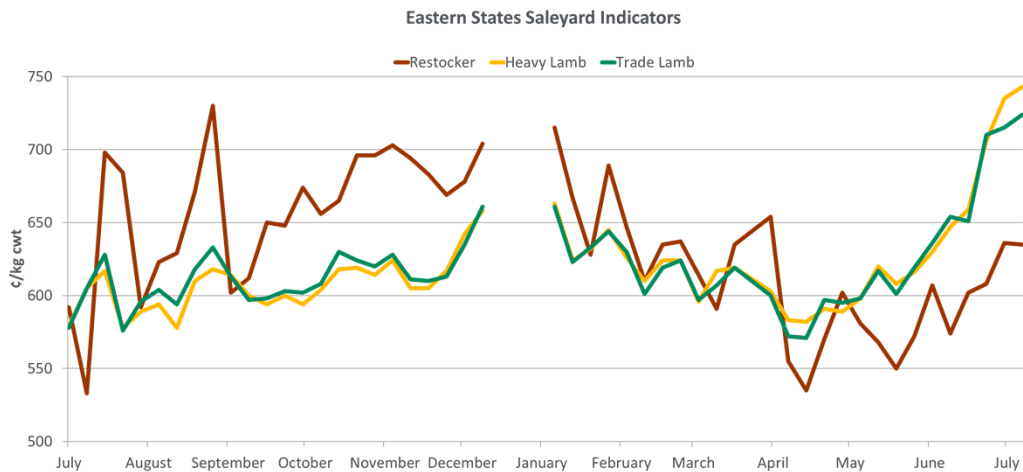
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Eastern States Mutton Indicator rose 10% between 1 June and 3 July, closing Tuesday July 3 at 519¢/kg cwt – just 10¢/kg below the all-time high set in May 2017. Strong demand for mutton, particularly in China, has absorbed excess supply this year which has supported saleyard sheep prices.

HEAVY LAMBS IN HIGH DEMAND



Source: MLA's NLRS - weekly (Thursday Prices)



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Difficult growing conditions faced by producers across the eastern states has seen subdued competition from restockers in saleyards. While prices paid by restockers have risen since mid-April, they have failed to match price rises in the trade and heavy weight categories. The high cost of feeding combined with the lack of pasture has seen finished lamb supplies fall throughout winter, while export demand remains strong. Processors have been forced to compete for diminishing supply, as such, the Heavy Lamb indicator sat at a 3% premium to the Eastern States Trade Lamb Indicator on July 12. On the other hand, the Restocker indicator was at a 12% discount to the ESTLI on the same day.

KEY THEMES – SHEEP MARKET

- Dry weather has limited producers intentions to expand their flocks – driving up both lamb and sheep slaughter well above 2017 levels
- Increases in production have seen exports reach record levels with growth being driven by all markets, but in particular Asia
- Exchange rates have assisted Australia's competitiveness so far in 2018
- NZ supply is still tight with only minor changes in the year ahead
- ESTLI hitting new highs - Despite the abundant supply prices have been resilient and with some recent tightening in this supply (combined with strong international demand) has translated into a substantial lift in prices
- On-going dry conditions in key supply regions, along with a poor rainfall outlook, will likely see a certain amount of volatility in the market continue.

Source: MLA forecasts



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MEAT & LIVESTOCK AUTHORITY

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- Carcase weights to drop back from record levels
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WOOL MARKET OUTLOOK

Emily King

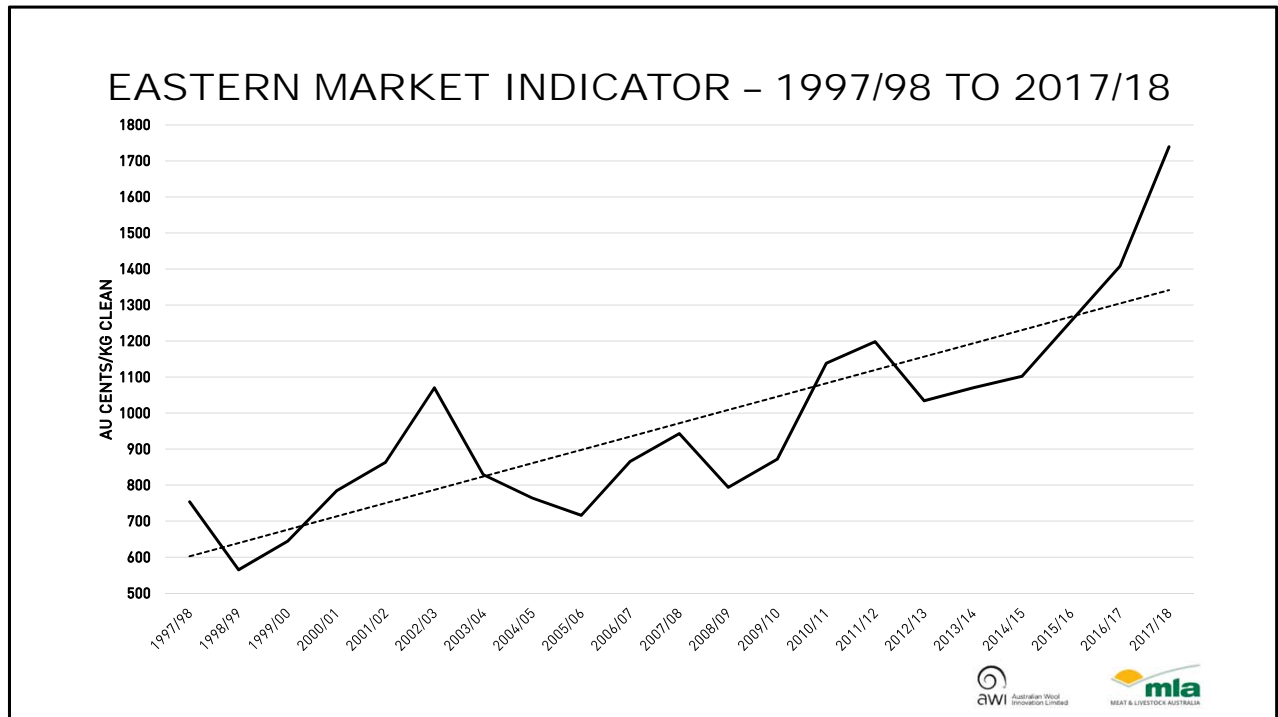


FACTS & FIGURES – AUSTRALIAN WOOL INDUSTRY

- 70 million sheep (42 million ewes)
- 75 – 80% of flock is Merino
- 20% of total wool production
- 90% of the world's fine apparel wool
- 60% of the world's apparel wool
- 98% of Australian wool is exported
- Worth over \$4 billion to Australia
- Premium brand in a niche product

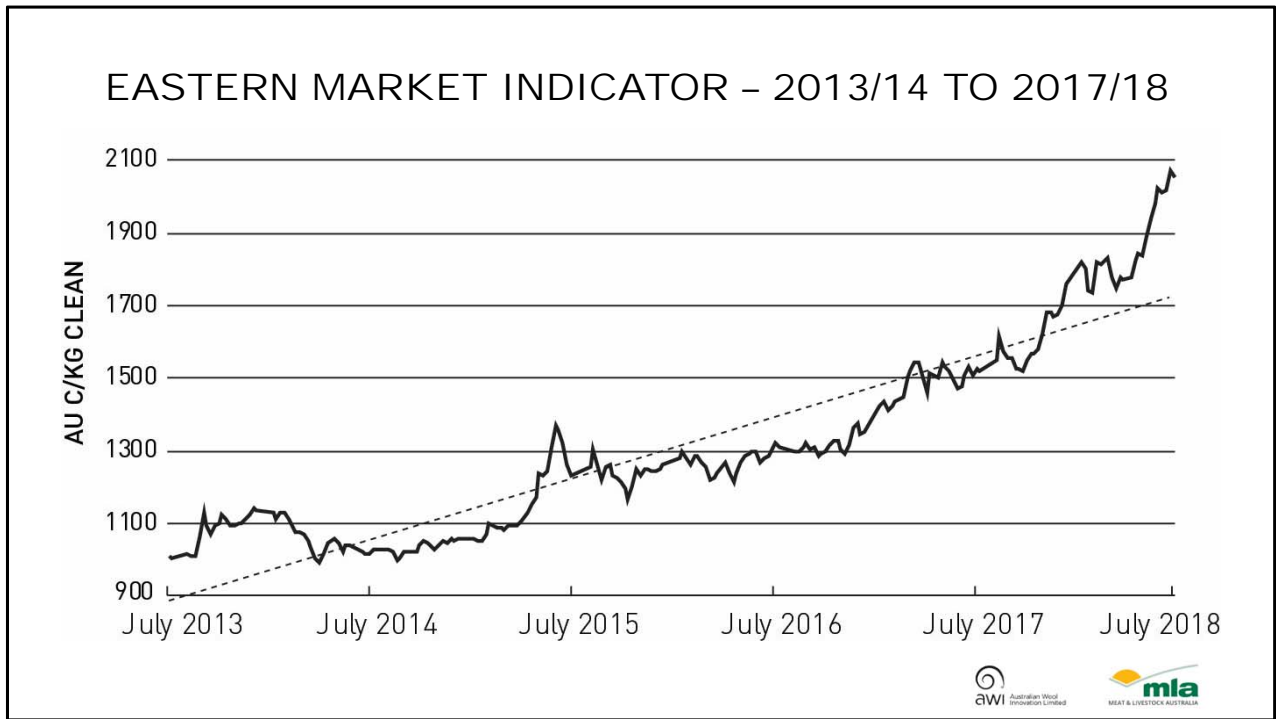


- 90% of wool is now coming from ewes and lambs
- Largest wool producer in the world
- 90% fine, next-to-skin apparel wool – basically anything 19 micron or less
- Wool makes up 1% of the world's textile fibre, and as Australia is producing predominantly apparel wool, we're at the high-end niche of what is already a premium, niche product

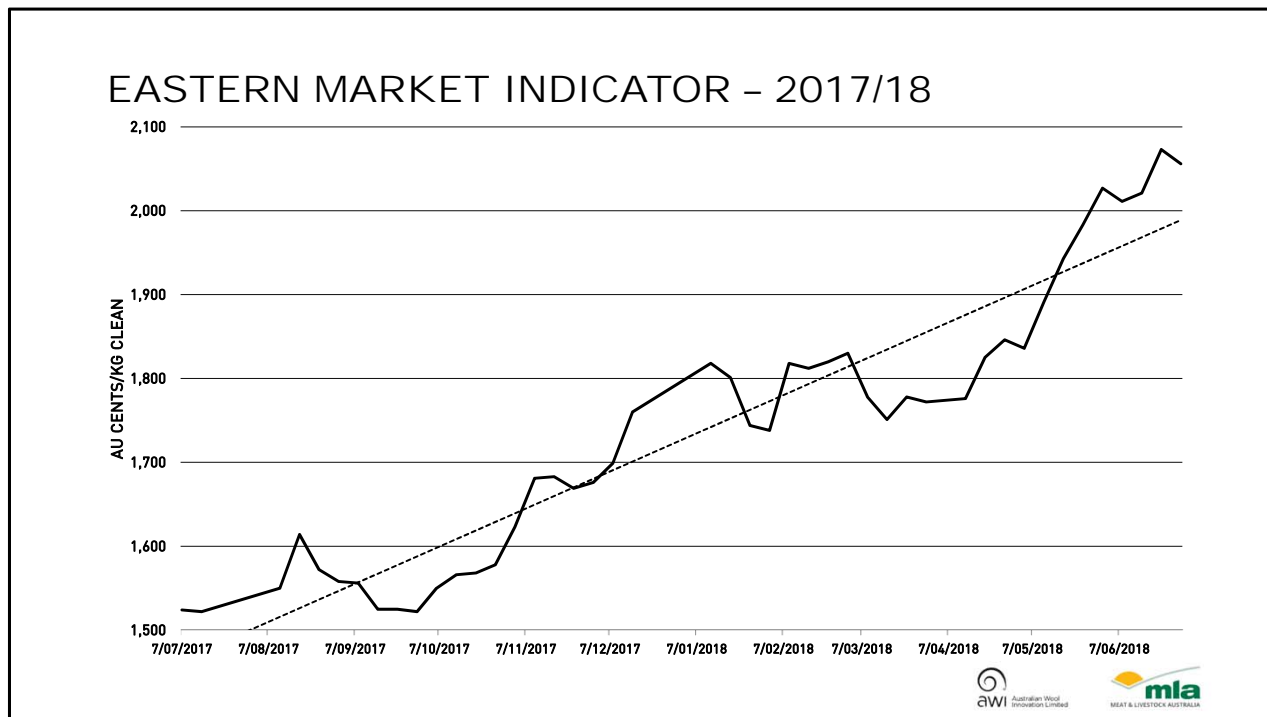


20 year **season average** from 1997/98 to 2017/18

Though there's been volatility across this period, the overall trend has been positive and we've seen steady y-o-y increases since the 2012/13 season.



5 year monthly average from 2013/14 to 2017/18

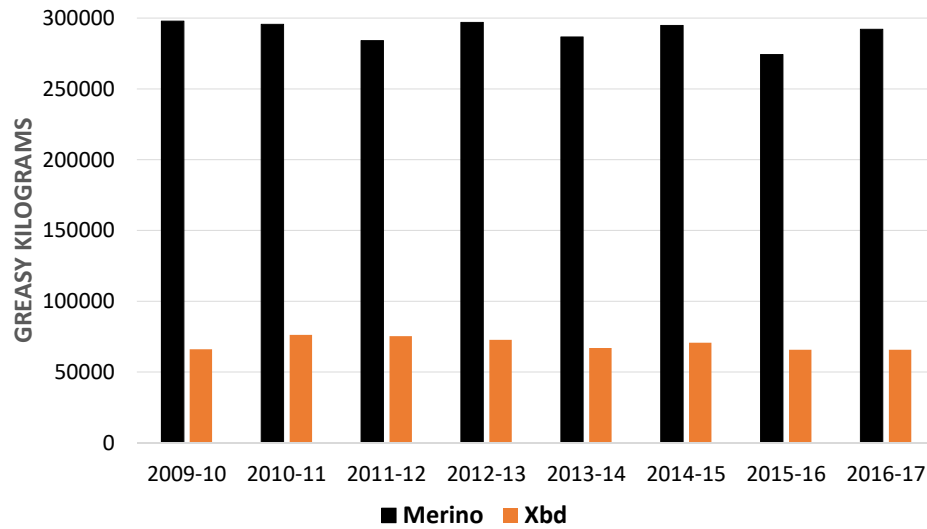


2017/18 EMI week ending figures.

In the 2017/18 selling season, the EMI rose over 500c or almost 35%.

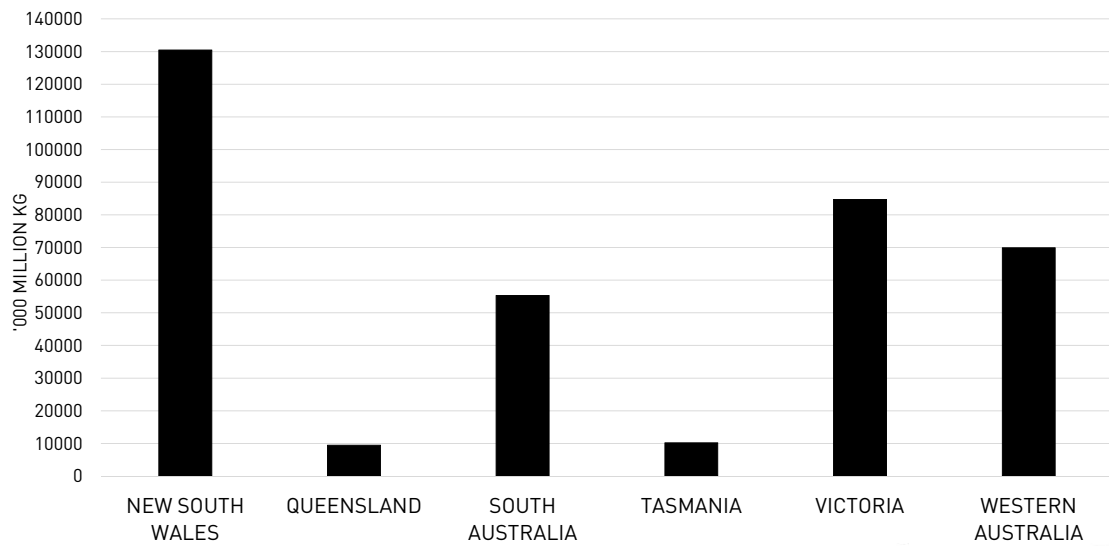
After a couple of weeks' selling recess in the new financial year, the market has been steadily increasing, and last Friday, 17 August rose 126c to reach a new all-time high of 2116c/kg

WOOL PRODUCTION BY TYPE – 2009/10 TO 2016/17



Production of both Merino and Crossbred wool has remained relatively stable over the past 8 years

WOOL PRODUCTION BY STATE - 2017/18

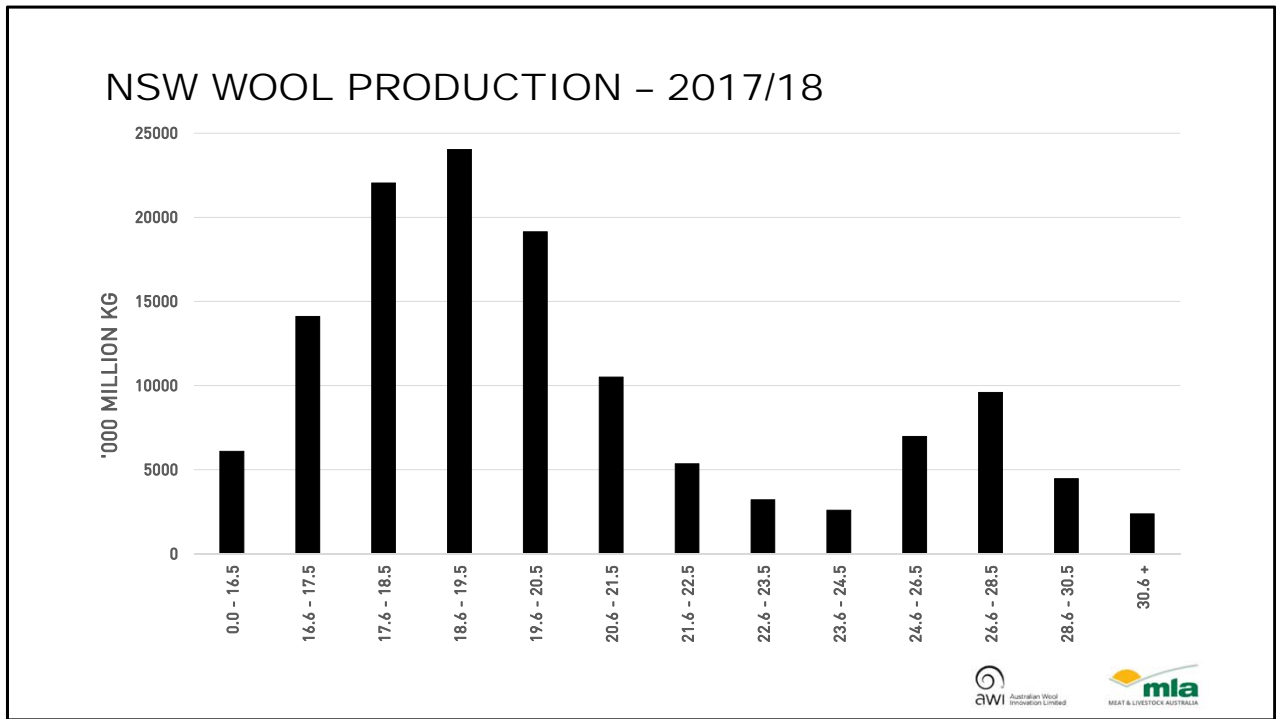


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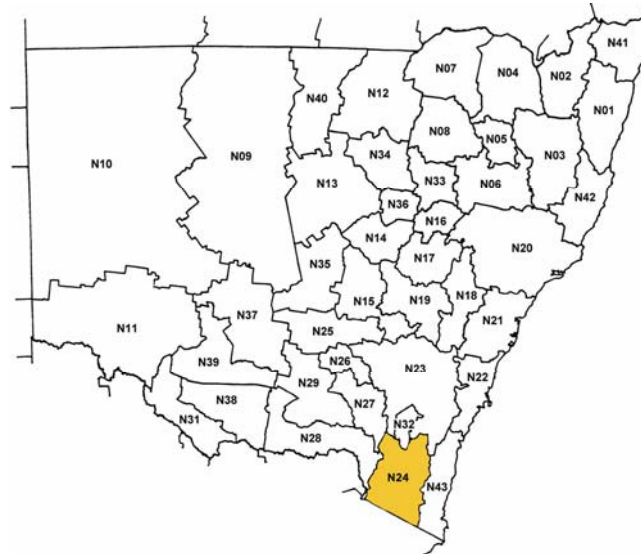
MEAT & LIVESTOCK AUSTRALIA

TOTAL 360 million kg
NSW 130 million kg
QLD 9.5 million kg
SA 55 million kg
TAS 10 million kg
VIC 84 million kg
WA 70 million kg

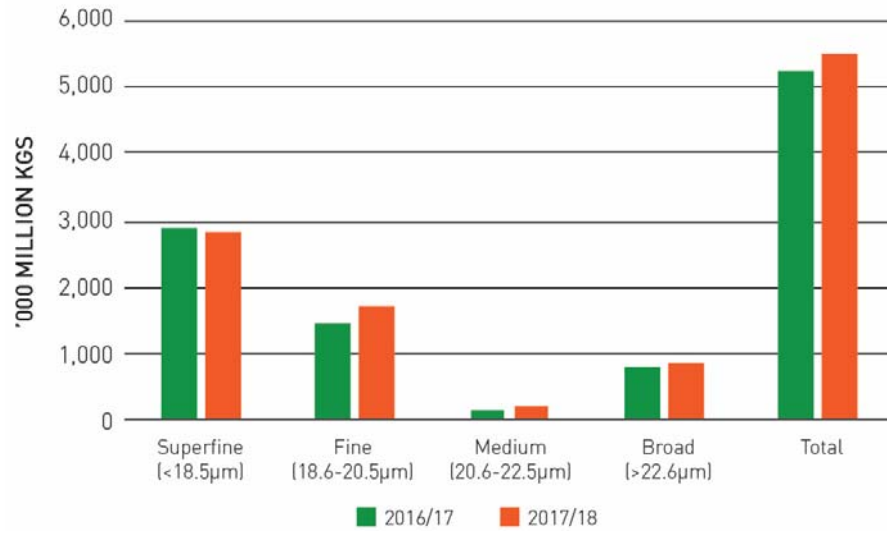


Over 130 million kg of total 360 million kg production

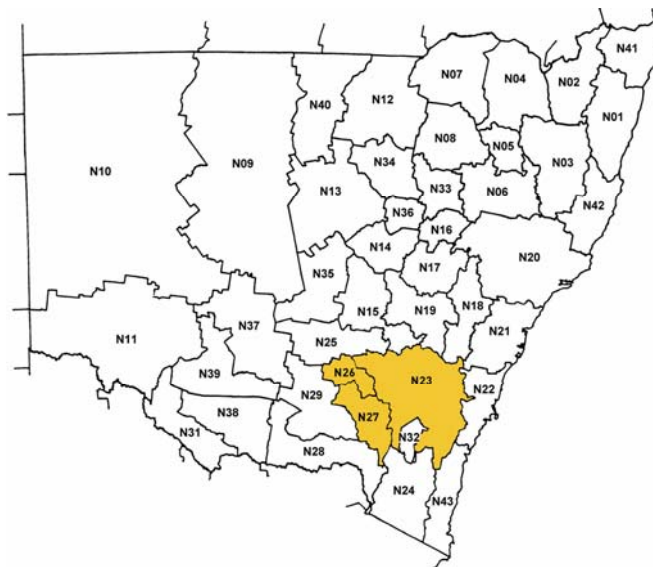
REGION-SPECIFIC DATA FOR WSA N24



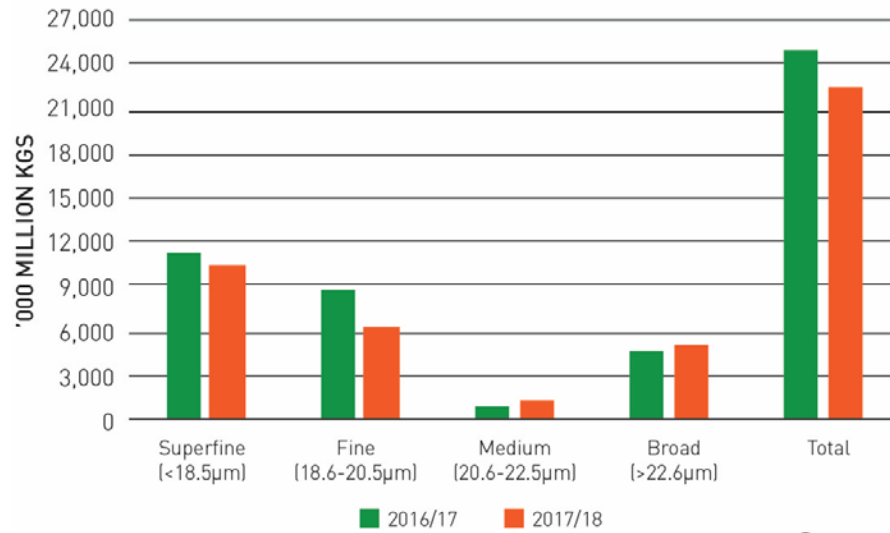
MONARO SEASON VOLUME - 2016/17 TO 2017/18



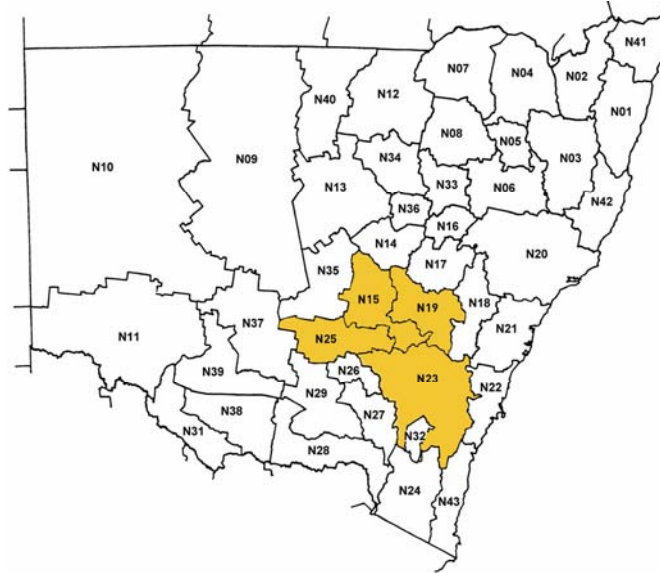
REGION-SPECIFIC DATA FOR WSA N23, N26 & N27



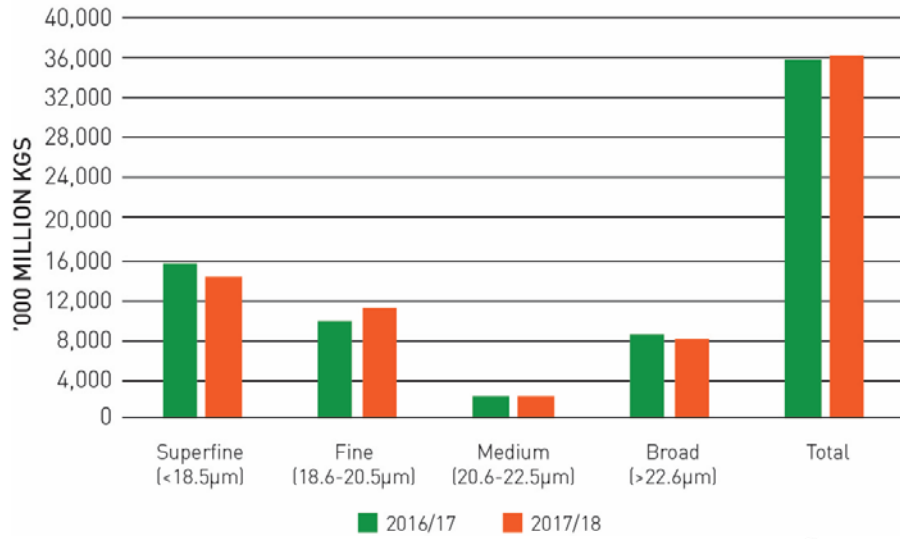
SOUTHERN TABLELANDS SEASON VOLUME - 2016/17 TO 2017/18



REGION-SPECIFIC DATA FOR WSA N15, N19, N23 & N25



CENTRAL NSW SEASON VOLUME – 2016/17 TO 2017/18



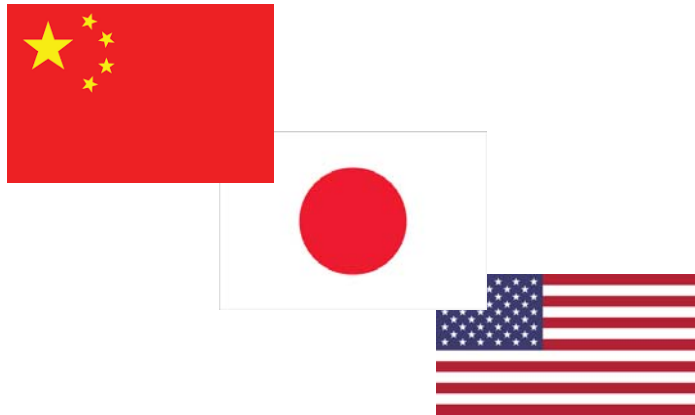
WOOL INDUSTRY OUTLOOK

- Supply steady – season will be instrumental
- Demand increasing
- Increasing world middle class and affluence
- Increase in consumer interest in ethical production that is renewable and sustainable
- Investment in quality
- Global casualisation – decline in traditional suiting markets, increase in active wear
- Trust is increasingly important
- Defensible claims
- Brand spokespeople and ambassadors – instant credibility



TOP 12 APPAREL WOOL CONSUMING COUNTRIES

1. China
2. Japan
3. USA
4. UK
5. Germany
6. Italy
7. South Korea
8. France
9. Russia
10. Turkey
11. Spain
12. India



75 – 80% of Australia’s wool goes to China for processing, and half of that doesn’t ever leave China again – meaning 40% of the total Australian clip is now consumed by China.

Therefore, China is an incredibly important market for Australia in terms of both processing and consumption.