**21 November 2011**

# A view from Europe

Dear Geoff,

Thank you for your question and many apologies for the delay in replying.

The short answer is that European retail sales were down by 0.7% in September compared to August. My guess is that they have fallen more since. Semi-processed wool stocks are double what they were a year ago and deliveries down by a third. Greasy stocks are down by 21%.

Higher wool prices, a warm autumn and anxiety over the future of the euro have conspired to bring demand off the boil, although not as dramatic as the eerie silence which existed before and after the Lehman collapse of 2008. Weaving has had a better run, as higher costs in China have brought European retailers back to sourcing garments locally. Knitwear sales have been very poor indeed, a combination of weather, price and austerity measures.

The EU debt crisis is still unresolved. Consumer confidence has been severely knocked, with people awaiting the next instalment of the European saga. At the end of the day, it will be Germany's choice whether to save the euro. Its politicians will have to decide if they want to go against the wishes of the electorate which, by and large, does not see why it should pay for the profligacy of the PIGS (Portugal, Italy, Greece and Spain). Mrs Merkel has stated that Europe risks war if the euro goes down.

On a more sanguine note, barring a major disaster, EU growth is expected to fall from 2.2% to 1.8%. Not great, but far from the Second Great Depression some fear. The CFO of BMW is positive for sales next year. US retail sales were up in October and China continues to consume more domestically. The CEO of Goldman Sachs believes the global economic upturn may have already started.

We hear that greasy wool stocks are low in China, Australian growers have sold more wool than at the same time last year, production is down in South Africa, Uruguay and Argentina, and winter hasn't really kicked in over in Europe. In view of the tight supply situation, my guess is even a little more demand will see a squeeze on prices. After Christmas the expectation is for wool availability to be lower than a year ago. It is hard to see much further out, but the general word in the investment world is that agriculture is the best place to be.

The Campaign for Wool has been a stunning success and shows what can be achieved when we all work together for the common good, rather than squabble out of frustration and self-interest as is currently the case in the EU.

Perhaps we should send Prince Charles to Brussels.

Best regards,

Laurence

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AWGA - News Update

**25 November 2011**

## Market report from our China office

**Letters from London**
Brief Market Report
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Gsy wool stock in China is very very low these days with some scouring mills have no wool to scour or scouring below their capacity. Stocks of wooltops/yarn/fabrics is increasing and demand for these products are also very weak at the same time.

Short of funds and lack of orders (especially export orders) is the biggest problem facing most mills currently. I heard some mills will close their mills early this
year for holidays (New Year and Chinese New Year which comes in Jan). Some small spinners already closed their mills. They think this is the safest way to avoid risks of high wool prices and uncertainty of market. And majority of people in wool circle believe wool prices will drop in usd terms before Chinese New Year, but will not drop dramatically. The real challenge will come after Chinese New Year because from that time on orders so far is very few. Demand for crossbred has slowed down, almost dead in China. The only busy industry is carpet industry.

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