



October 06, 2009

Wild Fur Forecast

Dear Wild Fur Producer,

Twelve months ago, one of the worst financial turmoils that the Western world has witnessed since the Great Depression began. Western governments, as well as China and to a certain degree Russia, reacted to this crisis with the largest infusion of government capital ever, and according to most economic experts, averted a financial calamity that could have been the same or even worse than the Great Depression. Now, a year later, it would appear that we have seen the worst and are in recovery mode. Depending on where you live, this may be true or not.

For us in the wild fur business, however, a very cold winter in our two largest consuming markets, Russia and China, is most important, and secondly, how they are doing in these uncertain economic times.

The Russian ruble has now stabilized itself at 30 rubles against the U.S. dollar and oil is selling around \$70 per barrel, all of which should help the Russian consumer. On the negative side, there are large volumes of unsold fur garments in Russia, as well as in the hands of manufacturers in Greece, Turkey and China. Also, many of the Russian retailers have not yet paid in full for the garments that were delivered to them last year, leaving these manufacturers in a weak cash flow position. However, if the world economy stays as it is right now, oil remains around \$70, and the weather in Russia favours us with a cold winter, we could see some improvements in this most important market. It most likely will take two or more years to see us through the Russian retail problems, but we remain optimistic for the future of this market.

China's economic stimulus package worked better than that of any other economy in the world. The government's control of the banks has allowed it to put additional cash into the economy at the fastest pace of any economy in the world. Their currency, the RMB (yuan), has remained very stable over the last couple of years against the U.S. dollar and could easily be revalued considerably if they wanted to. This has created stability that is very important to us as an industry. China has seen consistent consumer spending increases of around 15%-16% per month. These are cash purchases, not credit card purchases. Their economy is still growing at the fastest pace of any large economy, at anywhere from 6%-8%. If the weather is cold in the Central and Northeast parts of China, we believe that they will be able to absorb the absolutely incredible amount of fur that China has purchased over the last 10 months. The number of new fur shops that have opened in China is remarkable and most people are very optimistic about their ability to sell fur. However, not all wild furs fit the Chinese consumer. It tends to be the flatter furs, like muskrat and some of the trimming articles that are doing best in this market.

New markets, quite often oil producing countries like Kazakhstan, have started to become consumers of our wild fur. NAFA's continuing wild fur promotions worldwide are important to the future of our product, not to mention the largest team of marketing agents around the world, of which four are directly employed in China.

The forecast for this coming season is one of the most difficult ones I have ever done and I would encourage all of our wild fur producers to check our website regularly for updates—www.nafa.ca. At the same time, we would ask that if you haven't already done so, please send us your email address so that if something of importance comes up we can get in touch with you quickly and efficiently.

MUSKRAT: This article did well last season with 100% clearances in every sale. We are completely sold out and because this article is sold primarily to China, we expect demand to continue to be very strong next season. Muskrats are still regarded as the "poor man's mink" because of their resemblance to ranch mink and comparatively they are attractively priced.

RACCOON: All heavier (Northern and North Central) Western types will continue to be our best sellers. The substantial difference in price between 2/3 (clearer colours) and 4/5 (off colours) should continue for most sections, however

this will depend very much on what the retail season brings us in China and Russia. With support from the trimming trade, premiums should continue to be paid for bigger sizes and better qualities, both in Eastern and Western sections. Semi heavy section raccoon experienced some difficulties this past season and will need improved retail demand throughout Russia, in order to see improved prices and clearances. Flatter sections and Southern sections will continue to be exceptionally difficult to sell. Smaller sizes, early-caught, unprime skins, as well as damaged skins, will again be discounted heavily and will not be attractively priced to our shippers.

SABLE/MARTEN: Clearances were 100% last season and demand was very good, although at adjusted price levels. NAFA's large quantities and world-recognized collection has always resulted in premiums being paid for our assortment. All larger size, heavy sections are used for trimming, while the smaller skins are used for jackets. Russia was a major taker in the past and continues to support this article, although to a lesser extent this past season. We have seen improved Chinese consumption for this luxurious article and we expect to continue to sell well this year. Marten is still regarded as one of the most exclusive fur garments in the world and made correctly, has an incredible look and flow.

FISHER: This is another luxury item that saw good demand last season and 100% clearances. NAFA's promotions and premium collection have created a loyal following year in and year out for our fisher assortment that has paid off hugely for our producers. Consistently we have outsold our competitor by \$20-\$30 per skin. We expect there will good demand for fisher again next season and NAFA's collection will continue to sell 100%.

BEAVER: Last year was a very difficult selling season for beaver, although clearances were 100%, unattractive prices were paid for nearly all sizes and qualities of beavers. Unfortunately, the dressing problem still exists, although we are seeing some slight improvements in China. Unfortunately, this article will continue to be difficult, unless we see a major improvement in the Russian retail market. The North American market continues to have problems, resulting in very little premium for larger sized, shearing type beaver. This may very well limit the quantities of shearing type beaver being harvested and shipped, which ultimately could result in improved prices for this type of beaver. Smaller sizes, southern sections and damaged skins will continue to sold at discounted prices, however demand for castors remains strong.

COYOTES: Good demand for heavy Western Section coyotes resulted in 90% clearance for these types of goods last season, although at adjusted price levels. Heavier western sections and better quality Eastern sections should be in good demand again this season with the possibility of increased prices, if the trimming business continues to improve. Commercial semi-heavy sections and flatter types will continue to be difficult to sell due to limited interest from the trim trade. Damages and low grades will have no value to speak of.

RED FOX: Quantities of red fox have dropped over the last couple of years, but this has not yet resulted in any substantial price improvements. Darker, better quality, heavy and semi-heavy Eastern sections should see improved prices, due to demand from the trim trade, while flatter sections and early-caught skins will continue to be sold at discounted prices. Again, damaged and low grades will have little value.

LYNX AND LYNX CAT: Good demand, at adjusted price levels, for all sections of lynx cats, resulted in a 85% clearance overall last year. We expect good demand again this season particularly for the better section, western lynx cats. Belly colour will continue to be the most important feature regarding price for both the lynx cats and lynx, with clearer belly colours bringing a premium. The Russian market continues to be the most important market for these two articles, consequently, if Russian retail improves, we will see prices for these two luxurious articles improve immediately.

OTTER: This article saw good demand last season, selling 100%, primarily to the Chinese market. This item can be used either for trim or garments and currently the northern sections with darker colours are realizing the highest averages. We expect good demand for this article again next season

WILD MINK: Although we had 100% clearances, the price levels for this article continues to be disappointing. Italy is still the main buyer, but there appears be limited competition from other markets and inexpensive substitutes for this item, resulting in the unattractive prices. Although clearances should remain strong, price levels will likely be similar to this past season.

Keep an eye on our website, www.nafa.ca for updates.



Herman Jansen, Managing Director