Sisal Market Report
November 2017 to April 2018 -1/10- 30th April 2018

BRAZIL

The drought of last quarter 2017 has come to an end in February / March of this year. Good and continuous rainfalls have been reported from all districts the Sertao region. Forecast is quite positive and more rains are expected in the course of April. In case the Sisal growing areas will further profit from good rains there should not be a shortage of Sisal fibre until end of 2018. This gives good hope that the plants, that had suffered a lot from the rather drought times 2010 to 2017, will further recover and more fibre will be available towards the second half of 2018.

Prices have shown downward trend since last quarter of 2017 - however the reductions do not really match with the present very good situation on the supply side. One would have expected that prices would have fallen more drastically in the past three months. The reason is very simple. The largest stocks of Sisal fibre are hold by the 'intermediaries' which buy from the farmers and sell to exporters and spinning mills. These intermediaries all hold quite large stocks which are mainly carried over from end of last year. The interest of these intermediaries is to keep the prices on a relatively high level in order to avoid a loss on existing stocks.

It will still take some time until the intermediaries will have to align their pricing to the current market reality. Sisal business in Brazil has been quite profitable in the past years (at least for the intermediaries) with a continuous upward trend in pricing - thus it is hard for them to accept a reduction in profits or even losses on speculative stocks.

Export figures (Sisal fibre) from Brazil - for the past five years – indicate quite large differences in volume:

Year	Tons (abt.)
2013	29.600
2014	40.400
2015	34.200
2016	34.300
2017	23.200

Whilst exports in the years 2015 and 2016 had been quite stable (both years about 34.300 tons) the statistical information for 2017 shows a huge decrease of 35% in volume. This is even a larger reduction in volume that had already been prognosticated in the last market report (issued end October 2017).The huge decrease in volume is still a consequence of the drought periods in 2017. With the recent rains the situation could be much better now but the farmers still lack of finance to clean the fields or invest in new plantings. The Brazilian Development Bank (BNB) had offered credit facilities to the tune of 100 million Reais for new plantings. But this is

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only a political gesture as small scale farmers are not in a position to give guaranties to banks in order to obtain credits.
With the good rains the supply of superior qualities (Type 1DB and Type 2DB) is much better than in last quarter of 2017. Standard quality (Type 3DB / abt. 80% of total production) is available in larger volumes.

China is still the largest importer of Brazilian Sisal fibre with a market share around 37% (abt. 8.500 tons in 2017) but the monthly exports have further dropped – to an average (January to December 2017) of only about 700 tons per month. Chinese customers were right to expect a further decrease in price and this is reflected as well in the monthly volumes in the period from September to December 2017 with an average of only about 370 tons per month being exported to China. The first quarter of 2018 show again a good increase of volumes exported to China with about 2.800 tons exported January to March – which is a monthly average of about 900 tons.

Portugal with a share of about 20% (abt. 4.700 tons in 2017) is the second largest outlet for Brazilian sisal fibre. Exports to Portugal have even increased during the last year – compared to abt. 4.100 tons in 2016.

The third largest buyers of Brazilian fibre are (again) Algeria and Egypt. Both countries show same quantities - abt. 2.000 tons for each country in the year of 2017. Exports to Egypt dropped from abt. 2.400 tons in 2016 while exports to Algeria increased from abt. 1.800 tons in 2016. Although there is small changes in the exports figures to both countries the demand is very stable and both countries continue to be important buyers of Brazilian sisal fibre for application in the building industry.

Exports to India (5%), Indonesia (4%), Mexico (3,7%) and Spain (3%) continued on similar levels as in 2016.

As far as exports of baler twine are concerned the downward of the past years seems to be stopped and exports (abt. 18.100 tons in 2017) where even slightly higher compared to export figures in 2016 (abt. 17.600 tons). The capacity of baler twine production in Bahia will be increased as a new production site has been going in operation end of first quarter of 2018. This is a Brazilian / Portuguese cooperation. Sisal baler twine used in the agriculture is still facing sharp competition from PP baler twine and one has to doubt whether additional capacities in Brazil make really sense – especially under consideration that benefits for social charges and taxes are very high in Brazil.

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Prices are largely influenced by the rate of exchange between the Brazilian national currency REAL and the US-Dollar. The development of the Brazilian REAL against the US Dollar during the first quarter 2018 is illustrated by the following chart.

(source: fx-exchange.com)

Container freight rates from Brazil to Europe have hardly changed during the last 12 months. However, container freight rates for shipments from Brazil to Asian destinations have increased in the first quarter of 2018. There is still only four major shipping lines regularly serving Salvador/Bahia. Transit times to Asia are still very long (about 50-60 days to Chinese ports) since there is no line left that offers a more direct service via the Pacific route. All Sisal cargo goes via Southern Brazilian ports and then either via Europe or South Africa.

Brazil’s economy is out of recession, inflation and interest rates are at their lowest in decades, and the IPO market is in gear, But volatile presidential, congressional and state election loom large How will these forces merge, or collide, against a scenario of needed reforms, government infrastructure program, a shifting trade environment, a revitalized manufacturing and Brazil’s powerhouse agriculture sector?.

When Brazil’s populist former president Luiz Ignacio Lula da Silva was jailed for corruption this month, markets were expected to cheer the end of the leftist leader’s comeback hopes in elections this year. But instead of rallying, Brazil’s currency, the real, headed in the opposite direction, breaking out of is previous range of R$3,30-R$ 3.50 to the US-Dollar and touching some of its weakest levels since 2016 of above R$ 3.40 Brazil has been among the best performing emerging market over the past year, led by equities but with a relatively stable real providing a backstop.

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The stock and currency markets languished in 2015 und Mr. Lula da Silva's anointed successor, former president Dilma Rousseff, before surging on her impeachment and replacement with her more business-friendly vice-president Michel Termer in 2016. Mr. Temer's economic team pushed the consumer price rises down to tow decade lows with inflation at 2.68 % by end March against a year earlier. This has allowed for record low interest rates-

Brazil's Central Bank has cut the benchmark Selic rated from 14.25 % in October 2016 to 6,5 percent last month. Another cut I expected at the next meeting in mid-May 2018. In the meantime the currency is likely to be buffeted by the October elections. Recent polls showed that jailing Mr, Lula da Silva, the leader in the polls had put extreme right former army captain Jair Bolsonaro in the lead, followed by environmentalist Marina Silva and a former chief justice Joaquim Barbosa. All of them face question marks over their ability to manage Latin America's biggest economy or to continue with reforms started by Mr. Temer.

The economy is expected to expand 2.5 % his year and 2.8 percent next year according to estimates from Focus Economics " A market-friendly outcome from October's elections is critical of supporting the economy outlook" Focus Economics economist Angenal Bouzanis wrote in a note.

China is moving to deepen its overseas port holding with the purchase of the Brazilian port operator TCP Paticipacoes for nearly US dollar 1bn , the latest inroad into South America for a Chinese state-backed group. While far from Beijing's focus on Eurasia, Latin America also has become a beneficiary of the New Silk Road initiative and an increasingly attractive destination for Chinese investment infrastructure over the past two years. Chinese companies have agreed US Dollar 7,9 bn in Latin American infrastructure deals since the start of the year and are on track to surpass last year's deal volume of US Dollar 9,9bn. Brazil has been the primary target with nine of the 10 largest infrastructure deals in the region.

Silting in the Brazilian port of Santos, Latin America's biggest, is forcing ships to carry 220 containers less per vessel to avoid the risk of running aground, shipping companies say.. The problems at Santos – amplified by similar issues at other important Brazilian ports underline the challenge that Latin America's biggest economy faces in overcoming the bottleneck posed by it creaking infrastructure. Brazil's emergence from its worst recession in history over the two years in being helped by its expanding agricultural sector. Yet its recovery could be firmer were it not for lack of investments in roads, rail and ports analysts say.

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KENYA

Export statistics received from the Kenya Sisal Board (KSB) indicate a total export volume for Sisal fibres of 20.144 tons for 2017, which is about 5% less compared to the year before (21.250 tons in 2016).

Main buyers are as follows:

Saudi Arabia	23,0 %
Nigeria	19,5 %
China	15,0 %
Ghana	6,5 %
Egypt	5,3 %
Spain	5,0 %
Morocco	5,0 %
India	4,0 %

The main destination remain unchanged (similar to previous year) with about 60 % of Sisal fibre exports going to 3 countries: Saudi-Arabia, Nigeria and China.

Exports to Saudi-Arabia reached a peak in 2016 with a market share of about 28% - meantime exports have come down to about 23% in last year. One would have expected that this market would become saturated someday but the demand is still unbroken and on a very high level. Nevertheless it is a fact that the focus of importers is more and more on higher qualities (fine fibres of light color, without defects).

Nigerian export market remains stable and exports to this country have increased from 16 % in 2016 to 19,5% in last year.

Exports to the construction industry still dominate the market. Taking exports to Saudi-Arabia, Nigeria, Ghana (mainly Tow) and Morocco we see that exports to these markets accumulate to total about 55% of total exports. With regard to pricing it is clearly to be seen that exporters can achieve much better prices on sales to construction industries compared to the traditional industries like spinning, weaving and pulp and paper industries.

After months of drought Kenya suffered from severe rains in the first quarter of this year. More than 211.000 people have been displaced by flooding in Kenya according to a report by the UN Office for the Coordination of Humanitarian Affairs (OCHA). According to the OCHA report, 72 people have reportedly died and 33 injured in flooding since March 2018. The current wave of flooding began around mid-April. Flooding has damaged or destroyed homes and infrastructure. Roads have been submerged under water and there have also been landslides. Livelihoods have been severely disrupted, in particular farming communities. Wide areas of farmland are underwater and thousands of livestock have been killed. So far, more than 10,000 households have been assisted with shelter materials, and buckets, soap, blankets and some food items have been distributed to households in Turkana and Nandi counties. Dadaab refugee camps, which host over 225,000 refugees, have also been affected and there are concerns over cholera and other water-borne diseases.

Levels of the Masinga and Kamburu dams (fed by water from Mount Kenya) are now of major concern. Both are reaching dangerously high levels and if rains continue authorities may be forced to release water from the dams, which could have severe consequences for villages downstream in Tana River and Garissa.

Some parts of Kenya, Tanzania, Ethiopia, South Sudan, Uganda and Rwanda will be hit again by floods until end of May, meteorological experts have said.

When Kenya launched its new railway last year connecting the coastal city of Mombasa to the capital Nairobi passenger tickets sold out. Travelling between the country's two biggest cities overland had meant crowding into a bus for 12 hours or riding the old British built railway, which might have taken even longer. The new line has cut the journey to between four and six hours, depending on the number of stops. Shuttling passengers, however is not what the new line was built for. When Kenya borrowed US Dollar 3.2 bn from China for the railway in 2014, the aim was to move freight efficiently between the capital and the port at Mombasa 484 km apart. Unlike the passenger service, the cargo one has been a disaster with the second train out of Mombasa arrived a day late, because it didn't have enough goods to leave the port. In theory the lines should move about 40 % of the freight coming inland from Mombasa. The cargo is loaded straight from ships on to trains which take it to a depot near Nairobi and there processed by customs officials. The goal is to relieve congestion on the roads and lower transports costs. It is hoped that one day the railway will connect all of east Africa. For now officials would settle for enough revenue to cover the running costs and repay the loans.

The head line of a leading financial paper was bumpy Kenyan roads but investor remain confident. Prominent foreign companies have made significant investments in Kenya last year. Executives say Kenya's diversity and openness make it one of the most attractive destinations of the continent, even if generating consistently strong can be a challenge. Economic growth which is expected to decline to about4.5 percent in 2o17 compared with 5.8 percent in 2016 will rebound to well over 5 percent in 2018.

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TANZANIA

Exports of Sisal fibres from Tanzania have increased from about 20.000 tons in 2015 to about 25.000 tons in 2017.

The majority of exports from Tanzania (about 36%) goes to Chinese destinations with China being a traditional market (spinning industry) where Sisal is used for production of yarn, rope, cloth and carpets. Chinese agents have become more and more active in the Tanzanian Sisal market in the recent years. These activities are often counterproductive as wrong impressions are created (on the producers side) with regard to volumes and pricing.

Exports to construction industries like Saudi-Arabia (10%), Nigeria (6%), Spain (7%) - (the majority of Sisal fibres exported to Spain find its way to Morocco) and Morocco (2%) sum up to total about 25% of exports.

Same like neighbor countries Tanzania suffered as well a lot from heavy rainfall in the past months. The last severe weather hit many districts of Tanzania mainland and Zanzibar from 12 to 18 April 2018, causing floods. The flood affected regions include Dar es Salaam (Tanzania's commercial capital) where at least nine people died after heavy rains flooded homes and roads. Dar es Salaam, a coastal city of 5 million, suffers from frequent floods due to poor public drainage systems and unplanned housing settlements, with some 2.200 households becoming displaced and more than 300 houses severely damaged. The state-run meteorological agency said seasonal rains were expected to continue until May.

Tanzania is one of the world's poorest economies in terms of per capital income, but has achieved high growth rates based on its vast natural resources and tourism. With an average growth of GDP of 6% to 7% per year in the period of 2009-2017 Tanzania has largely completed its transition to a market economy, though the government retains a presence in sectors such as telecommunications, banking, energy, and mining. Under the new government elected in 2015, Tanzania has developed an ambitious development agenda focused on creating a better business environment through improved infrastructure, access to financing, and education progress. But the implemented budgets remain challenging for the government.

In 2015 John Magafuli became President of Tanzania and promised that he would root out corruption and challenge vested interests. This was most welcome news for the people of Tanzania. He was named the Bulldozer half admiringly, half timidly He indeed acted energetically

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and with draconian measures taken by him lived up to his promises, However, meantime critics say that his pursuit of those goals has made him intolerant of criticism. Businesses are shutting down, exports are slumping, investors are fleeing and economic growth is forecast to slow. More recently with restoration of multiparty democracy in 1994, Tanzania has been the darling of investors. Its output has grown on average by 6.5 % a year for the past decade. It has attracted foreign direct investment worth an average of 4 % pf GDP each year. Tanzanians are now twice as rich as they were in 1990. Yet this progress is now imperilled.

MADAGASCAR

Production on Madagascar has shown a continuous downward trend in the past years. Whilst in the years of 2004 to 2007 the average production was about 9.000 to 9.500 tons the production volume has been reduced by about 1.000 to 1.500 tons in the following years. When comparing production figures of 2016 and 2017 the reduction is more remarkable (abt. 25%):

Production 2016: abt. 8.240 tons
Production 2017: abt. 6.250 tons

In recent market reports reference had been made to the fact that some Sisal estates continued cutting leafs even under drought-like conditions. This had impact on quality on the one side but it has been reported that larger areas had been 'cut to death' – causing a dieback of plants. The reduction in production volume in 2017 is a clear result of overharvesting during drought-like conditions in the years 2016 and 2017. In this connection it is important to mention that not all plantations follow this 'non eco-friendly' cutting policy. There is an exception at two plantations which decided to stop cutting during drought – in order not to risk a decrease in quality or even a dieback of plants. A closer look at the production figures of each plantation shows that these two plantations could almost maintain the production on same level for 2016 / 2017. Thus it had been a wise decision to temporarily stop production during drought-like conditions.

The first months of this years did not show a large change in climate in the Sisal production areas in the South of the island. Rains had been received sporadically but not to an extent that the plants could recover.

Exports of sisal fibres in 2017 amounted to about 5.830 tons (abt. 6.260 tons in 2016). Main buyers for 2017:

China	33 %
Morocco	30 %
Spain	13,5%
India	6,3 %

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This list is unchanged and follows the prediction made in last market report when figures from January to September 2017 where available. The ranking of countries of destination has remained unchanged during the last years. Exports to Spain decreased while share of exports to Morocco increased to the same extent.

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Madagascar is one of the countries in the Indian Ocean which is regularly hit by tropical cyclones. In January, powerful Cyclone Ava killed dozens of people when it slammed into the island. Again it was the east of the country which was worst hit, with Toamasina seeing some of the worst of the damage. In March the island was hit again by two cyclones followed by floods which destructed many bridges and it was reported that more than 2000 houses were destroyed. The risk of landslides is still very high - especially in the eastern regions of the country.

The damages induced by the adverse weather conditions have strong impact on the economy of the country. Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for more than one-fourth of GDP and employing roughly 80% of the population. The strong rains, brought by the cyclones that hit the island (mainly Northern Madagascar and the East coast) between January and March of this year knocked the flowers off the vines of the Vanilla plants. There are varying estimates about how this will impact the 2018 crop with one estimate of up to a 50% loss. We'll have to wait to see just how bad this year's shortage is when Madagascar growers start their harvest in June. Vanilla is a far smaller industry than chocolate or coffee. Coffee and chocolate are traded in millions of containers each year; vanilla comes in at roughly 2300 – 3000 metric tons in a good year. As a result, vanilla isn't traded on the international commodities market. There are no protections for vanilla growers and no rules or sanctions on the industry. The Vanilla farmers on Madagascar have to face a growing competition from Papua New Guinea, Indonesia, East Africa, Mexico, Polynesia and India. Countries such as Papua New Guinea and Indonesia have increased production of Vanilla considerably. Still Madagascar has an advantage when it comes to quality.

After discarding socialist economic policies in the mid-1990s, Madagascar followed a World Bank- and IMF-led policy of privatization and liberalization until the onset of a political crisis, which lasted from 2009 to 2013. The strategy had placed the country on a slow and steady growth path from an extremely low starting point. Exports of apparel boomed after gaining duty-free access to the US in 2000; however, Madagascar's failure to comply with the requirements of the African Growth and Opportunity Act (AGOA) led to the termination of the country's duty-free access in January 2010, a sharp fall in textile production, and a loss of more than 100,000 jobs.

Campaigning is already under way for the late 2018 presidential election. Exclusion of either Marc Ravalomanana or another former president, Andry Rajoelina, from the contest would present a downside risk to stability, stimulating protest and a resurgence of a more confrontational political environment, both prior to and after the polls. The start-up of new donor-funded projects should help bolster growth in 2018-19 (although underperformance in agriculture will remain a constraint).

A pest epidemic broke out on the island in June last year was successfully fought and in April this year it was announced that the pest had come to an end. The pest could have been avoided had the medical infrastructure on Madagascar not been in such desolate state.

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