

Sisal Market Report October 2018 to April 2019

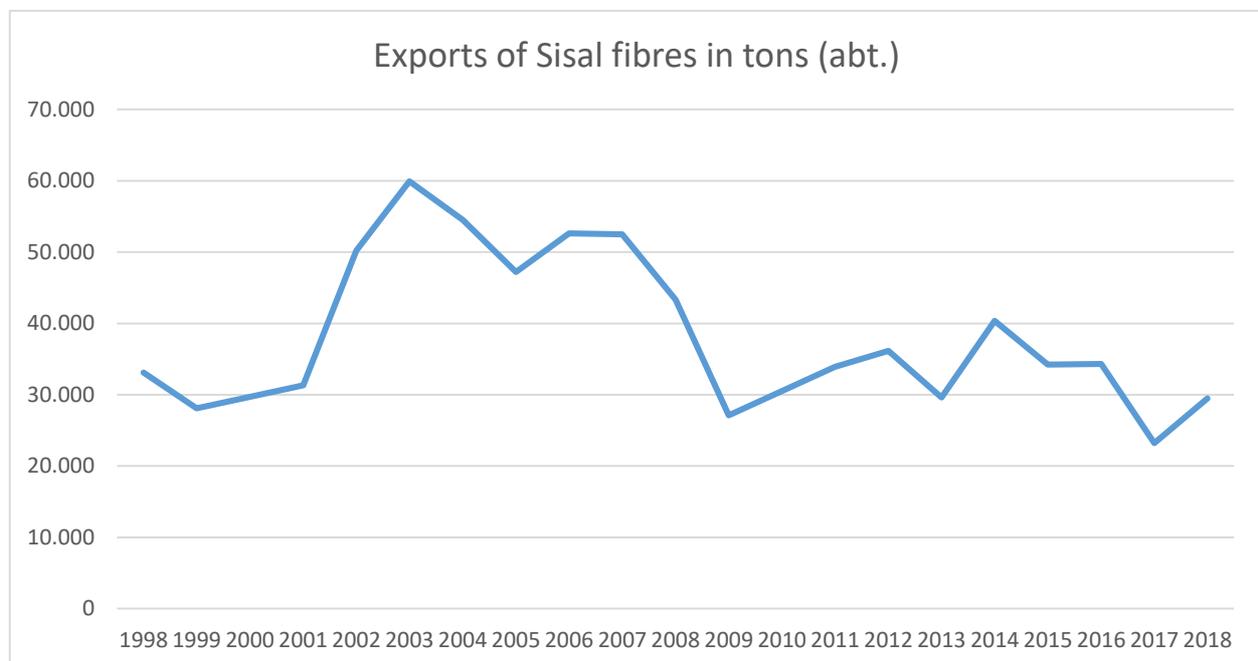
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BRAZIL

Exports from Brazil have seen a notable increase in the past year with about 29.500 tons of exported Sisal fibres (2017: abt. 23.200 tons). This is an increase of about 25% for the past year. There is a prospect that exports will return to the average of recent years which has been a level around 30.000 tons (considering the average of exports of the past five years 2014-2018).

This volume is however still far away from the exported quantities of the years 2002 to 2007 when Brazil exported more than 50.000 tons per year. The overview below shows the development of exports over a period of 20 years.



Further comments on the overview as follows:

- The sharp rise in exports of Brazilian Sisal fibres between 2001 and 2006 is attributable to increased demand from Chinese customers. In these years the export share to China was 60-70%.
- The slump in 2005 is the result of extremely high inventories held by Chinese customers. The (long-term) contracts concluded in 2005 were not delivered until 2006.
- In 2009, exports fell by more than 24% (compared to 2007 and 2008) - this is due to the strong reluctance of Chinese buyers. Exports to Portugal also fell by almost 70% during this period.



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• In 2011 and 2012, Brazil suffered from the worst drought in more than 30 years. With an export volume of around 36,138 tons in 2012, it should be borne in mind that the state-owned CONAB sold almost all of its stocks of around 20,000 tons to exporters (via auctions held every 2 months during this period). Excluding this quantity, the production of fresh fibre in 2012 was therefore only about 16,000 tons. CONAB's last state stocks of about 4,000 tons were released for sale in the second half of 2013 (again via auctions) - the state has not bought again since then.

Coming back to the recent (positive) development in exports of Brazilian Sisal we notice that the upward trend in export volume continued also at the beginning of this year. The average quantity of exported Sisal fibres for the first quarter 2019 has reached a level of almost 3.000 tons per month.

Comparing the last three years, we see the following development of average monthly volumes:

2017: about 1.900 tons per month (January to December)

2018: about 2.500 tons per month (January to December)

2019: about 2.950 tons per month (average of January to March 2019)

It has been reported that during the last two years about 10.000 hectares of Sisal fibres have been replanted in the Sertao (Bahia). Most of the Sisal producing areas in Brazil have received good rains in the period from October 2018 to March 2019 - this has already had positive impact on the volume exported in the past six months.

The good rains have also supported the development of the young (re-planted) Sisal plants which had been planted in the past two years. If the plants continue to develop normally, the use (first cut) of these new areas can be started in about 2-3 years. An important step for the Brazilian sisal industry.

In addition there is a 100 million (Brazilian Real) financing programme of the state-owned BNB Bank, which could possibly lead to some larger new plantings. The problem, however, is that small farmers will not benefit from this programme as the necessary credit guarantees cannot be provided by them.

The increase in volume is not only result of an increased production.

Another important factor behind the rising export volumes is to be seen in connection with the development of the exchange rate (USD / Real) in the last 12 months – as per the chart on the following page:

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(source: XE live market rates)

With an exchange rate of 3.8 or 4.0 Brazilian real per US dollar, prices will remain at the current low level. The development of exchange rates since mid-2018 resulted in price reductions - as a result, exports have risen continuously since the last quarter of 2018.

China continues to be the main customer for Brazilian Sisal and imports from this country have constantly increased in the past six months. Looking back at the past year we see the following countries of import:

China:	54 %
Portugal:	9,7%
Algeria:	9,5%
Spain:	5,6%
Indonesia:	5%
Egypt:	4,55
Mexico:	3%
India:	2,7%

The figure for Chinese imports is impressive and the country has continuously increased the volume of imports in the past two years (back in 2017 the share of China was 'only' 37%).

Within the year 2018, the prices for Brazil fiber have fallen by about 20%. With the low price level Brazil has regained competition which had its positive impact on export activities from August to the end of the year.



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The price gap between Brazilian and African Sisal has become larger again and is currently USD 500 per ton. Historically, this price gap has always been a minimum of USD 500 to USD 600 per ton. The low level of Brazilian Sisal has made it more attractive to customers, especially in the Chinese market.

At the time when prices began to fall (May 2018), large stocks had been accumulated at all major exporters. These stocks have been quite well reduced in the last 12 months. At the moment, it should be assumed that prices will stabilize at the current level – this is however subject to the development of the exchange rate.

As already forecasted in the last market report the exports of baler twine have very much reduced in the year of 2018. After the exports had stabilized on a level of about 18.000 tons in the years of 2016 and 2017 the reduction is quite huge as exports fell in 2018 to only about 14.000 tons (a reduction of about 20%).

The government of the new President Bolsonaro has set its first important economic policy priority: a pension reform (which is overdue long time). The success of this reform will not only determine the success of his presidency, it will also determine whether Brazil's economy regains new prospects after four years of recession and stagnation. The pension reform is urgently needed to reduce the growing budget deficit of almost eight percent of economic output (GDP). If Bolsonaro fails with the reform, the confidence in the economy should also evaporate quickly. The Bolsonaro government would then be as disappointing for the economy as its predecessors. The pension reform is difficult and bears a heavy burden – to push this reform forward it will become necessary to curtail the immense privileges of civil servants, judges, politicians and the military.

There is no significant news about the economy, which is continuing at a snail's pace. This however also means that economic growth will not trigger inflationary pressure. If a pension reform is passed, this could give the go-ahead for increased growth.

Just 2 new analyses of the World Bank and of the IMF portray a gloomy scenario of Brazil. In short their conclusion is: Only in the case of strong growth it is possible that the high level of poverty and the inequality will be reduced. This perception is not new. However, it is always again appalling to notice the consequences of an under average growth in Brazil since almost 40 years. Since 1980 the growth per capita has been just 1 percent annually which is much below the growth of world economy. Even still today every 5th Brazilian is living from just Real 5,50 per day which under the poverty line. Scarcely 10 million Brazilians are living in extreme poverty.

The study prepared by the World Bank clearly indicates the growth of Brazil is largely determined by external factors like raw material prices, international liquidity and the dynamics of the world economy – more than in other countries worldwide. Thus the high raw material prices during the new millennium have contributed to reduction of poverty and less social assistance and hardly the stagnating productivity of Government, companies and population. However, the outlook for Brazil is not favourable.

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Unless the Brazilian economy starts to boom soon and presently there are no indications that this will happen, it looks that per capita income during this decade will grow just by one percent - in 10 years not annually. IMF recommends for higher growth liberalisation of the economy, a simplified tax system and a more efficient credit market, investments in infrastructure, labour market reforms and fighting corruption. However, the government has already great problems with realisation of the pensions reform.

However, there are countries with have to cope with similar resistances as there are in Brazil and which managed to steadily increase per capita income in Latin America too. Brazil should follow the example of Chile. The latter country has been exemplary how a disciplined finance policy provides social and economic progress.

EAST AFRICA / MADAGASCAR – climate / weather conditions

Weather conditions have certainly become one of the most important factors to influence the Sisal and other natural fibre markets. After months of drought Sisal producing countries suffer from severe rains – a situation that unfortunately has become quite normal in the recent years.

Kenya and Tanzania (also neighbour countries) had to suffer badly from floods in March and April of last year. From Tanzania, rainfalls have been reported even in August of last year when normally this period of the year is rather dry and windy. Short term and long term rains are no longer predictable. This year situation is quite opposite and rains are badly needed in both countries.

In January and February of this year the South of Madagascar (where the sisal plantations are located) received heavy rains and parts of plantations were flooded.

Also the North of Mozambique (where the Sisal plantations are located) regularly suffers from strong rains and floods in the period from January to March of each year. This year it is a true tragedy and humanitarian catastrophe that the country had been hit twice by cyclones within a period of 7 weeks only. The damage in the Beira region has not even been repaired, as the country is once again hit by another cyclone ('Kenneth') – this time in the far north of the country.

In January and February of this year the South of Madagascar (where the sisal plantations are located) received heavy rains and parts of plantations were flooded. Overharvesting during dry season is another fact that has led to reduction in production in Madagascar.

Weather phenomena (like El Niño, La Niña or others) will continue to have a strong impact on the Sisal production worldwide.

MARKET TRENDS

Looking at the recent developments on the Sisal market we see on the one hand traditional markets where Sisal fibres are used for spinning (yarns/ropes) and weaving (carpets/polishing cloth). Also the production

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of pulp and paper industry belongs to this traditional segment of this market where Sisal fibres are used in larger volumes. Both aforementioned segments depend on stability of prices (on long term basis) and dependability of supply.

On the other hand there is another industry which used to be rather a niche – but gained importance in the past years. Before it was described as a ‘new emerging market’ but its today's importance is underlined by the huge volumes imported by this industry.

It is the construction industry (Saudi-Arabia, Middle East, North African and West African countries) where Sisal fibres and Sisal Tow are used for gypsum / plastering works. The continuous strong demand of this industry has sharply influenced the Sisal market – especially under consideration that there is already an imbalance in supply and demand.

The clash between traditional and ‘new’ markets is one of the factors that has pushed the prices to the comparatively high level that we currently find in the market.

Despite the fact that most of the construction markets are meantime well saturated the demand is unbroken. This is most likely to continue considering the enormous number of enquiries that are still received from this industry.

At short term there is no significant changes to be expected in the market – in terms of pricing and availability. It is good to see that despite the adverse weather conditions of the past years Sisal growers still invest in re-planting – especially in East Africa and Madagascar – so rather sooner than later we should come to a more balanced supply / demand situation.

The special properties and technical performance of Sisal fibres are recognized by the industry and the global demand for Sisal fibres should remain at worst, stable. Sisal is a renewable resource that absorbs more carbon dioxide than it produces during its life span.

More and more industries are intensively trying to integrate natural fibres into their products and Sisal is playing an increasingly important role in these thoughts.

China is the largest importer of Sisal fibres worldwide. In this connection it should be mentioned that the local Chinese Sisal production (in the provinces of Guangdong and Guangxi) has been reduced to only about 20.000 tons (average 2017/2018) while years ago it was the double.

The Chinese paper industry had to experience larger problems in 2018 as new governmental regulations for environment protection had been implemented. Most of the pulp and paper producers in China were forced to temporarily close their productions and install new machinery. Stocks of imported Sisal have accumulated and are used with huge delay of time only.

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KENYA

According to information received from the Kenya Sisal Board (KSB) about 22.812 tons of Sisal fibres (and Tow) were exported during the period of January to December 2018.

The importing countries are:

Saudi-Arabia:	abt. 4.710 tons (21%)
China:	abt. 3.540 tons (15,5%)
Nigeria:	abt. 2.620 tons (11,5%)
Philippines:	abt. 1.715 tons (7,5%)
Morocco:	abt. 1.650 tons (7,2%)
Spain:	abt. 1.640 tons (7,2%)
Egypt:	abt. 1.235 tons (5,4%)
Ghana:	abt. 1.130 tons (4,9%)
India:	abt. 800 tons (3,5%)
Belgium:	abt. 552 tons (2,4%)

Exports to the construction industry (Saudi-Arabia, Nigeria, Morocco, Spain and Ghana) still dominate the market. The volumes exported to these countries accumulate to a total of 11.750 tons – a market share of more than 51%.

According to information from the World Bank, Kenya's real gross domestic product is expected to grow by 5.7% this year. This is a slight decline compared to the previous year. However, the World Bank's report also states that the risk of drought and the continuing reluctance of private investment could dampen growth in the short term. A delayed start to the long rainy season (March - May 2019) could have a negative impact on the planting season and lead to poorer harvests this year. The below-average short rains (October - December) of the previous year and the resulting food shortage in several districts in the north of the country have already made emergency measures necessary. In principle, far-reaching political measures are certainly needed to strengthen the agricultural sector and counteract the problems of food shortages that recur almost every year.

The Kenyan port of Mombasa wants to defend its regional dominance and is defending itself with a series of investments. The state-owned port operator Kenya Ports Authority (KPA) wants to improve its infrastructure with investments equivalent to 1.2 billion US dollars (US\$) in order to defend its "regional dominance". The main aim is to keep direct competition from the Tanzanian port of Dar es Salaam at a distance.

TANZANIA

According to information received from the Tanzania Sisal Board (TSB) about 23.150 tons of Sisal fibres (and Tow) were exported during the period of January to December 2018.

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The importing countries are:

China:	abt. 13.420 tons (58%)
Saudi-Arabia:	abt. 1.900 tons (8,2%)
Nigeria:	abt. 1.570 tons (6,8%)
Spain:	abt. 1.540 tons (6,7%)
Philippines:	abt. 1.130 tons (4,9%)
India:	abt. 453 tons (2%)
Morocco:	abt. 442 tons (2%)
Ghana:	abt. 429 tons (1,9%)
Libya:	abt. 364 tons (1,6%)

China is still the number one imported of Sisal fibres from Tanzania with a share of almost 60% of the volume exported (quite contrary to exports from Kenya where the market share of exported volume to China is only about 15%). As already explained in previous reports the focus of Chinese importers is on Tanzania when African Sisal is concerned – for a simple reason: For Sisal fibres there is no bilateral agreement on taxes between China and Kenya and thus importers have to pay import tax for Sisal imports. Sisal fibres exported from Tanzania, Mozambique and Madagascar to China are all exported with a preferential / duty-free certificate of origin. Agents of Chinese importers continue to be very active on the Tanzanian Sisal market – sometimes to the benefit and sometimes to the detriment of exporters.

The International Monetary Fund lowered its forecast for Tanzania's economic growth this year and in 2020 to around 4 percent from a previous forecast. The service sector currently accounts for around 43 percent of the country's gross domestic product. Economic growth in recent years has been driven in particular by the construction and transport industries. The second most important sector is the agricultural sector, which generates about 30 percent of the gross domestic product and employs about 70 percent of the population.

President John Pombe Magufuli put into action what he has long announced. He wants to drive Tanzania's industrialization forward with a project that will generate 2.1 gigawatts, more than twice the country's current electricity output. The Rufiji hydropower plant would be the fourth largest in Africa.

Rufiji Hydropower Project (RHP) stands for a dilemma in Africa. There is no doubt that the rapidly growing population of currently 55 million Tanzanians needs more energy. But in the desire to develop economically, to gain access to world markets and to make their own ambitions attractive for investors through energy, the treasure that Tanzania possesses and which also offers development opportunities - its nature - is in danger of being destroyed.

The Tanzanian government must fear that its plan will result in Unesco's withdrawal of World Heritage status.

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MADAGASCAR

Exports of Sisal fibres and Tow (according to statistics received from the Malagasy customs) reached a total of abt. 5.890 tons – a volume which is almost in line with the year before (2017: abt. 5.830 tons).

The importing countries during the period of January to December 2018 are:

China:	abt. 2.330 tons (39,5%)
Morocco:	abt. 1.835 tons (31%)
Spain:	abt. 660 tons (11%)
India:	abt. 310 tons (5%)
Vietnam:	abt. 175 tons (3%)
Saudi-Arabia:	abt. 130 tons (2%)
Germany:	abt. 120 tons (2%)

In January and February of this year the South of Madagascar (where the sisal plantations are located) received heavy rains and parts of plantations were flooded. According to the latest reports, the floods have decreased quite quickly and it is a very fortunate circumstance that the plants did not suffer much damage (sisal does not like wet feet). In the course of April the plantations also received short rainfalls and it is hoped that the development of new plantings will progress well this year.

The problem of overharvesting during the dry seasons of the past years has a significant impact on the productivity of some plantations. It is reported that one of the largest plantations has temporarily ceased its production. This is not only due to the fact that in recent years there has been overexploitation - there are also major structural problems in the management of the farm.

In January, the new President Andry Rajoelina took his oath of office. In front of tens of thousands of spectators in the stadium of the capital Antananarivo, he promised to get to work immediately. The 44-year-old had already ruled from 2009 to 2014. During the election campaign he had promised to curb corruption and combat poverty. The political situation in the capital Antananarivo has been rather unstable since the inauguration of the new president and the announcement of the composition of the government on 25 January 2019. Parliamentary elections are scheduled for 27 May 2019. During demonstrations or rallies, even in the run-up to the elections, riots cannot be ruled out.

Madagascar will participate in the 58th edition of the International Exhibition 'La Biennale di Venezia' with its own pavilion, for the first time in its history. In the last ten years there have been only a few African pavilions to see (e.g. South Africa and Ivory Coast). This first participation in 'La Biennale di Venezia' is a historic event for Madagascar. It is a sign of dynamism and modernity for the Madagascan nation. It reflects a positive image of the country on a national and international level, where all too often exotic or miserable images prevail.

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