



Sisal Market Report April 2016 to March 2017

-1/6-

30th March 2017

BRAZIL

During the 2nd and 3rd quarter 2016 sisal exports from Brazil benefitted from plenty of availability of sisal fibres. However, during the last quarter 2016 it was observed that supplies came only from a few cultivation areas in the neighbourhood of Sertao. The so called "Sertao" in the North East of Brazil is a low moisture region. About 90 % of the sisal production is situated in this arid region which is 300 kilometres distant from the Atlantic coast. While the coastal region with the city of Salvador/ Bahia is regularly suffering from severe weather and inundations, rainfalls usually do not reach the hinterland.

Since end of 2016 Sisal production in many districts in and around the Sertao ground came to a halt. In areas particularly affected by drought-like conditions there have been no rainfalls for more than 6 months partially. There are many farmers who apprehend that the very severe drought period of 2012 may repeat itself.

The drought, which has been lasting since months, has reached other parts of Brazil. Brazil (the world's largest coffee producer) is compelled this year to import coffee in order to meet demand of local producers of instant coffee.

During drought or drought-like conditions it is far more difficult to extract fibres from the leaves. More remnants of leaves remain stuck to the fibre and in the ensuing brushing process leaf remnants (commonly known as green skin) cannot be totally removed. Such remnants of leaves are causing problems when spinning the fibre. Since middle of March 2017 the situation even deteriorated. Availability of raw fibre is steadily declining. Sisal exporter are reluctant to quote prices and commit themselves quantity-wise. It is expected that early April there will be scattered rainfalls. However, it remains to be seen whether the situation will really improve. It is remarkable that supplies that were contractually agreed upon and for which advance payments were made were not executed by intermediate dealers.

Having written so far, good news are coming from Brazil that rains have started in several areas in the Sertao and hopefully the rains will continue for some days

The sharp decline of sisal production in Brazil is reflected and very much so by the export figures for the first two months 2016

January 2016: 2,675 mtons

February 2016: 1,549 mtons

This corresponds to a decline of more than 40 %.

Problematic is the fact of increasing scarcity of availability of superior qualities (type 2 / type 1) which since middle of February 2017 have been virtually unobtainable.

Since middle of 2016 all exporters had a surplus of type 4 and were ready to dispose of stocks of type 4 at almost any price. This has meantime changed since local spinning mills have taken over the stocks almost completely for producing baler twine against existing orders.



Sisal Market Report April 2016 to March 2017

-2/6-

30th March 2017

However, better sisal yarn qualities can be only produced with fibre quality being superior to type 4 (at least type 3). This means that the local sisal processing industry is increasingly competing with sisal exporters. The continuing scarcity of fibre and the strong demand from local sisal spinning mills have caused price increases which in the case of type 3 was 15 % since middle of February 2017.

This precarious supply situation has meantime led to considerable delays of production and supplies even in the case of the standard quality type 3 which represents more than 80 % of exports.

During the first half of 2016 prices maintained their high level. However, between August and November 2016 prices declined. During the first half of December 2016 they reached the lowest level of the year. Prices are largely influenced by the rate of exchange between the Brazilian national currency REAL and the US-Dollar and the irregular order position during the 3rd and 4th quarter 2016. This is evidenced by the varying monthly export quantities during this period:

August 2016	3.240 mtons
September 2016	2.236 mtons
October 2016	3.130 mtons
November 2016	1.745 mtons
December 2016	3.680 mtons

Total exports 2016 amount to 64.300 mtons and this quantity is slightly higher than exports during 2015. The share of exported raw fibre in a.m. quantity was 34.300 mtons and corresponds more or less to the export quantity of the preceding year.

Exports of baler twine in 2016 have sharply declined. While during 2015 some 23.000 mtons baler twine were exported, exports during 2016 hardly reached some 17.500 mtons. Sisal baler twine mostly used in agriculture faces stiff competition from PP baler twine. The average price of crude oil during 2016 was USD 45,00 per barrel and ruled still at a low level. The low prices of PP baler twine make sisal baler twine less and less competitive. This trend has already been observed since several years.

Still a few years ago supplies of Brazilian sisal to the worldwide construction industry were the exception. However, especially during the last couple of years exports to countries like Egypt, Algeria, Kuwait, Saudi Arabia, Morocco, Mauretania and West African countries picked up. The total quantity of Brazilian sisal going to these markets has meantime reached some 5.000 mtons annually with Saudi Arabia occupying the first rank.

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. Now as before the number of shipping companies regularly serving Salvador/Bahia is very small and especially so after two Asian shipping companies vessels of which called at the port of Salvador/Bahia have discontinued their services.

Behaviour of the Brazilian REAL against the US Dollar during the period April 2016/March 2017 is illustrated by the chart hereunder:



Sisal Market Report April 2016 to March 2017

-3/6-

30th March 2017



(Source: exchangerates.org.uk)

There could hardly have been a clearer admission of the stresses facing Brazil's economy that the Central Bank's unanimous decision on 11th January 2017 to cut its policy interest rate by a whopping 75 basis points to 13 percent a year. The statement accompanying the decision left little doubt. Taken together, indicators show that economic activity is below what was expected. The available evidence suggests that the recovery in economic activity will be even slower and more gradual than previously anticipated. The other factor noted high up in the statement was inflation. Earlier in the day the national statistics office said consumer price inflation in the year to December 31st 2016 was 6,29 percent – inside the central bank's target of 4,5 percent plus or minus two percentage points for the first time in 2 years. The fall in inflation has been precipitous. Inflation expectations too have fallen sharply from a high of 6 percent early last year to 4.8 percent early this year.

Yet there is still cause for anxiety in view of the lacking economic growth during this year. In September last year it was still expected to be 1.4 percent. However, in January 2017 it was corrected downwards to 0.5 percent. The Brazilian Government faces a budget deficit of REAL 50 billion (USD 15,6 billion). The rate of unemployment in the country is increasing. In November there was a loss of 116.000 jobs.

According to a statement made by the chief of the Brazilian Central Bank Ilan Goldfajn on occasion of the recent G-20 finance leaders' meeting in Germany attended by him, Brazil's economy will emerge from its deepest recession on record during first quarter and reach a growth rate of up to 3 percent by the final 3 months of this year.

The Banco do Brazil, Latin America's largest bank by assets, is to cut thousands of jobs and shut hundreds of branches as Brazil's recession bites into profits.



Sisal Market Report April 2016 to March 2017

-4/6-

30th March 2017

East Africa

Regrettably the situation in East Africa has not improved. During the last 5 years the agriculture was facing bigger and bigger problems because of drought-like condition. Now aggravated by growing climatic change (El Niño 2016) which has deteriorated the living conditions of the population which were already difficult. Large parts of East Africa are suffering from drought or drought-like conditions. Especially Somalia has been affected, but parts of Ethiopia too and about three quarter of the land area of Kenya. In the North of Tanzania farmers have complained about the absence of rainfalls in January/February this year.

Because of the severe drought the Government of Kenya has declared the state of disaster for 23 of 47 districts. President Kenyatta has appealed to the international community for assistance. The drought make itself particularly felt in the whole region of Turkana (North of Kenya). In that region there have been no rainfalls since May 2016. It is reported that seventy percent of water sources have run dry.

In view of declining cyclical demand from the main importing countries like Saudi Arabia significant price reductions were noticeable during the last half of the year. In addition there were markets like Morocco which were saturated and speculative purchases by local importers caused a big drop in price, which affected primarily the grades of East African UG and SS UG and similar qualities of other origins. Availabilities of grade 3L continued to be restricted and when being available quickly found takers. Possibly prices may stabilize around the current level, unless economic conditions in Saudi Arabia China and other important sisal importing countries will deteriorate.

Kenya

According to information received from the Kenya Sisal Board (KSB) 21.250 mtons of sisal fibres were exported in 2016. This quantity corresponds to about the tonnage which was exported last year.

The main importing countries were:

Saudi-Arabia	28,0 %
Nigeria	16,0 %
China	14,0 %
Morocco	7,6 %
Egypt	4,6 %
Philippines	4,4 %
Spain	3,0 %
India	1,8 %

China and Nigeria having reached the level of 2015. End of 2013 China was far ahead of Egypt, Nigeria and Saudi Arabia.



Sisal Market Report April 2016 to March 2017

-5/6-

30th March 2017

What is really striking is the huge increase to Saudi Arabia from 17 % 2015 to 28 % in 2016. The construction industry has become a serious competition for traditional consumers of sisal fibres (sisal spinning mills, carpet industry and paper pulp industry) The unabated strong demand from non-traditional users caused the continuing rise in sisal prices. The main non-traditional outlets are Saudi-Arabia, Nigeria, Egypt, Morocco and Spain with the latter acting as transit trading place for sales to Maghreb countries and other countries of the African continent.

2017 is a special election year in Kenya. In 2013 the federal system was reorganized and the country was divided in 47 districts. 2.000 new jobs needed to be filled. For this reason on 8th August 2017 besides the President, Governors, Senators and district governments need to be newly elected. Many Kenyans apprehend that same as ten years ago violence will break out between supporters of various political factions. When it comes to presidential elections the current President Uhuru Kenyatta, who held this office since 2013, is considered to be the favourite. Already at time of elections 2013 the opposition demanded a reform of the electoral system.

The economy growth is robust and is estimated to be 5,9 percent annually. The World Bank reckons with an economic growth of 6 % this year, compared with 6,9 percent last year. The private industry is of the opinion that the economic growth this year will be weaker and expected growth being less than 6 percent. Last but not least because the financing conditions have become more difficult. The lack of rains during the last quarter 2016 made itself negatively felt because the economic health of Kenya is largely dependent on agriculture. The economic growth is also largely influenced by the development of infrastructure, recovering tourism and continuing growth of the construction industry.

Tanzania

According to information obtained from the Tanzania Sisal Board (TSB) sisal production from January to December 2016 amounted to about 33.700 mtons and was thus almost 15 % above that of 2015. When this report goes to press export figures for last year were not yet available. It may be assumed that they are similar to the Kenyan export in 2016.

With Chinese help the largest port of East Africa is being built in Bagamoyo. However, the geographical distance to the port of Mombasa, which was expanded and modernized with Japanese assistance, is short. The port of Mombasa not only serves Kenya but Uganda, Burundi, the eastern part of the Democratic Republic of Congo, and Southern Sudan. Notwithstanding the modernization of the port of Kenya, which has been already completed, same is going to face heavy competition from the port of Bagamoyo in Tanzania which could snatch away large chunks of business from Mombasa port.

During the last 15 years there has been a steady economic growth rate of 7 percent annually. A large part of the Tanzanian population has not benefitted from this and is living in great poverty. This especially regards the rural population which represents two thirds of the population of Tanzania. The annual growth of the agricultural production is just 3 to 4 percent and this hardly enough to feed the rapidly growing population (currently 55 million people, which means doubling of the population as compared with the population 30 years ago).



Sisal Market Report April 2016 to March 2017

-6/6-

30th March 2017

Madagascar

Madagascar sisal fibre prices followed the market in East Africa. However, the maritime transport from the port of Ehoala (which is exclusively served by the French shipping company CMA CGM) is much more expensive than box rates applying for shipments from Dar-es-Salam, Tanga and Mombasa. It is since October 2015 that CMA CGM are serving the port of Ehoala in the South of Madagascar after MSC had discontinued serving the latter port. Now as before the services offered by the French carrier are lacking punctuality and arrivals of feeder-vessels are regularly late.

Exports of sisal fibres in 2016 amounted to about 6.260 mtons and were only slightly less than in 2015 (about 6.430 mtons). Main buyers were:

China	35 %
Morocco	26 %
Spain	23 %
India	5 %

Exports to China in 2016 declined by 10 percent and the quantity representing reduction of exports to the former country has been absorbed by Morocco and Spain. Exports to the latter two countries represent 50 % of the total Madagascar sisal exports. The majority of sisal fibres exported to Spain find its way to Morocco. The building industry in Spain is still in a severe crisis and has idle capacities and Spanish companies being active in plaster works have found in Morocco a new, lucrative market.

The cyclone "ENAWO" hit Madagascar middle of March 2017 and had a death toll of 78 people. 250 people were wounded. A total of 400.000 inhabitants of the island were affected. It was last time in 2012 that the island of Madagascar became the victim of such a heavy storm. A lot of people lost their homes and the authorities had to provide shift accommodation for ten thousands of homeless people.

During the political crisis 2009-2013 Madagascar was politically isolated and had to cope with 3 years of drought-like conditions. Last year the country suffered from the El Niño phenomena. Middle of 2016 the IMF (International Monetary Fund) approved a midterm economic recovery program. The approval by the IMF prompted other organizations to commit themselves again to Madagascar. On occasion of an aid conference in Paris aid to the tune of USD 6 billion was pledged. The money is urgently required to improve the infrastructure of Madagascar. Power supply is to be improved too. However, it remains to be seen how the measures to be taken will be implemented on the spot. The bureaucracy is still exceedingly slow and considerable delays in realization of projects are very likely.

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