



Sisal Market Report May to September 2018

-1/5- 13th September 2018

BRAZIL

In our last market report we referred to the fact that Exports of Sisal fibres had been sharply reduced by about 35% in 2017. The export statistics for January to July of this year show a monthly average of a little more than 2.000 mt. Should the monthly volumes stabilize on this basis, the annual volume for this year should reach about 24.000 mt of exported Sisal fibre. Although this volume would signify a slow increase in exports compared to the previous year (2017 / 23.200 mt exported), the quantity will still be very much below that of the years 2010 to 2016. Thus a real change of trend cannot yet be seen.

Although rainfalls had been reported from all districts in the Sertao region in the period of March to May, the development of younger plants is still very much below expectation. Farmers are still not in a position to invest in re-planting. Sisal growers are tired and demoralized after several years of rather dry weather conditions, which has destroyed at least 30% of all Sisal plants in Brazil.

China continues to be the main customer for Brazilian Sisal, importing about 53% of fibres, followed by exports to Algeria (abt.13%), Portugal (abt.10%), Spain (abt.7%), Egypt (abt.6,5%) and Indonesia and Mexico (both abt.3%).

Comparing the exports of baler twine (January to July 2018) to the same period of the previous year there is a reduction of about 20%. It is too early to estimate whether this is also a tendency for the whole year, as the peak season for baler twine is still to come in the last months of this year.

Prices for Sisal fibre have shown a downward trend since the last quarter of 2017 and lowest prices have been noticed in the period of June / July of this year. There are two major reasons for the decline of prices. The largest impact on pricing is the fact that from March / April onwards the Brazilian currency (the Brazilian 'Real') has lost in value versus the US-Dollar and reached a peak in September with almost 4,15 Real per one US-Dollar (October 2017 rate was at 3,10 and 2,90 and below earlier in 2017).



(source: XE live market rates)

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Another important factor which pushed prices further down was the fact that the intermediates, who were speculating on further increase of prices (holding larger stocks from end of 2017), decided to sell the stocks in order to limit their losses. With more fibre being available in the period of May to July prices eased further. With the uncertainty of development of the exchange rate after the forthcoming elections in October, shippers have become reluctant to offer larger volumes for shipment more than 2 months ahead.

With the low price level for standard grade of Brazilian Sisal fibres (Type 3DB) in the months of July and August, the price gap between Brazilian and African Sisal (for example UG grade from Tanzania) has become larger again and is currently about USD 500,00 per mt. Historically, the price gap between African and Brazilian Sisal has always been a minimum of USD 500 to USD 600 per mt. This price gap – in case it will remain stable - will make Brazilian Sisal more attractive to customers, especially to customers in the Chinese market.

The year 2018 is a 'super election year' in Brazil. On 7th October 2018 Brazilians will appoint a new congress alongside the president. 2018 is a crucial year for the future of Brazilian democracy and Brazil's political renewal, given the never-ending corruption scandals in the world's fifth largest country. Brazil badly needs improvements in the areas of security, education, health, work and an end to corruption. After the country was completely paralyzed by the truckers strike end of May the government needs to find a solution how the future supply of food to all Brazilians can be guaranteed and that cost to export will not increase further.

In the presidential election in Brazil in October, the labor party (PT) had nominated the former president Luiz Inácio da Silva as a candidate - despite the fact that he is currently in prison. Mr Lula has been sentenced to more than 12 years in prison for involvement in a widespread corruption affair and money laundering. Brazil's top electoral court has ruled (on 31st of August) that the jailed former president 'Lula' is barred from running in October's presidential elections. The ruling came after a dramatic late-night session of the court that was broadcasted live on television. The court has also banned him from any further campaigning. The decision to bar his candidacy might be to the advantage of the extreme rightwing candidate Jair Bolsonaro, running second in polls and ahead without Lula. After a recent attempt to his life by a solitary, unemployed man, Bolsonaro's voting intentions raised sharply. If he wins the election, some liberal, market oriented technicians will take over the Finance & Economy Secretary - which could stabilize the Real to US-Dollar relation. Anyhow, the huge public deficit always increasing by social welfare expenditures and tax presents, will continue to weaken the economy as there is no room for public investment. The public debt and the GDP is close to 1:1 = 100%.

It is not possible to make any forecast on the political situation in Brazil after the elections. The economy can only stabilize with a strong and new government that is prepared for a change. In this connection, also an outlook on Sisal market for last quarter 2018 and beyond is currently impossible.

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EAST AFRICA

Weather conditions in Kenya and Tanzania have been very abnormal in 2017 / 2018. After months of drought in second half of 2017 both countries suffered badly from severe rains which reached a peak in April and May of this year with rainfall being twice the seasonal average. Roads were submerged under water and there have also been landslides. Livelihoods have been severely disrupted, in particular farming communities. From Tanzania, rainfalls have been reported even in August when normally this period is a rather dry and windy season. The floods have heavily affected the fragile food security situation in the East Africa region. Beside food crops, also Sisal production has been affected by the adverse weather conditions with shipments of Sisal fibres being much behind schedule. The flooding comes about a year after Eastern Africa faced the opposite problem: their worst drought in 60 years. Also the outlook towards the end of this year is not very encouraging as there is an increasing chance that the El Niño weather phenomenon might again influence the short rain season during October to December.

China is trying harder than ever to strengthen its influence in Africa. In the opening speech for the China-African Cooperation Summit (early September 2018 in Beijing), President Xi Jinping announced several initiatives to boost growth and jobs in Africa, with an investment of around 60 billion dollars over the next three years. China continues its activities in building ports, airports, railways, highways, mines and mobile networks. Now that China already has a perfect infrastructure, the focus of Chinese construction companies is on developing countries. Chinese engineers have recently completed Africa's first electrified international rail link. The railway line connects the Ethiopian city of Addis Ababa with Djibouti. The construction took six years and cost USD 4 billion - funded with Chinese loans. For Djibouti, the connection of the neighboring country brings significant economic benefits.

KENYA

According to information received from the Kenya Sisal Board (KSB) about 15.300 mt of Sisal fibres were exported during the period of January to August of this year.

The importing countries during the period of January to July are:

Saudi-Arabia:	abt. 3.290 mt (21,5%)
China:	abt. 2.292 mt (15%)
Morocco:	abt. 1.380 mt (9%)
Nigeria:	abt. 1.363 mt (8,9%)
Spain:	abt. 1.264 mt (8,3%)
Philippines:	abt. 890 mt (5,8%)
Egypt:	abt. 853 mt (5,5%)
Ghana:	abt. 808 mt (5,3%)
India:	abt. 548 mt (3,6%)
Belgium:	abt. 408 mt (2,7%)
Ivory Coast:	abt. 312 mt (2%)
Indonesia:	abt. 280 mt (1,8%)

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Exports to the construction industry (Saudi-Arabia, Morocco, Nigeria, Ghana) still dominate the market. A vast part of exports to Spain (with final destination Morocco) and Egypt will also be destined for customers in the construction industry. Exporters have to accept low price levels for sales to traditional industries (like spinning mills and pulp / paper industries) whilst much better prices can be achieved with sales to the construction industry.

Kenya's economy showed signs of acceleration in the first quarter of 2018, growing by 5.7 per cent compared to 4.9 per cent during same period in 2017. A continued recovery in tourism positively stimulated the economy in the first quarter of this year. The Central Bank of Kenya projected the economy to grow by 6.2 percent in 2018. In spite of such an economic sign of recovery, most Kenyan cities, including the capital Nairobi, are still adhering to water rationing with no sign as to when such rationing will be lifted.

TANZANIA

Statistics from the TSB (Tanzania Sisal Board) indicate a production of 21.981 mt for the period of January to June 2018. For the same period, the volume of exported Sisal fibre reached about 9.700 mt. Looking at the first half of this year the exports to China increased further and have meantime reached a level of almost 60% of exported Sisal fibre going to China. When it comes to Chinese customers, their focus is very much on Tanzania and not on Kenya. 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. This is a clear advantage compared to Kenyan Sisal exports to China. Already in the last issue of our market report we dwelt on the fact that Chinese agents have in the past two years become very active in Tanzania, and that their activities are often counterproductive as wrong impressions are created (on the producers' side) with regard to volumes and pricing.

The importing countries during the period of January to June 2018 are (figures from the TSB):

China:	abt. 5.960 mt (58%)
Saudi-Arabia:	abt. 852 mt (8,7%)
Nigeria:	abt. 587 mt (6%)
Spain:	abt. 484 mt (5%)
Philippines:	abt. 381 mt (4%)
Morocco:	abt. 260 mt (2,7%)
India:	abt. 228 mt (2,3%)
Libya:	abt. 182 mt (1,8%)
Egypt:	abt. 127 mt (1,3%)
Ghana:	abt. 108 mt (1,1%)



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Compared to last year (Jan to Dec 2017) the exports from Tanzania to China have further increased and reached a new peak while exports to all other destinations have decreased.

Figures of economic growth in Tanzania have remained very stable in the past two years. Construction, mining, transport and communications were key growth drivers in 2017. Growth is projected to remain stable at 6.7% in 2018 and 6.9% in 2019, representing one of the best performances in East Africa.

MADAGASCAR

Exports of Sisal fibres (according to statistics received from the Malagasy customs) reached a total of 3.075 mt for the period of January to June 2018. This is a monthly average of about 512 mt. If the monthly exports continue at same level until end of the year, the total quantity could reach a volume of about 6.100 mt which would signify a small increase of about 5% in total volume compared to the year before.

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

China:	abt. 1.440 mt (47%)
Morocco:	abt. 880 mt (29%)
Spain:	abt. 310 mt (10%)
India:	abt. 120 mt (3,8%)
Saudi-Arabia:	abt. 106 mt (3,4%)
Vietnam:	abt. 76 mt (2,4%)
Ivory-Coast:	abt. 64 mt (2,1%)

The ranking of importing countries remains unchanged and has not altered in the past years.

Madagascar is in a deep political crisis as a result of an electoral reform passed in April this year, which the opposition believes would have favored the government. Protests followed for weeks, including violent clashes with security forces.

In early May, the Supreme Court of Madagascar overturned parts of the controversial electoral law and obliged politicians to form a unity government by the end of May to resolve the crisis. Later, President Rajaonarimampianina passed a law granting new powers to the opposition. But the regulation did not go far enough for the opposition. Violent protests were therefore held again in the capital Antananarivo. The Constitutional Court intervened in the conflict. The judges called for the presidential and parliamentary elections to be brought forward to the dry season between May and September (so far, the elections are scheduled for November and December 2018).

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