



Sisal Market Report

April 2017 to October 2017

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BRAZIL

At the beginning of this year there were still hopes that the production of sisal fibres in the growing areas in and around the Sertao would recover. However, this regrettably is not the case, Though there have been regular rainfalls during the period July/September these rainfalls proved to be were just scanty for providing necessary strength to the plants. Farmers are reporting from several planting areas a vegetation die back of the robust sisal plants (Agave Sisalana) which is a sequence of the long dry periods during the last years. It is estimated that there has been a loss of plants to the tune of 30 to 40 %. Because of the long dry spells during last years the sisal plants have become more prone to diseases and more recently to a kind of. putridness. The leaves of the plants are increasingly cut earlier. This means the plants have no more cycle of recovering. Quite independent from climatic conditions this development affects the fibre yield and causes a deterioration of the quality.

Under prevailing circumstances nobody is prepared to run the risks of new plantings since the soil is just too dry and leached out. The Brazilian Development Bank (BNB) has offered credit facilities to the tune of 100 million Reais for new plantings. However, nobody is planting during drought like conditions. Putting monies at the disposal of farmers is a kind of political gesture of the Brazilian government since smallholders are not in a position to give guaranties to lending institutions. Besides here is the hurdle there is-excessive and complex red tape to cope with.

The decline of production is also evident from export figures. During the years 2015 and 2016 average monthly exports amounted to 2.900 mtons. This year the average per month is 2.200 mtons which corresponds to a decline of 25 %. Assuming that monthly exports during the period September to December 2017 will remain at the same (reduced) level, sisal fibre exports during this year should not reach more than about 26.000/27.000 mtons. This would represent a fall in exports of about 25 % compared with preceding years 2015 and 2016 when sisal fibre exports were each year about 34.000 mtons.

Now as before, China with a share of about 42 % is the largest importer of Brazilian sisal fibres. However, monthly quantities exported to China this year have sharply declined. During 2016 monthly exports were about 1.300 mtons. During the period January/September these just reached 880 mtons monthly. This represents a decline of 30 %. The local market for sisal products (yarns, ropes and cloth) sharply contracted some 1.5 years ago. At the current high price level of Brazilian sisal, only those Chinese companies can afford buying Brazilian sisal fibres which have export markets. Those companies are benefitting from tax reductions accorded by the Chinese government. Chinese sisal processors focussing on the local Chinese market try to buy and blend Brazilian sisal fibres with locally produced fibres (Provinces GuangDong and Guangxi). The demand for lower qualities (type 4 and Refugo) has seen a hike during the last months. However, these fibre qualities are also in demand in Brazil from spinning mills for production of baler twine of lower quality and are destined for sale to local buyers in Brazil.

Portugal with a share of about 23 % is the second largest outlet for Brazilian sisal fibres. Exports to Portugal during the last year remained stable and during the first 8 months of this year they almost reached the annual quantity exported to Portugal in 2016 (4.100 mtons). This demonstrates that the European requirements of binder twine and baler twine are still quite high for instance for binding of flax.



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Exports to Algeria were almost unchanged and reached 1.500 mtons during the period January/August 2017. This means that Algeria is the third largest buyer of Brazilian sisal fibres with a share of 9 %. The bulk of Algerian imports is processed by local spinning mills. However, more and more carded fibres (in rolls) are produced for the requirements of the local building industry. Algeria and Egypt are the only important buyers of Brazilian sisal fibres for application in the building industry. Exports going to Mauretania, Kuwait and Morocco are hardly noteworthy. Exports to Egypt (6 percent) are declining and monthly quantities exported to Egypt have been reduced by 30 % and currently amount to just 130 mtons.

Further foreign buyers with an annual volume of about 500 to 800 mtons are Mexico, India, the Philippines and Indonesia with each of these countries having a share of 3 to 5 %)

As far as exports of baler twine are concerned the downward trend, already noticed last year, continues this year and business is on the decline. For this development the US market, the main outlet for Brazilian baler twine, is responsible. Sisal baler twine used in the agriculture is facing sharp competition from PP baler twine. Like in other countries. i.e. Morocco among others the competition from PP baler twine has been mounting over the last years and this has led to great pressure on sisal baler twine prices in the north American market. The Brazilian sisal spinning mills are forced to reduce their baler twine prices, but how is the big question. Prices for sisal fibres have increased again since end of 2016 and in addition benefits for social security and taxes are very high in Brazil. Already in 2015 exports of baler twine witnessed a slump of 24 % and it is expected that this year exports will decline further by 20 %. (based on export figures January to August 2017).

The development of the Brazilian REAL against the US Dollar during the period January/October 2017 is illustrated by the following chart.



(Source: exchangerates.org.uk)

By end of 2016 Brazilian sisal fibre prices (Standard Type 3) were ruling at a very low level, influenced by the rate of exchange (Brazilian REAL/US-Dollar) and by the uncertain demand situation during 3rd and 4th quarter 2016. However, by middle of 2017 prices increased again by 30 % and have meantime maintained the same (high) level.



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Especially for traditional industries, like spinning mills and paper pulp manufacturers, these drastic price increases are difficult to cope with. When looking at matters from the angle of sisal producers the price development during the last years has been advantageous. This has resulted in an improvement of living standard. However, that development has been responsible too for lowering of productivity with work confined to a 3 days-week, quite opposed to coffee production and other sectors which are used to a five- or six day-week.

The container freight rates applying for shipments from Brazil to Europe have hardly changed this year. When it comes to shipments to Asian destinations, shipping companies are trying for higher box rates. Whether they will succeed, remains to be seen. At present the port of Salvador/Bahia is served by a few shipping companies only among others MAERSK, MCS, CMA-CGM and HAPAG LLOYD. HAMBURG SÜD too is offering a service which, however, for cost reasons (on account of very dear feeder service provided by HAMBUR SÜED partner ALIANCA) does not come into consideration for sisal exports.

Since September availability of freight space has become scarce. This is due to higher freight demand in southern ports (i.e. Santos) and due to the fact that the a.m. shipping companies are sharing slots on the same feeder-service. Even at the time when this report goes to press MAERSK has not yet recovered from the consequences of a cyber-attack in June this year, which led to a jamming of containers and the delays in transhipments still experienced are enormous. In June there was another problem cropped up, as the Santos Port Authority had not cared to have the port basins regularly dredged and the long overdue works were finally done by end of June 2017. The insufficient draught compelled the shipping companies to have their vessels sail from Santos with reduced cargoes and this over a longer period which again meant that containers left behind were piling up and their number became bigger and bigger as time went on. This made it impossible to maintain orderly service, which in turn caused jamming of containers in the port. This jam has not been ever cleared at the time of writing this report. The situation was aggravated in September when the export season of coffee and cane sugar started and these commodities are mostly shipped from Santos. Since all shipping companies give priority to Santos, rotation of vessels is frequently changed and calls at Salvador/Bahia in the North East of Brazil are simply skipped or are only made sporadically. For this reason there were delays in export shipments of sisal fibres from Salvador/Bahia.

The exports of other commodities shipped from Bahia have significantly increased. In that context specially to be mentioned Soya, cotton and fruits with a quantity-wise increase of 12,5 %. In the case of chemical and petrochemical products, the increase amounts to more than 50 % and in the case of copper exports via Salvador/Bahia have doubled.

According to current official statistics Brazil is at present benefitting from exceptionally low inflation. During the first 9 months of this year the inflation rate was just 1,78 %, the lowest for the last 19 years. The President of the Brazilian Central Bank, Ilan Goldfajn, let it be known that the main target was to fight inflation and keep inflation low and thus interest level too. The present low inflation rate which at the beginning of this year was still 11 % enables the Brazilian economy to slowly recover from the consequences of the worst recession in history. Economists hold the view that the fall of inflation rate is the result of extreme recession the Brazilian economy went through. After the Brazilian economy saw a decline of 7 % within 2 years, the number of jobless people increased to 13 million.



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The sharp decline of inflation enabled the Brazilian Central Bank to reduce its reference interest rate from 14.25 % to 8,25, % p.a. Economists do not exclude the possibility that the interest rate may come down to 6.5/7 %. The strong recovery of the Brazilian economy is credited to President Michel Temer and is very competent team of economists.

Handicapped by corruption scandals, the Brazilian government is presently not able to push through tax reforms in order to cover the budget deficit of 10 %. This concerns the overgenerous pension's scheme. Under these circumstances the Brazilian government is trying to fill the budget gap by anticipated privatisations of state owned companies.

A bumper crop contributed to reducing food prices so that consumer prices came down year after year and reached the lowest level since 1994. This makes itself felt especially with politically sensitive food products. For instance the price of tomatoes declined by 11%. There have been a plenty of rains and the barrages were full up. The companies providing electrical power reduced their prices. The low petrol prices had a positive impact on transport costs.

Prices

Prices for East African Sisal fibres (standard grade UG) remain very stable in the past six months. Long fibres of grade 3L remain scarce and require a high premium. There is still a price difference between Kenyan and Tanzanian / Madagascar Sisal fibres as some export markets (especially construction industries) prefer fibres of Kenyan origin – and are prepared to accept higher price levels for this origin. Since several markets have become quite saturated (Nigeria, Morocco, Saudi-Arabia) the customers have become reluctant to place larger orders and nobody likes to keep stocks. The traditional industries like spinning and paper industry are closely monitoring the market and purchase only minimum quantities that allow them to maintain production. Considering as well the fact that volume exported to China is reduced, producers in East Africa have to accept that the high price policy of past years certainly has come to its end.

Tanzania

According to information received from the TSB (Tanzania Sisal Board) sisal, fibre production during the first half of 2017 was about 15.500 mtons. During the same period about 8.050 mtons sisal fibres were exported. About 27,5 % of exports are destined for Chinese buyers. This means that China now as before is the main buyer of Tanzania sisal fibres. The following buyers importance-wise are Saudi Arabia (about 18 %), Nigeria (about 11 %) and India (about 8 %). The ranking of buyers of Tanzania sisal fibres has remained unchanged during the last years, which more or less applies for exports of sisal fibres of Kenya origin too.

Tanzania has a high economic growth rate, which has been hovering during the last 10 years around 7 to 8 %. This makes Tanzania one of the fastest growing countries in the sub-Sahara region.

According to a forecast made by the World Bank, Tanzania will be one of the 3 African countries with the highest economic growth rate with 7,2 %, after Ethiopia (8,3 %) and Ghana (7,8 %). The World Bank cites as risk factors the weather, since drought periods have adverse effects for agriculture and have a negative impact on the development of Tanzania.



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The inflation rate of 5,2 % may be considered to be low and comes pretty close to the target of the Government of Tanzania which is 5 % The economy highly depend on agriculture which represents about 25 % of gross domestic product and which represents 85 % of exports.

More than 70 % of the population are living in rural areas. Under normal weather conditions the agriculture production is sufficient to meet the national requirements. The long drought periods of the last years and increasing climatic changes are causing mounting problems and thus the share of export earnings from cash crops (coffee, cotton, tea, Tobacco, sisal and cashew nuts) is declining in favour national food supplies. Exports of metals like gold, copper, nickel and silver have been prohibited by the Ministry of Energy and Minerals effective March 2017.

The power sector has restrained the growth of the economy. According to the national statistics bureau, the number of households having access to electricity has increased by 30 % countrywide. However, there is a big difference between town and rural areas.

While in the towns 60 % of the population have electricity, hardly 17 % of the population in rural areas have access to electricity. The Government is aiming at a solution of the problem by a higher exploitation of gas deposits in coastal areas which are already explored in the South of the country and at exploration of natural gas of further natural gas off shore deposits in the south of the country.

The start of building the planned deep-sea port in Bagamoyo is subject to a further delay. New target completion of the first stage of construction is the year 2025. Important is the connection of the port with neighbouring countries, like Ruanda, Burundi and Uganda. A railway line connecting Tanzania with those countries has been planned since long time but financing the project seems to be a problem.

The state owned China Harbour Engineering Company (CHEC) has allocated USD 154 million for development of the port of Dar-es-Salaam. Existing capacities are to be expanded and one port basin is to be deepened. According to an announcement made by the Government of Tanzania additional USD 305 million have been allocated by the World Bank. Tanzania is in heavy competition with Kenya and its new port of Mombasa.

Kenya

According to information received from the KSB (Kenya Sisal Board) exports of sisal fibres during the period January to August 2017 totalling 14.500 mtons which corresponds to a monthly average of 1.800 mtons. Should the monthly quantities remain unchanged until end of this year total exports will be 21.500 to 21.700 mtons which would be slightly above 2016 total exports of last year (2016 21.250 mtons).



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Main buyers are as follows:

Saudi Arabia	24,0 %
Nigeria	21,0 %
China	14,5 %
Ghana	6,0 %
Egypt	5,5 %
Spain	5,0 %
Morocco	4,5 %
India	4,0 %

The picture is similar to that of last year with 60 % of sisal fibre exports going to 3 countries: Saudi-Arabia, Nigeria and China. Exports to Nigeria increased substantially with that country having a share of 16 % of Kenya sisal fibre exports in 2016 and currently 21 %. Meantime 50 % of total exports of sisal fibres from Kenya are destined for the building industry (Saudi-Arabia, Nigeria, Ghana and Morocco). In the case of exports to Ghana it concerns predominantly sisal tow (more than 85 %). Exports of long fibre to that country are very small.

More than 70 % of Kenyan exports of sisal fibres consist of grade UG followed by SSUG (Substandard UG). The portion of long fibre (90 cm and longer) of grade 3L represents just 6 percent of exports. Exports of Sisal tow No.1 and No. 2 have a share of 6%.

Like other countries in East Africa Kenya is suffering now as before from the climatic change. The last 3 rainy seasons were far beyond expectations. In some regions there were almost no rainfalls. Because of crop failures, prices of staple foods have seen a hike countrywide. Specially the prices of maize flour have appreciated and temporarily increased by more than 50 %. This year's maize crop is expected 20 to 30 % than the average.

The Kenyan Government is continuously investing in the infrastructure of the port of Mombasa and the transshipment of containers has seen a growth by 14 percent. The total annual cargo transshipment of the port of Mombasa is expected to exceed a quantity of 50 million mtons by 2030, which means a hike of 50 % compared with 24 million mtons 2015. End of May the new railway line (the existing one is 100 years old) between Mombasa and Nairobi was put in operation. The Madaraka Express reduces the voyage time from 15 hours to 4,5 hours. The project necessitating investments to the tune of USD 3.2 billion was financed by Chinese investors who built the new railway line.

On the one hand, Kenya is fortunate to have a diversified national economy with a steady annual economic growth of 5 to 6 % on the other hand, Kenya suffers from a strong growth of population. According to UNO estimate population is expected to be 97 million by 2050 which would mean a doubling of population compared with present population of 48 million people. Kenya is suffering too from high unemployment (almost half of the population is jobless). The indebtedness has increased since state income is inadequate to finance infrastructure work. Biggest creditor has meantime become the People's Republic of China and one wonders how Kenya will manage to settle the debts at maturity.



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Madagascar

Exports of sisal fibres during the period January to September 2017 amounted to total 4.355 mtons, which correspond to monthly average of 485 mtons. If the monthly quantities until end of the year remain unchanged total exports this year would reach about 6.000 mtons and thus remain below the quantities of preceding years (2015/2016 annual exports were about 6.300/6.400 mtons).

Main buyers were as follows percentagewise:

China	32 %
Morocco	31 %
Spain	12 %
India	7 %

The ranking of countries of destination has remained unchanged during the last years. It strikes that exports to Spain since beginning of 2017 have almost halved, while same time exports to Morocco have increased. In the past a big portion of the Madagascar sisal fibres imported by Spain used to be re-exported to Morocco (see last market report).

The South of the island (it is there where the sisal plantations are located) suffers since several months from severe drought. During the last couple of months, some of the sisal plantations had no rainfalls. The young plants have remained very much behind normal development. Indeed, it becomes more and more risky to cut leaves during the drought-like conditions since this could cause the dieback of plants. It is reported that some plantations during the years 2016/2017 have cut leafs without regard for the condition of plants. This has already prompted a dieback of plants on a large scale and one has to reckon with a decline of production. Should there be no restart of rains in time it is apprehended that some sisal producers will be compelled to temporarily stop production.

A big problem are the low water levels of the rivers in the South of the island. This means that water is lacking for machine decortications of leafs (with so called CORONA machines). Such type of machine requires 20.000 to 30.000 litres of water each hour. The water cannot be recycled since after decortication several saps of the plants are dissolved in the water. Experience has shown that repeated use of such contaminated water is resulting in a grey sisal fibre without lustre.

Development of the infrastructure is promoted by the World Bank, the EU and the African Development Bank. A problem remains that the bureaucracy of Madagascar is hardly able to ensure that the monies will reach their intended use in an orderly manner. Considerable delays are quite likely. Agriculture represents 36 % of the gross domestic product (after service sector) and is the most important economic sector. Madagascar has a utilised agricultural area of 35 million hectare of which presently just 6 % are being used. According to the African Development Bank this is a huge potential, however, regrettably only in theory since Madagascar is worldwide one of the countries which are hit by climate phenomena El Niño. The cyclone Enawo which happened in March 2017 has ruined a great part of arable land.

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