

M. & W. HELLER

GEGRÜNDET 1871

Sisal Market Report brief update October 2023

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05.10.2023

BRAZIL

Looking at Brazilian export statistics shows a strong increase in volumes to China. China - still the largest single market for sisal fibre - has almost doubled its purchases from Brazil in the first 6 months of this year (Jan-Jun 2023 about 22.000 tons / Jan-Jun 2022 about 12.000). Of course, this development has been to the disadvantage of the comparatively high-priced African Sisal.

The decisive factor for Chinese importers was the very favourable price level for Brazilian Sisal fibre, since the end of 2022. The unexpectedly high demand from China was also fuelled by the expectation that the Chinese economy, following the abolition of health restrictions (to fight the pandemic), would experience a strong economic boost. Another important factor for the strong imports from Chinese customers were the continuously falling freight rates from Salvador / Bahia to Asia and the Far East (especially China).

In the meantime, prices for Brazilian Sisal are trending firmer again, as the Brazilian currency has depreciated against the US dollar. Exchange rate fell from values between 5.20 / 5.30 in the spring of 2023 to below 4.80 in July / August 2023. Since the end of September, the Brazilian Real has strengthened again and was most recently at a level of about 5 Reals per US-Dollar. It is not yet clear how stable this upward trend will be.

Weather conditions were very good for the Sisal plants over a long period, as many growing areas were blessed with with very regular rainfalls. The usually so dry region in the northeast of Brazil (the so-called 'Sertao') has not been seen that 'green' for many years.

In mid-July, CONAB (part of the Brazilian Ministry of Agriculture) announced the new "guaranteed" minimum sisal prices for farmers - but these were far below what farmers had hoped for. It seems that the calculations of the CONAB did not take into account recent cost increases. CONAB also probably assumed wrong (too high) yields per hectare. Consequently, only a few farmers sold to the CONAB because the prices were "just too bad".

Freight rates from Salvador / Bahia have developed very favourably since the beginning of this year. The shipping lines continue to work with 'spot rates' and it is still difficult to reserve freight space for a specific vessel.

EAST AFRICA / MADAGASCAR

In contrast to the positive developments in exports from Brazil, the picture in East Africa is different. The fact that Chinese customers imported unusual large quantities of Brazilian Sisal fibre this year was detrimental to African Sisal fibre. In recent months, there have been an increasing number of reports about shippers holding unsold stocks of line fibre and Tow - accordingly prices showed continuous downward trend since April / May of this year.

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For many Chinese importers of Sisal the situation remains difficult, as hopes for a rapid recovery of the Chinese economy have not fulfilled. The Chinese currency has lost about five percent against the dollar (since early 2023) and the real estate crisis is a major issue given its large weight and contribution to the domestic economic activity. The majority of Chinese processors of Sisal fibres face steadily increasing competition. To keep production costs as low as possible the factories rely on the cheapest possible raw fibre, fibres which they can now also find on the local market (as there are large stocks available, mainly of Brazilian Sisal). The comparatively more expensive Sisal fibres from East Africa are less in demand.

For the sisal plantations in Madagascar, the situation remains extremely difficult. The sharp rise in energy costs has impact on production costs while same time production volumes have been falling steadily for years (mainly due to the adverse climatic conditions). It is reported that some plantations have not been producing at all for a long time (they have practically been given up). Another burden for the export of Sisal fibres from Madagascar is the fact that the freight rates from the port of loading in Ehoala are three to four times higher than comparable freight rates from Tanzania or Kenya. All attempts made to persuade the shipping company CMA/CMG, which is the only shipping company serving the port of Eohala, to lower the rates have unfortunately proved to be unsuccessful so far.

MARKET

The traditional industries that process Sisal (spinning mills /pulp- / paper industry) still suffer from the negative effects of rising energy prices worldwide. Many projects that were initiated in 2022 are on hold or have been postponed. Reliable planning beyond 3 months is currently not possible for the majority of companies.

Also the so-called 'new markets' in the construction industry (using Sisal fibres for gypsum / plastering works), mainly located in West Africa, struggle with problems, since West Africa experienced slower economic growth over the past year. In addition, remittances in USD from many West African countries have become increasingly problematic (the state banks have no reserves).

In many places in West Africa, the construction business is stagnant and customers dispose of stocks, so the imported quantities of Sisal fibre are not nearly as high as in previous years. The aggravation of negative domestic political problems in several West African countries also had a negative impact on demand from this region.

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EORI DE798889047626050
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