

Sisal Market Report brief update January 2024

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04.01.2024

BRAZIL

Focus China: Exports statistics from Brazil to China had slowed in the period from July to September 2023 and show an increase again in October and November. Overall, exports to China now account for over 75% of total exports (Jan-Nov 76.5%). In the last report, we already pointed out the enormous increase in exports to China, which was primarily a result of the very high export volumes in April, May and June 2022.

With the upcoming Chinese New Year (10 February 2024), exports are slightly lower in December due to the transit period (to avoid goods arriving during the holidays). Chinese importers are reporting a further increase in competition pressure for Sisal products - both on the local and export markets. All production sites are under additional pressure to minimise costs

It was actually expected that the Chinese economy would recover quickly in 2023 and resume its role as the 'engine of global growth'. However, this has not materialised and the country is still struggling with the property crisis, weak consumption and high youth unemployment. Most economists expect the world's second largest economy to reach its official growth target of around 5% this year, but this is still less than the average annual growth of more than 6% in the decade before the Covid pandemic.

Against this background, it can be assumed that Chinese importers will continue to give preference to Brazilian Sisal instead of African fibre. The price difference between standard grades in Brazilian Sisal and African fibre is around USD 500 to USD 600 per ton. Even the freight surcharges, which all shipping companies ex Brazil to Asia and Far East have implemented from January 2024, are unlikely to change this.

The last quarter of 2023 saw less rainfall in the regions where Sisal is grown. However, it is still too early to speak of a real shortage in production.

The exchange rate of the Brazilian Real to the US dollar has been fairly stable since the slump at the end of July 2023 (4.70) and has been quoted at between 4.80 and 4.90 since November 2023. Export prices have remained quite stable in the last quarter of 2023.

The Organisation of the Petroleum Exporting Countries (OPEC) and its allies announced end November 2023 that Brazil will join the 13 oil-producing countries in January 2024. Latin America's largest economy exported an average of 1.8 million barrels of oil per day in the third quarter, 40 per cent more than a year earlier, according to official figures. This decision is likely to have a positive impact on the Brazilian economy.

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EAST AFRICA / MADAGASCAR

Focus Climate: Extremely adverse weather conditions characterise this region of the world. At the end of March 2023, the region at the Horn of Africa experienced above-average rainfall. This had a positive impact on grassland and water resources. However, the extremely dry soil led to flash floods that destroyed houses and killed livestock. Kenya, Somalia and Ethiopia are particularly affected, but also parts of Tanzania. The floods were followed by another long period of drought until the region was hit again by heavy rainfall in October and November 2023. The enhanced rains are a result of El Niño conditions and a positive Indian Ocean Dipole (IOD) which are currently present in the Pacific Ocean and Indian Ocean respectively.

With regard to Sisal, however, it should be noted that the weather events have only had a minor impact on production - at least as far as Kenya and Tanzania are concerned. This is in stark contrast to Madagascar, where the south of the country has been suffering from persistent drought for years - with a strong (negative) impact on Sisal production.

Focus Kenya: The Kenyan economy has recovered quickly from the economic impact of the pandemic years. However, Kenya is vulnerable to the price shocks for consumer goods caused by the Russian war of aggression against Ukraine. In particular, imports of fuel, fertilisers, wheat and other foodstuffs have become significantly more expensive. Kenya remains the driving economic force in East Africa and is politically important for stability in the region. However, even with a new government under President William Ruto, the state is likely to continue to struggle with investments - the pressure to reduce expenditures is great. On the other hand, the need for infrastructure expansion, for example, is immense.

The road connecting Kenya and Tanzania that was commissioned under the East African Community in 2022 is now over 35 percent done. The "Bagamoyo–Tanga-Horohoro/Lunga Lunga-Malindi Road" project is being financed by the African Development Bank (AfDB), African Development Fund (ADF), European Union (EU) and Government of Kenya. The project road, approx. 54 kilometres within Kenya (total of 454 kilometres) is expected to be completed by end of 2024. The project is to improve road transport services between Kenya and Tanzania by reducing travel time, vehicle operating cost and decreasing traffic congestion. The road runs along the East African coastline which has a rich tourism and horticultural potential.

Focus Tanzania: The economic outlook for Tanzania is currently positive. At just over 3%, inflation in Tanzania is below the level of other East African countries. However, there have been significant price increases for some imported goods such as fuel, fertilisers and grain. This trend is reinforced by the devaluation of the Tanzanian shilling (T.Sh.). The national currency has lost more than 15 per cent in value against the euro over the past twelve months.

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In October 2023, the Dubai-based logistics group and global port operator DP World signed a 30-year concession agreement with the Tanzania Ports Authority (TPA) for the operation and modernisation of the multi-purpose port of Dar es Salaam. The concession to operate and modernise the Dar es Salaam Port was awarded to DP World with the primary objective of optimising the Port's operations to improve transport and logistics services throughout Tanzania and its hinterland.

Focus Madagascar: President Andry Rajoelina was re-elected at the end of November 2023 with nearly 59 per cent of the votes cast. According to official figures, voter turnout was just over 46 per cent. Rajoelina said in an initial reaction that the Madagascans had opted for the "path of continuity and stability". All of the 49-year-old's rivals stayed away from the announcement of the election results. Prior to the current vote, there had been repeated protest marches by the opposition, some of which were violently broken up by the police.

In Madagascar, 80 per cent of the population live in extreme poverty. Climate shocks, such as more intense cyclones and longer droughts, are one of the main reasons for hunger and poverty in the country.

After four years of drought and increased food prices, as a result of the COVID-19 pandemic and the war in Ukraine, more than one million people - especially in the south of the country - are regularly affected by severe hunger. The United Nations World Food Programme (WFP) works closely with the government and has been able to improve the food situation in recent years.

Madagascar's mining industry seems to be regaining momentum after the world market prices for minerals have recently risen significantly. Madagascar has numerous mineral resources, including nickel, titanium sands, graphite and rare earths. Industry experts are expecting investments in graphite in particular, which is used in electric cars. The long-awaited new legal framework, which was passed by the government in the middle of last year, could ensure better planning.

Unfortunately, there has been no improvement in Sisal production - the volumes produced have been declining for years. Two producers have been out of production for some time. Another producer temporarily stopped production at the end of last year. There is currently only one plantation left which maintains the producton. The rainfall in 2023 has not been sufficient for a healthy growth of the plants. Due to the persistent drought in recent years, yields per hectare (in dry raw fibre) have been reduced. This makes it increasingly difficult to cover operating costs. Another problem is the very high freight rates from Ehoala, which make it difficult to remain competitive on sales markets.

M. & W. HELLER

GEGRÜNDET 1871

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MARKET

Last year's strong weather fluctuations in East Africa had an impact on quality. During the dry months in particular, many producers were forced to downgrade qualities. Overall, availability has not changed significantly in the East African producing countries (with the exception of Madagascar). Prices for standard qualities have shown downward trend in the last 6 months, which is due to the rather restrictive purchasing behaviour in key markets, such as China.

Sisal processing industries (spinning mills, paper industry, construction industry) are under great pressure to cut costs in order to compensate for the increased energy costs and long-term planning has become very difficult.

Against the background of the conflict in the Red Sea, all shipping companies have now introduced surcharges with effect from January 2024. Freight rates from the Far East to Europe have more than tripled in just a few weeks. Also other trade lanes - such as from Brazil to Asia and the Far East - are affected by freight increases. This will have negative impact on trade, which had just picked up again since mid-2023 - with freight rates finally returning to pre-pandemic levels. It is to be hoped that the freight rate increases will be temporary.

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