

Market Report Sisal May 2019 to January 2020

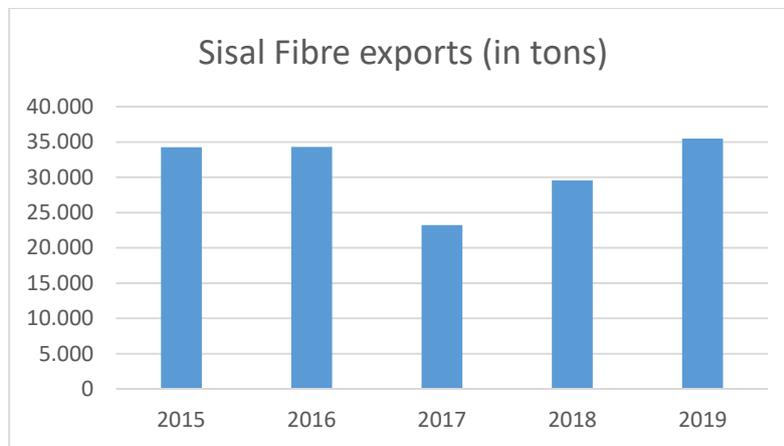
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BRAZIL

In the year 2017 the monthly average in Sisal fibre exports was at about 2.000 tons. In the following year this quantity had already increased by 500 tons per month. In 2019 we see that the average monthly quantity already reached almost 3.000 tons.

Exports of sisal fiber from Brazil have developed very positively in recent years, illustrated in the following chart.



A total of about 35.000 tons of Sisal fibres were exported in the period from January to December 2019.

The Sisal producing areas in Brazil have received good rains from October 2018 to March 2019 – also August to November 2019 rains have been reported. Although the sisal plant can survive dry weather conditions regular rainfalls (even if they should be little) are helpful for a normal development of the existing and especially for newly planted fields. The constant weather conditions in the past 12 months have had positive impact on the growth of the Sisal plants – and consequently lead to an increased volume of exported fibre in the year 2019.

It is difficult to judge the exact area of planted Sisal in Brazil. Contrary to East Africa Sisal in Brazil is grown by small scale farmers (not large plantations) only. Most farms in Brazil have only patches of Sisal plants.

Sisal production in Brazil:

2017 – abt. 51.000 tons

2018 – abt. 50.000 tons

2019 – abt. 50.000 to 53.000 tons

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With good market conditions for Sisal on the export side Sisal fibre has come back into the focus of the farmers in the Sisal producing areas (mainly the Coité region in the state of Bahia). Production is increased as farmers clean the fields and also harvest Sisal on far away – previously abandoned - Sisal fields. Also Sisal has been replanted in the past years. In case that weather conditions will be favourable, these plants will become mature in the next 2 years which will further push production / exports.

The importing countries in 2019 were:

China:	63 %
Portugal:	8%
Algeria:	7%
Spain:	4%
Indonesia:	4%
Mexico:	4%
Egypt:	3%
India:	2%
Philippines:	2%

The figure for Chinese imports is impressive and the country has continuously increased the volume of its imports in the past two years (back in 2017 the share of China was 37 % 'only').

Another important factor behind the rising export volume in 2019 is to be seen in connection with the development of the exchange rate (USD / Real) – as per the below chart:



(source: currencyconvert.online)

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With an exchange rate around 3,8 to 4,0 Brazilian real per US dollar, prices have remained very stable in 2019 - even price reductions (for spot lots) have been noticed during months when exchange rate reached a level between 4,1 and 4,2 Brazilian Real per US-Dollar.

At the moment, it should be assumed that prices will stabilize at the current level – however this is always subject to the development of the exchange rate and weather conditions.

The market for baler twine had shown continuous downward trend in the years 2015 (abt. 23.000 tons) to 2018 (only about 14.000 tons). For the past year the exports of baler twine have stabilized – actually exports increased to abt. 15.000 tons in last year.

Brazilian Minister Paulo Guedes recently said that Brazil must prepare for a weaker Real (Brazilian currency). Since the beginning of the year, the US dollar has gained 15% against the real. Since the 1994 economic reform, Brazil has almost continuously had an overvalued Real - this is changing now. With a key interest rate of 4.5% and inflation of 3.5%, Brazil's financial markets are unusually stable. The central bank no longer has to raise interest rates to curb notorious inflation. Inflation is so low because Brazil's economy is stagnating after a severe recession – the industry is underutilized and unemployment rate is still high.

Brazil earns less from the export of agricultural products and industrial raw materials - due to weaker growth in China. Investors are currently avoiding the whole of South America because of the low economic growth and the tense political situation.

Brazil might have reached a point where a positive economic development is possible. After all, President Bolsonaro succeeded in reforming the pension system (this even implied the need of change of the constitution of Brazil). All of his predecessors had failed in this project. The reform of the pension system, cutback of bureaucratic obstacles and other improvements are a prerequisite for Latin America's largest economy to experience an economic upswing - nevertheless, it is still not yet a guarantee.

EAST AFRICA / MADGASCAR – climate / weather conditions

Many countries in East and Central Africa suffered badly from extreme weather fluctuations in 2019. The extreme weather is blamed on the IOD (Indian Ocean Dipole), a climate system defined by the difference in sea surface temperature between the western and eastern areas of the Indian Ocean. The IOD is the Indian Ocean counterpart of the more well-known Pacific El Niño and La Niña.

This year's sea temperature difference between the western and eastern Indian Ocean has been much higher than normal. The ocean off the East Africa coast is far warmer than usual, resulting in higher evaporation which results in heavy rain over the continent. On the other side of the Indian Ocean it is the adverse situation – extremely high temperatures and continuous drought in Australia.

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Rainfall from October to mid-November 2019 was as much as 300% above average across the Horn of Africa. The extreme downpours during this period have affected close to two million people and washed away tens of thousands of livestock in Kenya, Somalia, Burundi, Tanzania, South Sudan, Uganda, Djibouti and Ethiopia.

Kenya has two rainy seasons linked to the movement north and south of the Inter Tropical Convergence Zone (ITCZ). It is a zone of heavy rain and thunderstorms where north-easterly and south-easterly trade winds meet. This zone of wet weather moves south over Kenya in the months of October to December and is known as the "short rains". In 2019 however the short rains have gained disastrous dimensions. More than 130 people have died across the country since October of last year, as a result of flooding and landslides caused by heavy rains. Nearly 20,000 people have been displaced. The next rainy season is March to May - this time is known as the "long rains" when rainfall is usually more intense than during the "short rains". In 2016 and 2017 the long rains in areas of East Africa failed and plunged parts of Kenya into a food crisis as cattle starved and crops withered.

Also Tanzania suffered badly from uninterrupted rains and floods two times in 2019 (first in April /May and again in the period from October to December) leaving homes damaged or destroyed, roads blocked and bridges submerged. In Dar es Salaam, the commercial capital of Tanzania, the repeated floods resulted in the displacement of large number of households and the destruction of important infrastructure. According to the World Bank, at least 39% of the population or 2 million people have been impacted either directly or indirectly by floods in this city.

Also Madagascar and Mozambique regularly suffer from very adverse weather conditions (see market report May 2019).

Weather phenomena, like the aforementioned IOD (Indian Ocean Dipole) or El Niño / La Niña or others, will continue to have a strong impact on the production of natural fibres worldwide – not only on SISAL.

KENYA

According to information received from the Kenya Sisal Board (KSB) about 18.985 tons of Sisal fibres (and Tow) were exported during the period of January to October 2019.

Adding an estimated 3.800 tons for the last two months of 2019 (monthly average of about 1.900 tons) the total in exported fibre should reach a level of about 23.000 tons. This figure is close to the previous year (22.812 tons exported in 2018).

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The importing countries (based on export data of KSB Jan to Oct 2019) were:

Nigeria:	abt. 4.232 tons (22,3 %)
China:	abt. 3.655 tons (19,3 %)
Saudi-Arabia:	abt. 3.025 tons (15,9 %)
Morocco:	abt. 1.670 tons (8,8 %)
Ghana:	abt. 1.500 tons (7,9 %)
Egypt:	abt. 835 tons (4,3 %)
Spain:	abt. 735 tons (3,8 %)
India:	abt. 615 tons (3,2 %)
Belgium:	abt. 432 tons (2,2 %)

The first three places in the ranking are unchanged since long. It is, however, highly remarkable which changes have taken place with regard to the volumes exported to these three countries.

Exports of Sisal fibres from Kenya to Nigeria have considerably increased from about 2.600 tons in 2018 to about 4.200 tons in the first 10 months of 2019 (an increase of 60%). Sisal is not only absorbed by the Nigerian construction industry but Nigeria also serves as hub to other West African countries. The congestion in Nigerian ports of Lagos, Port-Harcourt and Onne has reached an extreme level and ships coming to the ports are currently stranded at anchorages near the ports. Nigeria's land borders remain closed since August 2019 and this has caused a higher cargo throughput at the aforementioned seaports. The situation is made worse by the fact that the terminals at Nigerian ports lack of modern and efficient cargo handling equipment.

Exports from Kenya to Saudi-Arabia have fallen sharply – from 4.700 tons in 2018 to only abt. 3.000 tons in 2019 (reduction of abt. 35%). Saudi-Arabia used to be a construction market with the focus on high quality and Kenyan Sisal was always preferred by importers. However during the year 2019 also standard and lower qualities have found a good sale on this market (especially from Tanzania). Meantime even enquiries for Brazilian Sisal have been received from the Saudi market. The construction market in Saudi-Arabia started booming since end of 2019 due to huge investments by the government. It is expected that Sisal imports will slowly pick up in 2020 (due to large scale projects announced by the government).

It should also be mentioned that there is projects in the building industry (small houses / apartments) where the use of Sisal reinforced gypsum boards is a tradition – and the work is done by hand by experienced workers. On the other hand there is a growing number of large building projects where gypsum boards are used which are manufactured by machines. The output of these machines is huge and handling of these industrially manufactured boards (with glass fibres instead of Sisal fibres) saves a lot of time. It is expected that this year will show a competition between traditional and modern use of gypsum boards.

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While there had been much movement on markets in Nigeria and Saudi-Arabia the Chinese market remained quite stable with regard to the volume of Sisal fibre exported from Kenya.

Over the past decade Kenya has made significant political, structural and economic reforms that have largely driven sustained economic growth and social development. But the country still faces challenges with regard to poverty, inequality, climate change and a continued weak private sector investment. The government follows a long-term development plan - Vision 2030 - for which the President outlined the "Big Four" development priority areas for his final term as President.

The Big Four will prioritize manufacturing, universal healthcare, affordable housing and food security. Over 80% of the Kenyan population, especially living in rural areas, derive their livelihoods mainly from agricultural related activities. Due to these reasons the Government of Kenya (GoK) has continued to give agriculture a high priority as an important tool for promoting national development.

Already by second half September 2019 the port of Mombasa crossed the one million TEU mark – meaning that by end of the year it should surpass the target of 1,3 million TEU (20ft Ctr). The management of the Nairobi inland Container depot has been improved and the average dwell time has gone down to below six days. This is due to the efforts by both government agencies and the private sector.

TANZANIA

The exports of Sisal fibres (and Tow) from Tanzania (source: Tanzania Sisal Board / TSB) showed continuously downward trend in the past years:

2017 total abt. 25.000 tons

2018 total abt. 23.150 tons

2019 total 15.040 tons (Jan to September 2019)

If we add a monthly average of 1.670 tons we arrive at an estimated total of about 20.000 tons for the year 2019 (Jan to December). Already back in November 2017 – during the FAO / IGG working Group meeting in Tanga – it was announced that the Tanzanian government supports plans to increase production (which would also lead to higher exports).

Looking at the above indicated figures the development of Sisal exports went exactly in the opposite direction – a reduction of 20% in two years' time.

Based on the information available from the TSB for exports between January and September 2019 (total abt.15.040 tons exported) the importing countries were:

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China:	abt. 8.970 tons (60 %)
Saudi-Arabia:	abt. 3.620 tons (24 %)
India:	abt. 490 tons (3 %)
Spain:	abt. 370 tons (2,5 %)
Nigeria:	abt. 365 tons (2,5 %)
Morocco:	abt. 190 tons (1,3 %)

Exports to China remained almost unchanged at high level with a market share of 60% of the exported volume. Second largest outlet for Tanzanian Sisal (and Tow) is the construction industry with about 30% (combined exports to Saudi- Arabia, Spain, Nigeria and Morocco).

In 2018 exports to Nigeria (abt. 1.600 tons) and Saudi-Arabia (abt. 1.900 tons) were almost on same levels – the picture in 2019 changed completely and showed a huge increase of exports to Saudi-Arabia – making Saudi-Arabia the second largest outlet for Sisal from Tanzania. During same period exports to Nigeria reduced by 75%. The development of the construction markets in Nigeria and Saudi-Arabia have already been described in relation with exports from Kenya (see rubric Kenya).

The Tanzania Port Authority (TPA) has officially started the renovation and modernisation of the port of Tanga by dredging. The aim is to create berths with a depth of twelve metres instead of the current five metres. Feeder vessels currently still have to anchor far away from the port. Plans also envisage the future construction of a passenger terminal and a modern Single Mooring Point (SPM) for oil cargo. The China Harbour Engineering Company (CHEC) is implementing the project. The first construction phase is expected to cost USD 74 million and is expected to be completed in twelve months.

According to information from Doto Biteko, Minister of Minerals, the Tanzanian government has granted the People's Republic of China licences for the construction of a mineral smelter and for the construction of two gold refineries. Tanzania is one of Africa's largest gold producers, along with South Africa, Ghana and Mali. According to the Central Bank, Tanzania exported gold worth 1.5 billion US dollars in 2018.

By end of July 2019 Tanzania launched the construction of the 2,115 MW hydropower plant over Rufiji River, defying protests by wildlife and nature conservationists. Cairo-based JV Arab Contractors Company and the El Sewedy Electric, an Egyptian engineering firm, won the tender to implement the project. Conservationists criticize the project stating that the construction of the power plant could take nine to 12 years, contrary to the government's insistence that it is a three-year project. Also the construction works on this mega power project will have serious impact on the ecology of the Selous Game Reserve, a Unesco Heritage Site.

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MADAGASCAR

Exports of Sisal fibres and Tow (according to statistics received from the Malagasy customs) reached a total of abt. 5.586 tons for the period of January to December 2019

This is even below the previous two years which always showed about 5.800 to 6.000 tons of exported Sisal fibres (and Tow).

The major importing countries during the period of January to December 2019 were:

Morocco:	abt. 1.895 tons (34 %)
China:	abt. 1.617 tons (29 %)
Spain:	abt. 998 tons (18 %)
India:	abt. 438 tons (8 %)
Ivory Coast:	abt. 262 tons (4,5 %)

The first three places in the ranking are unchanged since long. Exports to Morocco, Spain and Ivory Coast are destined for the construction industry – thus we have about 56% of exported fibres and Tow that is absorbed by the construction market. This underlines the importance of the construction industry as a regular outlet for Sisal fibres from all Sisal producing countries in East Africa.

For Madagascar Sisal we still have a very imbalanced supply / demand situation with annual exports stagnating below 6.000 tons per year (2017 to 2019). This is far below earlier years. Whilst in the years of 2004 to 2007 the average export volume was about 9.000 to 9.500 tons the exports fell back to only 8.240 tons in 2016. From 2016 to 2017 exports reduced again by 25% and reached the low levels level that we see in the past three years.

Of course there are external factors that are beyond control - the weather is definitely one of these factors. The Sisal market report has also repeatedly addressed this problem in recent years. The North Indian Ocean is experiencing one of its most active seasons on record. The above average ocean temperatures are helping cyclones to form (see above explanation on IOD under rubric climate / weather condition). Madagascar is considered one of the country's most impacted by climate change. In December 2019 and January 2020 a series of tropical disturbances rolled eastward across Madagascar causing floods in the north of the island. In January 2020 the country's national disaster management office has warned of hunger and rising food prices due to flooded rice fields.

With regard to production and exports of Sisal fibres, however, some of the problems are locally made. The cutting of leaves during the dry season bears a high risk that plants will die. The partly overexploitation of the past years has resulted in large gaps on some plantations. To fill these gaps, new planting is usually done regularly. Normally, about 10% of the existing area should be replanted every year. However, this 'rule' has not always been followed. At present there is only four large (coherent) Sisal productions on Madagascar. It is reported that at least some of them seem to have

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problems with poor cultivation and major structural problems in the management of the farms. This is astonishing, as Sisal from Madagascar has an excellent reputation worldwide and the demand for good quality from Madagascar (required by spinning, paper and construction industries) has not been met for several years.

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