

M. & W. HELLER

GEGRÜNDET 1871

Sisal Market Report February 2020 - January 2021

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09.02.2021

BRAZIL

The new plantings, good weather conditions in the last 1.5 years and adequate price levels have led to production reaching a level of almost 60,000 tonnes again in the last two years (production 2019: 57,500 tonnes / 2020: 59,700 tonnes).

As already mentioned in the last report, exports of sisal fibres from Brazil have also developed very positively again in recent years. Exports in 2020 are almost on a par with the previous year (approx. 35,000 tonnes) at approx. 34,400 tonnes.

The importing countries in 2020 were:

China:	21,919 tons (64 %)
Portugal:	3,924 tons (11,4 %)
Algeria:	1,975 tons (5,7 %)
Mexico:	1,470 tons (4,3 %)
Egypt:	1,436 tons (4,1 %)
India:	963 tons (2,8 %)
Spain:	888 tons (2,6 %)
Indonesia:	623 tons (1,8 %)
Russia:	209 tons (0,6 %)
Vietnam:	193 tons (0,6 %)
Bangladesh:	175 tons (0,5 %)
Mosambique:	160 tons (0,4 %)
Kuwait:	127 tons (0,3 %)
El Salvador:	100 tons (0,3 %)

The distribution among the importing countries shows a similar picture as in previous years - with a clear dominance of Chinese importers. While the pandemic in China was already subsiding from March 2020, the first lockdowns began in the rest of the world during this time, - with cuts in the economy and the export activity of the individual countries.

In China, people began to think positively again as early as March/April 2020 and the previously shutdown productions (also in the sisal processing industry) recovered quickly.

This fact can be seen particularly well in the monthly exports of sisal fibre from Brazil to the People's Republic, as contracts were concluded in February / March 2020 for shipments from April 2020 onwards.

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Monthly exports to China:

March 2020:	1,260 tons
April 2020:	1,773 tons
May 2020:	2,785 tons
June 2020:	2,800 tons
July 2020:	2,290 tons
August 2020:	1,800 tons

There is also a correlation between Chinese imports and the development of the exchange rate (USD / Real). In the first quarter of 2020, the exchange rate rose sharply and reached its highest rate of 1 USD = 5.885 Real on 13 May 2020 (see the following chart with an overview of the exchange rate development of the last 2 years).

The increased demand from Chinese buyers thus coincided with a rapid fall in the Brazilian real exchange rate - which led to reduced export prices for sisal fibres and further fuelled demand.

10 Feb 2019 00:00 UTC - 9 Feb 2021 16:55 UTC USD/BRL close:5.42890 low:3.70119 high:5.88878



(source: www.xe.com)

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Since May 2020, the exchange rate has experienced a steady up and down monthly change, - this is clearly shown in the chart below.

10 Feb 2020 00:00 UTC - 9 Feb 2021 16:55 UTC **USD/BRL** close:5.42890 low:4.29807 high:5.88878



(source: www.xe.com)

These monthly fluctuations make long-term planning difficult for exporters who in turn have to hedge exchange rates to limit possible losses.

Since November 2020, the exchange rate has been 'only' hovering at a level of 1 USD = 5.30 Real and we are again seeing price increases which were initially quite moderate until the end of the year.

However, the situation has deteriorated significantly in the last two months:

- only sporadic rainfall in the sisal producing areas
- lack of labour - an increasing number of machines in the fields are at a standstill
- transport problems from the field to production
- transport problems from production to the port (stuffed containers)

These problems exist not only for the export of raw fibre but also for the local Sisal processing industry. On the one hand it is becoming increasingly difficult to obtain enough raw fibre for processing (production of baler twine, yarns and other products), on the other hand there is a growing shortage of labour. Many workers are simply afraid of catching Covid-19 in the work environment and rather stay at home.

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Competition between local industry and exporters is a recurring problem, but it has become much more acute at the beginning of this year. As a result, prices for raw fibre (unbrushed, from the field) are rising almost weekly, - five price increases have already been reported during the last 6 weeks. Consequently, export prices for shipments will also increase significantly from March onwards.

The market for baler twine declined steadily from 2015 (approx. 23,000 tons) to 2018 (only approx. 14,000 tons). Last year, exports of baler twine (for agricultural purposes) continued to stabilise - in fact, exports increased to almost 18,000 tons in 2020 (2019: approx. 15,000 tons). Exports of yarns have ranged between 5,000 and 5,500 tons in the last two years.

A nationwide strike by truck drivers is threatening in Brazil which could trigger severe economic and political problems. The truck drivers' union (CNTRP, representing over 40,000 drivers) is demanding better freight rates, a special pension for self-employed drivers, and lower diesel prices. They are calling for a strike on social media from the beginning of February 2021.

Back in 2018, a transport strike caused major economic disruption as truck drivers blocked chief highways. This led to a shortage of fuel and had a sensitive impact on food supplies after 10 days. Eventually, even some airports had to be closed.

The announcement of the strike also increases pressure on PETROBRAS, which has been criticised for its pricing policy. The union claims that Petrobras' pricing policy is not in line with reality, as it is anchored in foreign exchange fluctuations rather than economic activity. It accuses PETROBRAS of pursuing a policy of the highest possible price instead of providing energy to citizens at the lowest possible price. PETROBRAS has increased petrol prices at refineries by almost 60 % between July 2017 and January 2021, while diesel prices have increased by 43 %. As the owner of the country's main refineries, Petrobras effectively sets national fuel prices. However, the government is forcing the company to sell eight of its 14 refineries by the end of April to allow free pricing.

A strike could be a big problem for President Jair Bolsonaro whose approval rating has plummeted in recent weeks. Brazil's president continues to take no leadership in the fight against Covid-19, instead assigning responsibility to governors and mayors. But the measures taken so far are not centrally coordinated, nor are there clear guidelines for effective action by local governments. The further course of the health crisis can hardly be foreseen under these conditions.

Last year, Jair Bolsonaro was able to gain popular support through aid payments to poorer households, but much of this aid expired at the end of 2020. The fragile state of the state finances, however, offers the president no leeway for further expensive aid packages. There are disagreements within the government about the direction of economic policy. There is a lack of political consensus on urgently needed reforms and the long-term containment of the sharply increased national debt.

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The continuing uncertainty about the further course of the pandemic in Brazil will strongly slow down the economic recovery. Even before the pandemic, economic growth in Brazil was disappointing. The US dollar will probably remain above the 5 reais mark for the rest of the year and the strong devaluation will make imports more expensive. In the absence of aid payments, domestic demand will also continue to fall.

In contrast to other trade lanes, freight rates from Salvador / Bahia have remained fairly constant in the last quarter of 2020 and also in the first quarter of this year and they have only marginally increased. As all major shipping companies currently need containers in Asia (especially China), containers shipped to Asia are of course more than welcome. The situation is quite different in the opposite direction where freight from Asia to Europe and the USA has become extremely expensive. Freight rates in these trades are currently around USD 5,000 for 20ft containers and more than double for 40ft containers.

EAST AFRICA / Climate and weather conditions

In recent years there have been repeated extreme climate events in eastern Africa. We had already reported on climate changes and their causes (IOD / Indian Ocean Dipole) in the last market report.

Since the beginning of the 'long rainy season' in March 2020 alone, more than 1.3 million people have been affected by flooding in East Africa, with at least 481,000 displaced (OCHA, 2020). During the same period in Kenya, nearly 200 people have died from overflowing rivers and mudslides, while 40,000 have been displaced (Jones, 2020). In May 2020, Lake Victoria water levels reached their highest level since records began 120 years ago, displacing thousands of people, flooding homes, damaging infrastructure and destroying roads. Elevated levels in the major lakes, such as Lake Victoria and Lake Turkana, have forced many people to flee to higher ground.

In western Tanzania, the floods along Lake Tanganyika left many people homeless. Tanzania still relies on hydropower for almost half of its electricity generation. The floods led to increased power outages and it became necessary to ration electricity even during the dry season. This increased the cost of diesel generators, which had to be used. At the end of June 2020, several financing agreements were signed between the French Development Agency (AFD) and the government of Tanzania. The French financial institution is providing 230 million euros to improve access to electricity in rural areas and to support drinking water supply and sanitation in the Lake Victoria region. The construction of several solar power plants is also part of the project.

Kenya has increasingly focused on geothermal energy for power generation in recent years. Since 2019, this form of energy has replaced hydropower as the number one energy supplier. Today, Kenya is the world's seventh largest user of geothermal energy. Deposits are estimated at 10,000 megawatts (MW). Investment in the expansion of geothermal power plants is likely to continue in the coming years. Wind energy has only recently begun to contribute significantly to Kenya's energy mix. The 'Turkana Wind Farm', opened at the end of 2018 with a capacity of 310 MW, is one of the largest in sub-Saharan Africa.

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Fossil fuels are now only used for grid stabilisation. In contrast, the share of renewable energies in Kenya should soon reach more than 90 %. Kenya remains the driving economic force in East Africa and is also politically important for stability in the region.

The climate in East Africa was unfortunately ideal for locusts last year. Because the Indian Ocean off the continent was unusually warm (IOD), there was heavy rainfall and the moist soil is an ideal breeding ground. As a result, East Africa experienced the worst locust plague in decades. The insects invaded East Africa in late 2019. They originally come from southern Saudi Arabia, Oman and Yemen, and the wind carried them from there to East Africa. Kenya and also neighbouring countries have been repeatedly hit by the plague over the past year.

Despite the very difficult weather developments in Kenya and also Tanzania, the export figures of sisal fibres in both countries have developed very positively. Unfortunately, a look at Madagascar does not show a good development in production and exports of sisal fibre. Here, export volumes are stagnating, after having continued to fall in recent years.

Covid-19: The African Union has procured 270 million vaccine doses for the continent. However, the first batch will probably not be available until April 2021. Parallel to the vaccination campaign of the African Union, the COVAX programme of the WHO has also started. The aim of this programme is to supply poorer countries with vaccines - a total of about 600 million doses of vaccine are to be delivered. The doses are to be delivered to the individual countries based on population size and the severity of the infection. The infection figures on the continent had, after a comparatively mild start in 2020, massively increased in recent months.

KENYA

According to the Kenya Sisal Board (KSB), about 28,770 tons of sisal fibre and tow (tow) were exported in the period from January to December 2020. This is a significant increase (over 25 % of the quantity exported in 2019), which is quite remarkable compared to previous years:

2016:	abt. 21.300 tons
2017:	abt. 20.150 tons
2018:	abt. 23.000 tons
2019:	abt. 22.300 tons

(source: KSB)

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The countries of destination in 2020 were as follows:

Nigeria:	approx. 7,089 mt (24.6 %)
China:	approx. 4,290 mt (14.01 %)
Saudi Arabia:	approx. 4,051 mt (14.1 %)
Morocco:	approx. 2,250 mt (7.8 %)
Ghana:	approx. 1,980 mt (6.8 %)
Egypt:	approx. 1,552 mt (5.4 %)
Spain:	approx. 1,430 mt (4.9 %)
Philippines:	approx. 935 mt (3.2 %)
India:	approx. 840 mt (2.9 %)
Togo:	approx. 555 mt (1.9 %)
Belgium:	approx. 408 mt (1.4 %)
Ivory Coast:	approx. 398 mt (1.3 %)
Mauritania:	approx. 313 mt (1.1 %)

The most important export markets for sisal fibres from Kenya have remained unchanged (in the order of the first 6 places) for several years. The significant increase in export volumes to Nigeria (+ 4,200 tons) compared to 2019 is noteworthy. Volumes to Egypt and Spain have doubled compared to the previous year.

Exports to Nigeria (24.6 %), Saudi Arabia (14.1 %), Morocco (7.8 %), Ghana (6.8 %), Egypt (5.4 %) and also the relatively smaller volumes to Ivory Coast, Mauritania, Syria, Yemen and Iraq together account for more than 60 % of the total exported volume. Thus, the construction industry remains one of the most important markets for Kenyan sisal fibre.

Exports to the construction industry are predominantly long fibre in bales of 100 kg, of the qualities UG and also SSUG. An exception is the market in Ghana, where exports consist of 75 % tow (sisal tow) - which is a by-product of brushing the long fibres.

The construction sector in Saudi Arabia has been booming since the end of 2019 due to large government investments, - these orders or increased demand is now reflected in the increased export volume from around 3,000 tons in 2019 to over 4,000 tons in 2020.

Nigeria also serves as a hub for the construction industry to other West African countries. The situation in West African ports is still extremely tense and there are severe delays in transhipments. For example, the transit time for containers from East Africa to West Africa is on average about 2 months, - if things go quickly. The situation in Nigerian ports has worsened since the beginning of the pandemic. Dozens of ships are waiting on roadstead, while hundreds of trucks are usually stuck in traffic for days or even weeks waiting to be cleared.

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The capacity of the port of Lagos has not been expanded in the last 20 years - while the city's population has tripled in that time. The port has only an outdated infrastructure which leads to extreme delays and enormous costs in handling and transport (which is almost exclusively done by road). Many containers destined for Nigeria are now handled through other, smaller West African ports. The port of Lome in Togo has benefited from this development and has now become one of the busiest ports in the region.

TANZANIA

Exports of sisal fibres and tow from Tanzania have shown a continuous downward trend in recent years:

2017: approx. 25,000 tons
2018: approx. 23,150 tons
2019: approx. 20,000 tons

However, the situation has improved significantly again in the past year and according to the latest figures from the TSB (January to November 2020), exports in 2020 have increased to a total of approx. 27,605 tons (a quite remarkable increase of more than 30 % compared to the previous year).

The importing countries were (*source: Tanzania Sisal Board / TSB*):

China: approx. 12,407 tons (45 %)
Nigeria: approx. 4,955 tons (18 %)
Saudi Arabia: approx. 4,107 tons (15 %)
Spain: approx. 1,555 tons (5.6 %)
Ghana: approx. 1,470 tons (5.3 %)
Morocco: approx. 770 tons (2.8 %)
Philippines: approx. 575 tons (2.1 %)
India: approx. 470 tons (1.7 %)
Egypt: approx. 290 tons (1.05 %)
Pakistan: approx. 155 tons
Benin: approx. 103 tons
Guinea: approx. 102 tons
Senegal: approx. 100 tons

The construction industry has gained in importance as a major market. This is particularly evident in the exports to Nigeria, which have risen to almost 5,000 tons. In 2019, exports to Nigeria played virtually no role and were still below 400 tons. Exports to Saudi Arabia have stabilised at a high level.

Overall, countries that used sisal in the construction sector account for about 40 % of exports (Nigeria, Saudi Arabia, Ghana, Morocco and to some extent exports to Spain).

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The share of exports to China has fallen to around 45 % (in 2019 this was still around 60 %). One reason for this is certainly also to be seen in connection with exports of Brazilian fibre to China. Due to the relatively favourable price level from Brazil that prevailed until mid-2020, many importers in China ordered larger quantities in Brazil.

Plans for the construction of a port and special economic zone in Bagamoyo have been on hold since mid-2019. There are still disagreements about the terms of the contract. The Tanzanian government's partner is the Chinese investor China Merchants Port Holdings.

The expansion / rehabilitation of the port of Tanga, which was officially started a long time ago, has unfortunately not yet had a positive impact in the last year. There are still delays in the departures of feeder ships and shortages of empty containers.

MADAGASCAR

Exports (ex port EHOALA) of sisal fibre and tow (according to statistics from Madagascar Customs) reached a total of approximately 5,560 tons for the period January to December 2019. This quantity is approximately the same level as the previous year and includes also about 200 tons of sisal fibre exported from the port of TULEAR (located on the south west coast). These are fibres that do not come from large plantations, but from small farmers near the port of Tulear. There is a difference in quality because the leaves are defibrated with small, mobile machines in the field - without water. This means the fibres are not washed in the process.

Exports of sisal fibre from Madagascar have been declining for many years. Between 2005 and 2014, exports were still at 8,000 to 9,000 tons. Since 2017, exports decreased to a current level of only about 6,000 tons.

The importing countries in the period from January to December 2020 were:

Morocco:	approx. 2,370 tons (42.6 %)
China:	approx. 1,180 tons (21 %)
Spain:	approx. 812 tons (14.6 %)
India:	approx. 427 tons (7.7 %)
Ivory Coast:	approx. 252 tons (4.5 %)
Germany:	approx. 126 tons (2 %)
Pakistan:	approx. 110 tons (1.9 %)
France:	approx. 93 tons (1.7 %)
Ghana:	approx. 75 tons (1.3 %)

The first three places in the ranking have remained unchanged for a long time. About 400 tons less were exported to China compared to 2019 - while exports to Morocco increased almost exactly by this quantity. Exports to Spain, India and the Ivory Coast are at about the same level as in the previous year.

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Exports to Morocco, Spain, Côte d'Ivoire, Pakistan, France and Ghana are destined for the construction industry; thus, about 65 % of the exported sisal fibres and tow are purchased by the construction industry. This underlines the importance or the still very high demand in the construction sector for sisal fibres from all over East Africa (Kenya, Tanzania, Madagascar and also Mozambique).

Madagascar is considered one of the countries most affected by climate change. In December 2019 and January 2020, a series of tropical storms rolled eastward across Madagascar, causing flooding in the north of the island. In January, the country's National Disaster Management Office warned of hunger and rising food prices due to flooded rice fields.

The economic impact of the coronavirus pandemic, including various 'lockdowns' over the past year, has exacerbated the situation for the island nation in East Africa.

Currently, an estimated 1.35 million people in southern Madagascar are affected by severe food and water shortages - according to a WFP (World Food Program) estimate. The number is almost twice as high as in the same period last year. Normally, rains are expected from November / December onwards. But the current drought continues and in addition the last harvest was bad. So people have no or very few resources to fall back on. As a result, many people are forced to leave their homes to look for food and work elsewhere.

In the south of the island nation, food parcels have been delivered by the World Food Programme (WFP) since the beginning of the year. It is currently supporting half a million people living without food supplies in nine southern districts. "The WFP urgently needs US\$35 million to fund life-saving food and cash distributions, as well as malnutrition treatment programmes," the UN agency appealed. "This includes emergency school feeding for 150,000 children to ensure they can stay in school and build a more secure future," it said.

In addition to this humanitarian disaster it seems almost cynical to also report on the problems surrounding the production of sisal. The sisal plantations, however, are located precisely in the south of the island, which has been recording less and less rainfall for years.

Measurements on a sisal plantation in Amboasary South District show that the number of rainy days has practically halved from about 65 in 2019 to only about 30 in 2020 - rainfall has decreased by about 60 % in the same period. Not only does this mean that young plants are still unable to develop, but production overall is also reduced.

If there is not at least sporadic rainfall in the next few weeks, production may be forced to stop temporarily. Cutting the leaves during the dry season carries a high risk of plant death. The sometimes excessive harvesting (overexploitation) had already led to large gaps on some plantations in recent years.

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