

Sisal Market Report Update July 2024

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BRAZIL

Export statistics for Sisal fibres from Brazil show a total of about 18.200 tons for the period January to June 2024 (worldwide destinations). This volume is around 10.000 tonnes lower than in the previous year which is mainly due to the decline in exports to China. While China imported around 22.000 tonnes in the first half of 2023, only around 13.500 tonnes were imported in the same period this year. The increased volume of exports to China last year was an exception and the current export figures show that exports to China have returned to the average levels of previous years, like 2019-2022.

It is still too early to predict how exports to China (the most important single market) will develop. There were significant increases in monthly volumes in April and May. In recent months, an increasing number of stocks have been exported, as there is still not sufficient fresh production coming from the fields. As mentioned in the last report, there is still a lack of labour to produce Sisal. As a result, we see a continuous decline in production and consequently rising prices for raw fibre from the field – which is reflected by higher export prices (prices have risen by around 10% since April this year). However, the higher prices offered / paid to small farmers have not yet led to a significant increase in production. It is still just too unattractive for many workers to work in sisal. All of this against the background that there would be enough to harvest, as the regions in which sisal is grown have already had very sufficient rainfall for two years now.

Superior qualities in particular (Type 1DB / Type 2DB from fresh production) have become rare, whereas the standard type 3 is well available from stock. Demand for high quality sisal remained quite strong and exceeded by far availabilities.

Contrary to the trend towards sharply higher freight rates, which we are seeing on many trades, rates ex Salvador / Bahia to Asia and the Far East have risen only very moderately. But here too, transit times are around 60 to 80 days, as the majority of transshipment ports are congested.

Since his return to the Brazilian presidency, Lula da Silva has shown a preference for foreign policy - to the detriment of domestic policy. He has attended almost every international summit to which he has been invited, with the stated aim of "repositioning" Brazil on the global stage. However, critics believe that he should pay more attention to his homeland and accuse his government of spending too much money and investing it in the wrong places.

Priority areas such as education, health and security are still considered underfunded while the public sector employs too many people who are paid more than in the private sector. The multitude of unresolved problems is causing investors to get cold feet and move their assets to other, safer markets. April 2024 was a difficult month for the Brazilian real, which recorded the strongest depreciation against the dollar in the world. By 16 April, the real had fallen by 5.1 %, outperforming the losses of other currencies, including the

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Uruguayan, Mexican and Argentinian pesos. Lula sees the reasons for this in speculation and the "incompetence" of the Brazilian central bank, which he repeatedly and publicly criticised in June.

WEATHER EAST AFRICA

In early 2024, severe flooding occurred in East Africa. Kenya, Tanzania, Somalia, Burundi and Rwanda were particularly affected. At least 277 people lost their lives in Kenya and at least 166 in Tanzania. Floods and landslides also caused deaths in other countries.

The causes of the unusually heavy rainfall in Kenya and other parts of East Africa are related to the occurrence of the well-known El Niño phenomenon (irregular change in ocean currents). In addition, a change in the sea temperature in the Indian Ocean can also be observed this year - the so-called IOD (Indian Ocean Dipole). This phenomenon favours rainfall in East Africa and simultaneous drought in Australia.

KENYA

Exports from Kenya (according to KSB / Kenyan Sisal Board) from January to June 2024 are total about 12.100 tons, of which the majority (abt. 50 %) had been exported to Nigeria. Second largest outlets are destinations in West Africa where exports accumulate to total abt. 1.600 tons and fibres are used in construction (plastering / gypsum works). Next comes Saudi-Arabia (abt. 1.050 tons) and China (abt. 1.100 tons). If monthly exports remain stable, the total volume will probably be similar to the previous year (2023 total exports abt. 23.000 tons).

The volume of the transit cargo handled through the port of Mombasa has grown significantly on the back of the Kenya Ports Authority (KPA) renewed push to improve efficiency. Mombasa ship turnaround in May 2024 stood at four days compared to Dar es Salaam, which reached up to 25 days early this year, leading some shipping lines to drop cargo at Mombasa port for transshipment to Tanzania and Indian Ocean islands that rely on Dar Port.

In June, thousands of Kenyans protested against the rising cost of living and the government's plans to waive further taxes. Many Kenyans fear an almost unmanageable increase in the already high cost of living, while entrepreneurs and business people expect significant losses in the face of declining purchasing power. The draft law announced in mid-June aims to fill Kenya's budget gap with additional tax revenue of 2.3 billion US dollars. Kenya's budget is 80 billion US dollars in debt, almost half of which comes from foreign lenders. For a large proportion of the population, the planned price increases on everyday goods such as bread, oil, hygiene products and petrol are a provocation - for many, they would even threaten their livelihoods.

The situation escalated after the Kenyan parliament passed the controversial Finance Bill 2024. Hundreds of demonstrators then stormed the parliament in Nairobi, whereupon the police fired live ammunition into the crowd. At least 23 people were killed.

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Things have been bubbling under the surface in Kenya for a long time. Youth unemployment, accusations of corruption and the perceived arrogance of the political elite have alienated the people from their government. A lack of support for the victims of the devastating floods in spring 2024 has exacerbated dissatisfaction. Youth unemployment in Kenya has been rising for years and currently stands at around 30%. Even well-educated college graduates are unable to find work.

In the face of this resistance, the government has announced that it is weakening its plans. Among other things, the originally planned 16 % VAT on bread will not be introduced after all. However, the government is sticking to other tax increases. The protesters continue to demand that the proposed legislation be completely cancelled.

Kenya's under-fire President William Ruto has dismissed with "immediate effect" all his ministers and the attorney-general, following the recent deadly protests that led to the withdrawal of an unpopular tax bill. The president said the move came after "reflection, listening to Kenyans, and after holistic appraisal of my cabinet".

The constitution does not say for how long the president can operate without a cabinet. But analysts say Mr Ruto will have to name a new team soon to avoid running into more problems with the country's aggrieved youth. The dramatic dissolution of the cabinet is highly unusual, coming less than two years after he took office.

TANZANIA

Exports from Tanzania (according to TSB / Tanzania Sisal Board) from January to June 2024 are total about 15.200 tons, of which the majority (abt. 36 %) had been exported to China. Second largest outlets are Nigeria (18 %), Morocco (15 %) and Ghana (10 %) where exports accumulate to total abt. 6.700 tons and fibres are used in construction (plastering / gypsum works). The volume exported from January to June 2024 corresponds to around 42 % of the previous year's total volume (in 2023 total exports reached a peak at 26.000 tons).

Tanzania's economy is expected to grow even faster this year than in 2023, Kitila Mkumbo, Minister of State in the President's Office for Planning and Investment, said in mid-June 2024. Mkumbo told Parliament that the economy is expected to grow by 5.4 % this year, up from 5.1 % in 2023 and faster than the 4.7 % the year before. Tanzania's economy is largely based on tourism, mining, agriculture and manufacturing. In March, the World Bank stated that Tanzania had maintained its economic growth despite the increasing impact of climate change.

The bank said the growth was due to increased business confidence and improved trade balances, which boosted aggregate demand and offset the damaging effects of droughts and floods on household incomes.

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As part of the implementation of the Third Five Year National Development Plan, the Government of Tanzania has implemented various projects such as the improvement of Dar es Salaam harbour (as well as Tanga harbour and Kwala dry port). The realisation of the Julius Nyerere hydropower project (with 2,115 MW), which is 95 % complete. The construction of the Kigongo-Busisi Bridge (Mwanza), which has already been completed to over 80 %.

MADAGASCAR

The south of the country (where the Sisal growing areas are located) has been suffering from persistent drought for years - with a negative impact on Sisal production. Yields per hectare (in dry raw fibre) have been reduced which makes it increasingly difficult to cover operating costs for the last remaining exporters.

Furthermore, the freight rates ex Ehoala are significantly higher compared to other ports of loading in East Africa where Sisal fibres are also exported from - such as Tanga, DaresSalaam, Mombasa or Nacala.

The aforementioned problems put exporters of Sisal fibres from Madagascar at a very serious competitive disadvantage - in an increasingly difficult market. It is therefore not surprising that many growers / exporters have already decided to stop production completely or at least temporarily.

Parliamentary elections were held in Madagascar on 29 May 2024 to elect the 163 members of the National Assembly. The election took place a few months after Andry Rajoelina was re-elected in presidential elections held in November 2023.

Madagascar's ruling party was unable to maintain its parliamentary majority as the independents achieved a strong result. According to the Independent National Electoral Commission (CENI), President Andry Rajoelina's Tanora Malagasy Vonona party only managed to win 80 out of 163 seats. Independent candidates won 52 seats, while 25 went to the opposition. The electoral commission put the voter turnout at just over 48 %. After the results were announced, opposition leader and former president Marc Ravalomanana accused the ruling party of offences and fraud. President Rajoelina himself was controversially re-elected last November. The presidential election was marred by low voter turnout and a boycott by the opposition.

The World Bank Group (WBG) and International Monetary Fund (IMF) announce in June that the Enhanced Cooperation Framework for Climate Action is now operational. Madagascar will be the first country benefitting from the Framework in the context of the Resilience and Sustainability Facility (RSF) arrangement. The Framework aims to support efforts by country authorities to bring together development partners, the private sector and civil society to address the effects of climate change.

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MARITIME TRANSPORT

Ocean freight container spot rates have risen sharply on the world's major trades since the beginning of May, prompting speculation that the peak season has arrived early in 2024.

The Far East to North Europe trade has seen the biggest increase, rising 30 % from USD 3.500/40ft on April 1st to USD 4.500/40ft on May 16th. This is 198 % higher than 12 months ago (USD 1.500/40ft). The beginning of June even saw rates rise to USD 7.500/40ft.

From the Far East to the Mediterranean, rates have increased by 22 % since April 1st (USD 4.200/40ft) to reach USD 5.000/40ft on May 16th, which represents a 100 % increase on rates ruling some 12 months ago (USD 2.500/40ft). By the first week of June 2024, it had risen to USD 8.000/40ft.

Key factors driving current rate increases:

- *a record demand in Q1 2024 vs Q1 2023, up 9.2 %*
- *an earlier peak season due to earlier shipments resulting from longer transits (due to the ships' detours around Africa)*
- *congested transshipment ports*
- *container availability issues in major transshipment ports in Asia*

Considerably longer transit times result in further disruption of supply chains. Many ports are overloaded and ships are fully booked far in advance. An end to the soaring rates cannot be seen for the time being. As long as the tensions in the Middle East and especially in the Red Sea persist, shipping costs will remain high - and with them the earnings of container shipping companies.

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