Natural Rubber Market Review

January

The rubber market began the year 2017 on a firmer ground, extending from the previous year-end trend owing to combination of strong fundamental and non-fundamental factors. Brent crude oil traded between USD 53.64 – 57.10 per barrel in the reviewed period. Compared with those on 30 December 2016, the price of SMR 20 increased by 188.50 sen/kg or 21.6% to close at 1059.50 sen/kg while latex concentrate closed at 812.00 sen/kg, rising by 166.50 sen/kg or 25.8%. The price movements of selected grades of rubber in January 2017 are shown in Table 1.

The market traded mixed in the first trading week of 2017 tracking the performance of regional rubber futures markets, volatile fluctuations between ringgit against US dollar and also crude oil prices as the market observes the implementation of the oil production cut agreement between Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC members. The report of the increase in rubber inventories in warehouses monitored by the Shanghai Futures Exchange (SHFE) also dampened the rubber market slightly. Nevertheless, the weakening of ringgit prevented prices from further loss. Ringgit was observed to briefly touched a 19-year low against the US dollar on 4 January at RM4.4995, as the greenback continued to strengthen on expectations of further US interest rate increases in 2017.

The rubber market performed in a bullish manner for the second week contributed by both fundamental and non-fundamental factors. Remarkable performance of rubber futures markets at Tokyo Commodity Exchange (TOCOM) and Shanghai Futures Exchange (SHFE) was observed following improved demand from China coupled with the market players’ worries on the tight supply in major rubber producing countries due to unseasonal heavy rains and floods and weaker yen and renminbi against US dollar. The positive outlook from World Bank further boosted the market. According to the 'January 2017 Global Economic Prospects Report' released by World Bank, global economic growth is forecast to accelerate moderately to 2.7% in 2017 after a post-crisis low last year.

Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, January 2017

<table>
<thead>
<tr>
<th></th>
<th>SMR CV</th>
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<th>SMR 20</th>
<th></th>
<th>Latex Concentrate</th>
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<tbody>
<tr>
<td></td>
<td>sen/kg</td>
<td>RM/tonne</td>
<td>sen/kg</td>
<td>RM/tonne</td>
<td>sen/kg</td>
</tr>
<tr>
<td>Highest</td>
<td>1,220.00</td>
<td>12,200.00</td>
<td>1,059.50</td>
<td>10,595.00</td>
<td>812.00</td>
</tr>
<tr>
<td>Lowest</td>
<td>1,017.00</td>
<td>10,170.00</td>
<td>878.50</td>
<td>8,785.00</td>
<td>645.00</td>
</tr>
<tr>
<td>Average</td>
<td>1,104.18</td>
<td>11,041.80</td>
<td>957.23</td>
<td>9,572.30</td>
<td>710.70</td>
</tr>
<tr>
<td>Change from the last day of the previous month</td>
<td>203.50</td>
<td>2,035.00</td>
<td>188.50</td>
<td>1,885.00</td>
<td>166.50</td>
</tr>
</tbody>
</table>

Note: * Official price of latex concentrate in bulk, 60% DRC
Source: Malaysian Rubber Board
Prices in the rubber market returned mixed in the third and fourth trading week. After SMR 20 surged to a near five-year high at 1001.00 sen/kg on 16 January, prices began to adjust downwards on profit taking in the futures market and news of Thailand releasing 98,000 tonnes of NR from their stockpile. Meantime, Am Investment Bank expects oil price dynamics to remain uncertain and volatile in 2017 and maintained its oil price projection of an average of USD 45 to USD 50 per barrel in 2017 as rising U.S. inventories is expected to counter the efforts by OPEC and non-OPEC members to reduce global oil glut. Nevertheless, the rubber market recovers and is bullish towards month end as SMR 20 reached 1059.50 sen/kg on 31 January supported by tight physical supply, remarkable performance of regional rubber futures markets and short-covering activities from traders. The sentiment was further supported by the news from the Association of Natural Rubber Producing Countries (ANRPC) that Thailand is expected to produce only 4.381 million tonnes of rubber in 2017, down from a previous forecast of 4.741 million tonnes.

**Outlook**

The market is expected to remain steady in the near term as supplies of raw materials will continue to remain tight owing to the unseasonal heavy rains and floods in Southern Thailand and Peninsular Malaysia, followed by the upcoming wintering season in February until April. Nevertheless, benchmark rubber futures markets and crude oil prices are expected to be volatile owing to greater uncertainties on Trump’s policies coupled with uncertainty whether the OPEC quotas for the oil production cut could be complied in 2017 amid an increase in U.S oil production. Volatility in currencies on expectations of further US interest rate hike in 2017 will also affect trends of rubber prices. Meanwhile, Chinese buyers will be sidelined due to the long break of Lunar New Year celebrations and the market is expected to be quiet but steady after second week of February. In addition, market operators will continue keeping their eyes on the global economic condition specifically the developments in China, U.S, Japan and Europe economy.

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**News Briefs**

**China's yuan may see more volatility vs. dollar after basket change**

China's yuan is likely to see more volatility against the U.S. dollar this year after its foreign exchange market operator changed the way it calculates a key yuan index by nearly doubling the number of foreign currencies in its basket. The China Foreign Exchange Trade System (CFETS) said it was changing the composition of the CFETS basket that is used to set the yuan's daily value. Starting on Jan. 1, the number of currencies in the basket was increased to 24 from 13.

- Reuters, 3 Jan

**Plantation industry ministry to ensure enhanced revenue in 2017 from commodity sector**

The Ministry Of Plantation Industries and Commodities and, related agencies, in pursuit of maintaining the steady income of about one million smallholders in the country, will continue to ensure higher revenue is generated from the country's commodity sector this year. Its minister, Datuk Seri Mah Siew Keong, said the ministry was optimistic strategic steps, drawn up for 2017, would maintain the growth momentum of Malaysia’s oil palm, natural rubber, timber, cocoa, pepper and kenaf industries.

The ministry is targeting export growth of between 5.0 per cent and 8.0 per cent in 2017 while maintaining market share and exploring new markets. “This includes via free trade negotiations with Iran and exploring market opportunities in West Asia and Southern Europe,” Mah said today in his 2017 New Year message. Mah said 2017 is a special year for Malaysia as it would mark 100 years of commercial cultivation of oil palm and the sector contributed positively in raising the social economic status of the country including creating various job opportunities.

- Bernama, 5 Jan
Better year ahead expected for rubber product sector

Affin Hwang Capital expected the industry supply-demand dynamics to be well balanced going into 2017, as staggered expansion and timing delays in new capacity commissioning will allow for better demand absorption. The US dollar average selling price (ASP) is expected to remain stable with an upward bias on the back of moderating pricing pressure. Volume sales growth will be the key earnings driver to look out for, while improving efficiency should negate rising production costs.

Contrary to the consensus view, they expected an overall improved operating environment in 2017, on the back of capacity discipline by glove manufacturers and well matched growing glove consumption on rising healthcare awareness. Global glove demand is projected at 11.4 billion net adds, based on an estimated 6% to 8% annual growth, which is at least double that of the top three supply growth. This should promote healthy demand absorption while minimising pricing volatility, in our view. That aside, tailwinds from the ringgit weakness will continue to benefit the industry on a stable US dollar ASP outlook, by boosting Malaysia’s pricing competitiveness in keeping utilisation high and sustaining market share gains. 2017 is shaping up to be a recovery year for glove manufacturers after a whirlwind 2016. With a stable US dollar ASP outlook, incremental volume will likely sustain top-line growth, while margin should normalise at a higher level on improving productivity.

- The Edge Financial Daily, 9 Jan

Economists expect ringgit to rebound on stable commodity prices

Economists expect the ringgit to rebound this year, supported by firmer and stable commodity prices. MIDF Amanah Investment Bank Bhd Chief Economist, Dr. Kamaruddin Mohd Nor said measures introduced by Bank Negara Malaysia (BNM) will help strengthen onshore foreign exchange market and reduce volatility for the local currency. He said crude oil prices opened lower yesterday in the wake of a surge in production and exports by Iran. “This development undermines efforts to end a global glut and stabilize the price. Thus, the ringgit was adversely affected by expected to move sideways with a downward bias.

- New Straits Times, 10 Jan

GM gives robust ’17 profit outlook, boosting shares

No. 1 U.S. automaker General Motors Co on Tuesday gave an upbeat profit outlook for 2017 that was significantly above Wall Street forecasts, countering analysts’ concerns that the U.S. car industry peaked in 2016 after several years of record or near-record sales, sending its shares up nearly 4 percent. Ford Motor Co on Tuesday confirmed that it would be less profitable in 2017 than last year. Despite the Dieselgate emissions scandal which has rocked Volkswagen, the German carmaker achieved record group sales in 2016 of 10.3 million vehicles, including a 12 percent jump in December.

- Reuters News, 11 Jan

Philippines Department of Agriculture eyes $200-M tyre processing facility in Southern Mindanao

A $200-million tyre processing facility may soon be constructed in Southern Mindanao, the Department of Agriculture (DA) said. In a statement, the DA said Agriculture Secretary Emmanuel Piol met with Kai Hauvala, President and CEO of Black Donuts Engineering Inc. for an initial briefing on the rubber industry in the Philippines, before heading to Davao and North Cotabato for site validation and assessment.

The facility, once operational, will produce a tyre brand to be used for passenger vehicles, cargo, small pick-ups and agricultural machineries. The project is expected to increase areas for planting and replanting by at least 150,000 hectares and increase the production of dry rubber per year in the next 10 years of at least 150,000 metric tonnes. The Finnish company will visit some of the rubber plantations in Southern Mindanao until January 13. In 2016, the Philippines produced 110,000 tonnes of rubber, while neighboring countries Thailand and Indonesia produced 4.5 million tonnes and 3 million tonnes, respectively.

- The Swazi Observer, 12 Jan
**Synthetic rubber market to exceed US$ 45 billion by 2023**

The global synthetic rubber market is expected to exceed more than US$ 45 billion by 2023 and growing at a CAGR of more than 5% in the given forecast period. Synthetic rubber is any of various products which include nitrile rubber, butyl rubber, neoprene and GR-S. The major driving factors of synthetic rubber market are growing demand in automotive industry expected to drive synthetic rubber market, and rising footwear market likely to drive global synthetic rubber market. The restraining factors of synthetic rubber market are oversupply due to consistent capability additions projected to restrain the growth of synthetic rubber market and growing replacement of synthetic rubber by natural rubber.

- FARS News Agency, 13 Jan

**Thai rubber prices seen advancing this year on flood-hit supply**

Thailand's rubber prices are expected to rise this year due to scant supply, hit by unseasonal flooding in the country's main growing region, industry players said. Thailand, the world's biggest rubber producer and exporter, has suffered downpours since Jan. 1, resulting in flash floods that have killed 36 people and sent global rubber prices spiking on output concerns. "In 2017, rubber prices will definitely improve, because of low supply," Uthai Sonlucksub, president of the Natural Rubber Council of Thailand, told Reuters. Thailand will lose around 10 percent of its output in the 2016-2017 crop year, an industry official said. Thai benchmark RSS3 rubber was quoted at $2.61 per kg on Friday, the highest since $2.62 on Dec. 16, 2013, according to Thomson Reuters data.

- Reuters News, 13 Jan

**ANRPC rubber production likely to rise 4.0% in 2017**

Rubber production from members of the Association of Natural Rubber Producing Countries (ANRPC), which accounts for 90% of global output, is expected to rise 4.0% in 2017 to 11.2 million metric tonnes, according to the association's quarterly report. "Global supply of natural rubber during 2017 will be short of demand by 350,000 metric tons." This will likely support rubber prices as recent concerns about availability has driven up prices of rubber. ANRPC notes that floods in Thailand at the moment mean the world's largest rubber producer is expected to produce just 4.381 million tonnes of rubber in 2017, down from a previous forecast of 4.741 million tonnes.

- Dow Jones Institutional News, 13 Jan

**Thailand to sell 98,000 T of rubber from state stockpiles**

Thailand will sell 98,000 tonnes of rubber from state stockpiles in the first state auction in 2017, the country's rubber authority said. The sale is worth over 6.64 billion baht ($187.57 million), said Titus Suksaard, governor of the Rubber Authority of Thailand. The sale is occurring as Thailand, the world's biggest rubber producer and exporter, has suffered from flash floods in the country's main rubber-growing region in the south, which have killed over 40 people. Global rubber prices have spiked on concern about the impact. Thailand's rubber prices are also expected to rise this year due to the flood-hit supply.

- Reuters, 19 Jan

**Global and China Tyre Industry Report, 2016-2020**

In 2016, the steady growth in the global automobile market and the rapid growth of Chinese automobile market stimulated the tyre market to recover slightly. The global tyre shipment increased by 2% year-on-year to 1.963 billion, while China's automotive tyre output edged up 1.2% to 572 million. In 2017-2020, Chinese automotive tyre market is expected to grow by approximately 4%. The operating rate of the Chinese market rebounded significantly in 2016, especially showed an uptrend in the off-season after October; in early December, the operating rates of all-steel tyre and semi-steel tyre plants stayed at 72.7% and 73.4% respectively, 10.5 and 7.5 percentage points higher than the same period last year each.

Under the impact of rising natural rubber (which is a raw material) price, China's tyre price has stopped falling to stabilize since the second half of 2016. Most tyre companies announced to raise
prices, for instance, Michelin, Bridgestone, Continental, Pirelli, Goodyear and other international first-tier brand manufacturers declared price hike at the end of December. Along with the bullish trend of the natural rubber price, tyres will see a new round of price increase in 2017.

- PR Newswire, 20 Jan

Top Thai rubber producer Sri Trang sees 20 pct rise in sales

Thailand’s Sri Trang Agro-Industry Pcl, the world’s biggest natural rubber producing company, expects to increase sales by over 20 percent to 1.7 million tonnes this year, a senior company executive said on Friday. Sri Trang’s plantations are in northern Thailand and not affected by floods which have hit production in the south. It aims to increase sales this year from last year’s target of 1.4 million tonnes, Thanawan Sa-ngiamsak, head of business development and investor relations, told Reuters. In the first nine months of 2016, sales reached 1.09 million tonnes. The company also plans to increase its production capacity to 2.7 million tonnes this year, up from 2.4 million tonnes planned for 2016, Thanawan added.

- Reuters News, 20 Jan

Oil-output cuts proceeding faster than planned

The Organization of the Petroleum Exporting Countries and Russian officials said they were making good progress on their pledges to cut back crude-oil production and raise global prices. Saudi Energy Minister Khalid al-Falih said OPEC’s 13 nations and 11 producers outside the cartel had made collective cuts totaling 1.5 million barrels a day since agreements were struck in late November and early December. Oil prices have risen nearly 20% since those deals were made, despite widespread skepticism over whether OPEC and other producers would follow through.

The estimates being handed out on Sunday morning were preliminary and the officials didn’t provide other important details, such as the current collective output of OPEC or whether Saudi Arabia was shouldering a larger load of cuts to make up for other members that aren’t complying. The countries announced breakthroughs, including an additional monitoring committee that will include Saudi Arabia and meet every two months. Compliance for non-OPEC producers will be determined by an examination of data supplied by each government and an assessment of other sources such as shipping trackers, traders and pricing agencies. OPEC officials on Sunday estimated its compliance level at 80%, meaning about four-fifths of the oil it pledged to cut has been slashed. That is a faster rate than in 2009, when the cartel had a compliance rate of about 57% a month after its agreement.

- Dow Jones Institutional News, 23 Jan

ETRMA tyre sales up 2-3 per cent

Consumer tyres were up 2 per cent in 2016 despite minor fluctuations during the third quarter and with a strong performance in the last quarter (+4%). OE consumer tyres sales followed the performance of new car registrations, albeit it more slowly, rising 3 per cent. For the truck tyre segment, the total 2016 sales were positive (+3%) for the fourth year in a row and sales were particularly good in the fourth quarter (+7%). The OE truck tyre market also grew, in line with sales but only slightly. Sales of motorcycle and scooter tyres were up 4 per cent by the end of 2016. Agricultural tyres sales continued to experience, a consistently negative trend, down -6 per cent during 2016.

All in all, the outcome of 2016 is in line with the expectations and normal for a mature market said Fazilet Cinaralp, secretary general of ETRMA: for 2017, it is difficult to hope for a greater growth, especially given the continuous growth of imports, which will be confirmed also for 2016. ETRMA also published the 2016 statistics booklet, which contains data on the European rubber and tyre industry, including employment, production, trade and natural rubber consumption.

- The Swazi Observer, 31 Jan

Sources: www.factiva.com, New Straits Times, The Star, The Sun
Malaysia’s NR imports by countries, November 2016

Total: 95,452 tonnes

October 2016

Total: 77,903 tonnes

Malaysia’s NR exports by countries, November 2016

Total: 54,624 tonnes

Note: *p = provisional

Source: Department of Statistics (DOS)
Malaysia’s NR exports by types, November 2016

- SMR: 94.5%
- RSS: 0.2%
- Latex: 5.1%
- Others: 0.1%

Total: 54,624 tonnes

Malaysia’s NR consumption by sectors, November 2016

- Gloves: 73.8%
- Tyres & Tubes: 8.5%
- Rubber thread: 8.3%
- Rubber Compound: 0.3%
- Other products: 9.2%

Total: 41,197 tonnes

Source: Department of Statistics (DOS)