



# MALAYSIAN RUBBER BOARD

## D I G E S T

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**2018  
MAY**

## Natural Rubber Market Review

### May

In May, the market started the month on a firm note despite took a breather in mid-month. Prices thereafter recovered and trended upwards before ending the month with a bearish tone. Market conditions in May were mostly influenced by non-fundamental factors specifically on currencies performance, US-China trade issues and oil price movements. Compared with those on 30 April 2018, the price of SMR 20 rose 13.50 sen/kg or 2.5% to close at 557.50 sen/kg. Meanwhile, latex concentrate gained 26.50 sen/kg or 5.8% to close at 483.00 sen/kg. The average price of SMR 20 in May gained by 32.20 sen/kg or 6.1% to 561.11 sen/kg, compared with the previous month. Price movements of selected grades of rubber in May 2018 are shown in Table 1.

The market ruled firm beginning of May as traders took cue from the firmer advice from regional rubber futures markets owing to strong oil prices and weaker Japanese Yen/ Chinese *Renminbi* against the US dollar. The market was also supported by the decline in total rubber inventories (NR and SR) at Qingdao, China

warehouses by 21,500 tonnes to 183,400 tonnes as of 27 April. However, the prices declined during mid-month reacted to the downtrend in regional rubber futures markets resulting from profit taking activities and a fall in oil prices.

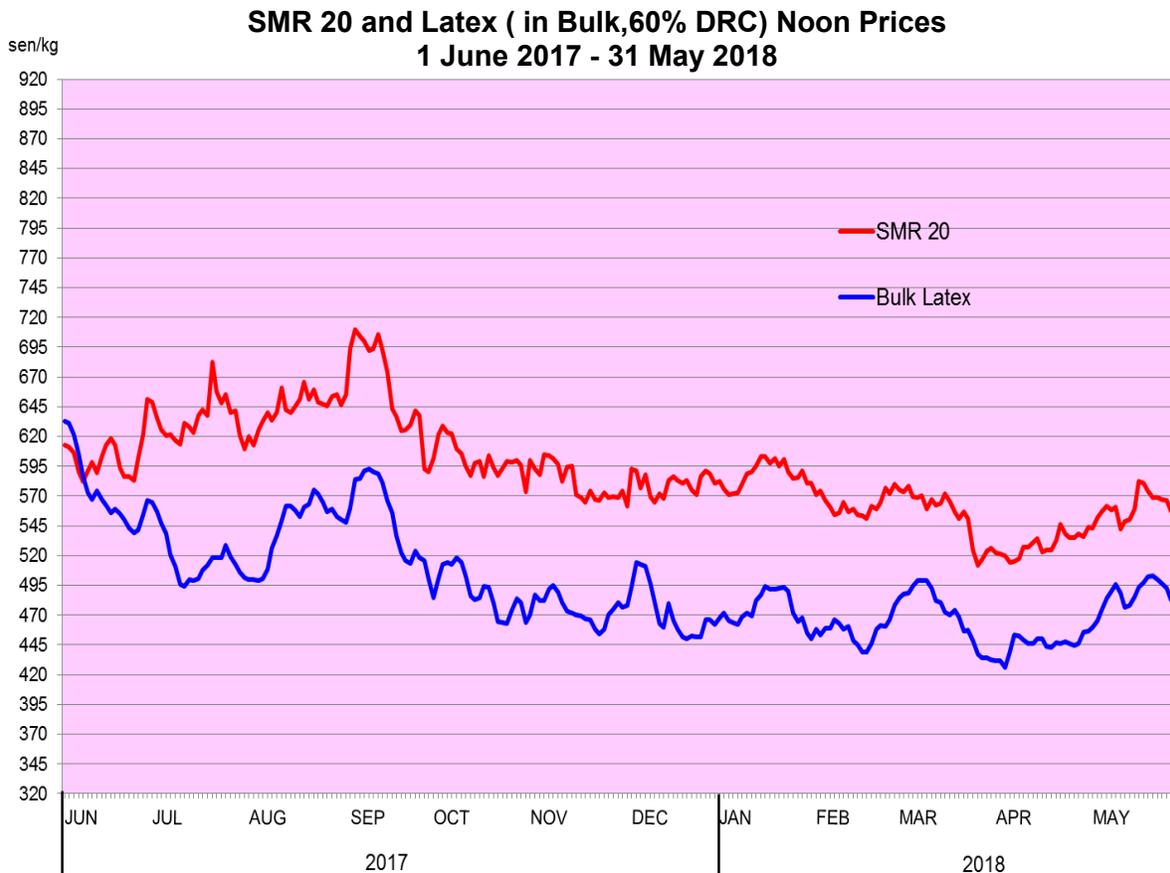
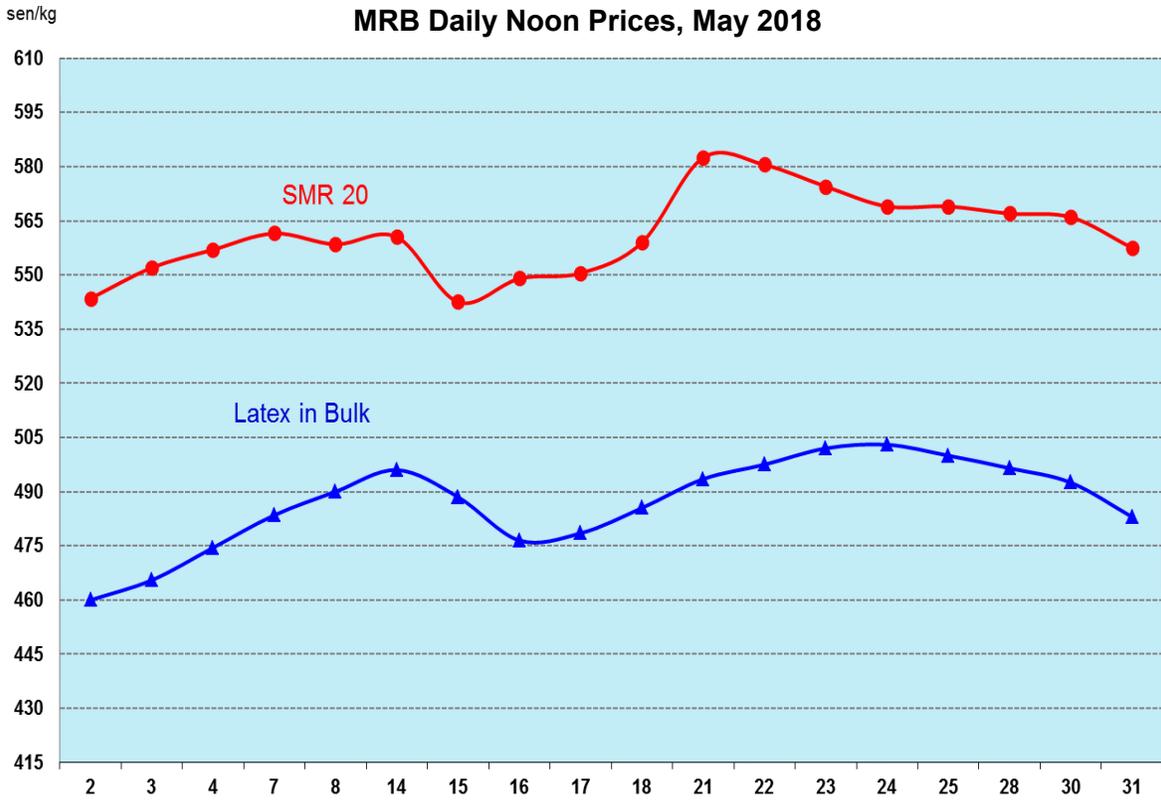
The market recovered after a mild correction on 15 May, as traders took cue on data released by Department of Statistics Malaysia (DOSM). According to DOSM, natural rubber (NR) production in March 2018 was 46,082 tonnes, dropped by 27.1% as compared to 63,246 tonnes in the previous month. Domestic consumption of NR gained by 15.9% in March 2018 to 45,703 tonnes. Meanwhile stock of NR at the end of March 2018 showed a decrease of 2.5% to 278,602 tonnes. The market turned upbeat as oil prices soared to its highest levels since November 2014, with Brent oil creeping closer to USD 80 per barrel in May influenced by strong demand, unexpected fall in U.S. crude inventories, on-going production cuts by OPEC as well as geopolitical risks from possible new US sanctions against Iran. The market continued its upward momentum, tracking the stronger global equities markets on 21 May after U.S. and China said they had agreed to hold off imposing tariffs, averting a potentially damaging trade war. The market reacted positively to data released by the

**Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, May 2018**

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	RM/tonne	sen/kg	RM/tonne	sen/kg	RM/tonne
<b>Highest</b>	725.00	7,250.00	582.50	5,825.00	503.00	5,030.00
<b>Lowest</b>	712.50	7,125.00	542.50	5,425.00	460.00	4,600.00
<b>Average</b>	717.94	7,179.40	561.11	5,611.10	487.03	4,870.30
<b>Change from the last day of the previous month</b>	2.50	25.00	13.50	135.00	26.50	265.00

Note: \* Official price of latex concentrate in bulk, 60% DRC

Source: Malaysian Rubber Board



Association of Natural Rubber Producing Countries (ANRPC) on global supply and demand. According to ANRPC, the world NR consumption increased by 5.5%, year-over year, to 4.6 million tonnes during the four months from January to April 2018. Meanwhile, the world NR production increased only by 2.6% to 4.0 million tonnes during the same period. The US dollar strengthened to a fresh four-month high against a group of major currencies on 16 May, bolstered by a surge in the benchmark US Treasury yield above 3%, that suggests a more upbeat outlook for the world's largest economy. Thus, the ringgit has been on a downtrend along with other emerging market currencies owing to stronger US dollar following rising US treasury yields. The ringgit depreciated to RM3.9950 on 30 May, compared to the weakest level at RM3.9205 in April.

Towards the end of the month, the market turned bearish dragged down by weaker global equities market and slumping oil prices. The global equities and commodities markets slipped on 23 May owing to new uncertainty about trade tensions between the U.S. and China after US President said he was "not satisfied" with the latest round of trade talks with China. At the same time, the US impending probe into auto imports that could lead to new tariffs is causing jittery in the markets especially in Europe and China which may renew sparks on trade wars. Crude oil prices fell sharply due to the expectation that top producers could ease quotas on existing production cuts.

## Outlook

The outlook for the rubber market is uncertain as non-fundamental factors continue to play a major role in determining price movements. Uncertainty on the crude oil prices, equity markets and currency movements due to concerns over US-China trade issues would continue to put pressure on the rubber market. However, prospects for the near term are favourable considering that there is a decline in NR stocks in Qingdao China warehouses, China's manufacturing activity (PMI) in May grew at the fastest pace in eight months at 51.9 as well as strong demand from China and India in 2018 as anticipated by ANRPC. ANRPC expects China and India consumption to grow by 6.2% to 5.7 million tonnes and 10.9% to 1.2 million tonnes

respectively in 2018. In addition, wet weather which is currently being experienced in Peninsular Malaysia could provide some support to the market. Meanwhile, the market participants will be keeping their eyes on the possibility of US interest rate hike by US Federal Reserve and oil production cut policy by OPEC where both meetings will be held in June 2018.

## News Briefs

### ***Fed likely to keep rates steady; investors bet on June hike***

The US Federal Reserve is set to hold interest rates steady this week but will likely further encourage expectations that it will lift borrowing costs in June on the back of rising inflation and low unemployment. Investors have all but priced out the chance of a rate hike at the end of the Fed's two-day policy meeting on 2 May, particularly given its adherence in recent years to only raising rates at meetings that are followed by press conferences.

- *reuters.com*, 2 May

### ***Analysis: China Q1 oil demand surges 6.8% as GDP growth exceeds target***

China ended the first quarter of 2018 with robust apparent oil demand growth of 6.8% year-on-year, as stronger-than-expected GDP growth boosted consumption from the industrial and construction sectors and outweighed concerns. The 6.8% year-on-year GDP growth aided China's overall oil demand to rise to 12.36 million barrels per day in Q1, much higher than the 4.1% growth seen in Q1 of 2017. For the whole of 2017, demand growth was at 5.5% year-on-year.

- *platts.com*, 3 May

### ***European Commission imposes antidumping duties on Chinese TBR tyres***

The European Commission (EC) has released details of the provisional antidumping duties to be imposed on imports of new and retreaded truck and bus tyres sourced from China. The provisional duties announcement single out four companies with specific dumping margins: Aeolus Group at 151.2%, Giti Group at 98.7%, Hankook Group at 80.4% and Xingyuan Group at 166.7%.

Other cooperating companies are grouped at 110.3%, while all other companies will be assessed at 166.7%, the EC said.

- *rubbernews.com*, 7 May

**Government support is crucial in the expansionary rubber glove industry, says MARGMA**

Rubber glove manufacturers said government support is crucial in an expansionary industry like rubber gloves where the world demand is now at 268 billion pieces and Malaysia produces 63% of it. Malaysian Rubber Glove Manufacturers Association (MARGMA) President Denis Low Jau Foo said the association has always been very supportive of the many good policies introduced by the government.

- *globalrubbermarkets.com*, 7 May

**China central bank says to maintain neutral policy, stable yuan**

China's central bank will maintain its neutral monetary policy and keep liquidity and credit growth largely steady while keeping the yuan currency basically stable, it said on 11 May. The People's Bank of China (PBOC) will fend off systemic risks and use multiple monetary policy tools to ensure financial stability in the world's second largest economy, it said in its first-quarter monetary policy implementation report.

- *reuters.com*, 14 May

**China opposes EU anti-dumping duties on tyres**

China's Ministry of Commerce (MOC) has reportedly said that the European Commission (EC)'s decision to impose duties on China made bus and lorry tyres is a measure to artificially raise the dumping margins by using the cost of production in a third country to calculate the value of Chinese products, which is typically known as the 'surrogate country approach'. MOC's spokesperson Gao Feng said, "We urge the European side to fully implement its obligations under Article 15 of the Protocol on China's Accession to the World Trade Organisation (WTO) and treat Chinese companies fairly during anti-dumping investigations." Article 15 requires all WTO members not to use the surrogate

country approach during anti-dumping investigations into Chinese companies and was effected in December 2016.

- *rubberjournalasia.com*, 15 May

**NASH hopeful the new government will concentrate on smallholders development**

National Association of Smallholders Malaysia (NASH) is hopeful that the new government under the Pakatan Harapan coalition will be able to implement the mandate that have been given by the people. "NASH hope that the government will concentrate on smallholders development as one of the main agenda, as these people are among the most affected with the rising cost of living in Malaysia," he said in a statement.

- *nst.com.my*, 16 May

**Natural rubber production rises marginally while consumption peaks for 2017-18**

Import of Natural Rubber (NR) touched all time high of 469,433 tonnes, an increase by 10.1% from the previous year. The natural rubber production has improved marginally while the consumption and import have reached a new high in the provisional data for 2017-2018 released by India Rubber Board. M K Shanmuga Sundaram, Chairman and ED of India Rubber Board said the (NR) production increased by 0.4% from a year ago to 694,000 tonnes. At the same time, the consumption rose 6.4% to 1,110,660 tonnes.

- *globalrubbermarkets.com*, 17 May

**Tyre industry in Sabah to be developed**

Junz Wong, the new Agriculture and Food Industries Minister of Sabah state in Malaysia, appointed recently as a result of Malaysia's latest elections, plans to develop the tyre industry in the East Malaysian state. This move is to help rubber smallholders and generate new job opportunities in the state. Junz said a development plan or mechanism would be outlined to make sure that the scheme can be accomplished as rubber is an important commodity, with emphasis placed on diversifying downstream activities concerning agriculture.

- *nst.com.my*, 17 May

**US labour market tightening; mid-Atlantic factory activity picks up**

New applications for US jobless benefits increased more than expected last week, but the number of Americans on unemployment rolls fell to its lowest level since 1973, pointing to diminishing labour market slack. Other data showed an acceleration in mid-Atlantic factory activity this month, with manufacturers saying they were boosting employment and asking for higher prices for their products. The combination of a tightening labour market and firming inflation bolsters expectations the Federal Reserve will raise interest rates next month.

- reuters.com, 18 May

**Malaysia's 2018 economic growth expected to remain above 5%**

Malaysia's first quarter (1Q18) gross domestic product (GDP) growth came in at 5.4% year on year, lower than the consensus projection but AmBank Research is maintaining its 5.5% GDP growth for this year as it expects private consumption and the services sectors to continue to support growth together with other areas of business activities. "Apart from private consumption and services, we noticed that most of the other economic segments showed some loss of growth momentum. Still, our current 5.5% GDP growth for the full year remains, as we expect private consumption and services sectors will continue to support growth together with other areas of business activities," it said in a report.

- thesundaily.my, 21 May

**Stop rubber dumping; set import price, says industry**

Minimum import price on rubber is needed to avoid dumping, say stakeholders citing a serious drop in production triggered by imports and low prices. Quoting data at a meeting of a Task Force in Kochi, growers and processors pointed out that imports were increasing even during high cropping months of September-February. This underlines the need for a clear policy on how much, when and what to import. "It is not only the quantum of imports, but also timing that created the problem", they said.

- thehindubusinessline.com, 21 May

**Global economy to expand 3.4% this year, says BMI Research**

The global economy is expected to grow 3.4% this year and taper to 3.2% next year, with the US powering ahead, but a stronger dollar and American monetary policy tightening present risks to some emerging markets, according to a report from BMI Research. The United States is growing faster than other developed markets, particularly Japan and the eurozone. US gross domestic product is projected to accelerate to 2.7% this year from 2.3% last year, while eurozone growth will decelerate to 2% this year from 2.4% last year, and Japan's economy is forecast to decline to 1.2% from 1.7%.

- hellenicshippingnews.com, 23 May

**US launches national security probe of vehicle imports**

The Trump administration on Wednesday launched a national security investigation into car and truck imports that could lead to new US tariffs similar to those imposed on imported steel and aluminum in March. The Commerce Department said the probe under Section 232 of the Trade Expansion Act of 1962 would investigate whether vehicle and parts imports were threatening the industry's health and ability to research and develop new, advanced technologies.

- reuters.com, 23 May

**ANRPC expects China, India to drive natural rubber consumption**

According to the Association of Natural Rubber Producing Countries (ANRPC) in its monthly report released on 24 May 2018, the world consumption increased by 5.5%, year-over year to 4.6 million tonnes during the four months from January to April 2018. Meanwhile, the world production increased only by 2.6% to 4.0 million tonnes during the same period. ANRPC expects the world production at 14.2 million tonnes while the world consumption at 14.3 million tonnes in 2018. The outlook on consumption during 2018 has been substantially scaled up in the case of China and India, the first two largest consuming countries jointly contributing around 48% of the world consumption. The consumption in China is expected to rise by 6.2% to 5.7 million tonnes as against a 0.6% fall anticipated until a month ago. In India, the revised outlook suggests

consumption rising by 10.9% to 1.2 million tonnes during 2018, much faster than the 6.8% growth expected a month ago. The revised scenario implies that a quantity of 790,000 tonnes will be additionally consumed in the two countries as compared to the scenario expected a month ago.

- *rubbernews.com*, 24 May

### **High strength, crack resistant rubber developed**

A new polymer, using advanced synthetic technology for macromolecular conjugates has been developed by Bridgestone Corporation. Combining rubber and resin at a molecular level, Bridgestone has become the first in the world to develop what it calls High Strength Rubber (HSR). This hybrid material shows evidence of the superior capabilities of each component material.

- *rubberjournalasia.com*, 25 May

### **China's tariff cut highly valued by German automotive industry: VDA**

China's decision to slash its automobile import tariffs is highly valued by the German automotive industry, president of German Association of the Automotive Industry (VDA) Bernhard Mattes said in a statement released recently.

Following Britain, the US, Italy and France, China is the fifth largest export market for German passenger vehicles, with around 260,000 cars exported from Germany to China. In 2017, German manufacturers produced 4.89 million cars in China, which amounted to 30% of the entire production of German car brands worldwide, according to VDA.

- *xinhuanet.com*, 27 May

### **IMF maintains China's 2018 GDP growth forecast at 6.6%**

The International Monetary Fund (IMF) kept its forecast for China's 2018 economic growth unchanged at 6.6%, but warned that overly rapid credit growth and trade frictions could pose risks for the world's second-largest economy.

China's economy grew 6.8% in the first quarter of 2018, slightly faster than expected, buoyed by

strong consumer demand and surprisingly robust property investment.

- *in.reuters.com*, 30 May

### **China May factory growth surpasses expectations, official PMI shows**

China reported that factory activity grew more than expected in May, with the official manufacturing Purchasing Managers' Index (PMI) coming in at 51.9 — the highest level since October 2017. The Chinese manufacturing PMI was forecast to dip to 51.3 in May from 51.4 in April, according to a poll of economists by Reuters. A reading above 50 indicates expansion, while a reading below that signals contraction. Strong supply-demand factors and gains in global commodity prices contributed to the improvement in May's manufacturing PMI reading, said Zhao Qinghe, a statistician at China's National Bureau of Statistics.

- *cnbc.com*, 30 May

### **Michelin sets sights on tyre-recycling goals**

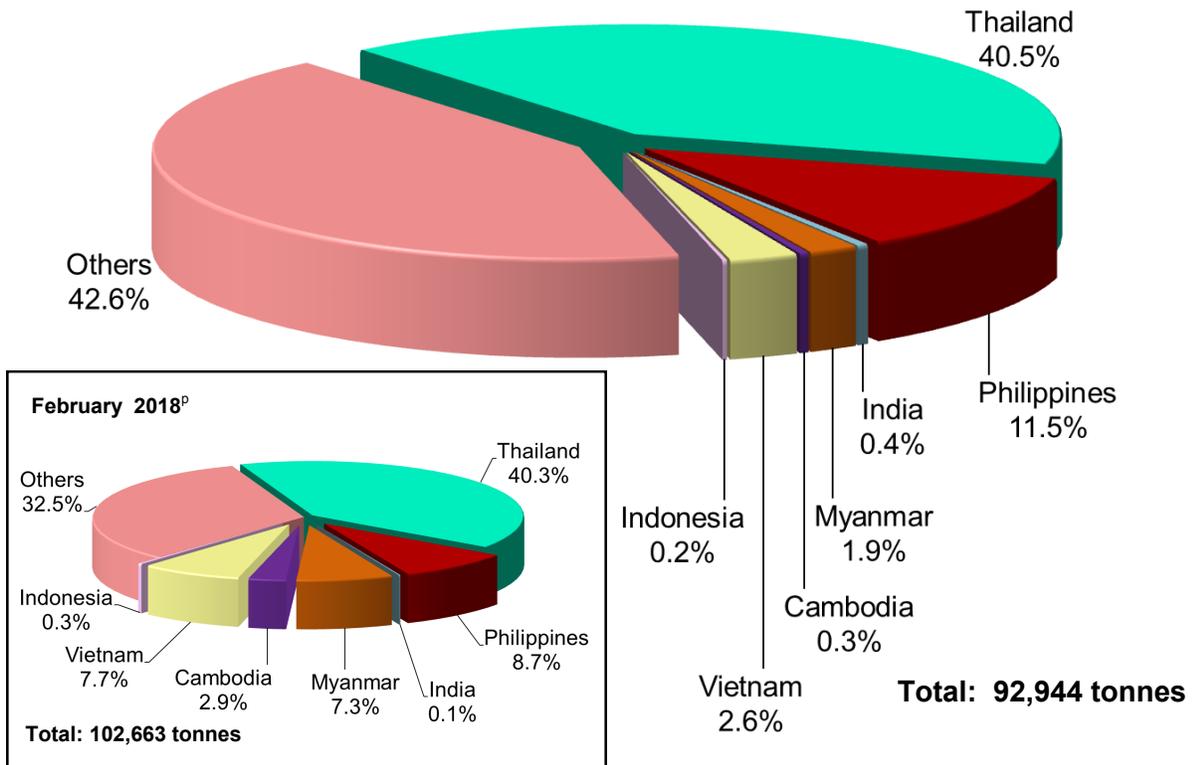
Michelin has set a pair of ambitious tyre-recycling targets for the coming 30 years. Simply, said Cyrille Roget, Michelin's technical and innovation communications director, the goals are intended to change what tyres become and to change what they are made of. "If we achieve these ambitions, we would save 33 million barrels of oil each year," Roget said. The tyre industry, he said, already has a high recycling rate with roughly 70% of tyres being recycled. About half of those recycled tyres are used in high-value-added products such as rubberized asphalt and shoe soles.

- *rubbernews.com*, 31 May

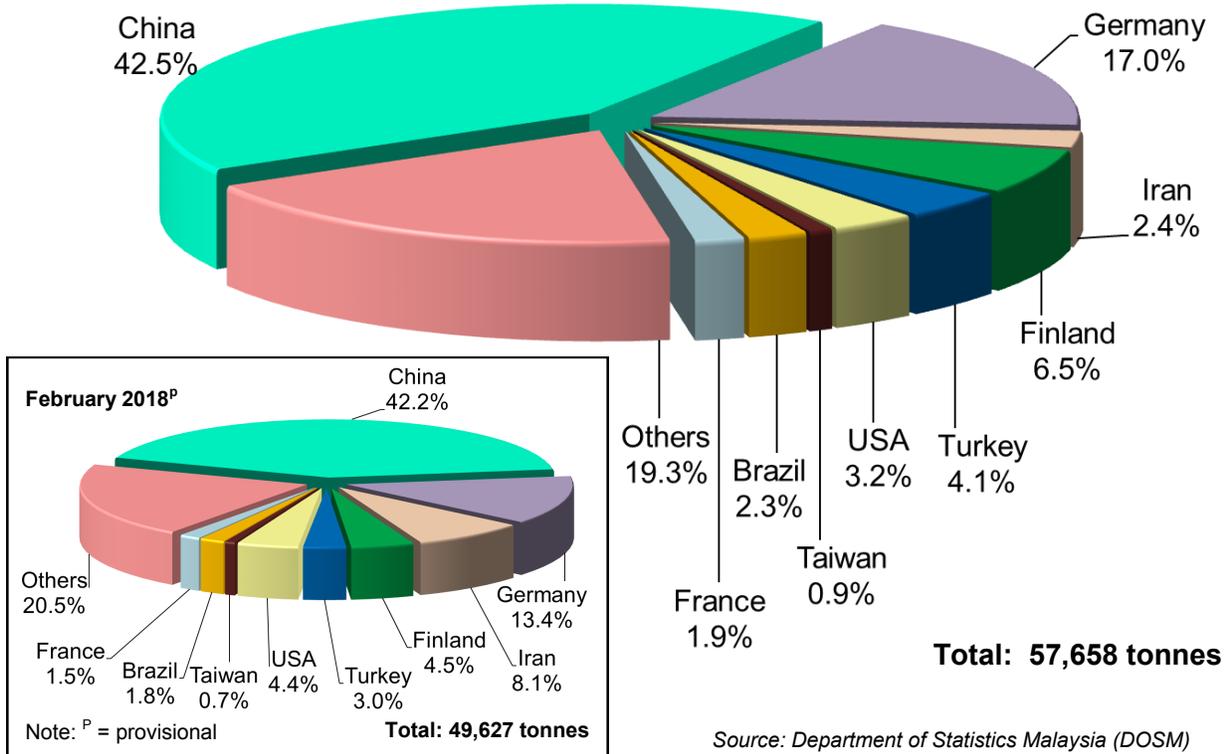
### **Sources:**

*reuters.com*, *platts.com*, *rubbernews.com*, *globalrubbermarkets.com*, *reuters.com*, *rubberjournalasia.com*, *nst.com.my*, *thesundaily.my*, *thehindubusinessline.com*, *hellenicshippingnews.com*, *xinhuanet.com*, *in.reuters.com*, *cnbc.com*

### Malaysia's NR Imports by Countries, March 2018<sup>P</sup>

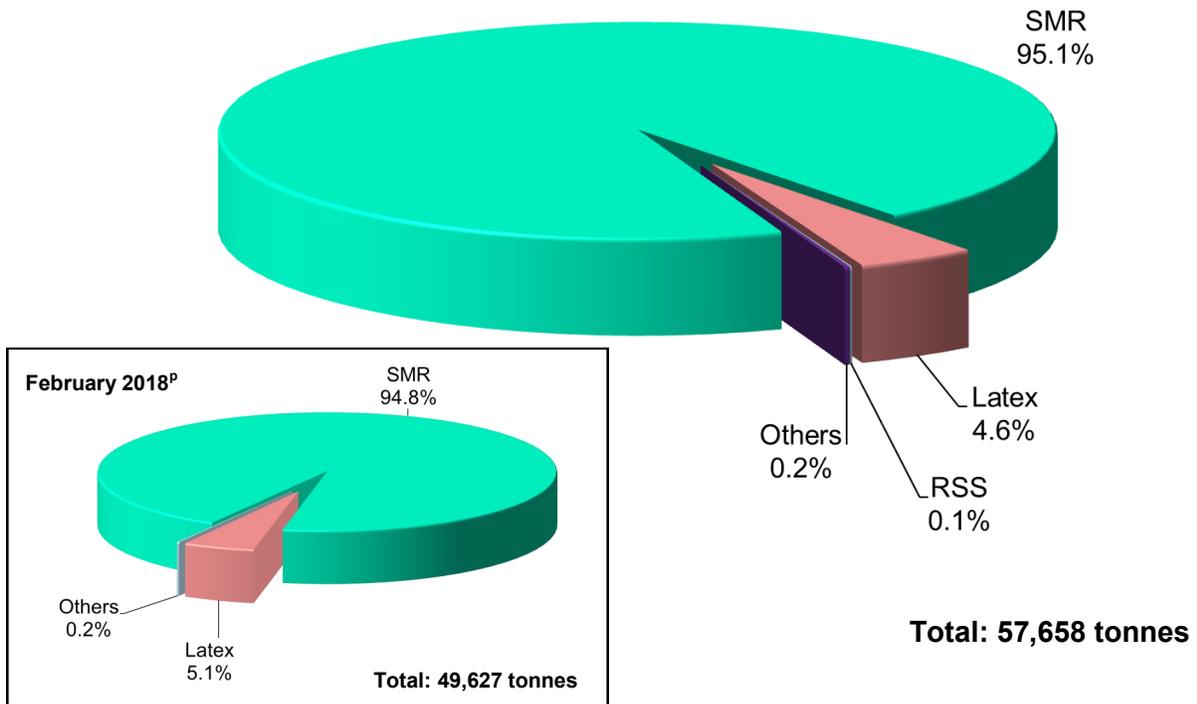


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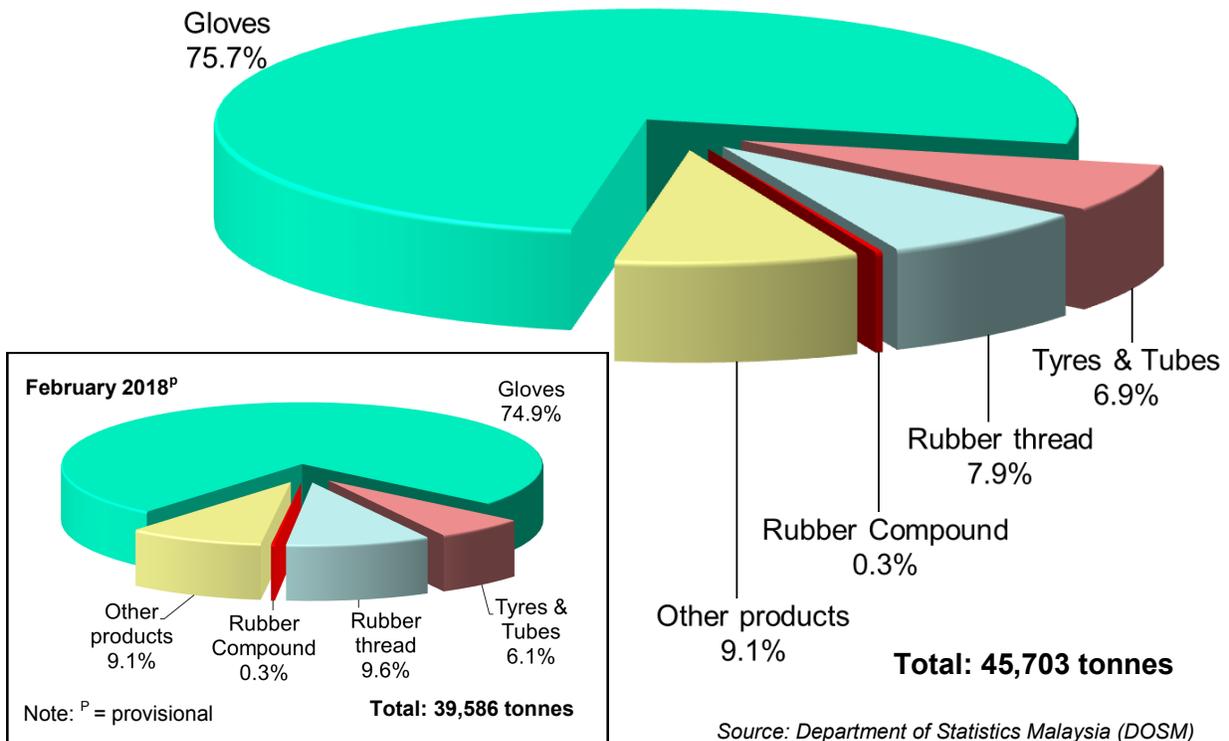


Source: Department of Statistics Malaysia (DOSM)

**Malaysia's NR Exports by Types, March 2018<sup>P</sup>**



**Malaysia's NR Consumption by Sectors, March 2018<sup>P</sup>**



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