



MALAYSIAN RUBBER BOARD

D I G E S T

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Natural Rubber Market Review

January

The first month of the New Year saw the Kuala Lumpur Rubber Market ruled mixed owing to lack of fresh leads. The market rose moderately during the first half of the month on improved market sentiment amid concern about supply shortages following wet weather and curbing of natural rubber (NR) exports by International Tripartite Rubber Council (ITRC) countries effective 1 January 2018. However, weaker undertone soon prevailed, sending prices lower after mid-month resulting from volatile regional rubber futures markets, a stronger ringgit against the US dollar and sluggish demand following rising rubber inventories in China's warehouses. Compared with those on 29 December 2017, the price of SMR 20 remains unchanged to close at 580.50 sen/kg while latex concentrate closed at 450.00 sen/kg, down by 12.00 sen/kg or 2.6%. The price movements of selected grades of rubber in January 2018 are shown in Table 1.

The market rose modestly during the first half of the month, responding positively to the burgeoning global economic recovery in 2017 at

3.0%, compared with 2.4% in 2016. Market sentiment was further supported by the commitment of ITRC countries to curb NR exports of 350,000 tonnes from 1 January until 31 March 2018. Market sentiment improved on worries over supplies as wet weather continues to limit tapping activities. In addition, the Department of Statistics Malaysia (DOSM) on 12 January reported that Malaysia's natural rubber (NR) production dropped by 12.6% in November 2017 to 58,733 tonnes month-on month. Firmer oil prices also boosted market sentiment. Oil prices hit their highest levels since 2014 on 12 January, supported by ongoing global production cuts led by Organization of the Petroleum Exporting Countries (OPEC) and Russia until the end of 2018, a fall in U.S. crude inventories as well as healthy demand.

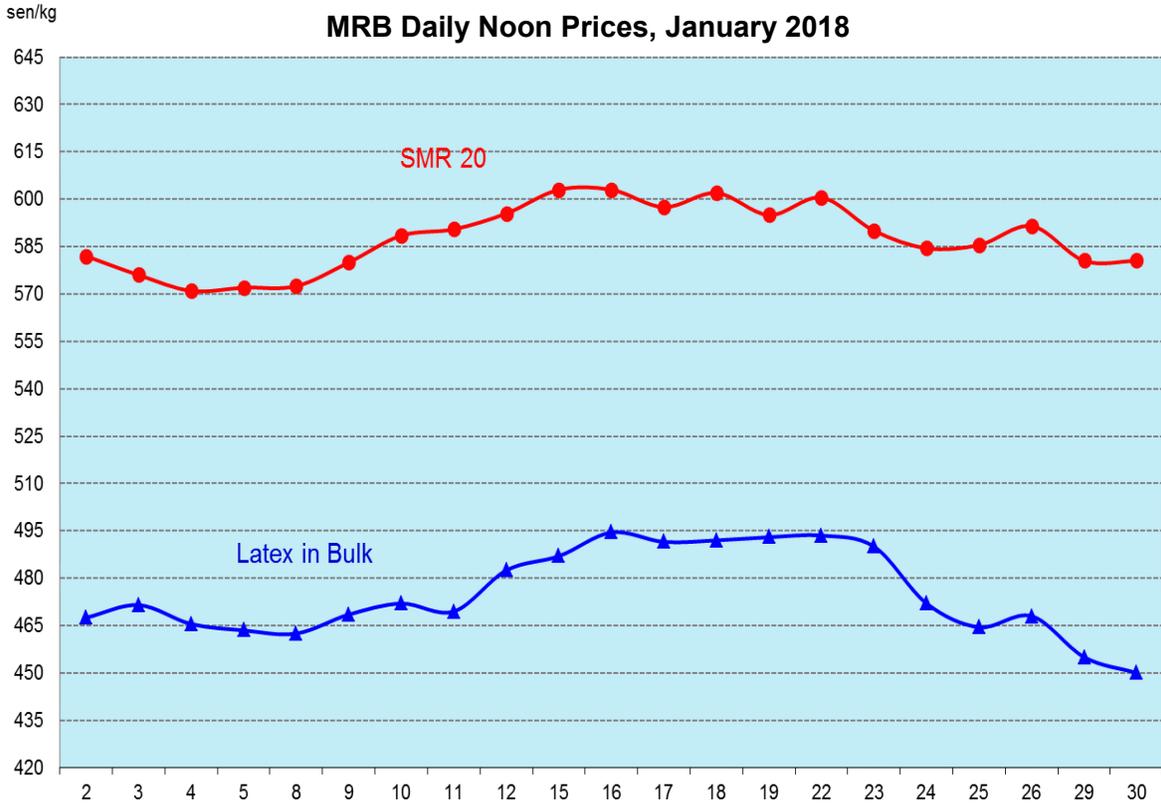
The firmer sentiment was short-lived and the market edged lower after mid-month, dragged down by poor performance of the regional rubber futures markets owing to an excessive speculation, profit taking activities as well as stronger Japanese yen and Chinese yuan against the US dollar. Rising rubber stockpiles in both China and Japan also dampened the market sentiment. Total rubber inventories (NR and SR) at Qingdao warehouses, China as of 12 January

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

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	RM/tonne	sen/kg	RM/tonne	sen/kg	RM/tonne
Highest	768.00	7,680.00	603.00	6,030.00	494.50	4,945.00
Lowest	753.00	7,530.00	571.00	5,710.00	450.00	4,500.00
Average	761.05	7,610.50	587.69	5,876.90	474.95	4,749.50
Change from the last day of the previous month	5.50	55.00	0.00	0.00	-12.00	-120.00

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

Source: Malaysian Rubber Board



**SMR 20 and Latex (in Bulk,60% DRC) Noon Prices
2 February 2017 - 30 January 2018**



surged to 246,300 tonnes. Meanwhile, Shanghai Futures Exchange (SHFE) warehouses stockpile as of 25 January rose to 419,310 tonnes. The Rubber Trade Association of Japan (RTAJ) reported that crude rubber inventories at Japanese ports stood at 13,307 tonnes as of 20 January, up 8.2% from the last inventory date. Buyers were sidelined waiting for cheaper prices due to ample of NR supplies. The Association of Natural Rubber Producing Countries (ANRPC) on 18 January reported that the global NR production grew by 6.9% from 12.429 million tonnes in 2016 to 13.282 million tonnes in 2017 while NR demand in 2017 amounted 12.904 million tonnes, up merely by 1.4% compared to 12.725 million tonnes in 2016. On the other hand, a strengthening ringgit capped further gains in NR prices. The ringgit climbed to nearly a two-year high against the US dollar at RM3.8695 on 29 January. The market was also affected when the US Dollar Index (USDIX) fell below the 90-point mark to a fresh three-year low on 24 January as the dollar continued its decline against a basket of other currencies.

Outlook

Prices are expected to remain steady at the current level as supplies of raw materials are limited by ITRC's commitment to curb export of NR under the 5th Agreed Export Tonnage Scheme (AETS) until end of March 2018. The effects of wintering season which has started in Southern Thailand will continue to bear strongly on market sentiment, giving it a bullish undertone. Nevertheless, Chinese buyers will be sidelined due to the Lunar New Year in mid-February and the market is expected to be quiet but steady. At the same time, the gains will be limited by the expectation of ringgit to be strengthen against the US dollar between RM 3.800 to 3.950 in the first quarter 2018. Meanwhile, the World Bank forecasts global economic growth to edge up to 3.1% in 2018 after a much stronger-than-expected growth in 2017 as the recovery in investment, manufacturing and trade continues. In addition, the International Monetary Fund (IMF) expects global economy growth in 2018-2019 to maintain near-term momentum at 3.9%. However, the World Bank forecasts growth in China to moderate to 6.4% in 2018 and 6.3% in 2019 from 6.8% in 2017 as the economy rebalances away from investment and external demand towards domestic consumption. Besides, the market's concern on the manufacturing

activities in China as their official Purchasing Manufacturing Index (PMI) slowed more than expected in January at 51.3 in the face of a cooling property market and tighter pollution rules that have curtailed factory output.

News Briefs

World: Commodities - EIU's monthly rubber outlook

The Economist Intelligence Unit forecasts growth in annual natural rubber (NR) consumption to average 2.3% in 2018-19 on the back of rising car ownership in emerging countries and solid global economic growth. The severe floods that hit South-east Asian rubber plantations in January did not have a lasting effect on rubber tapping or cause long-term damage to trees. Production rebounded quickly and strongly. Indeed, we now expect a bumper global crop of just under 13m tonnes in 2017, representing a year-on-year increase of 5.2%. However, EIU expected lower prices over the summer to have acted as a disincentive to tapping in the second half of 2017.

- Economist Intelligence Unit, 1 Jan

U.S. economy to grow faster in 2018

The U.S. economy in 2018 may finally unload some of the baggage that has slowed it down since the Great Recession ended in 2009. Already, economists say, the recovery is beginning to expand to more industries and sweep up more of the Americans left on the sidelines over the past 8 ½ years. Those trends will likely gather force this year, analysts say, while tepid wage gains accelerate. The Republican tax-cut plan, recently signed into law by President Trump, could provide a further modest boost, economists say.

- usatoday.com, 1 Jan

Rubber growers seek import curbs

SR Satishchandra, President of the Campco, said that a delegation of rubber growers met the Commerce Minister, Suresh Prabhu, in New Delhi on 2 Jan and briefed him on the implications of rubber imports on small and marginal growers. Some of the suggestions submitted by the

delegation included increasing the import duty on rubber and fixing a minimum tariff value for imports. The customs duty on rubber import should be increased from the current slab of 25% to 70% to curtail the import of rubber a lower cost.

- *thehindubusinessline.com*, 3 Jan

Malaysia, Thailand, Indonesia to hold back rubber exports

Thailand, Indonesia and Malaysia pledge to withhold exports of 350,000 tonnes of natural rubber (NR) until March 2018 comes into immediate effect on 4 Jan. The three countries will also push ahead with greater domestic consumption of the commodity, according to the Bangkok-based International Rubber Consortium Ltd (IRCo). The IRCo said the withholding of exports of NR was under the framework of the International Tripartite Rubber Council's (ITRC) Agreed Export Tonnage Scheme (AETS). To recap, the pledge was made during the ITRC senior officials meeting on December 22, 2017 in Bangkok. It will be monitored by the ITRC Monitoring and Surveillance Committee.

- *thestar.com.my*, 4 Jan

China aims to tap farmers for rubber

A Chinese state enterprise is to team up with farmer networks to set up a joint venture to purchase rubber directly from growers, according to a source in rubber exporting circles. Veerasak Sinthuwong, an executive of the Rubber Network Council and Rubber Farmers Institute of Thailand (RNRFI), said such cooperation would open the door for the Chinese firm to buy the commodity directly from rubber farmers.

- *bangkokpost.com*, 4 Jan

Minister urges caution over Chinese investment in rubber farms

China's plan to invest in rubber plantations in Thailand must be carefully considered, says Grisada Boonrach, minister to the Ministry of Agriculture and Cooperatives, but such projects must not impact local farmers. Mr Grisada said that as the issue is quite sensitive a thorough study must be undertaken to ascertain the impact on domestic producers. His major worry being that there might be a repeat of the price dumping

by Chinese middlemen in fruit markets in the eastern provinces.

- *bangkokpost.com*, 7 Jan

More than 150,000 smallholders yet to apply for monsoon aid

Malaysian Rubber Board (MRB) urges the remaining 158,575 smallholders who have yet to apply for the RM600 Monsoon Season Aid to do so now. The aid is to ensure small farmers and rubber tappers' welfare are attended to in this monsoon season.

- *nst.com.my*, 11 Jan

China keeps crown as top auto market despite slowdown

China remained the world's largest new-automobile market for a ninth straight year in 2017, despite the slowest growth in sales volume since 2011, as rising sales of SUVs compensated for a slump in smaller cars. Sales climbed 3% to 28,878,900 units, data released Thursday by the China Association of Automobile Manufacturers shows. This is 70% higher than sales in U.S., China's closest competitor in market size, and 5.5 times the Japanese figure.

- *asia.nikkei.com*, 12 Jan

Malaysia's commodity crop export tops RM140 billion

Malaysia's commodity crop exports for last year are expected to surpass RM140 billion as the average palm oil and rubber pricing was slightly higher than in 2016. "In the first 10 months of last year, we earned RM116.8 billion in exports," said Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong. Malaysia's plantation-based commodities comprise palm oil, rubber, timber, cocoa, tobacco and pepper. Apart from manufacturing and tourism, plantation commodities are also a major contributor to the economy.

- *rubberjournalasia.com*, 12 Jan

Malaysian government delivers aid to farmers affected by the monsoon

Malaysian Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong recently said that the Government's Monsoon Season Aid

(BMT) of RM200 per month in November 2017 to January 2018 has benefitted 440,000 small farmers and rubber tappers. Mah said the objective of the BMT was to ensure that the welfare of small farmers and rubber tappers are protected during the monsoon season. The Government has allocated RM261mil for this purpose. More than 275,605 small farmers and rubber tappers have received the first BMT payment on 1 November 2017 while 283,258 small farmers and rubber tappers received the second payment in December 2017.

- *rubberjournalasia.com*, 12 Jan

Halcyon Agri set to become world's largest producer of standard Indonesian rubber

Halcyon Agri Corporation Limited, one of the world's largest natural rubber supply chain managers, has signed a conditional sale and purchase agreement in respect of the proposed acquisition of PT Sumber Djantin and PT Sumber Alam for USD105.3 million. Upon completion, the acquisition will add four Standard Indonesian Rubber factories, located in Pontianak, Indonesia, with a combined licensed annual capacity of 132,000 metric tonnes to Halcyon Agri's operations.

- *rubberjournalasia.com*, 15 Jan

China economy beat expectations in 2017

China's economy exceeded Beijing's annual growth target in 2017, analysts said in an AFP survey, overcoming the government's battles against massive debt and pollution-spewing factories. The world's second largest economy expanded 6.8 % in 2017, much better than the official target of around 6.5 %, according to the poll of 11 financial experts.

- *channelnewsasia.com*, 16 Jan

Rubber exports jump as smugglers siphon off profits

The total amount of rubber exported by Cambodia surged 30% last year, but widespread rubber smuggling on the Vietnamese border crippled potential profits from the booming industry. Cambodia generated about USD300 million in revenue by exporting nearly 189,000 tonnes of rubber last year, according to Pol Sopha, general director of the rubber department at the Ministry of

Agriculture. But while small-scale rubber farmers were able to sell their crops for a profit, the industry as a whole was crippled by massive smuggling operations that shipped much of the country's rubber into Vietnam tax-free, according to Sopha.

- *phnompenhpost.com*, 18 Jan

Indiana House committee passes used tyre bill

The Indiana House Commerce, Small Business and Economic Development Committee has voted 11-0 to pass a bill prohibiting tyre dealers and auto service providers from installing unsafe used tyres on vehicles. The bill would ban the installation of tyres that have less than 2/32-inch tread depth; damage that exposes steel belts or other internal components; improper repairs; or bulges that indicate internal damage.

- *rubbernews.com*, 19 Jan

Oil producers will cooperate beyond 2018, says Saudi Arabia

Global oil producers are in agreement that they should continue cooperating on production after their deal on supply cuts expires at the end of this year, Saudi Arabia's energy minister Khalid al-Falih said on Sunday. It was the first time Saudi Arabia, the world's top oil exporter, had publicly stated OPEC and non-OPEC producers would keep cooperating after 2018. The exact mechanism for cooperation next year has not yet been decided, Falih said, but if oil inventories increase in 2018 as some in the market expect, producers might have to consider rolling the supply cut deal into next year.

- *reuters.com*, 21 Jan

IMF lifts global growth forecast to 3.9%, saying momentum is building

The International Monetary Fund has lifted its forecasts for global growth, saying momentum is building in global economic activity and Donald Trump's tax cuts in the US are likely to stimulate activity further. It says the growth momentum is expected to carry into 2018 and 2019, and it has revised upwards its global growth forecasts by 0.2 % for both years, from 3.7% to 3.9%.

- *theguardian.com*, 22 Jan

MIER predicts Malaysia's GDP to grow by 5.6% in 2017

Malaysian Institute of Economic Research (MIER) said Malaysia's gross domestic product (GDP) should grow by 5.6% last year, with an estimated 5% growth in its last quarter. Executive Director Zakariah Abdul Rashid said the fourth quarter of 2017 showed no signs of slowing down and was, in fact, supported by manufacturing activities and domestic demand.

- *themalaymailonline.com* , 23 Jan

Monetary Policy Statement

Bank Negara Malaysia (BNM) on 24 January raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25% from 3% at its Monetary Policy Committee (MPC) meeting. This is the first rate hike since 10 July 2014. The last action by the central bank was to cut it from 3.25% to 3% on 13 July 2016. BNM said in a statement that with the OPR hike, the floor and ceiling rates of the corridor for the OPR are correspondingly raised to 3% and 3.50% respectively.

- *bnm.gov.my*, 25 Jan

U.S. lawmakers at NAFTA talks express optimism about modernizing trade pact

U.S. lawmakers attending NAFTA talks in Montreal expressed optimism on Sunday that efforts to update the trade pact would avoid collapse and start gaining momentum and said they urged negotiators not to bind themselves to a specific deadline. Officials from the United States, Canada and Mexico will wrap up the sixth of seven planned rounds of talks on the North American Free Trade Agreement in Montreal on Monday, with little sign of agreement on the toughest U.S. proposals to overhaul the \$1.2 trillion pact.

- *reuters.com* , 29 Jan

Fed leaves rates unchanged, sees inflation rising this year

The U.S. Federal Reserve on 31 January kept interest rates unchanged at 1.25% to 1.50%, but inflation likely would rise this year, bolstering expectations borrowing costs will continue to climb, according to incoming Central Bank Chief

Jerome Powell. In view of the solid gains in employment, household spending and capital investment, the Fed said it expected the economy to expand at a moderate pace and the labour market to remain strong in 2018. Inflation on a 12-month basis is expected to move up this year and to stabilize" around the Fed's 2% target over the medium term, the central bank said in a statement following a two-day policy meeting, the last under Fed Chair Janet Yellen.

- *reuters.com* , 31 Jan

Ringgit expected to oscillate between 3.80 To 3.95 in Q1 this year

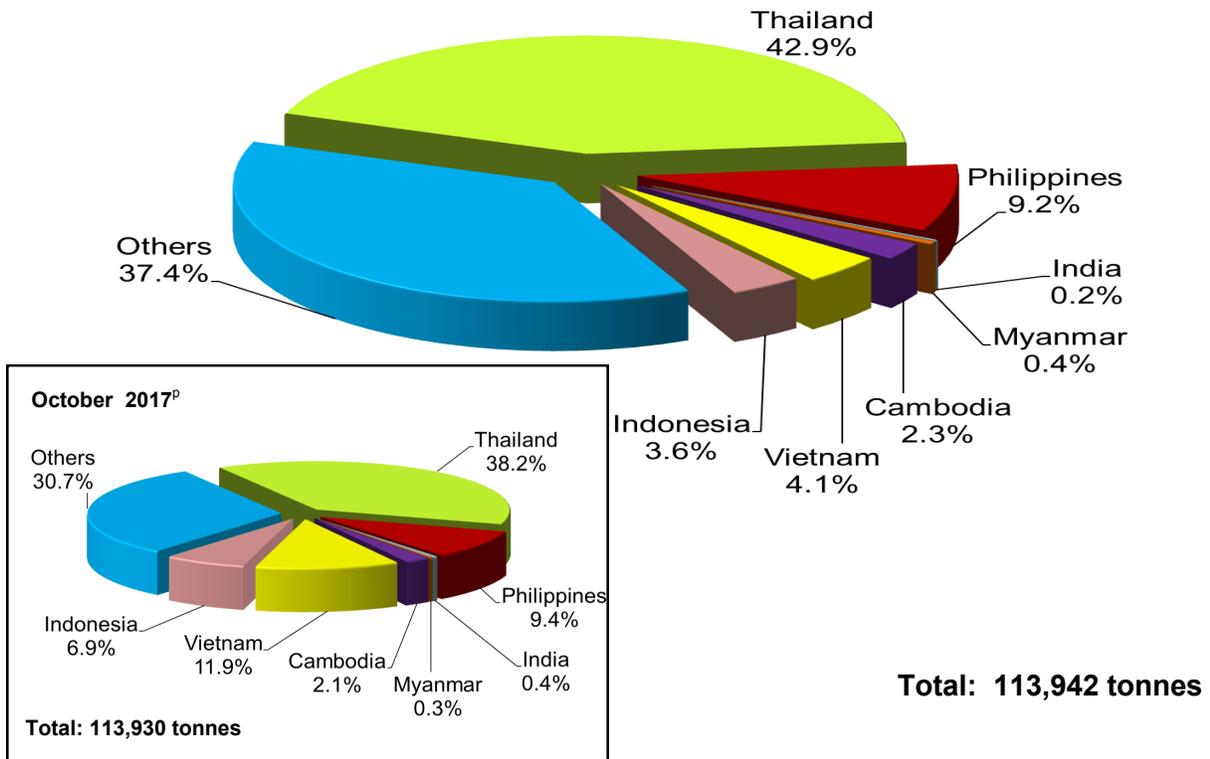
The Malaysian ringgit is expected to gradually strengthen against the US dollar in the near term and oscillate between RM 3.800 to 3.950 in the first quarter 2018, if the upward momentum continues. MIDF Amanah Investment Bank Bhd Chief Economist Dr Kamaruddin Mohd Nor said in general, Asian currencies including the ringgit, were gaining traction against the US dollar in recent weeks as the weaker trend of the greenback continued. "This has resulted in investors shifting their perception towards changes in monetary policies and growth expectations, to influence their investment decision. However, moving forward, the upward momentum of the ringgit could be hindered by weaker than expected growth, weakening commodity prices and a slow down in international trade.

-*Bernama.com*, 31 Jan

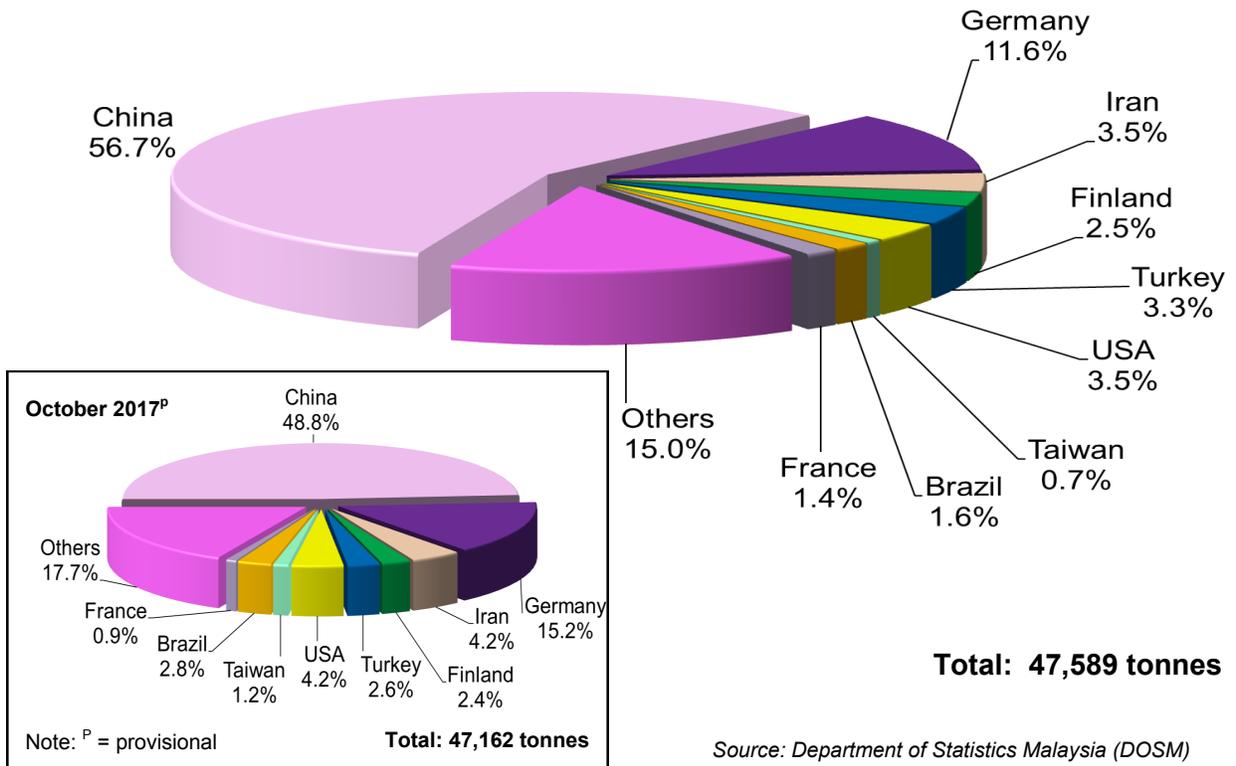
Sources:

Economist Intelligence Unit, usatoday.com, thehindubusinessline.com, thestar.com.my, bangkokpost.com, nst.com.my , asia.nikkei.com, rubberjournalasia.com, channelnewsasia.com, rubbernews.com, theguardian.com, themalaymailonline.com, bnm.gov.my,

Malaysia's NR imports by countries, November 2017^P

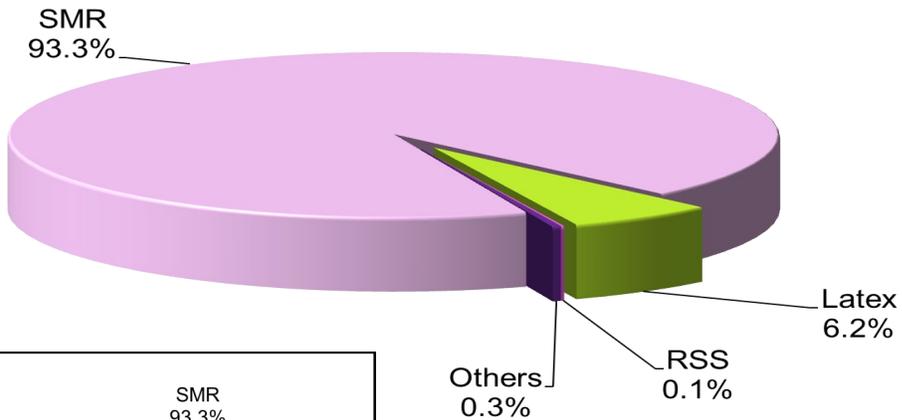


Malaysia's NR exports by countries, November 2017^P

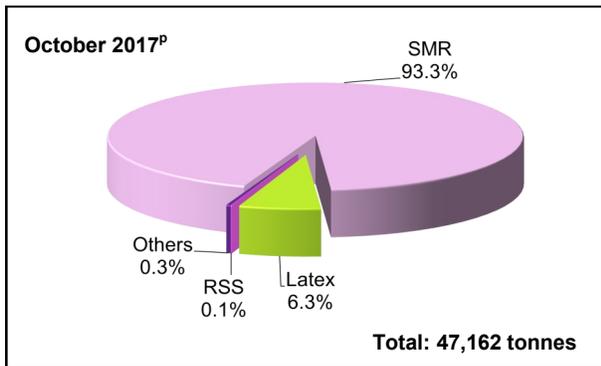


Source: Department of Statistics Malaysia (DOSM)

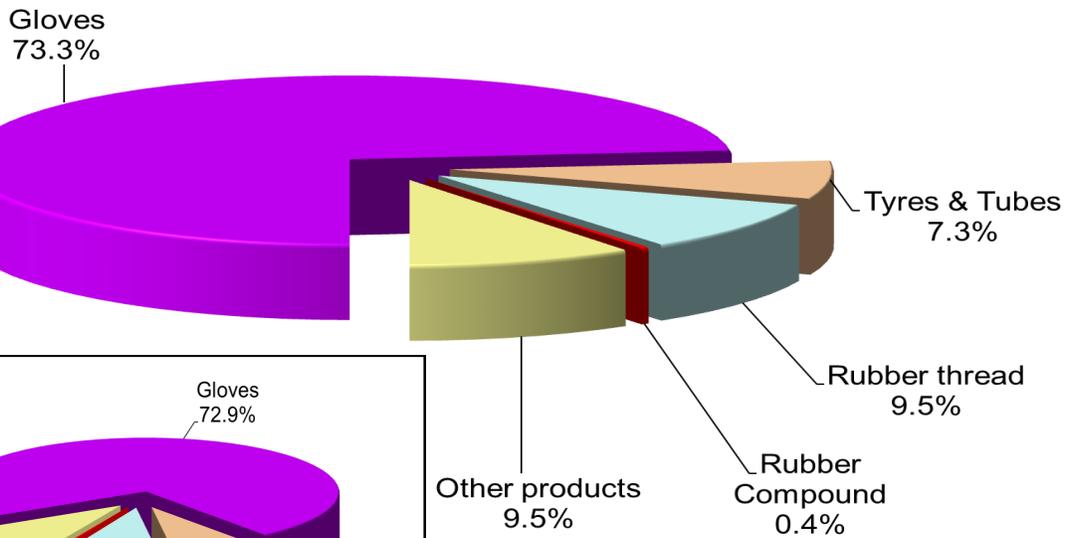
Malaysia's NR exports by types, November 2017^P



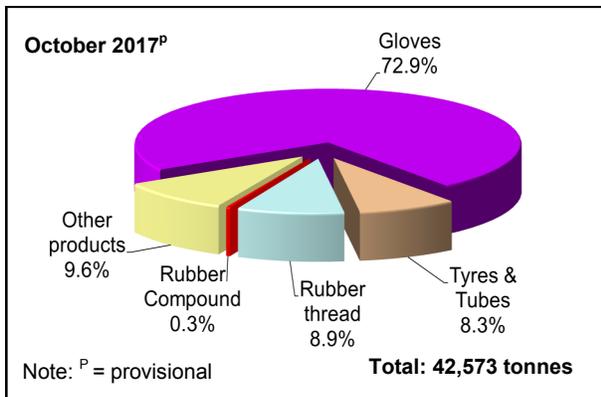
Total: 47,589 tonnes



Malaysia's NR consumption by sectors, November 2017^P



Total: 42,268 tonnes



Source: Department of Statistics Malaysia (DOSM)