Natural Rubber Market Review

January

The Kuala Lumpur rubber market began the year 2020 on a firmer ground where prices rose moderately until mid-month due to improved global market sentiment. However, weaker undertone soon prevailed, sending prices lower thereafter resulting from sluggish demand amid heightened concerns about the global economic impact from the Novel Coronavirus outbreak. Compared with those on 31 December 2019, the price of SMR 20 edged down by 40.50 sen/kg or 6.9% to close at 550.50 sen/kg. Meanwhile, latex concentrate closed at 448.50 sen/kg, a decrease of 4.5 sen/kg or 1.0%. Price movements of selected grades of rubber in January are shown in Table 1.

The market rose modestly during the first half of the month, spurred by the positive progress of the United States – China trade deal where the first phase of the agreement was signed on 15 January. Market was also boosted by firmer oil prices with Brent oil rising above USD70 a barrel on 6 January due to expectations of a drawdown in crude oil inventories following escalating tensions between United States and Iran. Furthermore, the market was lifted by strong advices from regional rubber futures markets following the return of market players after December’s long holidays.

The market tumbled after mid-month, dragged down mainly by rising natural rubber (NR) production, worries of cooling global economy, slower growth in China coupled with the outbreak of the Coronavirus which extended the absence of market players from China. The market took cues from the rising Malaysia’s natural rubber (NR) production in November 2019 as reported by the Department of Statistics Malaysia (DOSM). Malaysia’s NR production increased 1.6% in November 2019 to 53,019 tonnes as compared to the same month in the previous year. Comparison month-on-month also showed an increase of 9.3% from 48,528 tonnes, which is recorded in October 2019. In addition, market contracted on lingering worries of the cooling global economy after International Monetary Fund (IMF) revised down its global economic outlook at 3.3% in 2020 (down from a prior 3.4%) and 3.4% in 2021 (down from 3.6%). Besides, China reported that its fourth quarter growth in 2019 (6.0%) and the annual growth in 2019 (6.1%) are the lowest in nearly three decades.

Table 1: Reference Prices (Noon) of SMR CV, SMR 20 and Centrifuged Latex (60% DRC), January 2020

<table>
<thead>
<tr>
<th></th>
<th>SMR CV</th>
<th></th>
<th></th>
<th>SMR 20</th>
<th></th>
<th></th>
<th>Centrifuged Latex (60% DRC)</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>
<td>RM/tonne</td>
<td>sen/kg</td>
<td>RM/tonne</td>
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<tr>
<td>Highest</td>
<td>804.00</td>
<td>8,040.00</td>
<td>610.50</td>
<td>6,105.00</td>
<td>470.50</td>
<td>4,705.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest</td>
<td>761.50</td>
<td>7,615.00</td>
<td>547.50</td>
<td>5,475.00</td>
<td>445.00</td>
<td>4,450.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>786.03</td>
<td>7,860.30</td>
<td>590.38</td>
<td>5,903.80</td>
<td>459.60</td>
<td>4,596.00</td>
<td></td>
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<td>Change from the last day of the previous month</td>
<td>-7.50</td>
<td>-75.00</td>
<td>-40.50</td>
<td>-405.00</td>
<td>-4.50</td>
<td>-45.00</td>
<td></td>
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</tbody>
</table>

Note: * Reference price of Centrifuged Latex, 60% DRC
Source: Malaysian Rubber Board
Price of SMR 20 plunged to a near three (3)-month low on 28 January, tracking losses in the global market as investors became cautious following growing spread of Coronavirus from China and its potential impact on the global economy. The market remained quiet due to long Chinese Lunar New Year holidays, whereby China extended the Lunar New Year holiday until 2nd February 2020 across the country due to the virus outbreak. Meanwhile, Shanghai announced that all enterprises will remain closed till 9th February 2020. It was observed that trading activities at the regional rubber futures markets were limited towards the end of month as investors were mostly making position adjustments ahead of the nearest term contracts expiry. Fears of Coronavirus outbreak triggered speculative investors to shift from stocks and commodities to safe haven Japanese yen and gold. The decline in prices was also contributed by slumping oil prices resulting from easing of geopolitical tensions in the Middle East and as the outbreak Coronavirus raised concerns on global oil demand.

Outlook

Prospects for the near term are uncertain as market operators would continue to monitor the developments over the Novel Coronavirus outbreak that is likely to cause more uncertainty in the global economy. The demand from buyers are expected to be limited as China extended their holidays due to the Coronavirus outbreak. According to the economist, China’s economic growth may drop to 5% or even lower due to the Coronavirus outbreak. However, the effects of wintering season which has started in major rubber producing countries would provide some support in the near term. According to the International Rubber Study Group (IRSG), the growth of world natural rubber (NR) demand is expected to decline marginally by 0.1% in 2019, reaching 13.75 million tonnes before recovering by 1.9% in 2020. Prices are also expected to take cues from the performance of ringgit, crude oil prices and regional rubber futures markets.

News Briefs

Malaysia’s headline PMI rises to 15-month high in December

Malaysia’s manufacturing sector is heading into 2020 on a firm footing, with survey data for December showing further momentum gains in output and new orders. According to IHS Markit, production expanded at the fastest pace since September 2018 amid reports of stronger demand pressures. That said, it added that renewed fragilities appeared in international markets. The headline IHS Markit Malaysia Manufacturing Purchasing Managers’ Index (PMI) – a composite single-figure indicator of manufacturing performance – increased to a 15-month high in December of 50.0, from 49.5 in November.

- theedgemarkets.com, 2 Jan

Thailand pushes for new ways to use NR locally as Chinese demand slumps

Thailand, the world’s biggest rubber producer and exporter, is currently promoting alternate uses of the prized material – the country has seen to the relocation of tyre-manufacturing from top consumer China, primarily because of poor car sales, and aims to expand its domestic use of natural rubber (NR). Sunan Nuanphromsakul, Acting Governor of the Rubber Authority of Thailand (RAOT), said local processing of rubber was “crucial” to adding to its value: already, a local company has designed a rubber stand-like device to catch marine sediment, stabilise newly planted mangroves and ultimately protect estuarine areas from coastal erosion. The root-guarding system contains about 40% NR, compared with the roughly 25% in tyres and less than 20% in rubberised roads.

- rubberjournalasia.com, 7 Jan

Mexico’s auto industry slump continues, but Trump avoids blame

And now, nearly three years after Trump took office, Mexican auto production, exports and new -vehicle sales are all falling, and the sector has abandoned its goal of producing 5 million cars and light trucks annually by the end of 2020.

The nation’s auto exports, estimated to account
for 88% of production in 2019, fell last year after setting a record high in 2018. Light-vehicle output dropped for the second-straight year to an estimated 3.75 million in 2019, from 3.91 million a year earlier and a record 3.93 million in 2017. And new-vehicle sales declined for 30 straight months to about 1.3 million, from a record 1.6 million in 2016.

- rubbernews.com, 7 Jan

**Malaysia can achieve 4.5% growth this year**

Malaysia is expected to register a moderate growth this year, fuelled by the services and manufacturing sectors, as worries on a global recession recede with the tempering of the US-China trade war. The US and China trade deal, slated to be signed on Jan 15, is expected to ease pressures on Malaysia after a turbulent 2019 with growth dragged down by Beijing Washington economic threats. The Malaysian economy would continue to grow and is forecast to meet the 4.5% growth projection this year.

- themalaysianreserve.com, 8 Jan

**Chinese tyre makers eye U.S. revival with plant openings in Thailand, Vietnam**

2020 is shaping up as a year of resurgence by leading Chinese tyre makers in the U.S. marketplace - albeit with tyres sourced from Thailand, Vietnam and/or Malaysia. Based on conversations with a number of Chinese companies that exhibited at the 2019 SEMA Show, at least five Chinese tyre makers have begun production in the past several months at new plants in these nations or are about to do so. They join a half-dozen Chinese companies that already have built manufacturing capacities outside of China, predominantly in Thailand.

- rubbernews.com, 8 Jan

**Linglong rolls out first passenger car tyre from new factory in China**

Shandong Linglong Tire Co. Ltd., Dec. 30, rolled out its first passenger car tyre from its manufacturing plant in Jingmen, marking a milestone for the facility, which began production of truck/bus tyres in November. The USD875 million facility, which spans more than 9.6 million square feet and includes 7.2 million square feet of factory space, should produce 12 million passenger car tyres, 2.4 million truck/bus tyres and 60,000 OTR tyres at full capacity. Sales revenue is estimated to reach about USD75 million, once the plant begins full capacity operations. Linglong is considered China’s second largest tyre maker and 17th largest worldwide, based on fiscal 2018 sales of USD2.32 billion, according to Rubber & Plastics News’ Global Tyre Report.

- rubbernews.com, 8 Jan

**World Bank cuts 2020 global growth forecast amid U.S.-China trade war**

The World Bank forecast global economic growth for this year at 2.5%, down 0.2% from its estimate last June, citing weaker-than-expected trade and manufacturing activity in advanced economies amid the U.S.-China trade war. As the U.S.-China trade tensions escalated throughout most of 2019, global growth weakened to an estimated 2.4% that year. Global trade growth is also believed to have slowed sharply to 1.4% last year from 4.0% in 2018.

- factiva.com, 9 Jan

**Cambodian government’s study aims to expand rubber revenue**

The General Directorate of Rubber announced a joint study on family-owned rubber plantations in three provinces to better understand how growers have responded to the sharp drop in rubber prices over the past nine years. The average cost of rubber has fallen from around USD4,600 per tonne in 2011 to about USD1,350 per tonne in early 2020, according to its report. “The study is scheduled to begin in mid-January 2020,” a press release said, adding that the study would focus on getting a better understanding of how growers produce the commodity and bring it to market.

“After we complete the report we will incorporate its findings into government policy for the rubber sector. We chose to study family-owned plantations because they are not related to land concessions,” Phally said.

- factiva.com, 13 Jan
US removes China from currency manipulator list ahead of trade deal signing

The United States removed China from a list of countries considered currency manipulators just two days before top trade negotiators for Washington and Beijing sign a key “phase one” trade deal, the Treasury Department announced. The decision to strike China from the currency manipulator list comes more than five months after the Treasury Department formally made the designation. President Donald Trump and China Vice Premier Liu He are scheduled to sign a preliminary trade agreement in Washington. China is now on a "monitoring list" for currency practices along with nine other countries, including Germany, Italy and Japan.

- cnbc.com, 14 Jan

China: No cut in new energy vehicle subsidies in 2020

China will not make significant cuts to subsidies for new energy vehicles (NEV) this year, signalling that its policy will remain relatively stable, state media quoted the country’s industry ministry as saying. Earlier, Miao Wei, China’s Minister for Industry and Information Technology (MIIT), told a forum that the country would not cut subsidies for new energy vehicles (NEV) again in July, an approach which was cheered by vehicle makers. China’s monthly NEV sales dropped for the first time in two years in July as the subsidy cuts reached a new level, and have continued falling since. Miao also said NEV sales hit 163,000 units in December and full-year sales stood at 1.2 million NEVs, a drop from 1.3 million in 2018.

- thestar.com.my, 14 Jan

Vehicle sales in Malaysia to top 608,000 units this year: Frost & Sullivan

Frost & Sullivan foresees Malaysian vehicle sales this year reaching approximately 608,790 units at a growth rate of 1%, as the economy is expected to continue recording positive growth in 2020, driving consumer confidence throughout the year. Associate partner and senior vice-president of mobility Vivek Vaidya said the key factors likely to aid growth in the automotive market in 2020 includes strong and growing consumer confidence and new model launches. However, he cautioned that the outlook of the Malaysian automotive industry could be affected by global uncertainties such as the US-Iran conflict, which will impact long-term investment decisions.

- thesundaily.my, 15 Jan

At least three Chinese automakers eyeing expansion in Mexico

At least three Chinese automakers are preparing to produce vehicles in Mexico or expand existing operations, the Mexican ambassador to China said, in what would be a boost to one of the Latin American country’s top export industries. Jose Luis Bernal, speaking at an event in Mexico City, listed Chongqing-based carmaker Changan, electric car maker BYD, and Anhui Jianghuai Automobile Co, known as JAC, as actively eyeing production facilities in Mexico.

- reuters.com, 14 Jan

Sumitomo sets up NR procurement unit in Singapore

Sumitomo Rubber Industries Ltd. has launched a natural rubber procurement subsidiary in Singapore with the aim of ensuring "a more stable supply of high quality natural rubber." Set up with a capital of USD18 million, Sumitomo Rubber Singapore will be headed by Yoshiaki Yasuda and will start operations in April, SRI said. Sumitomo cited an anticipated decline in the production of natural rubber in major Asian producing nations as one of the reasons behind the decision to set up a procurement system led by a local unit. In addition, the Japanese tyre and rubber products company stated that the business environment was undergoing "a series of major changes that pose various challenges."

- rubbernews.com, 15 Jan

Vietnam’s rubber exports increase by 7.7% in 2019

According to Vietnam’s news on January 12, Vietnam’s rubber exports in December 2019 were 181,000 tonnes and the export value was 238 million US dollars. Vietnam’s rubber exports in 2019 reached 1.69 million tonnes, a year-on-year increase of 7.7%; the export value was 2.26 billion US dollars, an increase of 8.3% year-on-year. China, India and South Korea are the three largest rubber export markets in Vietnam, with market share of 66.5%, 8.3% and 3% respectively.

- globalrubbermarkets.com, 15 Jan
**U.S. and China tiptoe around holes in new trade agreement**

The United States and China signed an initial trade deal on 15 Jan that will roll back some tariffs and boost Chinese purchases of U.S. products, defusing an 18-month row between the world's two largest economies but leaving a number of sore spots unresolved. Beijing and Washington touted the "Phase 1" agreement as a step forward after months of start-and-stop talks, and investors greeted the news with relief. The centerpiece of the deal is a pledge by China to purchase at least an additional USD200 billion worth of U.S. farm products and other goods and services over two years, above a baseline of USD186 billion in purchases in 2017, the White House said.

- reuters.com, 15 Jan

**Ivory Coast's rubber output jumps 25% in 2019**

Ivory Coast's rubber output rose by a quarter in 2019 to 780,000 tonnes and is expected to reach 850,000 tonnes this year, as new plantations have started producing, the head of the country's natural rubber association (APROMAC) said. Akpangni Attobra, APROMAC's general secretary, told Reuters that output will keep rising and should reach 950,000 tonnes in 2021.

- theedgemarkets.com, 16 Jan

**Southeast Asia rubber fungus has auto industry bracing for shortage**

A fungal disease that has ripped through Southeast Asia's rubber plantations is pushing up prices and threatening mid-to-long-term supplies of the indispensable material for vehicle tyres. As is so often the case, the U.S.-China trade conflict is part of the story. Rubber prices had fallen in part due to fears that the dispute would lead to reduced demand. Now, signs of progress toward a Beijing-Washington deal are contributing to the price uptrend, along with concerns over the fungus. Some even see the trade war as an indirect factor behind the spread of the disease itself.

- asia.nikkei.com, 17 Jan

**China's vehicle sales decline for second consecutive year**

China's new-vehicle market, a reliable source of growth and profits for auto makers worldwide, contracted for the second consecutive year as a weakening economy and prolonged trade war with the U.S. continued to sap demand. New vehicle deliveries slipped 8.2% to just below 25.8 million, the China Association of Automobile Manufacturers said in a Jan. 14 statement. The protracted downturn largely reflected weaker demand for new cars and light trucks, which fell 9.6% to below 21.5 million, the group said. Sales of commercial vehicles such as buses and trucks dipped 1.1% to roughly 4.3 million for the year. With economic growth widely expected to remain subdued, the China Association of Automobile Manufacturers predicted in December that demand for new vehicles likely will dip another 2% in 2020.

- rubbernews.com, 20 Jan

**IMF predicts global economy will rebound in 2020**

The global economy is poised for a modest rebound in 2020, following a year in which it notched the weakest growth since the financial crisis. Global gross domestic product will expand by 3.3% in 2020, up from 2.9% in 2019, the International Monetary Fund predicted in a quarterly update to its World Economic Outlook, released in Davos, Switzerland. The improved outlook is driven by a combination of aggressive monetary policy easing in 2019 and detente in America's nearly two-year trade war with China.

- factiva.com, 20 Jan

**Michelin sustainable rubber criticised for deforestation**

Tyre giant Michelin and green group WWF have been criticised by researchers over a rubber plantation in Indonesia that was billed as protecting the environment, but which villagers say has caused deforestation, destroyed elephant habitat and resulted in land grabs. In 2015, Michelin began work on the 66,000 hectare plantation on the island of Sumatra, partnering with WWF as an adviser, to source rubber from an area that Michelin had said had been ravaged by logging and fires. The French company, one of
the world's biggest buyers of rubber, promised the plantation would be "deforestation-free", "protect flora and fauna" by creating a buffer zone for wildlife and generate 16,000 jobs.

- newscientist.com, 20 Jan

State-run Vietnam rubber firm plans expansion in Kingdom

The Vietnam Rubber Group (VRG) is planning to expand its current plantations in the Kingdom. The VRG, a state-run enterprise in Vietnam has invested in large-scale rubber farms in seven provinces in Cambodia. It disclosed the expansion plan during a meeting with Agriculture Minister Veng Sakhon in Phnom Penh. At the meeting, the Vietnam Rubber Group was represented by Chairman Tran Ngoc Thuan. Tran noted that the company collected 50,000 tonnes of latex from its 47,000 hectares of Cambodian land last year.

- khmertimeskh.com, 28 Jan

Economists are even more optimistic about the US economy

The National Association for Business Economics said in a survey released that 67% of respondents expect America's gross domestic product -- the most complete measure of the nation's economy -- to grow by 1.1% to 2% this year. A growing number of respondents (30%, compared to 20% in October) expect even higher growth of up to 3%. The survey of 97 NABE members about US business conditions was conducted in late December and early January, when several economic bright signs became apparent, said Ken Simonson, chief economist for the Associated General Contractors of America and a NABE spokesperson.

- edition.cnn.com, 27 Jan

Cambodia's rubber export up 30 % last year

Cambodia exported 282,071 tonnes of dry rubber in 2019, an increase of 30% from 217,501 tonnes in the year before, according to Agriculture Ministry. The Southeast Asian nation made a gross revenue of roughly 377 million U.S. dollars from exports of the commodity last year, up 31.8% from 286 million U.S. dollars in a year earlier, said the ministry's annual report. "A tonne of dry rubber averagely cost 1,336 U.S. dollars in 2019, about 19 U.S. dollars higher than that of 2018," the report said. The kingdom exports the commodity mainly to Malaysia, Vietnam, Singapore and China. According to the report which was released, the country has planted rubber trees on a total area of 406,142 hectares, in which 247,113 hectares, or 61% of the cash crop, are old enough to be tapped.

- factiva.com, 29 Jan

China virus outbreak pressures already weakened economy

A coronavirus outbreak in China which has killed 81 people and spread to many countries is expected to hurt its economy, an engine of global growth, though analysts say it is too early to quantify the overall impact on businesses and consumers. Shanghai said that companies cannot restart operations before Feb 9, and businesses in the eastern Chinese manufacturing hub of Suzhou have been ordered to stay shut until at least Feb 8. The government has lengthened the week-long Lunar New Year holiday nationally by three days to Feb 2. World shares fell to their lowest in two weeks on virus concerns, with demand spiking for safe-haven assets such as Japanese yen and Treasury notes.

- reuters.com, 28 Jan

Ivory Coast 2019 rubber exports up 27%

Ivory Coast exported 902,126 tonnes of natural rubber (NR) in 2019, up 27% from the previous year, provisional port data showed. Exports have risen in recent years as farmers, lured by the promise of more stable incomes, have increasingly switched to rubber from cocoa.

- edition.cnn.com, 27 Jan

British car production falls at quickest pace since recession

British car output dropped last year at the fastest rate since the 2008-9 recession, hit by slumping exports and diesel demand, as an industry body called for an ambitious post-Brexit trade deal to protect the sector. Investment, however, nearly doubled to 1.1 billion pounds (USD1.5 billion) due to a decision by Jaguar Land Rover (TAMO.NS)
to build electric vehicles in Britain. Production fell by an annual 14.2% to 1.3 million cars in 2019, the third consecutive fall, also hit by some automakers closing factories for additional days in case of Brexit-related disruption, according to the Society of Motor Manufacturers and Traders (SMMT).

- reuters.com, 30 Jan

**Coronavirus outbreak poses risk to U.S. Fed’s economic outlook**

The outbreak of a new virus that originated in the central-Chinese city of Wuhan is likely to slow China’s economic growth at least in the near term and could hurt its trading partners around the world. The potential effects of the spread of the coronavirus, which has sickened more than 6,000, mostly in China, and killed 133 since its detection early last month, took center stage in U.S. Federal Reserve Chair Jerome Powell’s news conference following the central bank’s widely expected decision to keep interest rates unchanged. The Fed is “very carefully monitoring the situation,” Powell told reporters.

- reuters.com, 30 Jan

**Coronavirus may drag China economic growth below 5% - gov’t economist**

China's economic growth may drop to 5% - or even lower - due to the coronavirus outbreak, possibly pushing policymakers to introduce more stimulus measures, a government economist has said. The fast-spreading outbreak, which has killed more than 130 people and infected almost 6,000 in China, could cut first-quarter gross domestic product (GDP) growth by about 1%, Caijing magazine quoted Zhang Ming as saying. "GDP growth in the first quarter of 2020 could be about 5%, and we cannot rule out the possibility of falling below 5%," Zhang said. In response, the government is likely to step up policy support, which could boost the annual budget deficit as a share of GDP to more than 3% in 2020, Zhang said, adding that the People's Bank of China could further cut banks' reserve requirement ratios and interest rates.

- aljazeera.com, 30 Jan

**Malaysian gloves makers ready to meet demand amid nCoV spread**

The Malaysian Rubber Glove Manufacturers Association (MARGMA), which comprises of Malaysian rubber glove manufacturers and associated suppliers and supporting organisations, assures that the gloves industry is able to meet the requirements for gloves amid the Novel Coronavirus (2019-nCoV) outbreak. The 2019-nCoV is a new respiratory virus first identified in Wuhan, Hubei Province, China. According to the Centres for Diseases Control and Prevention (CDC) in the US, this virus was claimed to have emerged from an animal source and may be transmitted human-to-human. Meanwhile, it has also been reported that MARGMA has received a request for gloves supply from China for more medical gloves. According to its President, Denis Low, its members are prepared to ramp up production to ensure that the gloves demand will be met.

- rubberjournals.com, 31 Jan

**China’s Jan official factory PMI at 50.0, as expected**

Factory activity in China stalled in January, with an outbreak of a new virus adding to risks facing the economy despite easing trade tensions. The Purchasing Managers’ Index (PMI) fell to 50.0 in January from 50.2 in December, China’s National Bureau of Statistics said, hitting the neutral 50-point mark that separates growth from contraction on a monthly basis.

- theedgemarkets.com, 31 Jan
Malaysia’s NR Imports by Countries, November 2019\textsuperscript{p}

- Total: 143,039 tonnes

- Thailand: 40.0%
- Indonesia: 7.8%
- Vietnam: 1.2%
- Cambodia: 0.1%
- Philippines: 0.5%
- Myanmar: 1.2%
- Others: 49.0%

Total: 89,809 tonnes

Source: Department of Statistics Malaysia (DOSM)

Malaysia’s NR Exports by Countries, November 2019\textsuperscript{p}

- Total: 47,488 tonnes

- China: 46.7%
- Germany: 9.5%
- Finland: 4.2%
- Iran: 2.3%
- Turkey: 2.4%
- Brazil: 2.8%
- USA: 3.3%
- Thailand: 2.6%
- Taiwan: 2.6%
- France: 1.2%
- Others: 24.9%

Total: 50,600 tonnes

Note: \textsuperscript{p} = provisional
Malaysia’s NR Exports by Types, November 2019<sup>p</sup>

- SMR 95.4%
- Latex 3.7%
- RSS 0.3%
- Others 0.6%

Total: 47,488 tonnes

Malaysia’s NR Consumption by Sectors, November 2019<sup>p</sup>

- Gloves 74.9%
- Tyres & Tubes 7.0%
- Rubber thread 8.0%
- Rubber Compound 0.4%
- Other products 9.7%
- Other products 9.7%

Total: 40,631 tonnes

Note: <sup>p</sup> = provisional

Source: Department of Statistics Malaysia (DOSM)