MALAYSIAN RUBBER BOARD
DIGEST
A monthly publication of the Malaysian Rubber Board
2016 DEC

Natural Rubber Market Review

December

In December, the Kuala Lumpur rubber market ruled mixed where price of SMR 20 surged to three-year highs at 946.50 sen/kg on 15 December. The market finally took a breather during mid-month and prices were adjusted downwards temporarily before recovering to end the month on a steady note. Compared with those on 30 November 2016, the price of SMR 20 increased 108.50 sen/kg or 14.2 % to close at 871.00 sen/kg while latex concentrate closed at 645.50 sen/kg, an increase of 68.50 sen/kg or 11.9%. The price movements of selected grades of rubber in December 2016 are shown in Table 1.

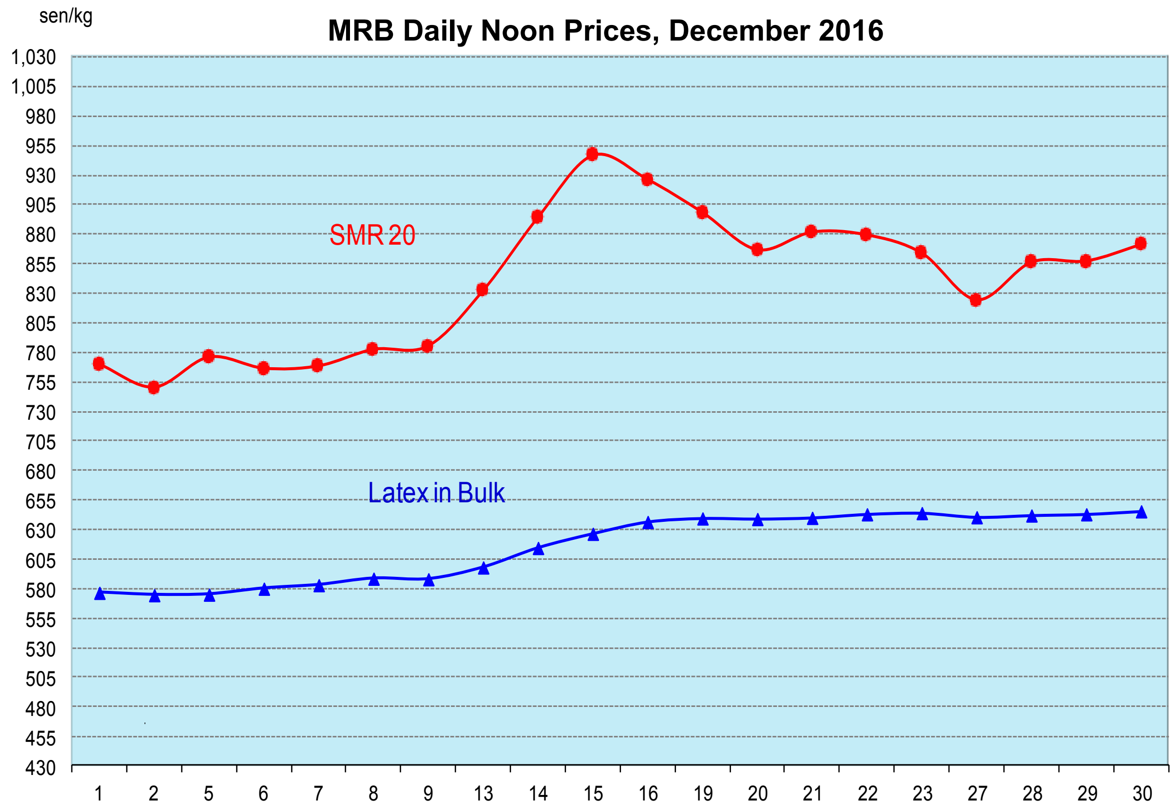
The market witnessed bullish momentum during the first two trading weeks encouraged by remarkable performance of the rubber futures markets, steady crude oil prices, shortage of raw materials faced by major producing countries as well as strong buying interest from China. Sharp gains on the Tokyo and Shanghai rubber futures market saw active short-covering and some fresh buying amid renewed concern over near-term supply tightness and recovery in crude oil prices. The international benchmark Brent crude oil prices traded higher between USD 53.00 – 56.85 per barrel during the month after Organization of the Petroleum Exporting Countries (OPEC) and other oil producers led by Russia announced cutbacks of almost 1.8 million barrels per day (bpd) in production from January 2017 as an effort to bolster prices and to tackle global oil glut.

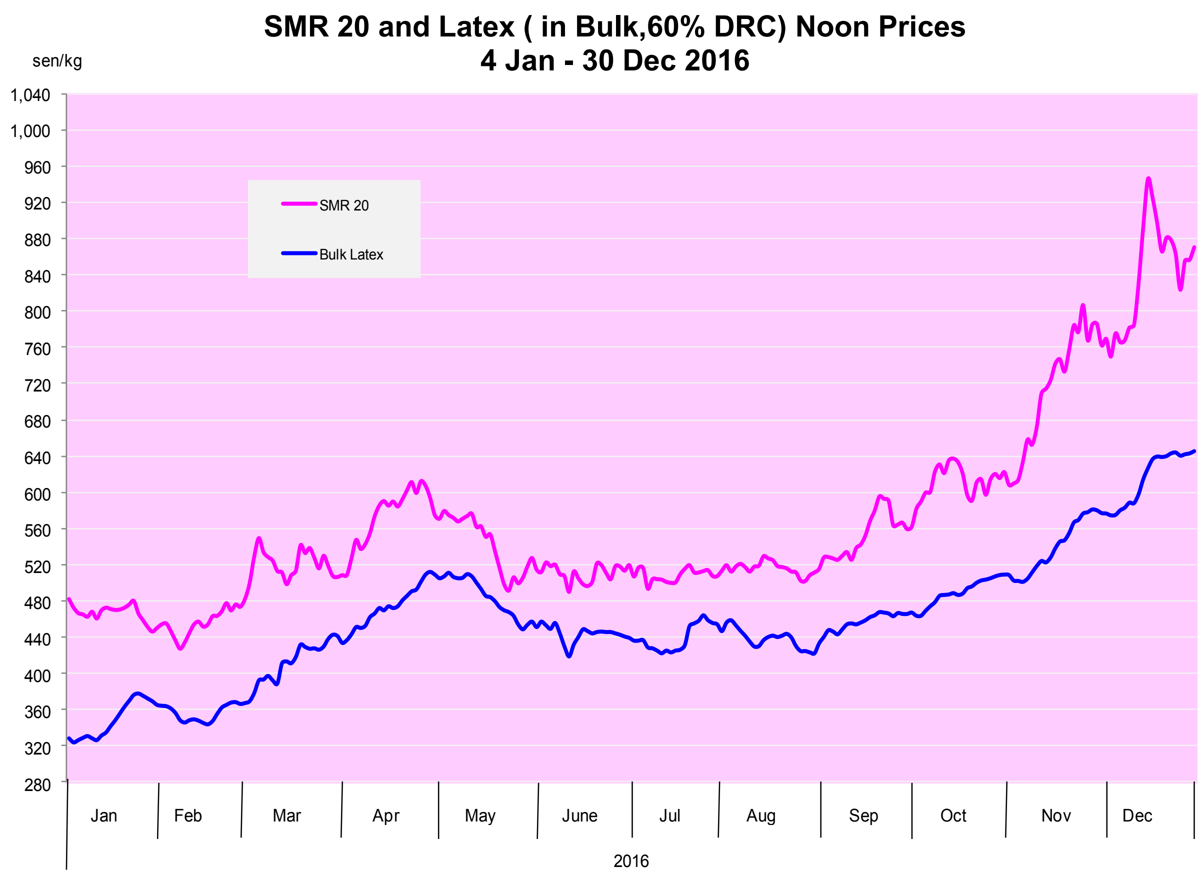
Sentiment in the physical rubber market was bullish with most traders taking the cue from regional rubber futures markets as the increase in crude oil prices coupled with the shortage of raw materials sparked short-covering activities. Meanwhile, prolonged rainfall in rubber growing areas in Thailand and Peninsular Malaysia restricted supplies of raw material and gave support to the market. The bullish trends also brought by the weaker ringgit against US dollar after U.S. Federal Reserve raised its interest rates. The U.S. Federal Reserve on 15 December 2016 raised its interest rates from 0.5 to 0.75 percent and signalled a faster pace of increases in 2017 as central bankers adapted to the incoming Trump administration's promises of tax cuts, spending and deregulation. According to Bank Negara Malaysia (BNM) interbank rate, ringgit fluctuated between RM 4.4245 to 4.4860

Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, December 2016

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	**RM/tonne**	**sen/kg**	**RM/tonne**	**sen/kg**	**RM/tonne**
Highest	1016.50	10,165.00	946.50	9,465.00	645.50	6,455.00
Lowest	885.00	8,850.00	750.00	7,500.00	574.50	5,745.00
Average	958.00	9,580.00	839.55	8,395.50	615.88	6,158.80
Change from the last day of the previous month	136.00	1,360.00	108.50	1,085.00	68.50	685.00

Note: * Official price of latex concentrate in bulk, 60% DRC
Source: Malaysian Rubber Board


sen/kg
MRB Daily Noon Prices, December 2016
1,030
1,005
980
955
930
905
880
855
830
805
780
755
730
705
680
655
630
605
580
555
530
505
480
455
430
SMR 20
Latex in Bulk
1
2
5
6
7
8
9
13
14
15
16
19
20
21
22
23
27
28
29
30


SMR 20 and Latex (in Bulk,60% DRC) Noon Prices
4 Jan - 30 Dec 2016
sen/kg
1,040
1,000
960
920
880
840
800
760
720
680
640
600
560
520
480
440
400
360
320
280
SMR 20
Bulk Latex
Jan
Feb
Mar
Apr
May
June
Jul
Aug
Sep
Oct
Nov
Dec
2016

against US dollar during December. At the same time, rubber futures at Tokyo Commodity Exchange (TOCOM) rose sharply to three-year highs influenced by weaker yen against US dollar after the U.S. Federal Reserve raised its interest rates. The excessive speculation in Shanghai Futures Exchange (SHFE) due to weak Chinese *renminbi (yuan)* also boosted prices. Strong buying interest from China as a result of increased vehicle demand and declining rubber stock in Qingdao, China further supported the market. China's policy of extending the tax cut on small-engine vehicles by one year further reinforced the increase in vehicle demand.

During the third trading week, prices turned slightly easier tracking the downtrend in rubber futures markets resulting from profit taking activities, stronger yen against US dollar and a fall in oil prices. Benchmark crude oil futures fell after news reported that Libya will boost its oil production over the next few months coupled with a report showing a build in U.S. crude inventories. However, the decline was offset by the weaker ringgit against US dollar.

Towards the end of the month, the market rebounded supported by higher advices from rubber futures markets and tight supplies of raw material due to continuous rainfall in rubber growing areas. A bullish trend was also witnessed following the news that Chinese buyers were re-stocking their rubber before the week long Lunar New Year in the end of January 2017. Market sentiment remain positive as investors' continued optimism about improved demand from China after encouraging data released by China. According to the General Administration of Customs, China imported 560,000 tonnes of natural and synthetic rubber in November 2016, a 42.8% y-o-y increase. However, little trading activity reported towards the end of month as the market players are mostly wind down their positions for the year-end holiday.

Outlook

The near-term outlook for the rubber market is still encouraging. The combination of remarkable performance of regional rubber futures markets and firm crude oil prices would play a major role influencing rubber market, while sustained demand in a tight supply situation is expected to support the market. The market is expected to remain steady in the near-term as supplies of raw materials will continue to remain tight due to heavy rain in the major natural rubber producing countries and in anticipation of higher demand from China before the Lunar New Year holiday. Prices are expected to be supported by regional rubber futures markets; firmer oil prices following OPEC and non-OPEC countries to cut output started on January 2017 as well as weaker ringgit against US dollar resulting from US interest rate hike. However, prices will be influenced by movements of rubber futures market and benchmark oil prices which are expected to be volatile as more investors will return to the market after their long break at the end of December. Market operators will continue keeping their eyes on the global economic condition specifically the development in China, U.S, Japan and Europe economy.

News Briefs

OPEC deal seen as positive for ringgit

With the Organisation of Petroleum Exporting Countries (OPEC) members finally agreeing to cut oil production by 1.2 million barrels per day, the ringgit, which has yet to see any signs of rebound, could be supported in the near term, according to analysts. The ringgit weakened marginally by 0.01% to 4.4668 against the US dollar yesterday, fast approaching the 4.50 level. "We would expect the rise in crude oil price to lend support for the ringgit in the immediate term," MIDF Research said in its research note yesterday. OPEC members agreed to cut production by 1.2 million barrels per day at the group's meeting in Vienna, which should reduce OPEC's production to 32.5 million barrels per day (bpd). MIDF Research said, ceteris paribus, the total cut from both OPEC and Non-OPEC members to be about 1.8 million bpd, which will lead to an oil deficit of around 1 million to 1.5 million bpd.

- The Sun, 2 Dec

Global natural rubber association to look into falling yields

Taking a serious note on the declining average yield of rubber since 2014 and related problems associated with the sustainability of the natural rubber industry, the 11-member Association of Natural Rubber Producing Countries (ANRPC), will conduct a series of studies on these issues in its member countries.

The study on declining average yields, which is to be conducted next year, will analyse the trends in average yield of rubber (annual production per hectare of area tapped), factors behind the declining yield and likely trends in future. Based on the conditions prevailing in each member country, the study will identify appropriate policies to reverse the trend. On the outcome of the meeting, sources in the ANRPC told Business Line that the association would formulate further action on its efforts to support farmers reeling under low rubber prices by convening a meeting of the expert group on NR price stabilisation in July 2017. The expert group will also identify appropriate measures to strengthen ANRPC's industry information and reporting system.

- Business Line (The Hindu), 7 Dec

Favourable demand-supply situation is prevailing in 2016: ANRPC

The Association of Natural Rubber Producing Countries (ANRPC) that accounts for 90% of global natural rubber (NR) supply and 65% of demand has stated that a favourable demand-supply situation is prevailing in 2016. In its monthly report, ANRPC general secretary Nguyen Ngoc Bich has said NR prices gained momentum from previous month and improved further during November across all major physical markets. The uptrend could be supported by favourable supply-demand fundamentals and other economic factors. The total NR production will touch 11.08 million tonnes in the year, up by 0.1 % over last year, the report said. Till November, the production increased 0.4% to 10.10 million tonnes. Indian production rose 7.4%, the largest by any country. Thailand and Vietnam are the other countries which showed a jump in output while China, Malaysia and Indonesia witnessed a decline in production. The consumption is projected to rise 4.1 % to 8.02 million tonnes for 2016 over last year according to the report. The growth has been 4.3 % for 11 months to November at 7.38 million tonnes. The rise in consumption has been attributed to 3.7% and 4.6% growth in China and India respectively, two largest consumers. Malaysia, Vietnam and Philippines showed faster consumption growth.

- The Economics Times, 9 Dec

US dollar rises on Trump agenda

A stronger greenback, rallying in anticipation of Trump's plans to boost fiscal and infrastructure spending, already is helping buoy China's exports to US shores. Shipments surged 8.1% last month from a year earlier, snapping seven months of declines. Trump's policy goals are spurring speculation US interest rates and the dollar will rise faster, putting more pressure on the yuan and enhancing China's export competitiveness. Stronger overseas shipments would also give Asia's largest economy greater flexibility to ease off domestic stimulus, which would undercut imports and risk widening of the huge trade surplus with the US that's often been the subject of the incoming president's ire. "Trump's planned tax cut, coming this late in the cycle, is likely to appreciate the dollar and widen the fiscal and trade deficits," said David Dollar, a senior fellow at the Brookings Institution in Washington and former US Treasury attached to Beijing.

- The Star, 10 Dec

Finally: Fed raises rates for first time in 2016

The U.S. Federal Reserve on 15 December 2016 raised its interest rates from 0.50% to 0.75% and signalled a faster pace of increases in 2017 as central bankers adapted to the incoming Trump administration's promises of tax cuts, spending and deregulation.

--money.cnn.com, 15 Dec

Malaysian economy resilient to external headwinds, says World Bank

Malaysia's economy remains resilient to external headwinds, with gross domestic product (GDP) growth projected around 4.2% in 2016 and 4.3% in 2017, according to new economic analysis from the World Bank. This outlook reflects a gradual slowdown in the growth of consumer spending and investment, as the global economic growth and commodity prices remain subdued, and as households adjust to moderating job prospects and fiscal consolidation.

- Bernama, 19 Dec

Vietnam rubber trademark announced

The Vietnamese rubber trademark, “Vietnam Rubber”, has been accredited by the National Office of Intellectual Property under the Ministry of Science and Technology. The accreditation came after two years of administrative procedures. It covers 11 products classified into three categories – natural rubber, industrial rubber and rubber-wood.

- Vietnam News Summary, 19 Dec

Japan's Central Bank keeps policy unchanged, upgrades economic outlook

Bank of Japan (BOJ) kept monetary policy unchanged at its meeting ending on 20 December 2016. Japan's cabinet approved a record USD 830 billion spending budget for fiscal 2017 that counts on low interest rates and a weak yen to limit borrowing, underscoring the challenge Tokyo faces in curbing the industrial world's heaviest debt burden.

-bloomberg.com, 20 Dec

Malaysia's Petronas to cut 2017 oil output by up to 20,000 bpd

Malaysia's state oil firm Petroliam Nasional Bhd will trim crude output by up to 20,000 barrels per day (bpd) in 2017, down about 3% from this year's estimated production, honouring the country's commitment to reduce supply as part of a deal agreed this month between OPEC and other global producers. The planned output cut by the firm, known as Petronas, would signal a second straight year of production declines at Malaysia's sole crude oil producer. The cut will be implemented from January 2017, Petronas said in a statement on today. Earlier this month, the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers, including Malaysia, reached their first deal since 2001 to curtail oil output jointly, seeking to ease a global glut after more than two years of low prices.

- New Straits Times, 21 Dec

The global automotive tyre market is expected to reach $257.5 billion by 2021

According to a new market report published by Lucintel, the future of the global automotive tyre market looks promising with opportunities in the passenger car and light commercial vehicle. The global automotive tyre market is expected to reach an estimated $257.5 billion by 2021 and it is forecast to grow at a CAGR of 4.6% from 2016 to 2021. Asia Pacific is expected to overtake the North American automotive tyre market during the forecast period due to its high vehicle production, improvement in the economic conditions and increasing investment by the industry players within the APAC region.

- PR Newswire, 21 Dec

TOCOM woos Chinese commodity traders with local tie-ups

The Tokyo Commodity Exchange hopes to attract Chinese money through its tie-up with a Beijing-based group of futures companies, though making the case for choosing Tokyo over London, New York or Chicago may prove difficult. The Japanese company signed a memorandum of understanding with the China Futures Association on Dec. 4 in Shenzhen. It inked an agreement around the same time with China Xin Yongan Futures, a leading Hong Kong-based commodity futures trader. "We want to attract Chinese money, which is concentrated in bustling Chinese commodity exchanges, to Tokyo via such means as arbitrage," TOCOM President Takamichi Hamada said.

- Nikkei Report, 21 Dec

Malaysia needs to produce more downstream rubber products, says Mah

Plantation Industries & Commodities Minister, Datuk Seri Mah Siew Keong said, the main factor that contributed to the increase in rubber prices was shortage of rubber supply due to the prolonged rainy season in major rubber producing countries, particularly Thailand and Malaysia. "In addition, demand from China had risen as its rubber stock dropped to 175,000 tonnes in early 2016, its lowest in six months," he told reporters after visiting Lee Swee Kiat Group Bhd's head office here today. The increased demand for natural rubber from China was due to buoyant vehicle sales there. "This situation will definitely help increase the income of rubber smallholders directly," Mah said. Hence, he said Malaysia needed to produce more downstream rubber products in order to achieve sustainable rubber prices due fluctuating natural rubber prices.

- Bernama, 23 Dec

Tyremakers look to consolidate their positions with localization

International tyremakers are stepping up localization efforts to consolidate their lead in China, as the market is starting to show signs of recovery. A survey by the China Rubber Industry Association of 41 major tyremakers showed that in the first three quarters of the year they produced 275 million tyres, 5.58 percent growth year-on-year. The survey also showed that their sales revenue reached 110 billion yuan ($15.82 billion), a slight increase of 0.05 percent over the same period last year. It is the first time that both tyre production and sales revenue have seen positive growth since 2014. This momentum is driven by the rapid growth of car sales in China, which has been the world's largest auto market since 2009. Statistics from the China Association of Automobile Manufacturers show that nearly 25 million cars were sold in the first 11 months of 2016, more than the figure for the whole of 2015. The association forecasts another 3 million units of sales this month. Industry insiders believe market growth could slow down but remain steady in 2017, as the authorities have decided on a 25 per cent discount on tax bill until the end of 2018, after the current policy expires at the end of December.

- China Daily-Hong Kong Edition, 26 Dec

India's natural rubber consumption rose 13.0% in Nov

India's natural rubber consumption rose 13.0% year on year to 88,000 tonnes in November, from 77,880 tonnes, according to data released by the Rubber Board. The country's imports of natural rubber rose sharply from a year ago despite a rise in production. India's natural rubber imports were 43,123 tonnes during November, up 22.4% year on year.

- www.factiva.com, 29 Dec

We can live with the same-day forex rate, says glove makers

The Malaysian Rubber Glove Manufacturers Association (MARGMA) is standing down over its request to be exempted from Bank Negara Malaysia's (BNM) rule for exporters to convert 75% of their export earnings to ringgit following concessions by the central bank. Rubber glove manufacturers are satisfied with BNM's move to fix the same-day foreign exchange (forex) rate on banks, when they convert their export earnings to ringgit and re-convert it to the US dollars. "That is already very good for us. For the moment, we can live with it," MARGMA President Denis Low Jau Foo told SunBiz in an interview. He said instead of having to convert 75% of their export earnings to ringgit, the exporters are now allowed to convert all of their foreign earnings to ringgit, and reconvert it back to the US dollar, using the same -day forex rate. "But we must utilise it within six months," Low added. Earlier this month, Bank Negara announced that exporters could only retain up to 25% of their export proceeds in foreign currency, while the remainder must be converted into ringgit, to boost the liquidity of the local currency.

- The Sun, 29 Dec

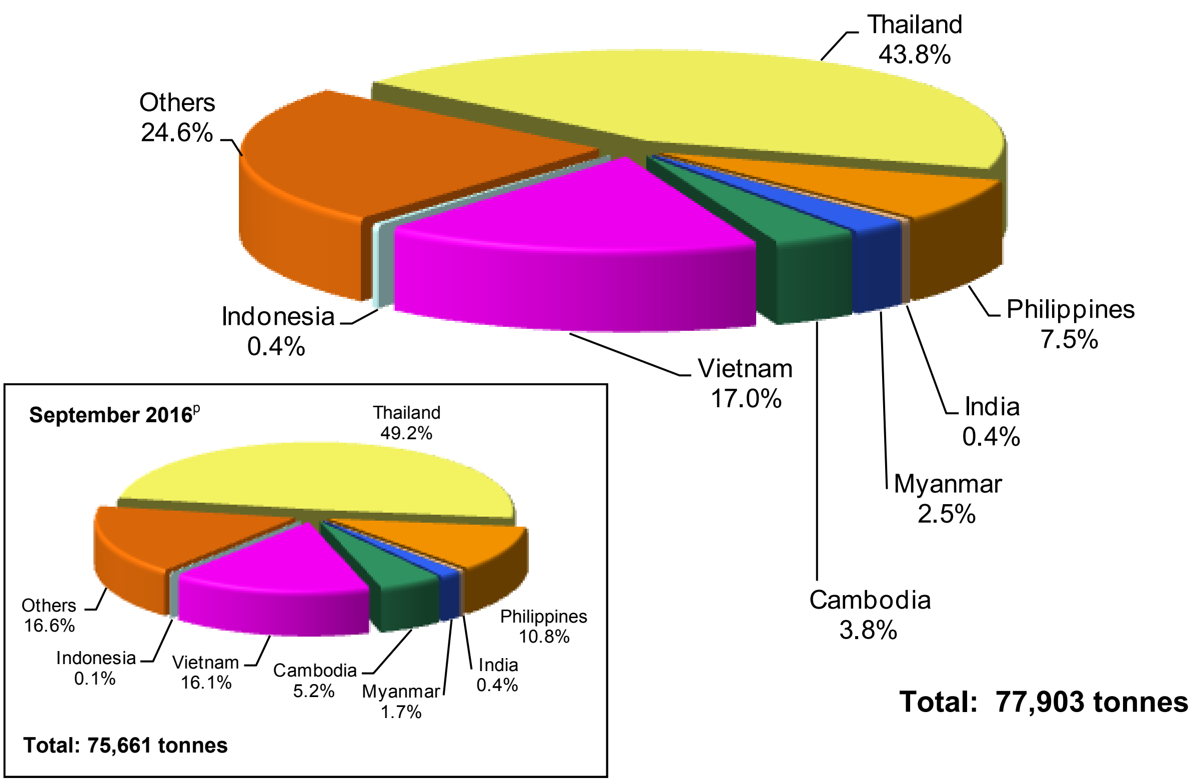
Prices of raw rubber latex bounce back in Vietnam

Prices of raw rubber latex have bounced in Vietnam's southern region thanks to price hike in the global market, the Ministry of Agriculture and Rural Development has said. Specifically, SVR3L is offered at VND51,300 ($2.28) compared to VND52,000 in early December while SVR10 is traded at VND48,200, up 21.4% within three weeks this month. Tran Thi Thuy Hoa, a senior official of the Vietnam Rubber Association said prices of natural rubber latex increase in the global market due to price hike of petrol as well as currency changes in many countries. Prices of natural rubber latex will fluctuate in coming months, she predicted.

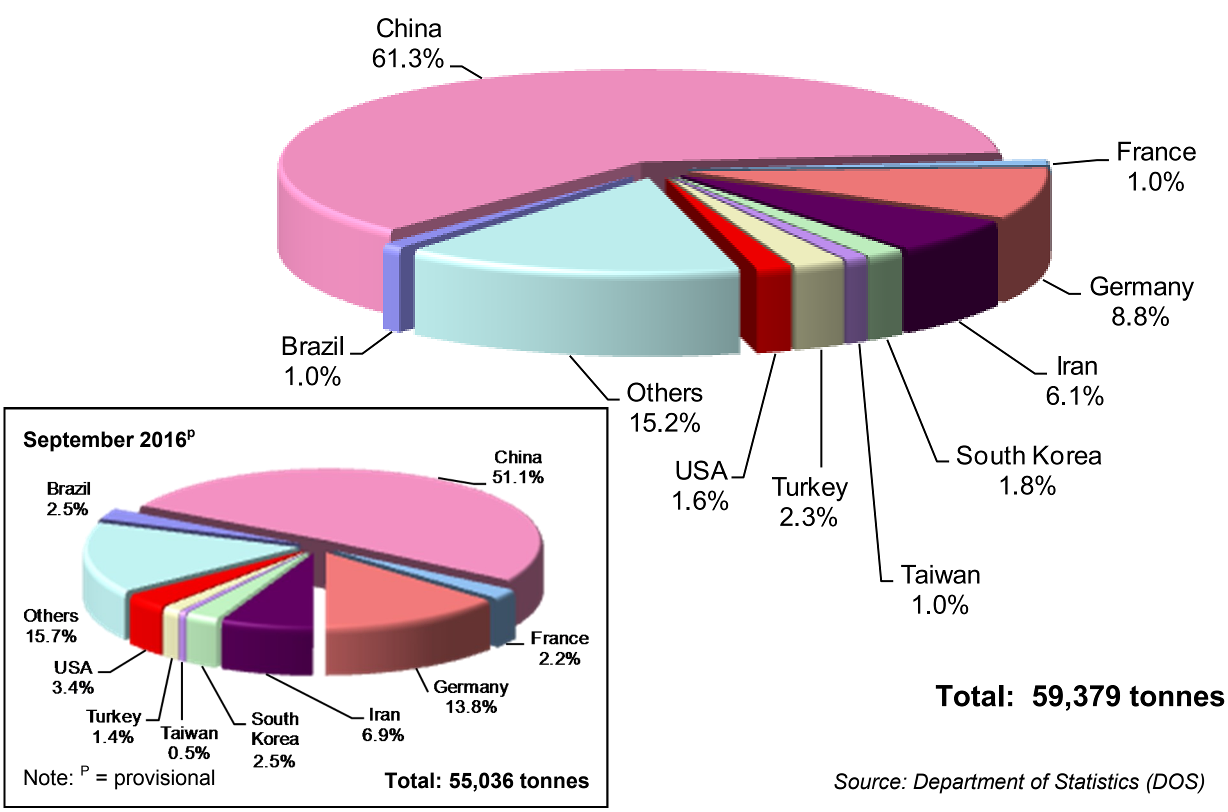
- Vietnam News Brief Service, 29 Dec

Sources: www.factiva.com, New Straits Times, The Star, The Sun

Malaysia's NR imports by countries, October 2016^{p}

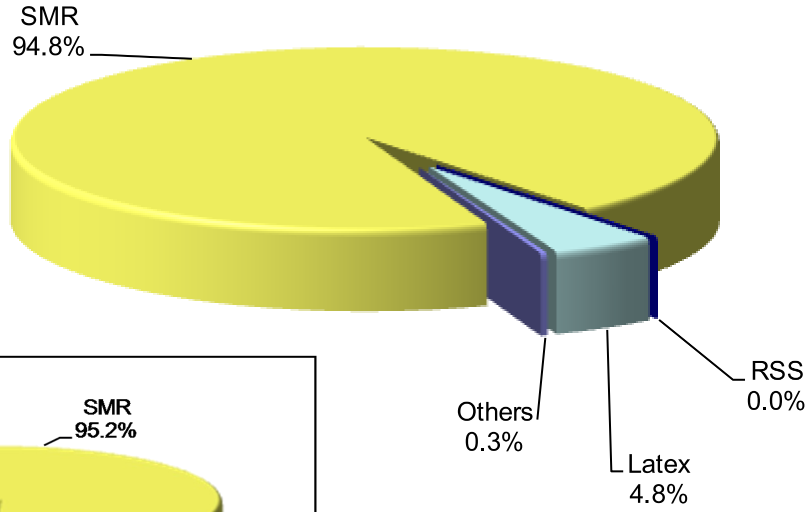


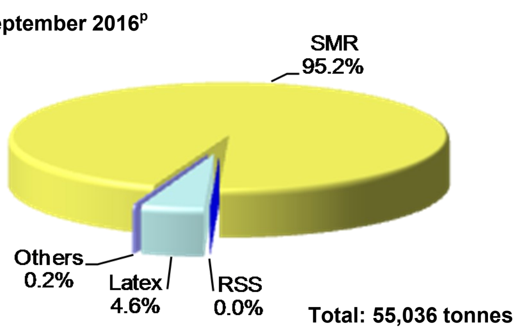
Malaysia's NR exports by countries, October 2016^{p}



Source: Department of Statistics (DOS)

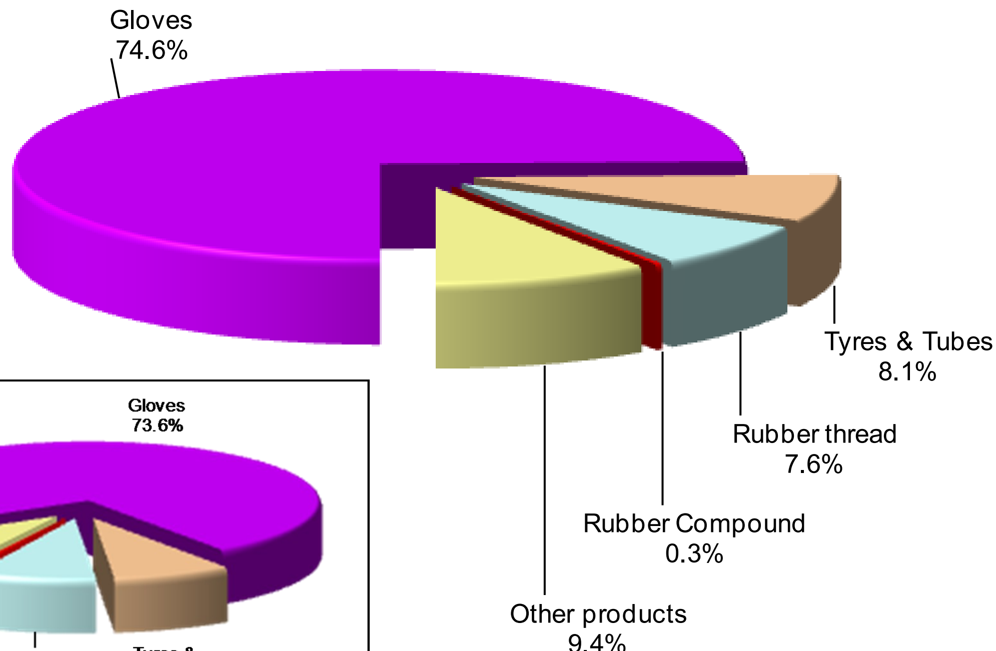
Malaysia's NR exports by types, October 2016^p

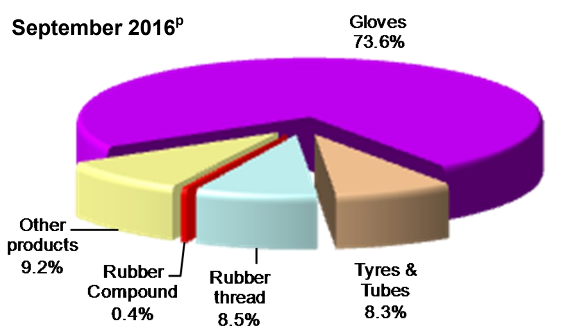




Total: 59,379 tonnes

Malaysia's NR consumption by sectors, October 2016^p





Total: 40,206 tonnes

Note: P = provisional

Source: Department of Statistics (DOS)

Published by the Malaysian Rubber Board, 148 Jalan Ampang, 50450 Kuala Lumpur, Malaysia.
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