



MALAYSIAN RUBBER BOARD

D I G E S T

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Natural Rubber Market Review

February

In February, the Kuala Lumpur Rubber Market started the month on a quiet tone and thereafter turned higher across the board with SMR 20 surged to the highest level at 595.00 sen/kg since January 2018. The positive sentiment was contributed by firmer advices from regional rubber futures markets which was driven by the decision of International Tripartite Rubber Council (ITRC) on 22 February to curb export in addressing the prevailing depressed natural rubber (NR) price level. The rubber market was further supported by stronger oil prices coupled with improved prospects of a trade deal between the U.S. and China. Compared with those on 31 January 2019, the price of SMR 20 rose by 57.5 sen/kg or 10.7% to close at 595.00 sen/kg. Meanwhile, latex concentrate closed at 432.50 sen/kg, increased by 42.5 sen/kg or 10.9%. Compared with the previous month, average price of SMR 20 in February gained by 9.6 sen/kg or 1.8% to 558.09 sen/kg. Price movements of selected grades of rubber in February are shown in Table 1.

The market was on a quiet tone in early February from a lack of buying interest as the Chinese markets were closed until 10 February for the Lunar New Year holidays. The market also reacted negatively to the weaker China manufacturing activity where China's official Manufacturing Purchasing Managers Index (PMI) contracted for a second straight month in January 2019 to 49.5. Sentiment was further dampened by China's car sales in January that fell 15.8% from last year, marking the seventh straight month of declining sales in the world's largest auto market, raising concerns about fuel demand in the world's second-largest oil user.

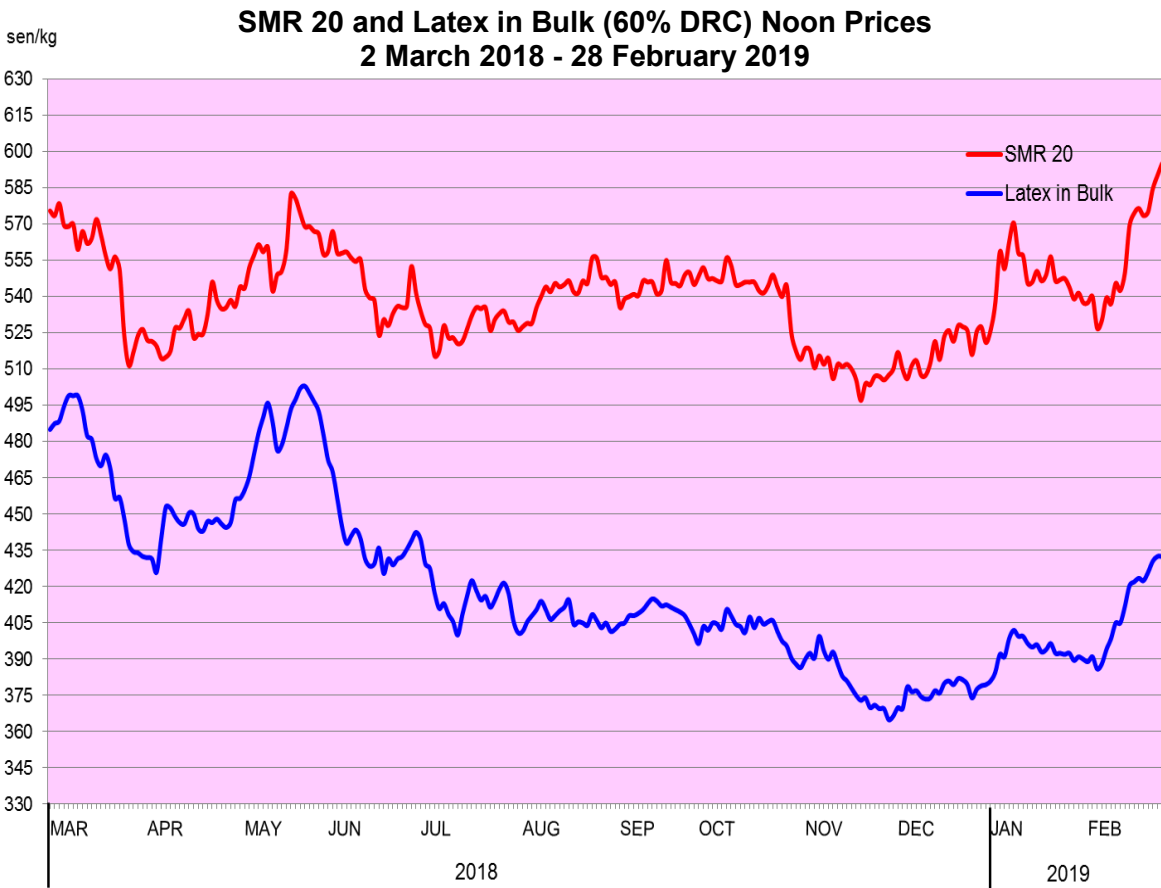
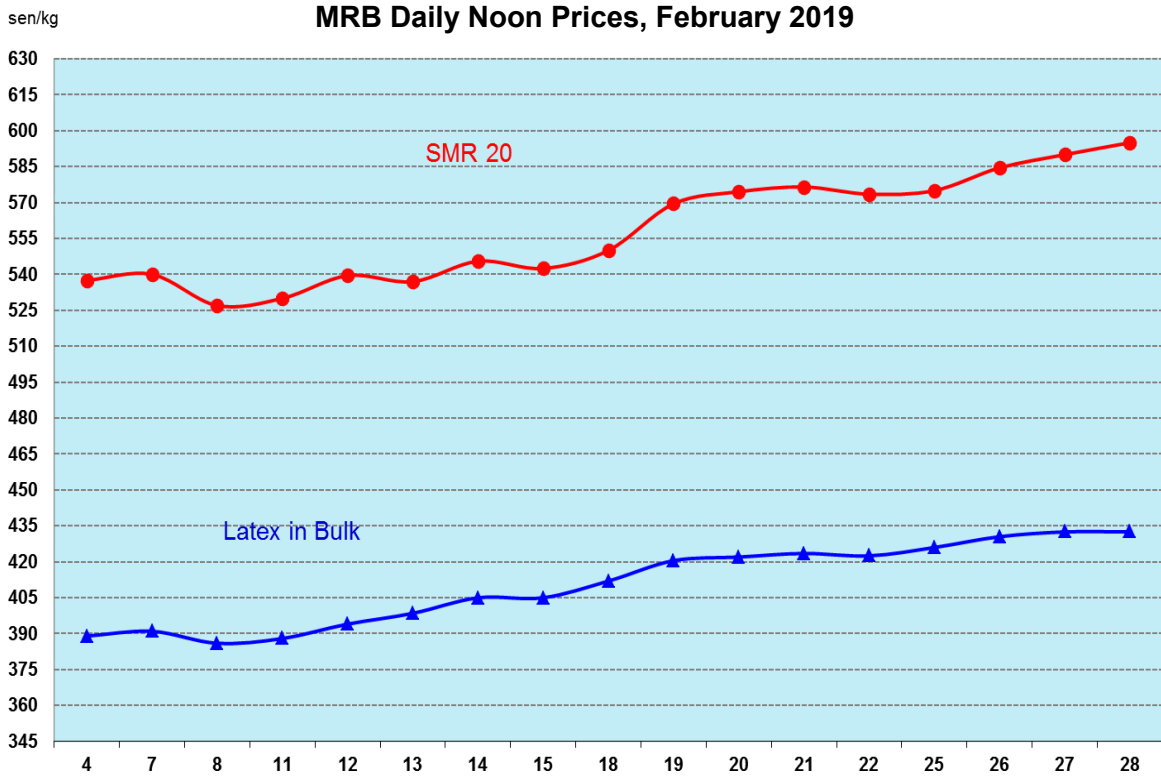
The market thereafter turned higher across the board, spurred by strong buying interest in regional rubber futures markets. It was reported that speculators in China bought more than 300,000 tonnes in Shanghai rubber futures' May contract on 21 February as they expecting top rubber producers would agree on some specific measures such as curbing exports to bolster prices. The positive sentiment was aided by news on pro-car consumption policies in China. It was reported that China would subsidise purchases of cars in the countryside, in an effort to promote consumption whereby some companies have started implementing the policy.

Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, February 2019

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	RM/tonne	sen/kg	RM/tonne	sen/kg	RM/tonne
Highest	841.00	8,410.00	595.00	5,950.00	432.50	4,325.00
Lowest	763.50	7,635.00	527.00	5,270.00	386.00	3,860.00
Average	804.18	8,041.80	558.09	5,580.90	410.50	4,105.00
Change from the last day of the previous month	71.00	710.00	57.50	575.00	42.50	425.00

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

Source: Malaysian Rubber Board



Moreover, the market reacted positively to the announcement by International Tripartite Rubber Council (ITRC) on measures to address the prevailing depressed NR price level. According to the media release by ITRC on 22 February, the Ministers under ITRC reiterated the view regarding the importance of the Agreed Export Tonnage Scheme (AETS) as an effective instrument to address the transient stock imbalance from the global market. The ITRC decided to implement the AETS in order to reduce export from Thailand, Indonesia and Malaysia in the amount of 200,000 – 300,000 metric tonnes. Sentiments improved further when oil prices surged to a 3-month high following supply cuts by the Organization of the Petroleum Exporting Countries (OPEC), declining U.S. oil inventories coupled with U.S. sanctions against Iran and Venezuela. The positive sentiment was aided by investors' optimism that China and the U.S can reach a deal ending their trade war after announcement by U.S. President Donald Trump that U.S. is planning to delay a set of additional tariffs on Chinese imports as trade talks between the two sides were making "substantial progress". In addition, the market took cue from the NR statistics released by the Association of Natural Rubber Producing Countries (ANRPC) on 25 February. According to ANRPC, the world NR production accounted 13.960 million tonnes in 2018, an increase of 4.6% from 13.350 million tonnes in 2017. Meanwhile, the world demand recorded an increase of 5.2%, y-o-y, amounting to 14.017 million tonnes in 2018. This resulted a supply deficit of 57,000 tonnes of NR.

Nevertheless, the uptrend towards the end of month was limited from a stronger ringgit against the U.S. dollar, high Shanghai Futures Exchange (SHFE) rubber inventories and slower China's manufacturing activity. The ringgit continued to strengthen against the U.S. dollar at RM4.0630 – 4.0925 in February, as compared to January at RM4.0890 - 4.1425. It was reported that rubber inventories in Shanghai Futures Exchange (SHFE) remained high at 437,876 tonnes on 22 February. Furthermore, China's official Purchasing Managers' Index (PMI) fell to 49.2 in February, contracted for the third straight month as export orders fell to the lowest level since February 2009.

Outlook

Prospects for the near term are favourable considering the measures by International Tripartite Rubber Council (ITRC) to curb rubber export up to 300,000 tonnes under the Agreed Export Tonnage Scheme (AETS). At the same time, tight-supply situation following dry season currently experienced in major rubber producing countries until May are expected to provide bullish sentiment to the market. Nevertheless, market players are likely to adopt 'wait and see attitude' on the developments of trade negotiations between U.S. and China. Prices are also expected to take cues from the performance of ringgit, crude oil prices and regional rubber futures markets.

News Briefs

Vietnamese rubber industry seeks ways to overcome difficulties

Vietnam's rubber industry in general and Binh Duong Province's have been struggling as low prices along with unfavorable weather had caused several difficulties in the production stabilization and development of rubber industry, especially for small-scale rubber firms. Many households had to switch to another crop due to volatile rubber prices.

- sggpnews.org.vn, 2 Feb

Kerala's Rubber Industrial Park to aid farmers vs rubber price "crisis"

A first-of-its-kind industrial park for rubber products manufacturer will be set up in Kerala, India. During the presentation of 2019-2020 state budget, Finance Minister Thomas Isaac announced that the Kerala Government plans to set up an integrated park for rubber products to help both rubber manufacturers and farmers. Thus, the Minister said that the proposed rubber park is likely to manufacture all rubber products ranging from balloons to tyres.

- rubberjournalasia.com, 4 Feb

Global and China Synthetic Rubber Industry Report, 2018-2023

China's output of synthetic rubber (SR) climbed to 6,123,000 tonnes in 2018, and is expected to hit 8,110,000 tonnes in 2023, at a growth rate of around 6% during 2018-2023. In 2018, China boasted a total SR capacity of roughly 6,667,000 tonnes per year, including 130,000 tonnes per year new effective capacity. It is still very uncertain, however, that the country's several plants will be put into production as scheduled.

- *globenewswire.com*, 5 Feb

New partnership seeks to establish first sustainable NR supply in the US

American technology company United American Health Corporation (UAHC) has established a wholly-owned subsidiary American Sustainable Rubber Company (ASR), to utilise proprietary technology in order to produce the first ever sustainable natural rubber supply chain in the US at a commercial level through a genetically modified rubber source.

- *rubberjournalasia.com*, 6 Feb

RM100 million allocation for rubberised roads in ports, industrial areas

The government has allocated RM100 million this year for the maintenance and construction of roads using cuplump modified bitumen (CMB) in ports and industrial areas. Primary Industries Minister Teresa Kok Suh Sim said based on a cost of between RM40 and RM45 per square metre, between 150 and 200 kilometres of such roads can be built. These rubberised roads could help raise the incomes of some smallholders involved in the planned rubber supply chain model, and this project is expected to significantly increase the use of local rubber in future if continuously implemented.

- *factiva.com*, 11 Feb

Rubber products sector facing downside risk over China policy

The rubber products sector faces renewed concerns over potential supply overcapacity, recent strengthening of the ringgit and a potential

downside risk from China's environmental policy. Manufacturers have been given a longer grace period to convert coal-based burners to the more environmentally friendly gas-based burners.

- *thestar.com.my*, 12 Feb

Natural rubber production up 5.4% in Dec 2018

Malaysia's natural rubber (NR) production increased 5.4% to 54,992 tonnes in December 2018 from 52,174 tonnes in the previous month, according to the Department of Statistics Malaysia (DOSM). DOSM said in a statement that the NR production in December, however, dropped 18.0% on a year-on-year basis. The NR stockpile in December gained 2.3% to 173,848 tonnes from 169,939 tonnes in November. NR exports shrank by 9% month-on-month to 48,183 tonnes in December. The domestic consumption of NR in December declined 2.7% to 41,823 tonnes against 42,971 tonnes in November. The rubber glove industry was the main consumer at 76.2% (or 31,886 tonnes) of the total NR for domestic consumption.

- *theedgemarkets.com*, 12 Feb

Atlanta Fed slashes U.S. 4th-quarter GDP forecast to 1.5% from 2.7%

The U.S. economy's estimated growth rate in the fourth quarter was slashed to 1.5% from 2.7% by the Atlanta Federal Reserve after declines in retail sales and inventories. Many Wall Street firms also cut their estimates for gross domestic product after the government reported a 1.2% drop in retail sales in December. The decline was the biggest in nine years.

- *marketwatch.com*, 14 Feb

U.S. Department of Commerce levies import duties on truck, bus tyres from China

The U.S. Department of Commerce has handed down final countervailing and antidumping duty orders on truck and bus tyres from China, two weeks after the International Trade Commission (ITC) reversed its original determination on the issue. The ITC filed the reversal 30 January with the U.S. Court of International Trade. The

commissioners voted 3-2 to find material injury against the domestic tyre industry because of government-subsidized truck and bus tyre imports from China sold in the U.S. at less than fair value.

- *rubbernews.com*, 16 Feb

Rubber production incentive activated for January 2019

The Rubber Production Incentive (IPG) has been activated for January 2019 in the Peninsular, Sabah and Sarawak. It comes with a cuplump or scrap rubber payment of 50 sen per kilogramme (kg) for Peninsular Malaysia, 80 sen per kg for Sabah and 70 sen per kg for Sarawak.

- *factiva.com*, 18 Feb

Sri Trang to acquire Thai glove plant; eyes production increase

Thailand's rubber firm Sri Trang Agro-Industry will acquire a glove factory in Thailand this year. In addition to the two new factories which will be completed by 2020, Sri Trang plans to acquire the factory to increase its medical gloves production to compensate for the plunging rubber prices. This year, the world's largest fully-integrated natural rubber (NR) firm is planning to produce 21 billion gloves to reach the target of 30 billion gloves by 2020.

- *rubberjournalasia.com*, 18 Feb

China needs tax cuts to relieve pressure on economy: vice premier

China's decision to cut company taxes and fees is an important part of fiscal policy and is a hard-hitting measure needed to cope with pressure on the economy, state media reported Vice Premier Han Zheng as saying. He made the comments during a visit to the State Administration of Taxation, the official People's Daily newspaper reported. Officials have pledged more aggressive reductions in 2019, after cutting about 1.3 trillion yuan (USD192.82 billion) in taxes and fees last year.

- *reuters.my*, 19 Feb

Auto industry lines up against possible U.S. tariffs

The U.S. auto industry urged President Donald Trump's administration not to saddle imported cars and auto parts with steep tariffs, after the U.S. Commerce Department sent a confidential report to the White House with its recommendations for how to proceed. The industry has warned that possible tariffs of up to 25% on millions of imported cars and parts would add thousands of dollars to vehicle costs and potentially devastate the U.S economy by slashing jobs.

- *reuters.my*, 19 Feb

Fed explains pause as officials debate future rate increases

Federal Reserve officials decided in late January to pause their steady campaign to raise interest rates as the global economic outlook became less certain and financial markets failed to appreciate the Fed's willingness to shift if the economy weakened, according to the minutes of that meeting released.

- *nytimes.com*, 20 Feb

Vietnam anticipates vigorous rubber production in 2019

Vietnam's rubber industry welcomes 2019 with a robust sales of USD220 million from 175,000 tonnes of rubber shipping. Rubber exports of Vietnam made a 10.8% increase in value and 28.9% increase in volume compared last year. Further growth is expected this year as global demand tends to rise up to 4.2% or 14.59 million tonnes. This figure is close to this year's projected sales of 14.84 million tonnes.

- *rubberjournalasia.com*, 20 Feb

U.S. China drafting memorandums for possible trade deal

Top U.S. and Chinese trade officials are working to hash out language on six broad agreements that aim to resolve the most contentious issues in their seven-month trade war. The world's two largest economies are trying to beat a 1 March deadline for a deal that averts a scheduled

increase in U.S. tariffs on USD200 billion of Chinese goods to 25% from 10%. U.S. President Donald Trump has said he may be flexible on the deadline if he sees progress towards a deal.

- *money.usnews.com*, 20 Feb

Japan February manufacturing shrinks for first time since 2016 amid trade war-flash PMI

Japanese manufacturing activity contracted in February for the first time in two-and-a-half years as factories cut back output amid shrinking domestic and export orders, a private business survey showed. The survey also showed business confidence in Japan soured for the first time in more than six years, highlighting the growing toll that the U.S.-China trade war is inflicting on Asia's export-reliant economies and global manufacturing. The Flash Markit/Nikkei Japan Manufacturing Purchasing Managers Index (PMI) fell to a seasonally adjusted 48.5 in February from a final 50.3 in January.

- *reuters.com*, 21 Feb

Asia's exports to China plunge as economy stumbles

Asian exports to China are contracting as its economic slowdown reverberates throughout the region's supply chains, a trend that is likely to accelerate as companies grapple with the fallout from the trade war between Beijing and Washington. Many businesses are already starting to relocate production in order to avoid U.S. tariffs on China-made goods. This in turn is sapping Chinese demand for raw materials and components, raising concerns about the potential impact on the Asian economy as a whole.

- *asia.nikkei.com*, 21 Feb

Draft National Rubber Policy favours NR as agricultural product

The Ministry of Commerce & Industry, Government of India, has come out with a draft "National Rubber Policy" with focus on welfare of the entire stakeholder community and national economic progress. The draft Policy is put up in the public domain in order to seek wider

consultations and feedback/suggestions from the stakeholders.

The policy aims at the orderly and complementary growth of all links in the Rubber Industry Value Chain via NR production and processing, manufacturing of tyres and general rubber products, trading, ancillary activities etc. Focused efforts would be taken at synchronizing all initiatives and attempts towards growth of rubber industry as a whole.

- *factiva.com*, 21 Feb

Special International Tripartite Rubber Council Ministerial Committee Meeting (MCM) 2019 Media Release

The Ministers under ITRC reiterated the view regarding the importance of the Agreed Export Tonnage Scheme (AETS) as an effective instrument to address the transient stock imbalance from the global market. The ITRC decided to implement the AETS in order to reduce export from Thailand, Indonesia and Malaysia in the amount of 200,000 – 300,000 metric tonnes. The governments of Thailand, Indonesia, and Malaysia reiterated their commitment in the cooperation and pledged to continue implementing effectively concerted measures under ITRC as well as creating new areas of cooperation to ensure a more resilient and sustainable natural rubber (NR) industry.

- *ircorubber.com*, 22 Feb

Indonesia: Government to replant 50 thousand ha of rubber plantation

The government has committed to replant 50 thousand hectares of natural rubber plantation per year, as part of agreements reached during the meeting of world natural rubber producers recently. Coordinating Minister for Economic Affairs Darmin Nasution said that replanting of natural rubber has become a long term policy resulted in the Special Ministerial Committee Meeting of the International Tripartite Rubber Council (ITRC). Nasution said, rubber replanting has been conducted by the Agriculture Minister but it only covered an area of 6 thousand hectares, while the total rubber plantation area in Indonesia has reached 3.6 million hectares. The three main natural rubber producers have agreed

the Supply Management Scheme (SMS) for the replanting program. In addition to Indonesia, Thailand has also planned to optimize its replanting program to cover 60 thousand hectares per year, while Malaysia will replant 25 thousand hectares of rubber plantation per year.

- *factiva.com*, 26 Feb

'India's Jan rubber imports drop 4.8 % y/y as demand softens

India's natural rubber imports in January eased 4.8% from a year earlier to 39,997 tonnes, the state-run Rubber Board said, as local consumption fell due to weak demand from tyre makers. The country's production last month eased 1.4 % from a year ago to 72,000 tonnes, while consumption dropped 2.4 % to 97,000 tonnes, the board said. India's imports between April to January jumped more than 30 % from a year ago to 489,085 tonnes.

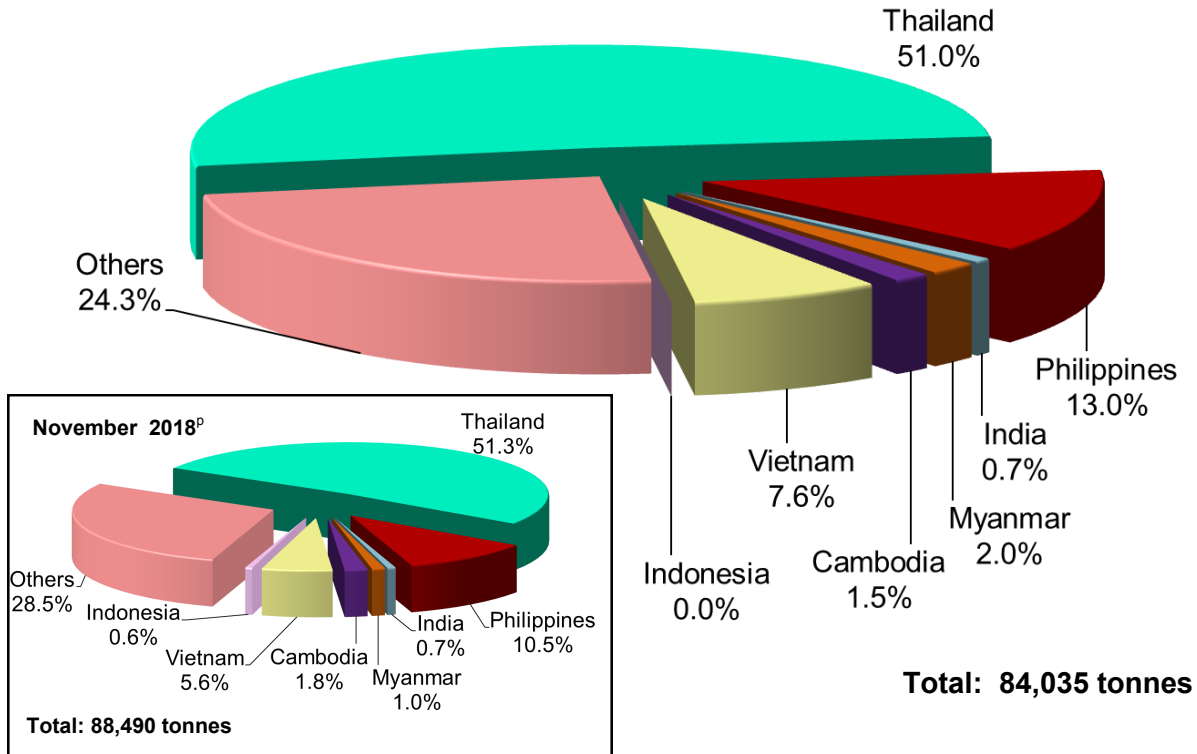
- *thestar.com.my*, 28 Feb

China factory activity shrinks to 3-year low in February, export orders worst in a decade

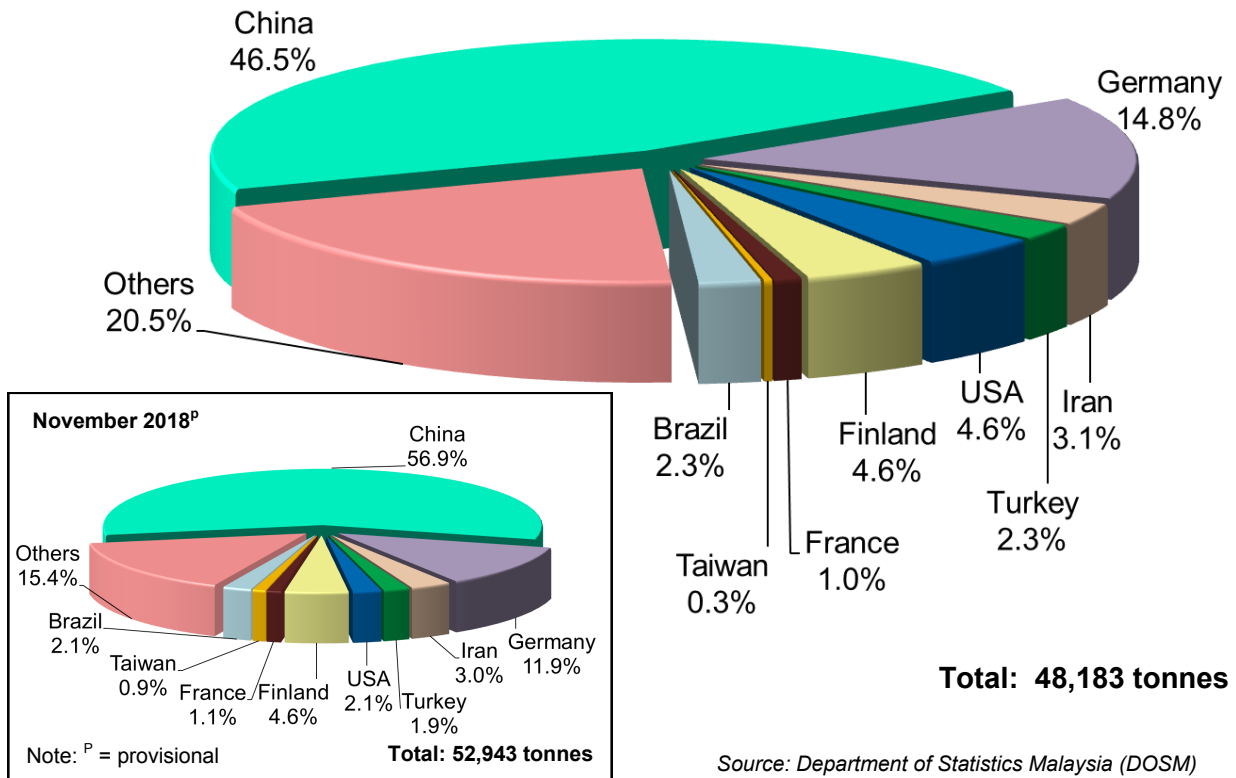
The first official gauge of China's manufacturing sector in February showed activity contracting further, with a series of domestic holidays, the global slowdown and uncertainty from the trade war all likely playing a part. The manufacturing purchasing managers index (PMI) fell further below the 50 mark that signifies contraction, dropping to 49.2. New orders improved, while export orders declined further.

- *cnbc.com*, 28 Feb

Malaysia's NR Imports by Countries, December 2018^P

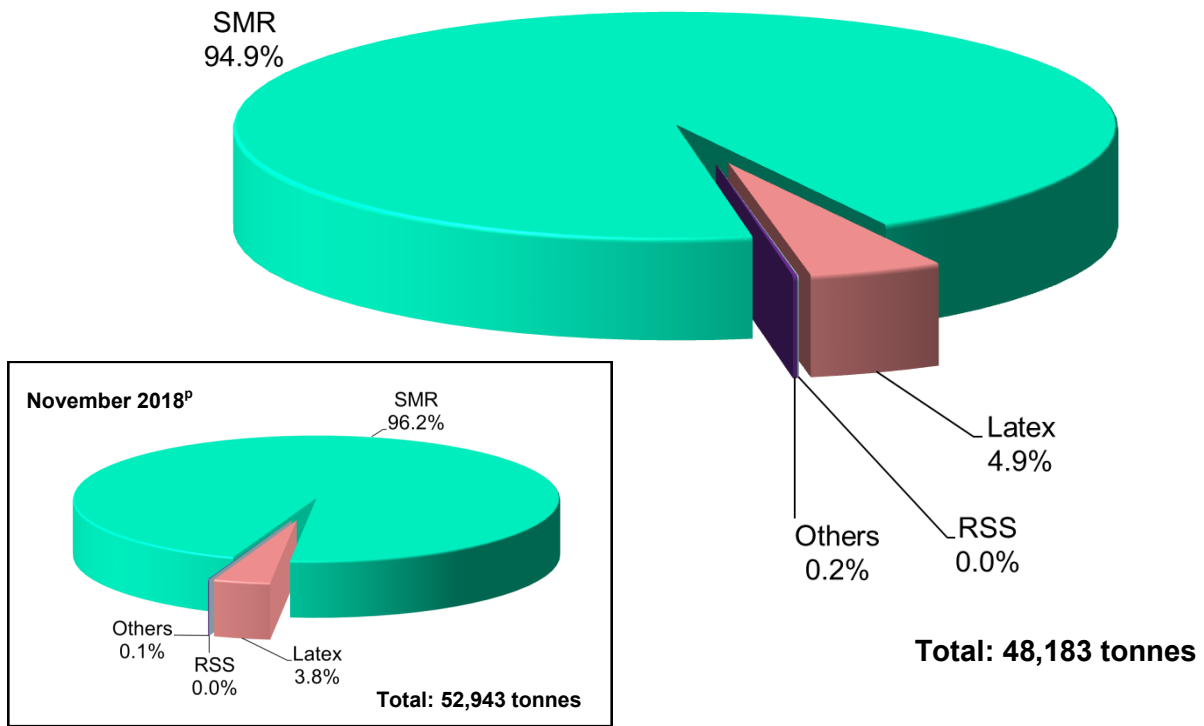


Malaysia's NR Exports by Countries, December 2018^P



Source: Department of Statistics Malaysia (DOSM)

Malaysia's NR Exports by Types, December 2018^P



Malaysia's NR Consumption by Sectors, December 2018^P

