



MALAYSIAN RUBBER BOARD

DIGEST

A monthly publication of the Malaysian Rubber Board

2015
MAY

Natural Rubber Market Review

May

Since the beginning of May 2015, natural rubber prices had been moving upwards in tandem with those of other regional markets. This was partly in response to the expectation of further economic stimulus measures announced by China as well as the impact of weaker yen in Tokyo Commodity Exchange (TOCOM) futures market. Compared with those on 30 April 2015, the price of SMR 20 increased by 76.00 sen/kg or 15.11% to close at 579.00 sen/kg while latex concentrate closed at 487.00 sen/kg, increased by 78.00 sen/kg or 19.07%. The price movements of selected grades of rubber in May 2015 are shown in *Table 1*.

During the first trading week, the market rebounded supported by the technical adjustment to make it in tandem with the other regional markets after a long weekend following the closure owing to the Labour Day and Wesak Day. Meanwhile, Japanese markets were on a break for Golden Week holidays, after which took profits as the contracts posted their highest percentage weekly gains in almost two years. In a separate development, the Association of Natural Rubber

Producing Countries (ANRPC) held its meetings in Kuala Lumpur to discuss on the issues related to the stability of rubber price. The association's members agreed to work together to strengthen natural rubber prices and ensure that rubber smallholders are not at disadvantage by lower prices.

During the second trading week, the market was on the uptrend in beginning but then slightly declined at the end of the same week. Apart from the weakening of the ringgit, the market responded positively on the expectation that China's move to cut interest rate will help revive its economy. However, the gain was capped by a stronger ringgit. Rubber prices then continued to decline as the ringgit strengthened and the oil price weakened.

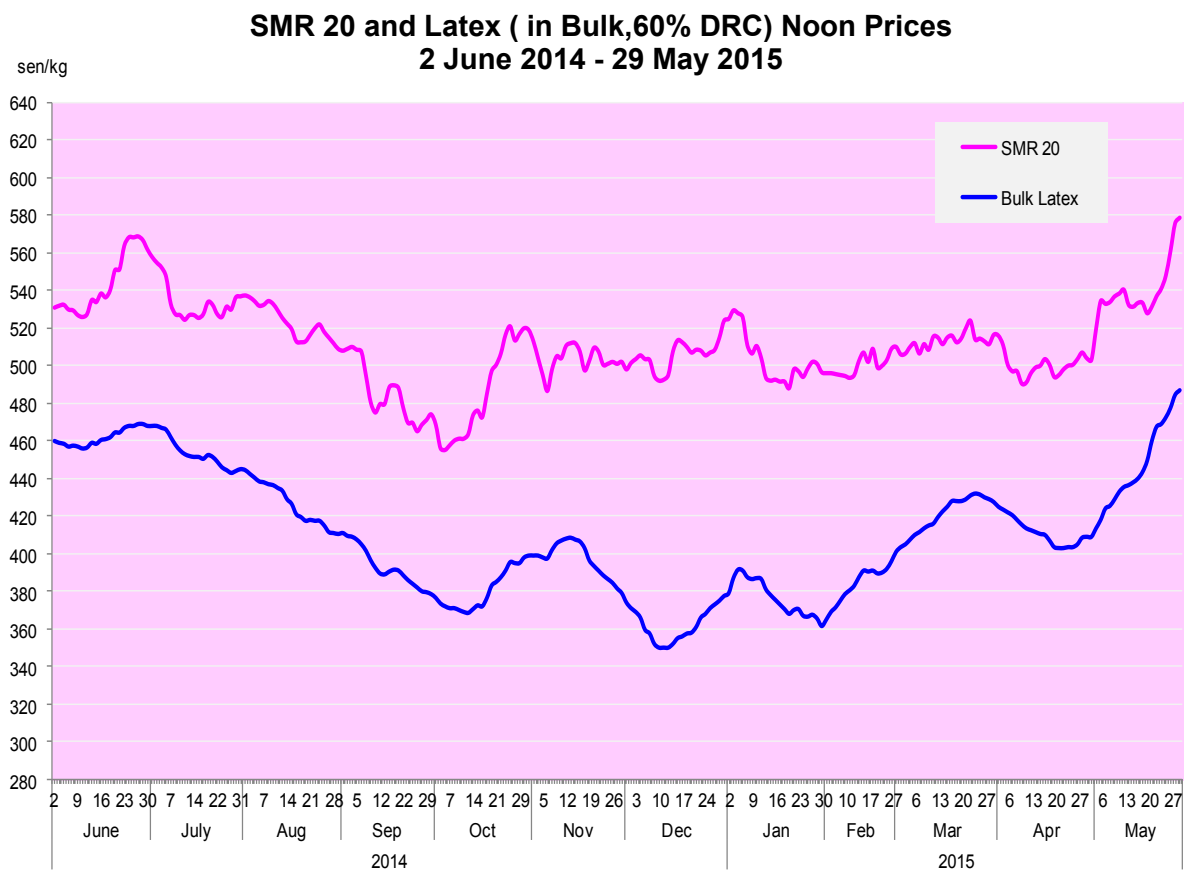
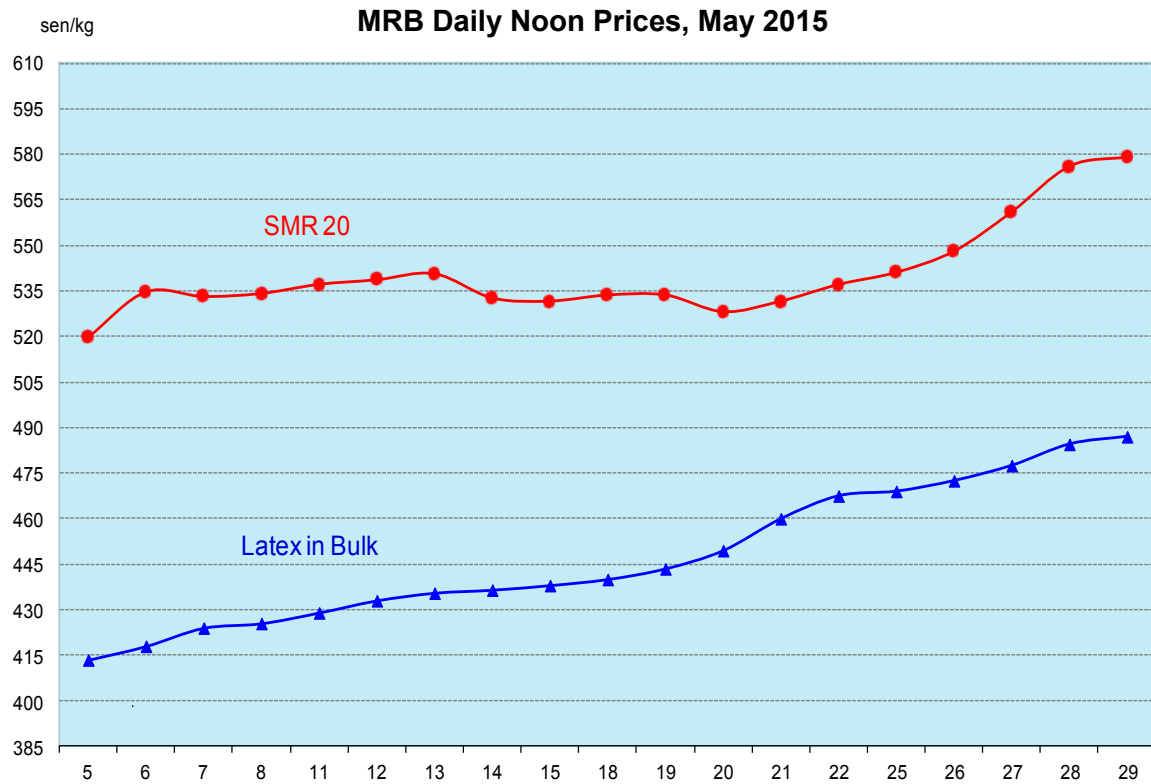
The rubber prices then rebounded during the third trading week as the ringgit weakened and crude oil prices strengthened besides the positive reaction to the announcement by Chinese policymakers on the guidelines for reform priorities in 2015, ranging from streamlining administrative procedures to boosting the global role of the *renminbi*, as Beijing steps up efforts to open up the republic's capital markets. Meanwhile, it was also reported that corporate

Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, May 2015

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	RM/tonne	sen/kg	RM/tonne	sen/kg	RM/tonne
Highest	731.00	7,310.00	579.00	5,790.00	487.00	4,870.00
Lowest	692.50	6,925.00	519.50	5,195.00	413.50	4,135.00
Average	711.74	7,117.40	540.50	5,405.00	447.58	4,475.80
Change from the last day of the previous month	44.50	445.00	76.00	760.00	78.00	780.00

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

Source: Malaysian Rubber Board



buyers and demand for mass-market car brands helped new car registrations in Europe to increase by 6.9% in April 2015 with all the bloc's five biggest markets posting higher sales. In a separate development, the bulk latex price saw a remarkable increase following high demand in the midst of disruption of raw material supply in rubber-growing areas. Rubber prices continued to increase following an increase in crude oil price and the support by the positive sentiment from TOCOM. It was reported that Chinese factory activities contracted for the third month in May and the output shrank at the fastest rate in just over a year. Apart from this, it was also reported that oil prices jumped more than two per cent and boosted optimism that a supply glut was easing.

Apart from the weakening of the ringgit, the rubber market continued its uptrend during the fourth trading week on a positive sentiment over a report on rubber producers' efforts to boost prices and the presence of Chinese buyers. Another positive news was the statement by the US Federal Reserve Chairman, Janet Yellen that the central bank was poised to raise interest rates this year, as the U.S. economy was set to bounce back from an early-year slump. The rally in the rubber market resumed as the ringgit continued to weaken. The market also responded positively on the report regarding the move by top rubber producers to take action to bolster prices while Chinese funds accelerated buying. The market also responded positively over a report that a gauge of U.S. business investment spending plans rose solidly for a second straight month in April and consumer confidence perked up in May, which showed a sign that the economic growth was picking up after sputtering in the first quarter. This was also in line with the similar trend in regional futures market following the weakening of their respective countries' currencies.

Outlook

The Kuala Lumpur rubber market is expected to continue its uptrend, supported by a positive sentiment brought by China's economic stimulus measures and a further weakening of the respective countries' currencies in regional futures markets.

News Briefs

Committee to assess GST impact

Bank Negara Malaysia is assessing the impact of the recently implemented Goods and Services Tax (GST) on the country's inflation, which is at 0.9%. Its governor, Tan Sri Dr Zeti Akhtar Aziz said that there is no sign of accelerating inflation as yet, amid the lower oil price environment, which has been offsetting price pressures.

On the GST impact, Zeti said that implications are expected to arise in the early period of its implementation, based on the experience of 169 countries that have implemented the consumption tax. She said it takes between one and two years for a country to see the implications stabilising.

- *New Straits Times*, 1 May

Commodities - EIU's monthly rubber outlook

According to the latest data from the International Rubber Study Group (IRSG), natural rubber (NR) consumption grew by a solid 4.1% in 2014, the fastest rate of growth since 2010. The Economist Intelligence Unit has slightly revised down its forecast of consumption growth this year to 3.1% (from 3.5% previously) to reflect the slow start to the year. A slightly stronger growth of 3.2% is expected in 2016.

Growth in India's consumption is expected to remain healthy in 2015-16 as the wider economy picks up momentum; EIU expects stronger demand in other Asian markets, notably Indonesia and Thailand. They also expect growth in Chinese rubber consumption in 2015-16 to slow to an annual average of around three per cent, owing to decelerating growth in fixed asset investment and industrial production. EU consumption is expected to grow steadily in 2015-16 while US consumption is expected to pick up in 2015.

- *Economist Intelligence Unit*, 1 May

Increase in import duty of rubber welcomed

United Planters Association of Southern India (UPASI), the apex body of plantation owners in South India has welcomed the Centre's decision

to hike the rubber import duty from the present 20% to 25%. This will serve to inject some life into the dying rubber plantation business, UPASI Vice-President, N. Dharmaraj said in a release.

Although a record quantity of 4.2 *lakh* tonnes of rubber has been imported last fiscal, substantially higher than the production/consumption gap of 3.4 *lakh* tonnes for the same period, the increase in import duty would help shore up domestic rubber prices at least medium-term, Dharmaraj said.

-Press Trust of India, 2 May

Rubber firms shift focus to domestic market

Local rubber processors in Vietnam are seeking to boost domestic sales to slash mounting stockpiles and reverse the export price plunge. Speaking at a recent meeting with the Ministry of Agriculture and Rural Development, a leader of the Vietnam Rubber Industry Group said that the rubber export price has taken a nosedive, from US\$5,000 a tonne in 2011 to US\$1,500 at present. To support local businesses, Minister of Agriculture and Rural Development, Cao Duc Phat said that the ministry would ask the Government to revise tax policy for the industry to help enterprises scale up domestic sales. He urged enterprises to develop a value chain instead of focusing on a single stage of the production process.

- The Saigon Times Daily, 4 May

Tyre, rubber players oppose increase in NR import duty to 25%

Tyre and rubber industries have sharply criticised the increase in import duty on natural rubber to 25% which according to them has led to worsening of inverted duty structure since tyres and other finished rubber goods can be imported at 10% and even lower rate of duty. Rubber consuming industries have therefore termed the decision to increase the duty as business-unfriendly and a dampener on future investments in the rubber and tyre sector.

According to Raghupati Singhania, Chairman of the Automotive Tyre Manufacturers Association (ATMA), tyre industry has been bearing the brunt of inverted duty structure for a long time. While import duty on natural rubber, the principal raw

material was 20%, tyres as finished products could be imported at as low as five per cent duty under various trade agreements. Increasing the import duty on natural rubber will worsen the inverted duty scenario, increasing the threat of large scale dumping of tyres in India.

- Business Standard, 4 May

Indonesia seeks Michelin help to develop downstream rubber industry

The Indonesian Government has asked French tyre producer Michelin to help the country in developing the downstream rubber industry in an effort to absorb current domestic rubber over-production, a senior official at the industry ministry told media.

Industry Minister, Saleh Husin urged Michelin to set up a tyre production unit in the country. Harjanto, Director-General of Manufacture-Based Industry, Industry Ministry, said Husin and Eric Le Corre, Michelin's Corporate Vice-President of Public Affairs, met at the ministry. According to Harjanto, Husin also asked Michelin to absorb more of Indonesia's natural rubber for its global tyre plant operations. Currently, Michelin sources one-third of its rubber consumption from Indonesia.

- Cogencis CommodityWire, 6 May

MIDF maintains positive on glove sector

The export value of rubber gloves in February 2015 maintained its uptrend and increased by 18.2% year-on-year (y-o-y) to RM916 million due to the stronger US dollar against the ringgit earlier this year. However, MIDF Research said that the export volume for rubber gloves fell by 10.9% from a year ago to 47,395 tonnes due to increasing demand of thinner specification gloves from overseas customers.

"In 2014, Malaysia's exports of rubber gloves increased by 7.1% y-o-y to 95.4 billion pieces, whereas its export volume decreased by 18.1% to 692,000 tonnes. Out of the 95.4 billion pieces, 50.4% consists of natural rubber gloves and 49.6% consists of nitrile rubber gloves," it added.

- The Sun Daily, 6 May

The ChemChina and Pirelli deal

Properly executed, the takeover of Italy's Pirelli by a consortium led by China National Tyre & Rubber Company (CNTR) could be a game changer - for Pirelli and CNTR, for the global tyre industry and, possibly for rubber planters. For these reasons, this acquisition by CNTR, a subsidiary of China National Chemical Corporation (ChemChina), should be monitored by policy planners tasked with developing Malaysia's upstream and downstream rubber sector.

Acquiring the 143-year-old tyre manufacturer for €7.1 billion (RM28.5 billion) will give ChemChina ownership of the official tyre supplier for Formula One, a storied brand name and entry to the high-value original equipment (OE) sedan tyre market. Among global tyre manufacturers, Pirelli ranks fifth behind Japan's Bridgestone, France's Michelin, Goodyear of the US and Japan's Sumitomo. Pirelli is also an important tyre supplier for BMW and the second largest purveyor for Mercedes-Benz, Digitaljournal.com says.

- The Sun Daily, 7 May

SET to join hands with SHFE over rubber futures

The Stock Exchange of Thailand (SET) plans to team up with the Shanghai Futures Exchange (SHFE), China's main futures market, to trade Thai rubber futures in a bid to increase the trading liquidity of Thai farm commodity futures. SET's President, Kesara Manichusree said that agricultural commodity futures would be traded on the Thailand Futures Market (TFEX) in the second half of this year after the Agricultural Futures Exchange of Thailand (AFET) finishes merging with TFEX.

The SET has already negotiated for the SHFE to settle rubber futures contracts from TFEX, a subsidiary of the SET. Under the agreement, investors trading rubber on TFEX can make settlements and rubber deliveries to China through the SHFE.

- Bangkok Post, 7 May

Asian countries aim to launch trading platform to combat price plunges

Rubber producing countries are considering setting up a common trading platform in an attempt to halt declining prices of the commodity. Ministers from the Association of Natural Rubber Producing Countries (ANRPC) met on 8 May 2015 to discuss ways of bolstering natural rubber prices.

"A trading platform is one of the most important measures," Petipong Pungbun Na Ayudhya, Thailand's Agricultural Minister, told reporters after the meeting. "Producers must be able to dictate the price of natural rubber." A decision on the regional rubber trading platform is expected in October, when the ANRPC holds its annual meeting. Already, stock exchanges in the region have expressed interest in sharing their expertise in setting up the platform. Currently, rubber contracts are traded on established exchanges including the Singapore Exchange, Tokyo Commodity Exchange and Shanghai Futures Exchange.

- Nikkei Report, 8 May

Rubberised roads to help commodity bounce back

Malaysia will use some of its rubber output to build rubberised roads this year in a bid to shore up prices of the commodity, said Plantation Industries and Commodities Minister, Datuk Douglas Uggah Embas. Uggah was speaking after the ministerial level special meeting of the 11 member Association of Natural Rubber Producing Countries (ANRPC) on 8 May 2015.

The meeting reaffirmed member countries' collective commitment and solidarity under the ANRPC framework towards strengthening natural rubber prices. This is also aimed at ensuring that natural rubber producers in particular, the smallholders are not disadvantaged by the weak prices, Uggah said. He added that the ANRPC countries would submit firm proposals for consideration at the next annual assembly in October. "The meeting noted the performance of the natural rubber market and how low prices have affected millions of planters " he said. They also agreed to explore the possibility of establishing a common trading platform for

natural rubber linking the existing systems in the ANRPC member countries.

- *New Straits Times*, 9 May

Rubber companies call for development of downstream rubber industry

The Rubber Association of Indonesia (GAPKINDO) asked the government to expand rubber market in the country to increase demand for the commodity in the country. "GAPKINDO already has meetings with the trade and Industry ministers to discuss ways of increasing demand for rubber on the domestic market," Chairman of the South Sumatra chapter of GAPKINDO, Alex K. Edy said. The response was positive by seeking to develop downstream rubber industries, he added.

He said that rubber could be used in the production of asphalt, construction of dockyards, anti-quake building system and rail track cushioned with rubber and material for irrigation water gates. In the first phase, GAPKINDO hopes to dispose of 600,000 tonnes of rubber on the domestic market, up from 450,000 tonnes normally a year.

- *LKBN Antara*, 10 May

ANRPC intent on returning to its aspirations: Deal with low price of natural rubber

The Ministerial Meeting attended by delegations from the nine country members of the Association of Natural Rubber Producing Countries (ANRPC) aims to take the ANRPC back to its aspirations, which includes striving to increase the low international price of natural rubber.

The Director of APEC Cooperation and Other International Organizations, Deny W. Kurnia, who led the Indonesian delegation at the Executive Committee (Senior Officials Meeting) emphasized that the Ministerial Meeting this time is focused on taking the ANRPC back to the mission of the organization in accordance with its constitutions, which is as a forum to coordinate the production and marketing, technical cooperation, and price stability that is remunerative for farmers. "The ANRPC member countries have agreed that this organization not only focus on the gathering of statistics but also as a forum to maintain price

stability and balance between supply and demand," asserted Deny in Jakarta.

- *Indonesian Government News*, 11 May

Vietnam accepts invitation to join ITRC

Vietnam Minister of Agriculture and Rural Development, Cao Duc Phat was in attendance at the meeting by special invitation to discuss cooperation with the ITRC in supporting mechanisms to improve natural rubber prices. During the meeting, Douglas Uggah Embas, the Malaysian Minister of Plantation Industries and Commodities (MPIC) extended an invitation to Phat to become a full member of the ITRC.

Phat graciously accepted the invitation and said he was confident that the four countries working collaboratively would be able to establish up a common trading platform to halt the declining global price of rubber.

- *Thai News Service*, 12 May

11th Malaysia Plan Economic highlights

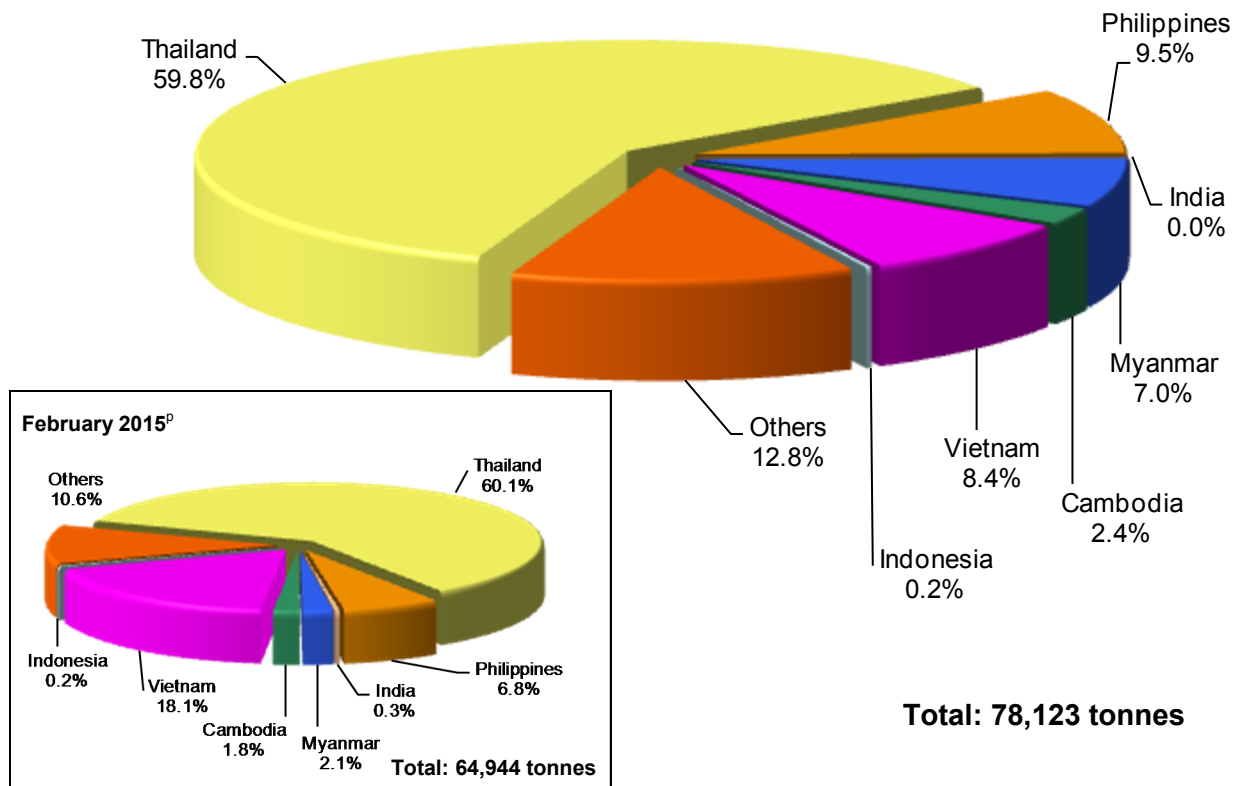
Malaysia's economy is to expand about five to six per cent a year based on sustained domestic demand and increasing contribution from the external sector. Private consumption and investment to drive growth, resulting in a 7.9% per annum rise in gross national income (GNI) per capita. Four strategies to boost economic fundamentals: 1) Unlocking the potential of productivity to ensure sustainable and inclusive growth; 2) Promoting investment to spearhead economic growth; 3) Increasing exports to improve trade balance; 4) Enhancing fiscal flexibility to ensure sustainable fiscal position.

Productivity GDP growth underpinned by significant increases in productivity, with less dependence on inputs from capital and labour. Contribution of multi-factor productivity to GDP growth is targeted to increase to 40%, while that of capital is expected to reduce to 44% and labour to 16%.

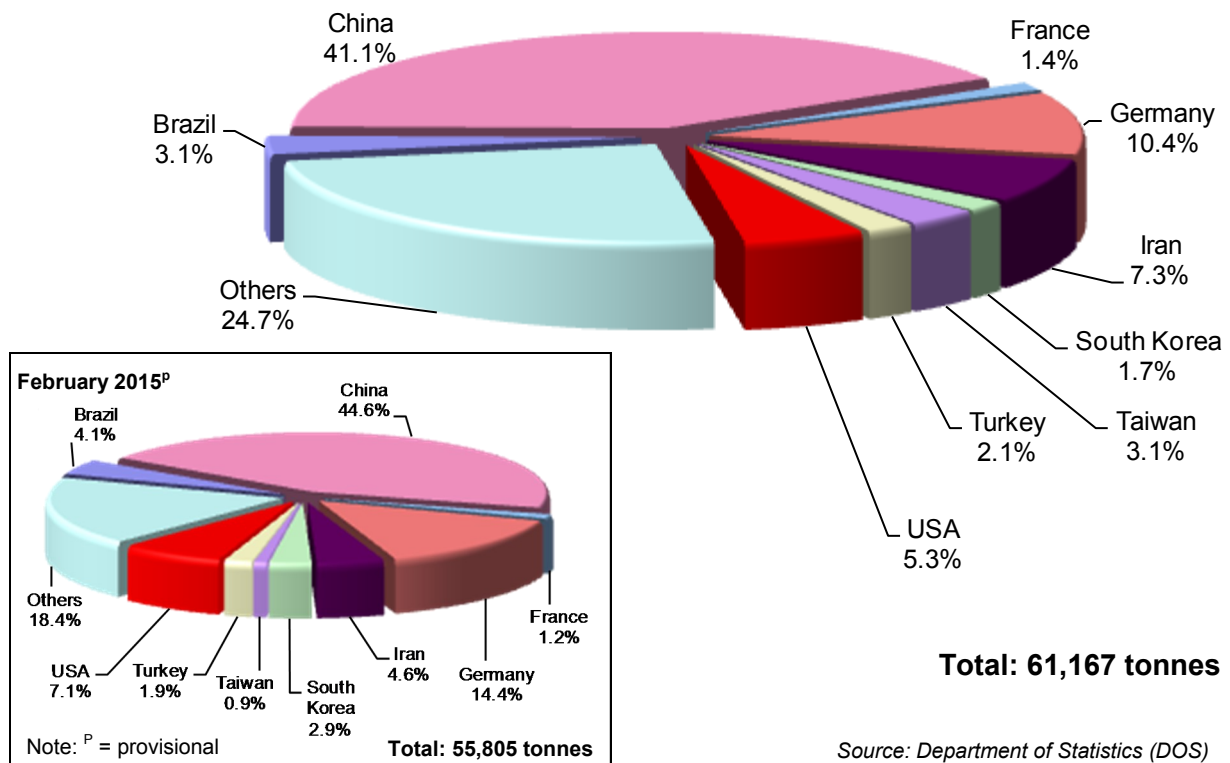
- *The Star Online*, 21 May

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

Malaysia's NR imports by countries March 2015^P

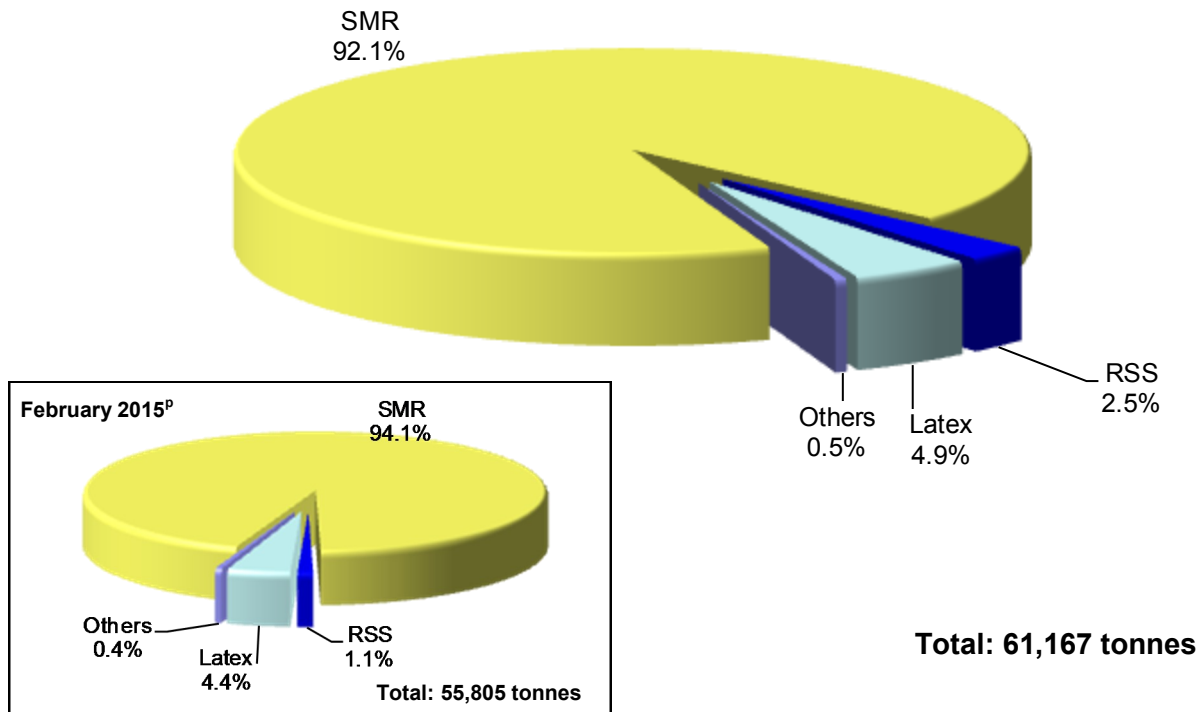


Malaysia's NR exports by countries March 2015^P



Source: Department of Statistics (DOS)

Malaysia's NR exports by types March 2015^P



Malaysia's NR consumption by sectors March 2015^P

