



# MALAYSIAN RUBBER BOARD

## DIGEST

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## Natural Rubber Market Review

### June

In June 2015, the price trend in Kuala Lumpur rubber market continued to be mixed. The positive sentiment leading to the uptrend came from the positive response over a report on a strong demand from China and supply constraints, apart from a weak ringgit. In contrast, the negative sentiment was resulted from the downtrend in other regional markets and a drop in crude oil prices. Compared with those on 29 May 2015, the price of SMR 20 decreased by 26.00 sen/kg or 4.49% to close at 553.00 sen/kg while latex concentrate closed at 468.00 sen/kg, a drop by 19.00 sen/kg or 3.90%. The price movements of selected grades of rubber in June 2015 are shown in *Table 1*.

During the first trading week, the market saw a mixed trend with prices moved slightly upwards at the beginning but then dropped at the end of the week. Prices steadied following a positive response over a report on strong demand from China and supply constraints, apart from a weak ringgit. The market then saw a technical correction in its prices as the ringgit strengthened.

Nevertheless, the expectation of further purchases by Chinese importers and the hike in crude oil prices had curbed further falls. In addition, the fall in regional futures markets on profit-taking activities also led to the decline. However, the report on the rise of 0.2% in car registration in Western Europe in May 2015 curbed further falls.

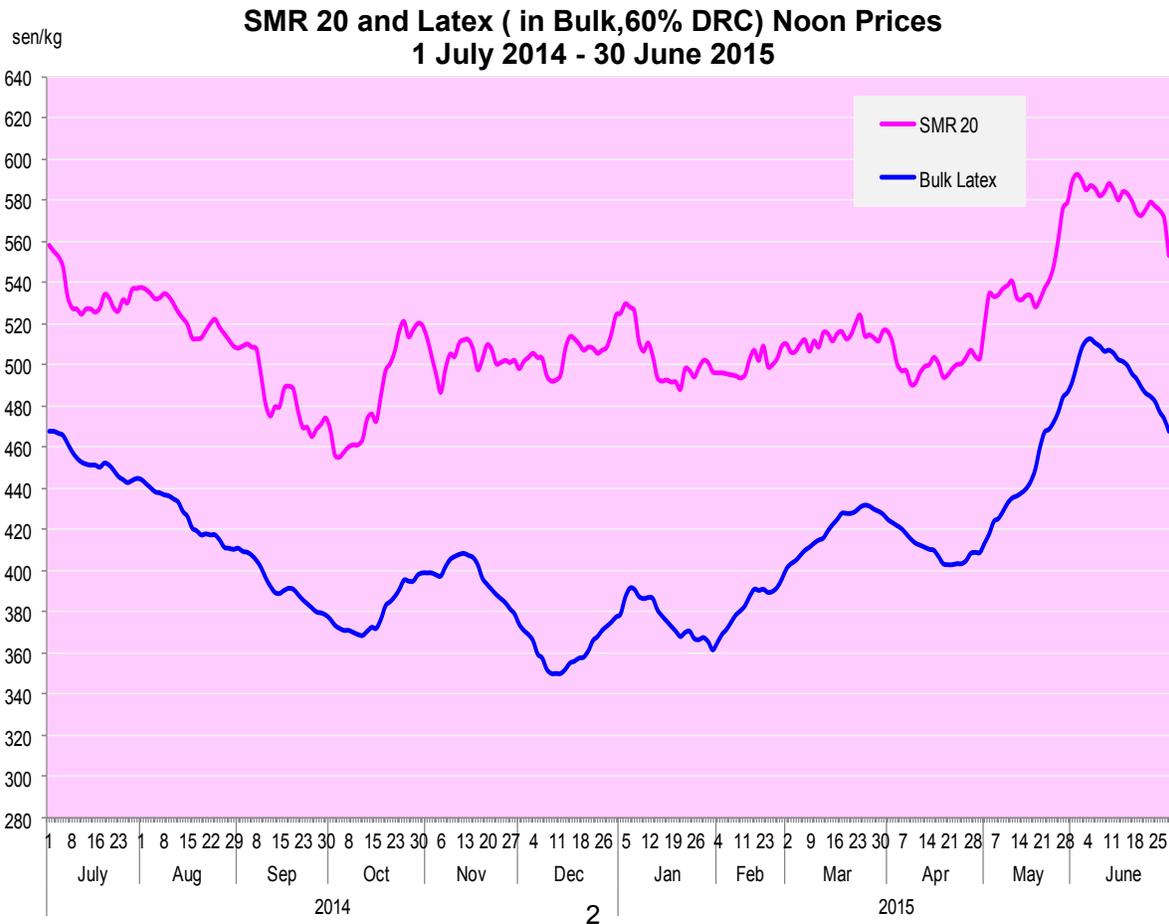
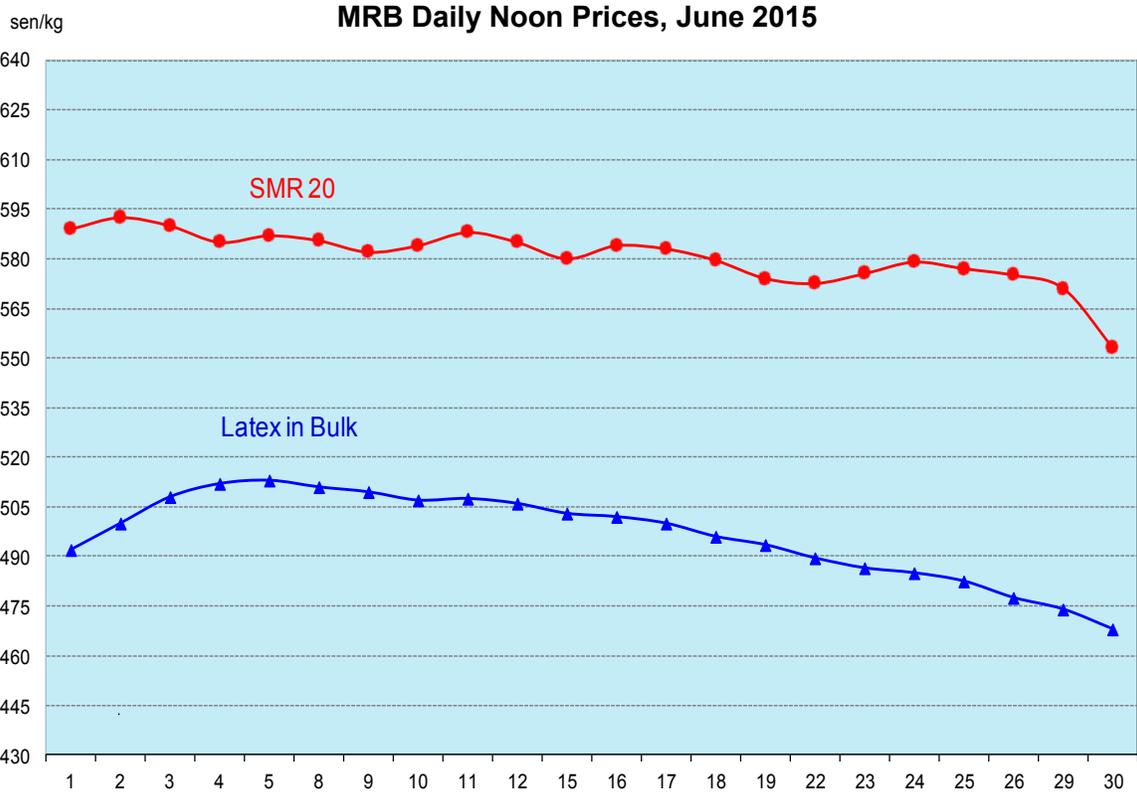
The mixed trend continued during second trading week with price moving downwards during beginning of the week but then slightly rebounded at the end of the week. The downtrend was caused by lower price levels in the regional markets and drop in crude oil price. It was reported that crude oil prices fell in early Asian trading as markets were expected to be increasingly oversupplied following OPEC's decision to keep its production targets unchanged. The oil producers' group had agreed to stick by its policy of unconstrained output for another six months, setting aside warnings of a second lurch lower in prices as some members such as Iran looked to ramp up exports. The market then rose in tandem with a jump in crude oil prices but a stronger ringgit capped further gains. It was reported that China's ailing economy showed few signs of improvement in May 2015, with factory output steadying but investment

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

	SMR CV		SMR 20		Latex Concentrate	
	sen/kg	RM/tonne	sen/kg	RM/tonne	sen/kg	RM/tonne
<b>Highest</b>	763.00	7,630.00	592.50	5,925.00	513.00	5,130.00
<b>Lowest</b>	731.50	7,315.00	553.00	5,530.00	468.00	4,680.00
<b>Average</b>	752.57	7,525.70	580.52	5,805.20	496.52	4,965.20
<b>Change from the last day of the previous month</b>	16.50	165.00	-26.00	-260.00	-19.00	-190.00

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

Source: Malaysian Rubber Board



growing at its slowest rate in nearly 15 years, pointing to further weakness unless Beijing ramps up its stimulus efforts.

At the beginning of third trading week, prices dropped following weaker crude oil prices. It was also reported that producers were reluctant to sell, awaiting better prices, though tyre-makers managed to strike some trade with dealers. The rubber market then rebounded, in line with the uptrend in the regional futures markets. The market reacted positively on the move by China to lower high long-term borrowing costs. During the end of the week, rubber market declined as the ringgit strengthened. This was also in line with the trend in regional futures markets on profit-taking activities. The market also responded negatively over the report that the U.S. Federal Reserve disappointed investors who had hoped for a clearer signal on when the American central bank would lift interest rates.

The rubber market continued its downtrend on a negative response towards a report that Greece failed to strike a deal with its lenders to secure emergency funding and the news that rubber inventories in warehouses monitored by SHFE rose by 4.1%. Furthermore, the low crude oil prices and poor performance of regional futures markets also weighed. Besides a strong ringgit, the market was in fear of uncertainty over the Greek debt crisis. It was reported that tens of thousands of its Greeks rallied to back their leftwing government's rejection of a tough international bailout after a clash with foreign lenders pushed the country close to financial chaos and forced a shutdown of its banking system.

## **Outlook**

The trend of Kuala Lumpur rubber market is expected to be influenced by the performance of other regional market, crude oil prices, the latest development in the China's economy and that of Greek debt crisis.

## **News Briefs**

### ***OECD cuts growth forecast***

The Organisation for Economic Co-operation and Development (OECD) has cut its global economic growth forecast for this year but says it expects lower oil prices to ensure a gradual recovery, even if weak investment remains a worry.

Growth is also being buoyed by ultra-supportive central bank policy in the big developed economies and in many places outside the United States by a stronger dollar, which makes the exports of other currency zones relatively cheaper.

The Paris-based Organisation for Economic Co-operation and Development, a think tank funded by its membership of primarily wealthy countries, cut its 2015 growth forecast to 3.1% from the 3.7% it was forecasting last November.

- *The Star*, 4 June

### ***'Global warming affecting rubber output'***

Research report says that the trend of global warming which affects rubber output is worrying. A study conducted by Rubber Research Institute of India (RRII) has found out that extreme temperatures are becoming more frequent in recent years in Kottayam, Kerala's major rubber growing area. An analysis of the data of daily maximum and minimum temperatures from 1970 to 2010, conducted by the Climate Change and Ecosystem Studies Division of RRII showed clear indications of the warming trend.

The monthly highest temperature showed an increase of 0.0380 C per year during 1970 to 2010. Persistence of high temperature consecutively for six days or more represents a warm spell. The number of such warm spells increased and the gaps between warm spells became shorter in recent years. The impact of such phenomenon in the production and productivity of agricultural crops in South East Asia and Europe have already been reported.

- *Business Line (The Hindu)*, 5 June

### ***Vietnam's wood, rubber businesses eye win-win cooperation***

Businesses from the wood and rubber sectors are looking to reach agreements for their mutual benefit. Such a trend is taking place because the wood processing industry is encountering material shortages while the rubber industry is seeking more markets due to price reductions.

The volume of rubber wood for processing is increasing, said Dr. Tran Thi Thuy Hoa, Office Manager of the Vietnam Rubber Association, adding that the Vietnam Rubber Industry Group will exploit 8-9 million cubic metres of timber from about 30,000 hectares of rubber trees which could not produce latex. Meanwhile, the wood processing industry has seen strong but unsustainable growth due to a lack of material. In that context, the cooperation between the wood and rubber sectors is expected to benefit the two sides.

-Vietnam News Summary, 6 June

### ***Vietnam's rubber exports rise in volume***

Vietnam's natural rubber exports in the first five months of this year reached a volume of 330,000 tonnes worth USD 475 million, according to the Ministry of Agriculture and Rural Development. The figure increased 30.1% in volume and decreased 2.9% in value compared to the same period last year.

In May alone, Vietnam exported 78,000 tonnes of rubber worth about USD 114 million. In the first four months, China continued to be the largest importer of Vietnam's rubber, accounting for 44.39% of the total export volume, followed by Malaysia and India.

- Vietnam News Agency Bulletin, 8 June

### ***Indonesia model can ease rubber growers problems***

Indonesia and Kerala have many things in common. One striking similarity is that both these regions produce natural rubber. They both share the same unluck due to the sharp fall in latex price. But Indonesia had experimented things to reduce the burden of price fall on farmers, which include increasing domestic consumption and finding out value-added services for rubber.

"We had increased domestic consumption of natural rubber, particularly as the price of the commodity had fallen drastically from US\$4.61/kg in 2011 to US\$1.50/kg now. The country has invested heavily in infrastructure to provide opportunities for rubber producers. Stakeholders of Indonesia's rubber industry have discussed the possibility of using Rubberised Asphalt Concrete (RAC) for government's infrastructure projects," said Saut Siringoringo, Consul-General of the Republic of Indonesia. He added that Kerala can also help rubber growers by finding out value-added services where rubber can be used as a raw material.

- CNEgypt, 13 June

### ***Minister: Malaysia to use 10% of rubber supply to build roads***

Malaysia plans to use 10% of its rubber supply in roads from 2016 as it looks to eat into excess supplies and shore up rubber prices, ministers said.

The roads will be made using rubber cup lumps, or naturally coagulated latex, which will be processed into bituminous cup lumps, and then mixed into asphalt. The Malaysian Rubber Board (MRB) estimates that 4.2 tonnes of cup lumps will be needed for each kilometre of road.

Malaysia expects to produce about 710,000 tonnes of natural rubber this year, Plantations Industries and Commodities Minister, Datuk Amar Douglas Uggah Embas, told a news conference after signing an agreement with the Works Ministry.

- Malay Mail Online, 24 June

### ***Cooper tests tyre builds from guayule rubber***

Cooper Tire & Rubber Co. has completed tyre builds using rubber derived from *guayule* plants and *guayule*-related materials. The tyres, which are being evaluated by Cooper's technical team, suggest tyre performance that is at least equal to tyres made of components derived from the *hevea* rubber plant, the company says.

Cooper reported this development to its consortium partners – Pan Aridus, Arizona State University, Cornell University, and the Agricultural

Research Service of the United States Department of Agriculture - at a group meeting in Maricopa, Arizona. Cooper works with these partners on *guayule* research as part of a US\$6.9 million Biomass Research and Development Initiative (BRDI) grant titled "Securing the Future of Natural Rubber – An American Tire and Bio-energy Platform from *Guayule*."

- *Rubber Asia, May-June 2015*

### **World rubber demand to grow by 4.1% in 2016: IRSG**

The total world rubber demand will grow by 1.8% in 2015 and 4.1% in 2016, according to the latest World Rubber Industry Outlook published by the International Rubber Study Group (IRSG). This forecast translates to a demand of 29.13 million tonnes in 2015 and 30.32 million tonnes in 2016.

The IRSG forecasts that world natural rubber consumption of 12.32 million tonnes in 2015 and 12.86 million tonnes in 2016. The world synthetic rubber consumption will be 16.82 million tonnes in 2015 and 17.46 million tonnes in 2016. IRSG expects total natural rubber supply to grow by 3.1% to 12.39 million tonnes in 2015 and by 4.2% to 12.91 million tonnes in 2016.

- *Rubber Asia, May-June 2015*

### **World NR output falls 3.3%, SR production up 8%**

World natural rubber production decreased by 3.3% to 11.81 million tonnes in 2014, compared to 12.22 million tonnes in 2013, according to the latest Rubber Industry Report of the IRSG. For the fourth quarter of 2014, world natural rubber production decreased by 9.8% to 3.20 million tonnes, falling by the fastest rate since the first quarter of 2009, when it contracted by 18.8%.

For the fourth quarter of 2014, Indonesia and Thailand were the biggest contributors to the negative growth; but for the 2014 as a whole, it is other countries in Asia-Pacific that bear the main responsibility. The low price of rubber is the fundamental reason for the decrease in the natural rubber production for 2014. World synthetic rubber production increased by eight per cent to 16.72 million tonnes in 2014 from

15.48 million tonnes in 2013. China continued to dominate the activities of world synthetic rubber production, increasing its output by another double-digit growth rate in the fourth quarter of 2014 and ultimately accounting 98.4% of the 2014 incremental increase in the world production.

- *Rubber Asia, May-June 2015*

### **Global NR imports up by 2.3%**

Global natural rubber imports volume expanded 2.3% to 10.19 million tonnes in 2014, though at a decelerated rate, driven by the slowing imports demand in China, according to the IRSG. China imported 3.81 million tonnes in 2014, while total imports by Asia (excluding China) stood at 2.96 million tonnes.

Despite the weak import demand in China, firming import demand in the mature markets technically supported the observed growth in global imports.

- *Rubber Asia, May-June 2015*

### **IMF predicts marginal growth in global GDP**

Global economy will accelerate only marginally in 2015 as slowing output in major emerging markets and a feeble expansion in wealthier countries drag down near-term prospects, according to the International Monetary Fund (IMF).

In its latest economic forecast, the IMF says global economy should expand by 3.5% this year, up just 0.1 percentage point from the last year's growth rate. Emerging markets are on course for their sixth straight year of slowing growth rates, led by a slow-down in China, a steep contraction in Russia and a recession in Brazil, the IMF says.

- *Rubber Asia, May-June 2015*

### **China's GDP growth slowest in 6 years**

China's economy grew by seven per cent in the first quarter of 2015, its slowest rate in six years, according to the National Bureau of Statistics. In the last quarter of 2014, China's economy grew by 7.3% on an annual basis.

Factory output climbed by 5.6% in March 2015 from a year ago, while fixed-asset investment, a vital driver of the economy rose by 13.5% and retail sales expanded by 10.2%.

- *Rubber Asia, May-June 2015*

### **US Q4 growth drops to 2.2%**

The US economic growth dropped to annual rate of 2.2% in the fourth quarter of 2014, against five per cent growth reported in the third quarter, the Commerce Department has said. After tax, corporate profits declined at a 1.6% rate in the fourth quarter after increasing at a 4.7% pace in the third quarter.

For the whole of 2014, after-tax, corporate profits fell by 8.3%, the largest annual drop since the 2007-2009 recession. However, consumer spending, which accounts for more than two-thirds of the US economic activity, increased at a 4.4% in the fourth quarter, the fastest pace since the first quarter of 2006.

- *Rubber Asia, May-June 2015*

### **Euro Zone yet to come out of stagnation**

The Euro Zone as a whole grew by 0.3% in the fourth quarter of 2014, and its biggest economy, Germany, expanded by 0.7%. Year-on-year, Euro Zone growth was 0.9% in the fourth quarter. The European Commission has forecast a growth rate of 1.3% in 2015, which would be the Euro Area's best outcome since 2011 when it grew by 1.6%.

France and Italy, the Zone's second and third largest economies, stagnated in the final quarter of the year, growing by just 0.1% and 0.4% respectively.

- *Rubber Asia, May-June 2015*

### **India to surpass China in GDP growth: ADB**

In line with the projections made by the International Monetary Fund (IMF) and the World Bank, another international agency, the Asian Development Bank (ADB), too has forecast that India will drive ahead of China in economic growth by 2016. The ADB has projected India's growth rate to improve from 7.4% last year to 7.8% in 2015-16 and further to 8.2% in 2016-17. As regards to China, the ADB has projected the economic growth to decelerate from 7.4% last year to 7.2% in 2015-16 and by seven per cent in 2016-17.

The IMF has forecast that the Indian economy will grow by 7.5% this year, up from 7.2% in 2014, and maintain 7.5% growth in 2016. In comparison, the slowing Chinese economy will see its GDP drop from 7.4% in 2014 to 6.8% this year and further to 6.3% in 2016. The World Bank report says India's GDP growth is expected to accelerate to 7.5% in fiscal year 2015-16 and could reach 8.0% in 2017-18, on the back of significant acceleration of investment growth to 12% during 2016-2018.

- *Rubber Asia, May-June 2015*

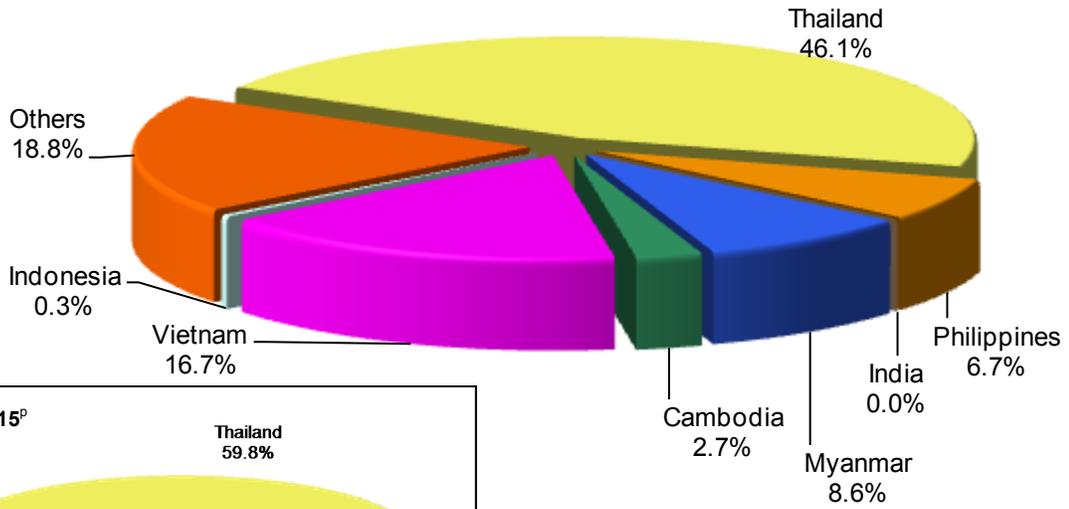
### **Japan's GDP expands 1.5% in 2014**

Japan's GDP advanced 0.4% quarter-on-quarter in October to December 2014 period, as upward revision in public demand was not enough to offset a weaker growth in private demand. This translated into an annualized expansion of 1.5% in 2014. The Japanese GDP advanced by 0.6% in the last three months of 2014, following two consecutive quarters of contraction.

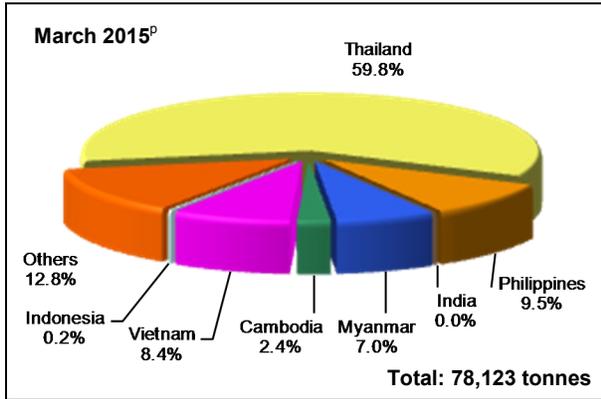
- *Rubber Asia, May-June 2015*

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

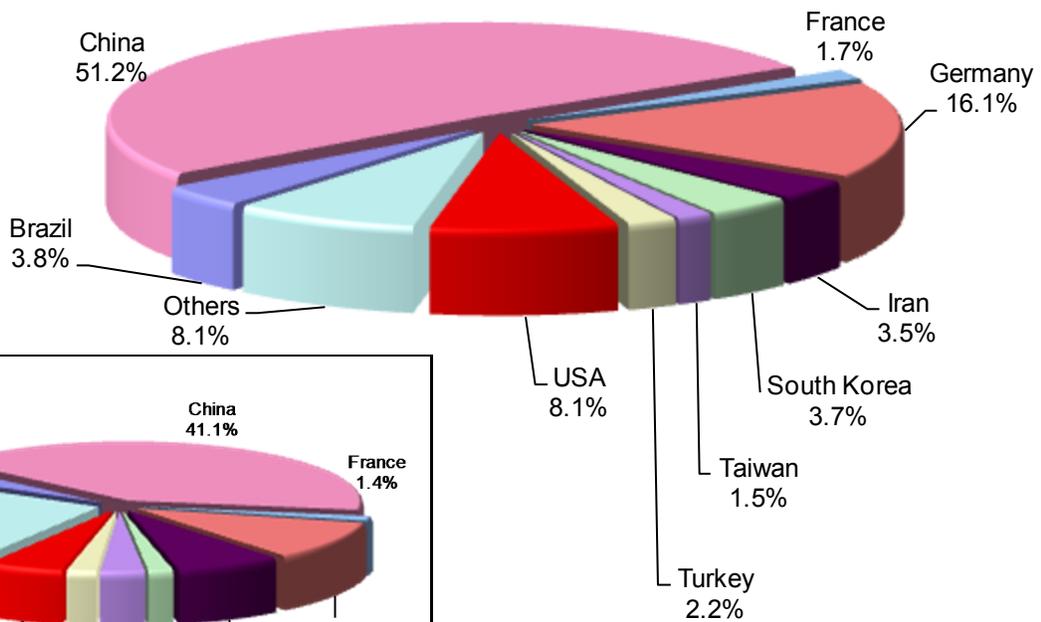
**Malaysia's NR imports by countries April 2015<sup>P</sup>**



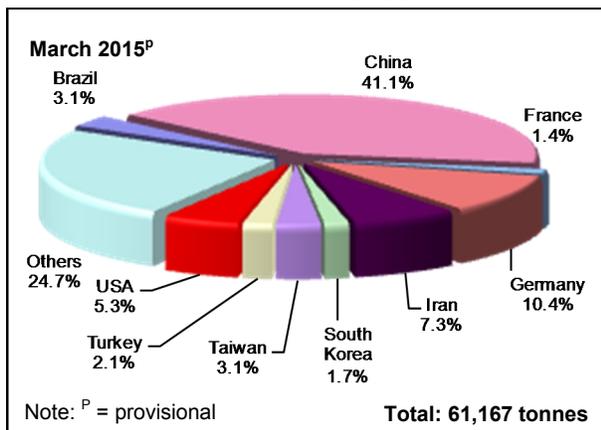
**Total: 69,585 tonnes**



**Malaysia's NR exports by countries April 2015<sup>P</sup>**

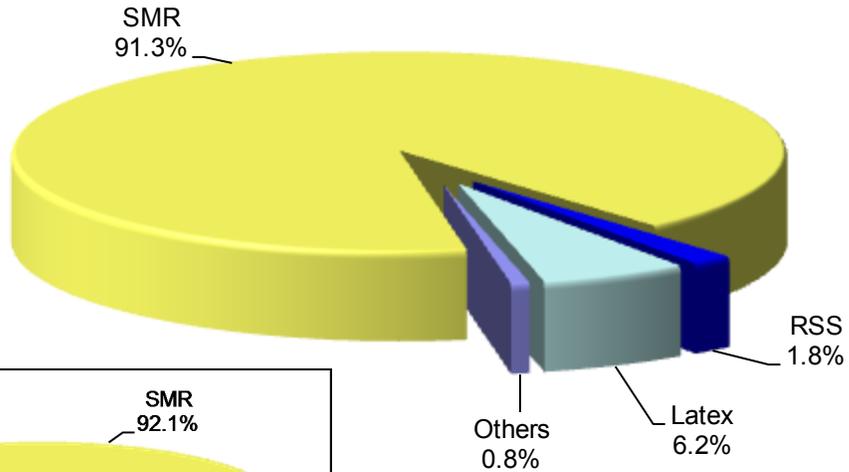


**Total: 49,059 tonnes**

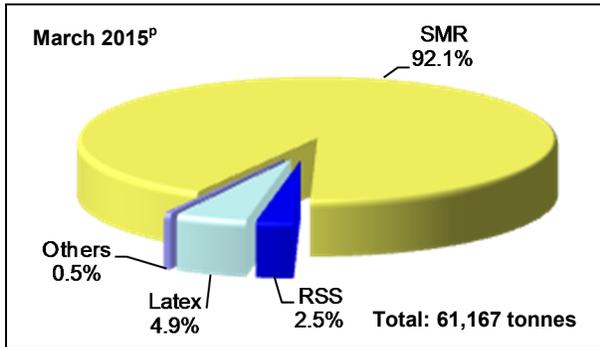


Source: Department of Statistics (DOS)

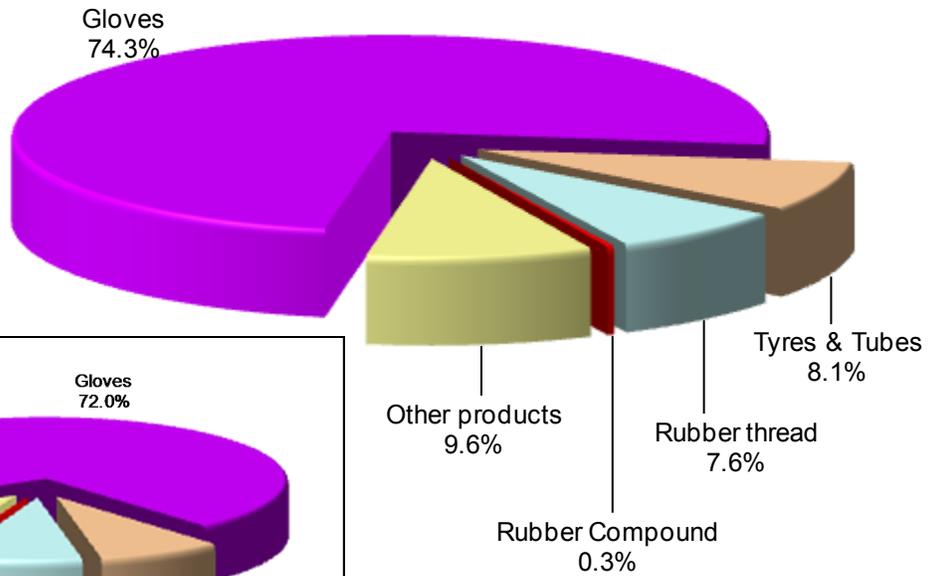
**Malaysia's NR exports by types April 2015<sup>P</sup>**



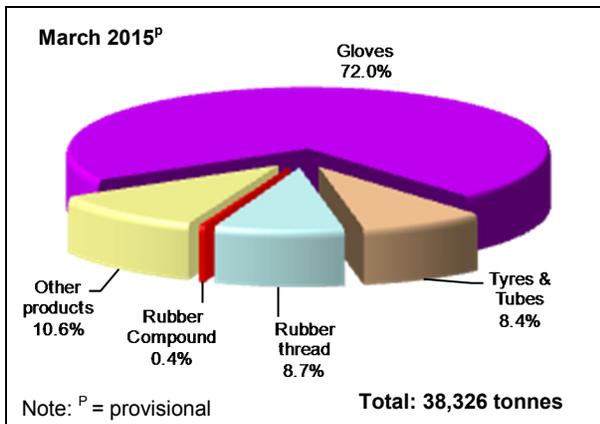
**Total: 49,059 tonnes**



**Malaysia's NR consumption by sectors April 2015<sup>P</sup>**



**Total: 39,909 tonnes**



Source: Department of Statistics (DOS)