



MALYSIAN RUBBER BOARD

D I G E S T

A monthly publication of the Malaysian Rubber Board

2019
JUNE

Natural Rubber Market Review

June

In June, the Kuala Lumpur Rubber Market started the month on a firm note, but turned bearish thereafter across the board where the price of SMR 20 fell to a two-month low at 599.50 sen/kg on 25 June. Overall, the rubber market ruled in quiet conditions and demand was not encouraging owing to poor performance of the regional rubber futures markets, slumping oil prices and lingering trade tension between United States (U.S.) and China. Compared with those on 31 May 2019, the price of SMR 20 decreased by 37.50 sen/kg or 5.8% to close at 605.00 sen/kg. Meanwhile, latex concentrate closed at 497.00 sen/kg, a slight increase of 3.50 sen/kg or 0.7%. Price movements of selected grades of rubber in June are shown in Table 1.

The market declined across the board, dragged down mainly by worries that the re-escalation in trade tension between U.S. and China could derail the global economic growth, thus adding uncertainties to the global rubber demand. According to the International Monetary Fund (IMF), increased U.S - China tariffs could reduce

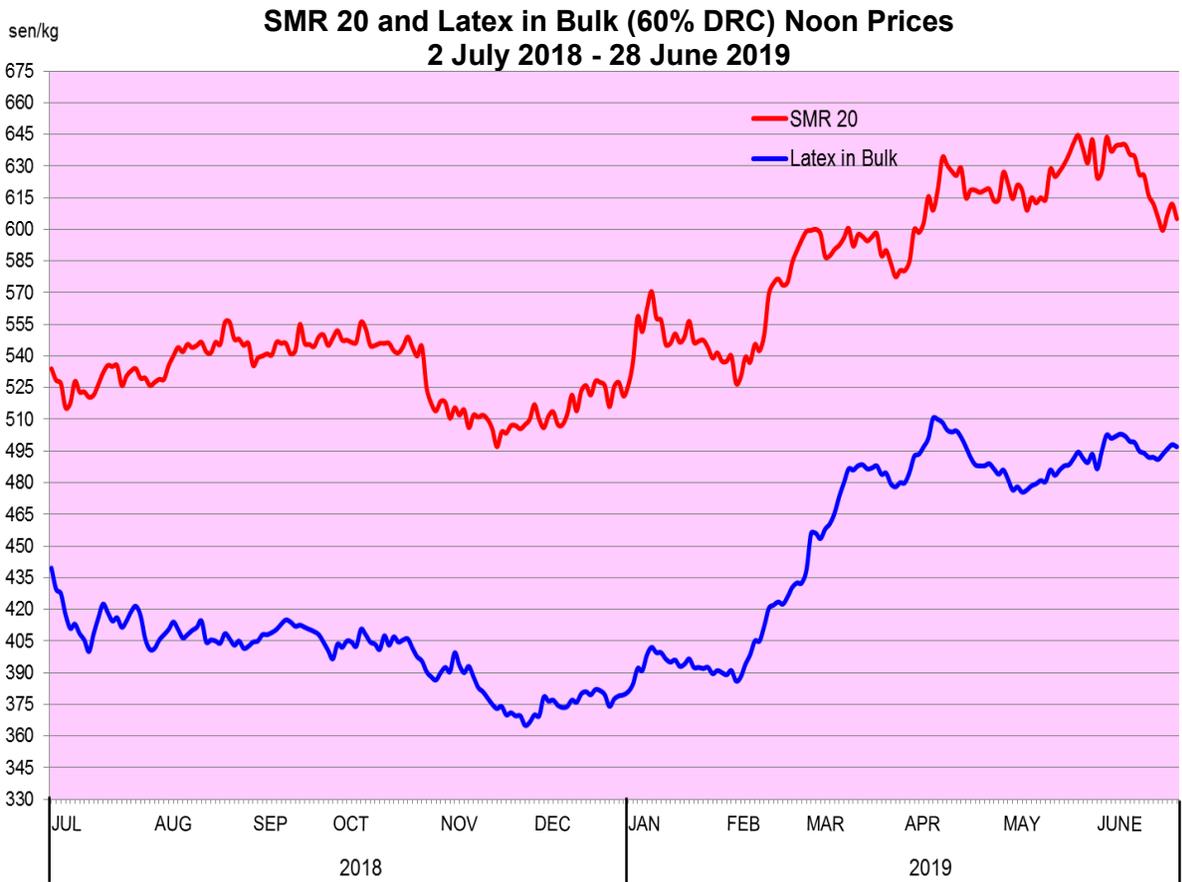
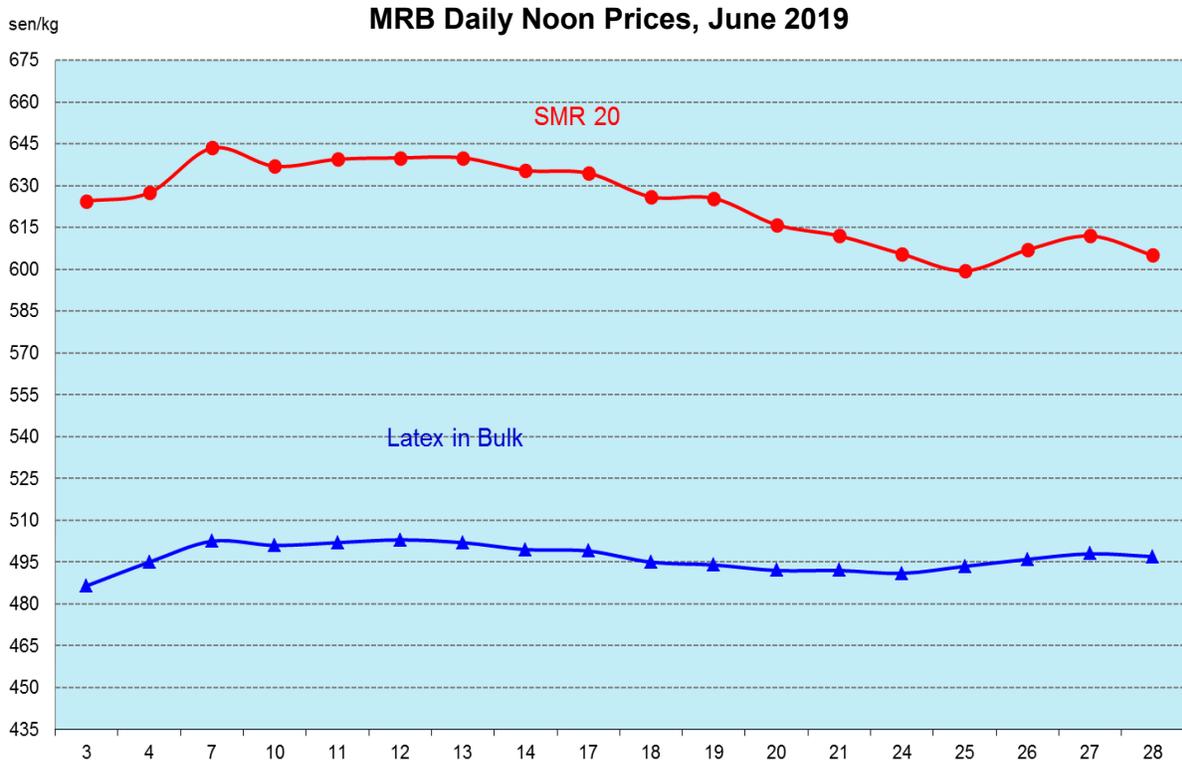
the level of global GDP by 0.5% in 2020 or about USD455 billion. Trading was listless as investors were concerned on the uncertain outcome from the U.S.-China meeting in conjunction with the G20 summit on 28-29 June 2019 in Osaka, Japan. The market took cue from the worse-than-expected import of China in May that dropped 8.5% from a year earlier coupled with declining car sales in China. According to the China Association of Automobile Manufacturers (CAAM), auto sales in China fell 16.4% in May from the same month a year earlier, marking the 11th consecutive month of decline. Market sentiment was further dampened by declining oil prices and poor performance of regional rubber futures markets pressured by fresh doubts over the prospects for U.S. - China trade resolution coupled with weaker U.S dollar. Ringgit strengthened against the U.S. dollar in June at RM 4.1420 - RM4.1815, especially after the U.S Federal Reserve left interest rates unchanged on 19 June and signalled interest rate cuts beginning as early as July. The market also reacted negatively on high rubber inventories in warehouses monitored by the Shanghai Futures Exchange (SHFE) at 417,055 tonnes as of 28 June coupled with the stagnant China Official Purchasing Managers Index (PMI). It was reported that China's Official Purchasing

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

| | SMR CV | | SMR 20 | | Latex Concentrate | |
|---|--------|----------|--------|----------|-------------------|----------|
| | sen/kg | RM/tonne | sen/kg | RM/tonne | sen/kg | RM/tonne |
| Highest | 958.50 | 9,585.00 | 643.50 | 6,435.00 | 503.00 | 5,030.00 |
| Lowest | 931.00 | 9,310.00 | 599.50 | 5,995.00 | 486.50 | 4,865.00 |
| Average | 947.69 | 94,76.90 | 623.92 | 6,239.20 | 496.61 | 4,966.10 |
| Change from the last day of the previous month | 6.00 | 60.00 | -37.50 | -375.00 | 3.50 | 35.00 |

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

Source: Malaysian Rubber Board



Managers Index (PMI) stood at 49.4 in June, unchanged from the previous month, highlighting the need for more economic stimulus as U.S. tariffs and weaker domestic demand ramped up pressure on new orders for goods.

Nevertheless, the decline in the rubber market during the month was capped by supply tightness in major rubber producing countries resulting from suspended tapping activity in Yunnan, China following prolonged drought coupled with the outbreak of Pestalotiopsis disease which has damaged rubber trees in many plantations in Sumatera, Indonesia. The positive sentiment was also aided by ongoing export cutbacks under the 6th Agreed Export Tonnage Scheme (AETS) by International Tripartite Rubber Council (ITRC) member countries and the reduction of Malaysia's NR production. According to the Department of Statistics Malaysia (DOSM) on 14 June, Malaysia's natural rubber (NR) production shrank 32.4% in April 2019 to 33,864 tonnes, as compared with the previous month.

Outlook

Prospects for the near term are favourable due to a tight supply condition in major rubber producing countries. The market is expected to react positively to the decisions by International Tripartite Rubber Council (ITRC) in its 32nd meeting held on 27 June 2019 in Krabi, Thailand. ITRC confirmed on the compliance of export cutback by member countries in April and May 2019 under the 6th AETS implementation. ITRC expected that NR production in ITRC Member Countries to reduce in 2019. The production will continue to be affected negatively due to the outbreak of Pestalotiopsis disease which has damaged rubber trees in many plantations in Sumatera, Indonesia and now has started to appear affecting rubber trees in Malaysia. According to the ITRC, the erratic weather conditions and low tapping activities due to the prolonged low prices have and will continue to affect NR production. Nevertheless, the rubber market is expected to remain volatile due to uncertainty of the U.S. and China trade resolution. Prices are also expected to take cues from the performance of ringgit, crude oil prices and regional rubber futures markets.

News Briefs

U.S auto sales of Toyota, Fiat Chrysler rise in May

Major automakers posted higher U.S. new vehicle sales for May, the first increase for 2019 as a strong economy and upbeat consumer sentiment fuelled demand. Fiat Chrysler Automobiles, Toyota Motor and Nissan Motor all posted sales gains for May compared with the same month in 2018. U.S. auto sales are expected to be about 16.9 million units in 2019, a 2.5% fall from 2018, according to industry consultants J.D. Power and LMC Automotive.

- *cnbc.com, 3 June*

Liberian government provides USD 1.725 million loan to boost rubber industry

The Government through the Ministry of Finance and Development Planning (MFDP) has made a stimulus package of USD 1.725 million loan, equivalent to over three million, two hundred thousand Liberian dollars, to the membership of the Rubber Planters Association of Liberia (RPAL). The president of the Rubber Planters Association of Liberia, Wilhelmina Mulbah-Siaway, described the loan as a "stimulus package for struggling rubber farmers and the resuscitation of their production.

- *allafrica.com, 3 June*

Kossan to spend MYR1.5b on new Malaysian glove city

Glove maker Kossan Rubber Industries (Kossan) expects to spend close to MYR1.5 billion (USD358.8 million) on its new advanced glove manufacturing plant in Perak, Malaysia. Construction on the 824-acre (333ha) land, acquired at a bargain price of MYR82.4 million from Perak's State Development, will begin in June 2020 and is estimated to be complete by 2022. The strategic expansion includes the making of a glove city in the area.

- *rubberjournalasia.com, 4 June*

Halcyon Agri notes natural rubber supply issues, Q1 decline

Natural rubber (NR) supplier Halcyon Agri Corp. Ltd. has reported supply issues alongside declines in first-quarter sales and earnings due to lower volumes and higher costs. On the demand side, Halcyon Agri said China was contracting lower volumes and "seems to be focused on reducing domestic inventory."

Against this background, the NR supplier posted sales of just under USD400 million for the three months to end of March, down 16% from the year before. The company attributed the decline to a 7.5% drop in revenue per metric ton and 9.2% lower sales volume at 278,000 tonnes during the quarter.

- *rubbernews.com*, 5 June

IMF cuts China's 2019 economic growth forecast to 6.2% from 6.3%

The International Monetary Fund (IMF) cut its 2019 economic growth forecast for China to 6.2% on heightened uncertainty around trade frictions, saying that more monetary policy easing would be warranted if the Sino-U.S. trade war escalates. The downgrade came just two months after the IMF raised its China growth forecast to 6.3% from 6.2%, underlining the expected drag on the world's second-biggest economy from higher U.S. tariffs on billions of dollars of Chinese goods.

- *reuters.com*, 5 June

Synthetic rubber market still struggling with overcapacity

Asia-Pacific controls 56% of overall Synthetic Rubber (SR) capacity worldwide, with China accounting for 27% and the rest of Asia 29%. "The rest of Asia overtook China at the end of 2016 because the majority of new projects and expansions came in this region," Bauza-Petrovic said. "This trend will continue, and we also expect to see some growth in China."

Breaking out tyre elastomers, she reported utilization climbed from just 63% in 2015 to 70% in 2017 and 71% in 2018. Conversely, non-tyre elastomers had operating rates of 81% in 2015,

dipped to 76 % two years later, before rebounding some last year to 78%.

- *rubbernews.com*, 6 June

Trade: Vietnam's rubber industry may be indirectly hurt by trade spat: MoIT

Vietnam's rubber sector may be indirectly hurt as the United States has imposed a higher import tax on Chinese automotive components, the local newspaper CafeF quoted the Ministry of Industry and Trade (MoIT) as saying.

The MoIT explained that China is now the biggest buyer of Vietnamese natural rubber, accounting for 60% of the latter's total exports. The MoIT proposed that Vietnam should diversify the export commodities and expand the export markets to avoid the heavy dependence on China.

- *factiva.com*, 6 June

China's new measures to spur car sales fall short of expectations

China announced a series of measures to revive slumping car sales, but failed to meet market expectations as it included no plans to relax controls over the issuance of new licenses for traditional-fuel cars in major cities. The National Development and Reform Commission (NDRC), China's state planner, said in a statement it is stopping local governments from imposing new restrictions on car purchases and cancelling existing ones that apply to new energy vehicles.

- *msn.com*, 6 June

China's mixed rubber policy to affect Thai, Vietnamese imports

China's new policy on mixed rubber imports will affect 50% of such imports from Thailand and all such imports from Vietnam, an official from the nation's natural rubber association said. China's General Administration of Customs is believed to have stepped up inspections of mixed rubber, or natural rubber that is improved through addition of chemicals, to ensure importers are not mislabeling shipments as mixed rubber to take advantage of a lower tariff rate on the substance.

The association has suggested the government set a new technology standard for mixed rubber imports to facilitate shipments, Zheng Wenrong, vice president of China's Natural Rubber Association told.

- *factiva.com*, 9 June

Global styrene butadiene rubber market to expand 4.3%

The global styrene butadiene rubber (SBR) market is forecasted to expand at a moderate compound annual growth rate (CAGR) of 4.3% to reach a value of USD8.2 billion in 2026, according to a study by Future Market Insights. The demand for synthetic rubbers (SR) continues to witness an upsurge as companies fail to find competent natural substitutes. In the view of changing industrial applications, SBR has emerged as one of the greatest SR used in the automotive industry, said the study.

- *tradedearabia.com*, 9 June

Trump rescinds tariffs threat after immigration agreement with Mexico

Representatives of the auto and auto aftermarket industries breathed a sigh of relief at the news that the Trump administration had put aside its plan to levy tariffs on all goods imported from Mexico. The Auto Care Association and the Alliance of Automobile Manufacturers also were pleased with the administration's reversal on tariffs.

- *rubbernews.com*, 10 June

10% growth seen in rubber output

The growth in tappable area has facilitated the Indian Rubber Board to project a 10% rise in natural rubber (NR) production in the country at 750,000 tonnes in 2019-2020 as against 648,000 tonnes in the previous fiscal. The tappable area has gone up from 640,000 hectares in 2018-2019 to 665,000 ha in 2019-2020, because of measures taken to increase production and continuation of the Rubber Production Incentive Scheme in Kerala in 2019-2020.

- *factiva.com*, 11 June

Chinese auto sales post worst-ever monthly decline as trade war intensifies

China reported the worst-ever monthly sales drop in the world's largest vehicle market, exacerbating concerns over the country's economic slowdown and growing impact of an ongoing trade war with the United States. Sales tumbled 16.4% in May from the same month a year prior, the China Association of Automobile Manufacturers (CAAM) said. That marked the 11th consecutive month of decline and followed falls of 14.6% in April and 5.2% in March.

- *reuters.com*, 12 June

India SBR demand to stay weak on falling auto sales, slowing economy

India's styrene butadiene rubber (SBR) demand is expected to remain weak amid falling automotive sales and a slowing economy. "The outlook is uncertain, with growth slowing down. Furthermore, Indian tyre makers have high inventories and demand for SBR is weak due to the declining auto sales and production," said an Indian rubber trader. India's vehicle production, domestic sales and exports all fell year-on-year in May, industry data showed on 11 June. Vehicle sales in May fell by 8.6% to 2.0 million vehicles while production fell by 7.9% year-on-year (y-o-y) to 2.5million units.

- *icis.com*, 12 June

Liberia: An emerging hub for Ribbed Smoked Sheets processing in West Africa

Grow Liberia, in collaboration with the National Investment Commission (NIC), is hosting an investment summit on 19 June to showcase Liberia's emergence as a burgeoning hub for Ribbed Smoked Sheets (RSS) rubber processing in West Africa. With close to a century of experience as one of Africa's leading natural rubber (NR) producers, over 100,000 hectares of rubber plantations under cultivation, and technical colleges offering courses in rubber cultivation and processing to a youthful workforce, Liberia is well positioned to grow its prominence as a RSS producer in West Africa.

- *frontpageafricaonline.com*, 12 June

China's Vice Premier Liu calls for more measures to support economy

Chinese regulators should step up support for the economy and keep ample liquidity in the financial system, Vice Premier Liu He said, suggesting Beijing would soon unveil more policies to bolster growth amid rising U.S. trade pressure. Beijing has plenty of policy tools and is capable of dealing with various challenges, Liu said at a financial forum in Shanghai.

Despite a slew of support measures and policy easing since last year, China's cooling economy is still struggling to get back on firm footing, and last month's sudden escalation in U.S.-Sino tensions has raised fears of a full-blown trade war that could trigger a global recession.

- reuters.com, 13 June

China May industrial output up 5.0%, below forecasts, weakest in 17 years

China's industrial output growth slowed to a more than 17-year low of 5% in May, well below expectations, in the latest sign of weakening demand in the world's second-largest economy as the United States ramps up trade pressure. Analysts polled by Reuters had forecast industrial output would grow 5.5% from a year earlier, only marginally higher than a 5.4% rise in April.

- theedgemarkets.com, 14 June

Natural rubber production shrank 32.4% in April 2019

Malaysia's natural rubber production in April 2019 was 33,864 tonnes, a decrease of 5.2% as compared to 35,726 tonnes as recorded in April 2018. Month-on-month comparison showed the production of natural rubber shrank by 32.4% from 50,109 tonnes in March 2019. Exports of Malaysia's natural rubber amounted 55,930 tonnes, increased by 5.0% against 53,265 tonnes in March 2019. China is the main destination of exported natural rubber, 41.9% of the total exports in April 2019 followed by Germany (14.4%), Finland (7.4%), Iran (6.1%) and U.S.A (3.3%).

- dosm.gov.my, 14 June

Industry 4.0 gaining traction in rubber industry

A speaker from MonTech said at HF's International Mixing Seminar that companies in the U.S. and elsewhere are investing billions toward artificial intelligence development.

By 2020 he said about 1.7 million industrial robots will be introduced into the global marketplace. Countries such as Germany, Japan and South Korea are investing so these technologies can work in small plants all the way up to the large global factories. China will be in the fray, hoping to pass the U.S. as the most innovative nation by 2049, with Industry 4.0 as one of the main tools to achieve that.

- factiva.com, 17 June

China central bank injects funds, second phase of RRR cut takes effect

China's central bank said the second phase of a cut in the reserve requirement ratio (RRR) freed about 100 billion yuan (USD14.44 billion) worth of long term funds. In open market operations, the People's Bank of China (PBOC) also injected 150 billion yuan via 14-day reverse repos to "keep liquidity level stable at end-June", the bank said in a statement on its website.

- reuters.com, 17 June

Minister: Agri-commodity sector registers RM52.7b in trade value for Jan-April 2019

The agri-commodity sector has recorded RM52.7 billion in trade value for the period of January to April this year, said Primary Industries Minister Teresa Kok. She said in terms of the trade balance, the sector had registered RM27.7 billion for the period under review.

- malaymail.com, 18 June

China launches anti-dumping investigation into synthetic rubber product

China's Commerce Ministry said it is launching an anti-dumping investigation imports of a synthetic rubber product from the United States, South Korea and the European Union following a

request from major petrochemical producers. The trade measures were launched at the request of Jilin Petrochemical, a unit of China National Petroleum Corp (CNPC), and Shanghai Sinopec Mitsui Elastomers Co. Ltd, the statement said. The companies are top producers of EPDM, a chemical product that is widely used for electric cables and tyres.

- reuters.com, 19 June

Fed holds rates steady, hints at future cuts if outlook doesn't improve

Federal Reserve officials held interest rates steady but strongly suggested they would cut them in the months ahead if an economic outlook clouded by uncertainty over trade policy didn't improve. The Fed didn't bow to pressure from President Trump for an immediate rate cut. The Fed is set to meet next on 30-31 July, and investors in interest-rate futures markets have priced in at least a quarter-percentage-point cut then in the central bank's benchmark short-term rate.

- factiva.com, 20 June

Report predicts China economy to grow at 6.3%

Economists at the Institute for China's Economic Practice and Thinking at Tsinghua University issued a report on the Chinese economy on 23 March, predicting the economy will stabilize and grow by 6.3% this year, meeting the Chinese government's target of between 6% and 6.5% announced in March.

- ecns.cn, 24 June

ASEAN leaders emphasise economic strength in face of US-China tensions

Association of Southeast Asian Nations (ASEAN) leaders agreed to work together on the region's economy and security to strengthen their position to face growing US-China tensions, as they wrapped up their summit in Bangkok. ASEAN will need its collective economic strength for bargaining power globally, especially amid the trade tensions between the world's top two economies, Thai Prime Minister Prayuth Chan-

ocha told a news conference, as chairman of the 34th ASEAN Summit.

- theedgemarkets.com, 24 June

Kerala rubber growers form producer firm to make tyres

Rubber growers in Kerala have got together to form a producer company 'Integrated Rubber Farmer Producer Company' (IRFPC) to manufacture tyres. Andreas Hermes Academe (AHA), an NGO based in Germany, will assist the producer company to formulate a strategy towards formation of a professional collective to produce value-added products under the 'Farmer Producer Company' (FPC) model, Ajith John, technical and financial expert of the group, said in a communication. The communication said the FPC will start off with two and three-wheeler tyre production with an approximate initial investment of Rs 100 crore.

- anrpc.org, 26 June

Continental inaugurates new RM65 million mixer at Kedah tyre plant

Continental celebrated the inauguration of its new state-of-the-art rubber compound mixing facility at its tyre plant in Alor Star on 26 July. Since 1979, Continental has been producing passenger and light lorry tyres as well as two-wheel tyres in Malaysia for the Asia Pacific market. Continental invested more than RM65 million for the new mixing facility that will further enhance the manufacturing process by adding state-of-the-art rubber compound mixing technology locally.

- thesundaily.my, 26 June

Indian tyre companies to gain from CVD duty on Chinese imports; top picks

The government's decision to impose countervailing duty (CVD) on imports of radial tyres from China is likely to be incrementally positive for tyre manufacturers, as the replacement market would see higher inflow of tyres from the listed/organised players, feel experts. On 25 June, the government imposed CVD for five years on new pneumatic radial tyres

above 16 inches, which are imported from China. These tyres are normally used in buses and trucks. The Centre listed nearly eight tariff items and the duty ranges from 9.12% to 17.57%.

- *business-standard.com*, 27 June

European car lobby cuts 2019 sales forecast to 1% fall

Europe's automotive lobby cut its forecast for passenger car registrations this year to a 1% fall from a 1% rise, blaming slower growth and business concerns over Britain's impending exit from the European Union. The European Automobile Manufacturers' Association (ACEA) said it now expected car sales in the European Union to just exceed 15 million this year.

- *reuters.com*, 27 June

Tyre makers seek duty relief on rubber imports in Budget

Expressing concern over the widening gap between the domestic production of natural rubber and its consumption, the tyre industry has sought duty relief on imports of the commodity. In its pre-budget submission to the Ministry of Finance, the Automotive Tyre Manufacturers Association (ATMA) has asked for natural rubber imports on a duty-free basis under the Tariff Rate Quota (TRQ) Scheme to the extent of domestic deficit.

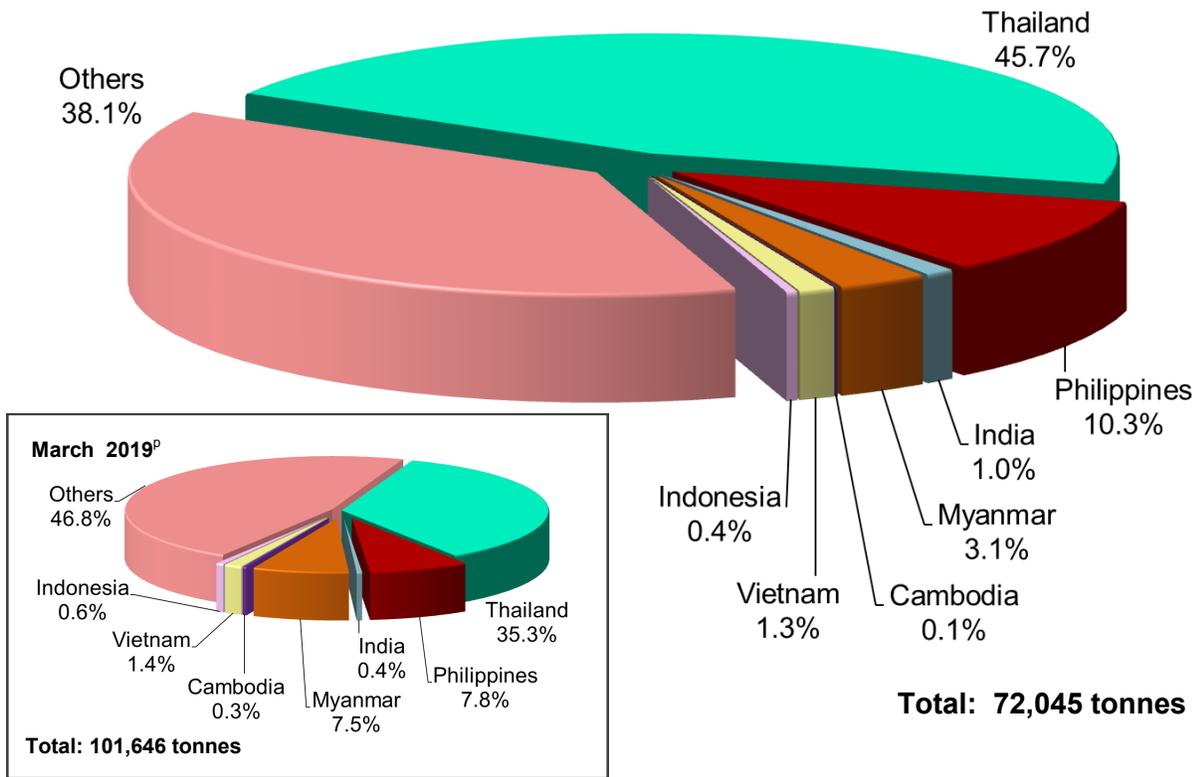
- *thehindubusinessline.com*, 27 June

China's manufacturing activity remains sluggish in June as higher US tariffs kick in

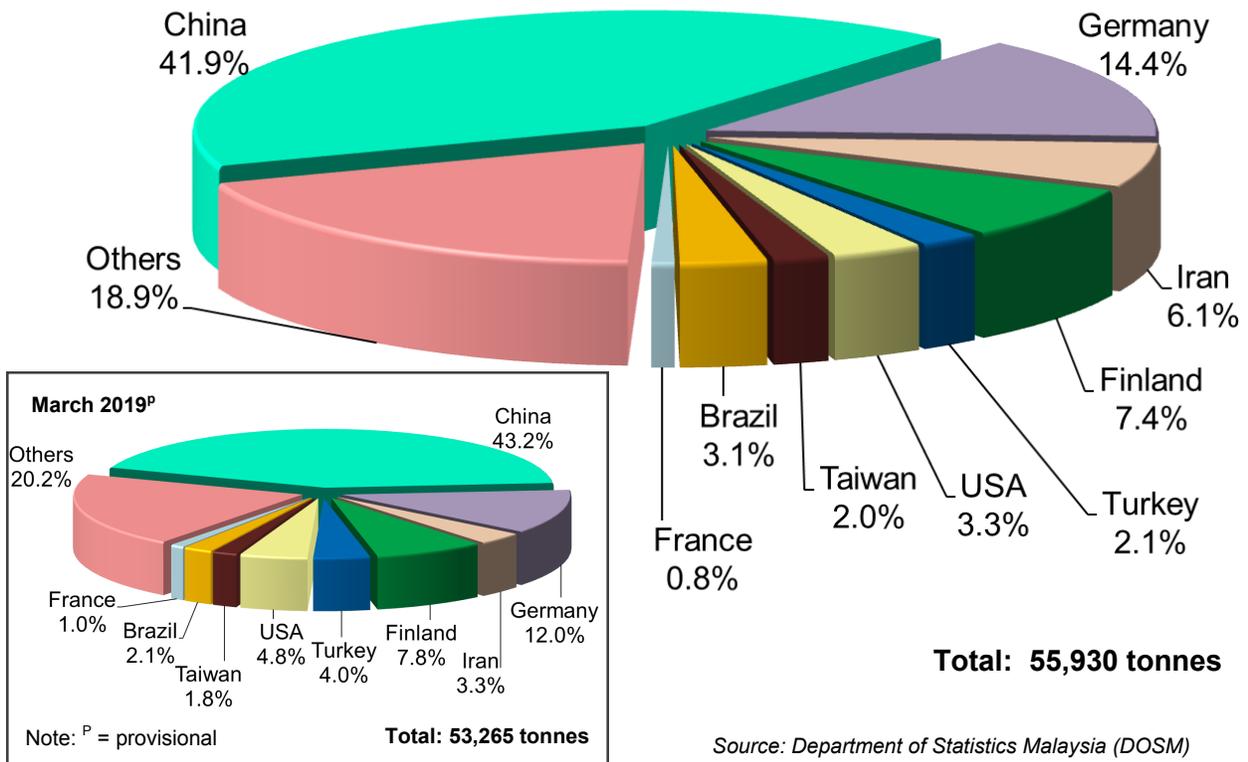
According to the official data released by the National Bureau of Statistics (NBS), China on 30 June, China's manufacturing purchasing managers' index stayed at 49.4 in June 2019. China's manufacturing industry remained weak in June, with the official purchasing managers' index suggesting factory owners are still downbeat about their prospects as the pressures of the trade war continue to mount.

- *smcp.com*, 30 June

Malaysia's NR Imports by Countries, April 2019^P

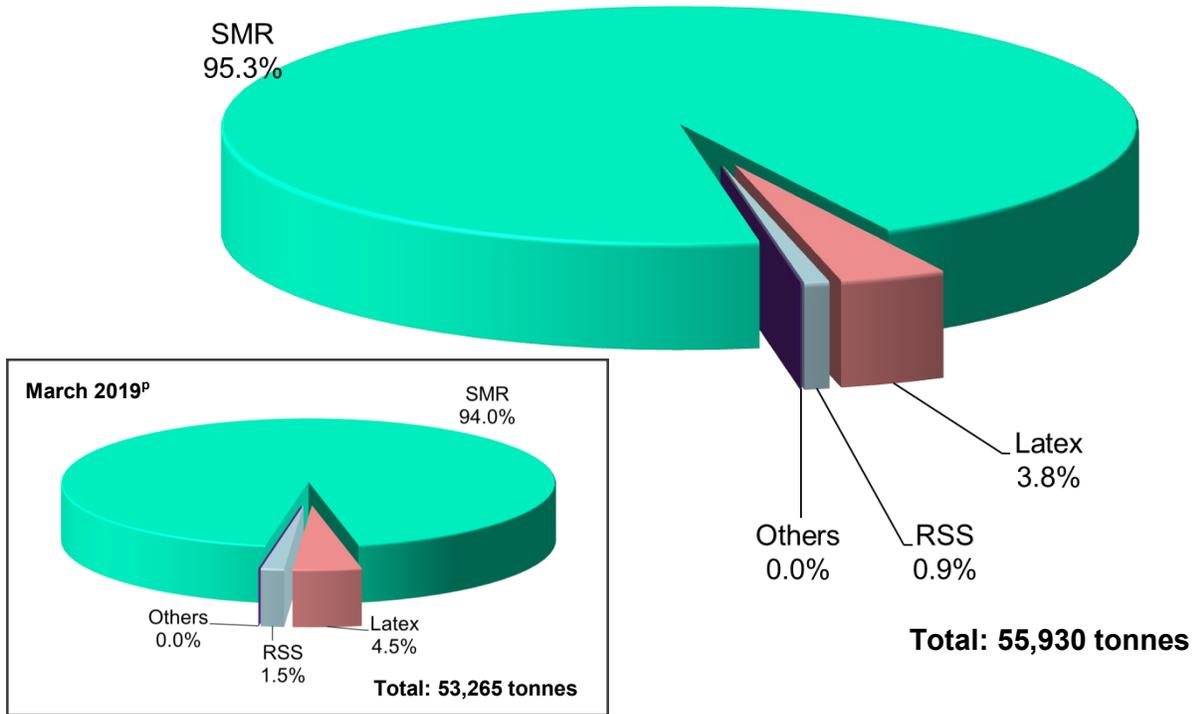


Malaysia's NR Exports by Countries, April 2019^P

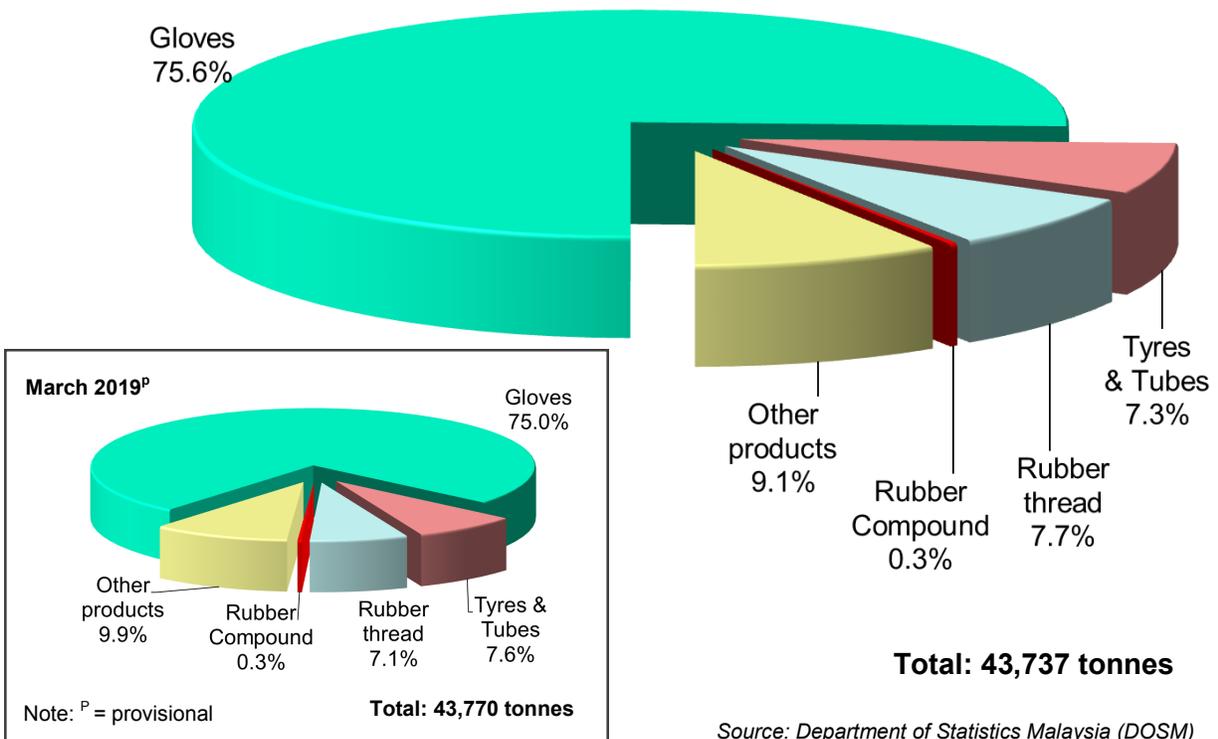


Source: Department of Statistics Malaysia (DOSM)

Malaysia's NR Exports by Types, April 2019^P



Malaysia's NR Consumption by Sectors, April 2019^P



Source: Department of Statistics Malaysia (DOSM)