



MALAYSIAN RUBBER BOARD

DIGEST

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JULY

Natural Rubber Market Review

July

In July, the Kuala Lumpur Rubber Market was generally dull where price of SMR 20 dropped sharply to 556.00 sen/kg on 31 July, the lowest since February 2019 owing to sluggish demand and ample of supplies. The direction of the market remained uncertain due to bearish sentiment in the regional rubber futures markets and concerns over global economic slowdown following ongoing trade tension between the United States (U.S) and China. Compared with those on 28 June 2019, the price of SMR 20 edged down by 49.00 sen/kg or 8.1% to close at 556.00 sen/kg. Meanwhile, latex concentrate closed at 459.00 sen/kg, a decline of 38.00 sen/kg or 7.6%. Price movements of selected grades of rubber in July are shown in Table 1.

The downtrend during the major parts of the month was mainly influenced by the weaker advices from the regional rubber futures markets resulted from weak China's economic data. China's economic grew at 6.2% in the second quarter, the slowest quarterly growth rate since 1992 due to the effects of prolonged trade

tension between China and U.S. It was reported that Shanghai Futures Exchange (SHFE) will start trading TSR 20 rubber futures on 12 August 2019. The decline in Shanghai market was also due to worries by market players that some capital will flow out of the current Shanghai rubber futures into the new TSR 20 contracts. Buyers continued to stay away from the market due to uncertainty of trade resolution between U.S and China. President Donald Trump on 17 July reiterated that he could impose additional tariffs on Chinese imports if he wants, after promising to hold off on more duties in a trade-war truce he reached with China's Xi Jinping last month.

Market sentiment was further dampened by rising Malaysia's NR production. According to the latest data released by the Department of Statistics Malaysia (DOSM), Malaysia's NR production in May 2019 rose by 30.2% to 44,164 tonnes as compared to 33,923 tonnes in April 2019, the highest since February 2019. Year-on-year comparison showed the production of NR rose by 23.5%. Meanwhile, Malaysia's NR stocks recorded in May 2019 remained high at 176,520 tonnes, decreased slightly by 3.4% from 182,645 tonnes in April 2019. Prices continued to remain subdued influenced by high rubber inventories in

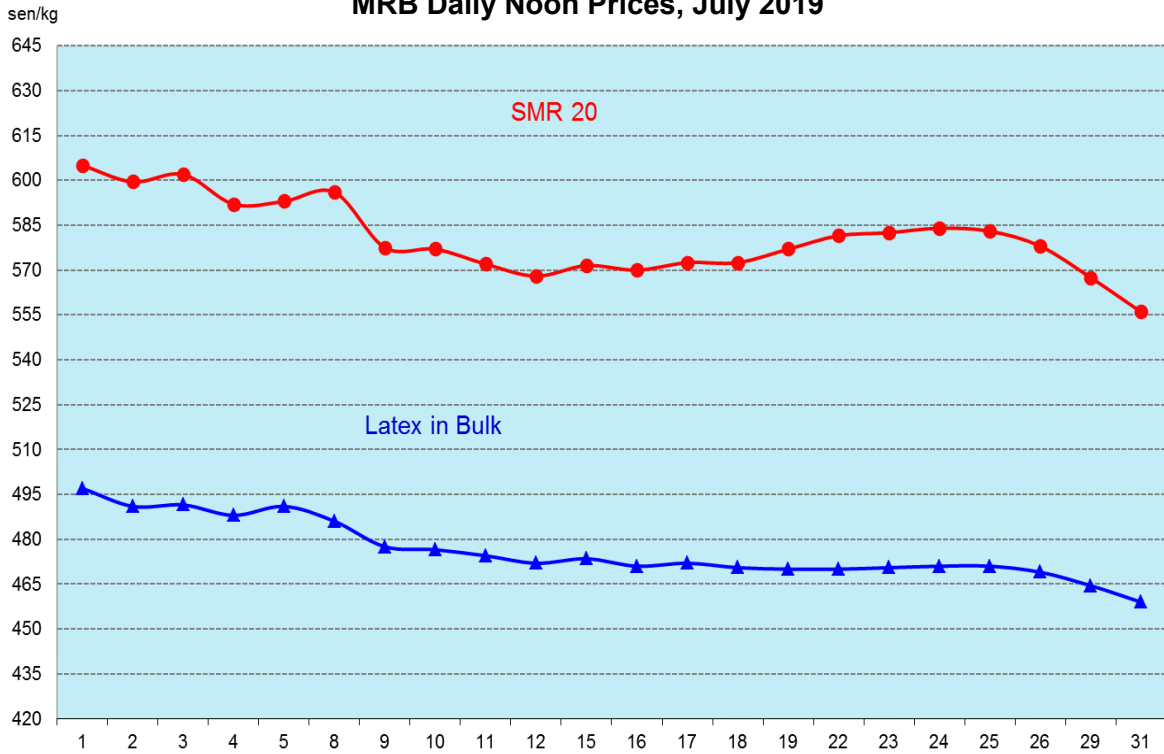
Table 1: Prices of SMR CV, SMR 20 and Latex Concentrate, July 2019

| | SMR CV | | SMR 20 | | Latex Concentrate | |
|---|---------|-----------|--------|----------|-------------------|----------|
| | sen/kg | RM/tonne | sen/kg | RM/tonne | sen/kg | RM/tonne |
| Highest | 848.50 | 8,485.00 | 605.00 | 6,050.00 | 497.00 | 4,970.00 |
| Lowest | 785.00 | 7,850.00 | 556.00 | 5,560.00 | 459.00 | 4,590.00 |
| Average | 813.70 | 8,137.00 | 580.82 | 5,808.20 | 476.23 | 4,762.30 |
| Change from the last day of the previous month | -163.50 | -1,635.00 | -49.00 | -490.00 | -38.00 | -380.00 |

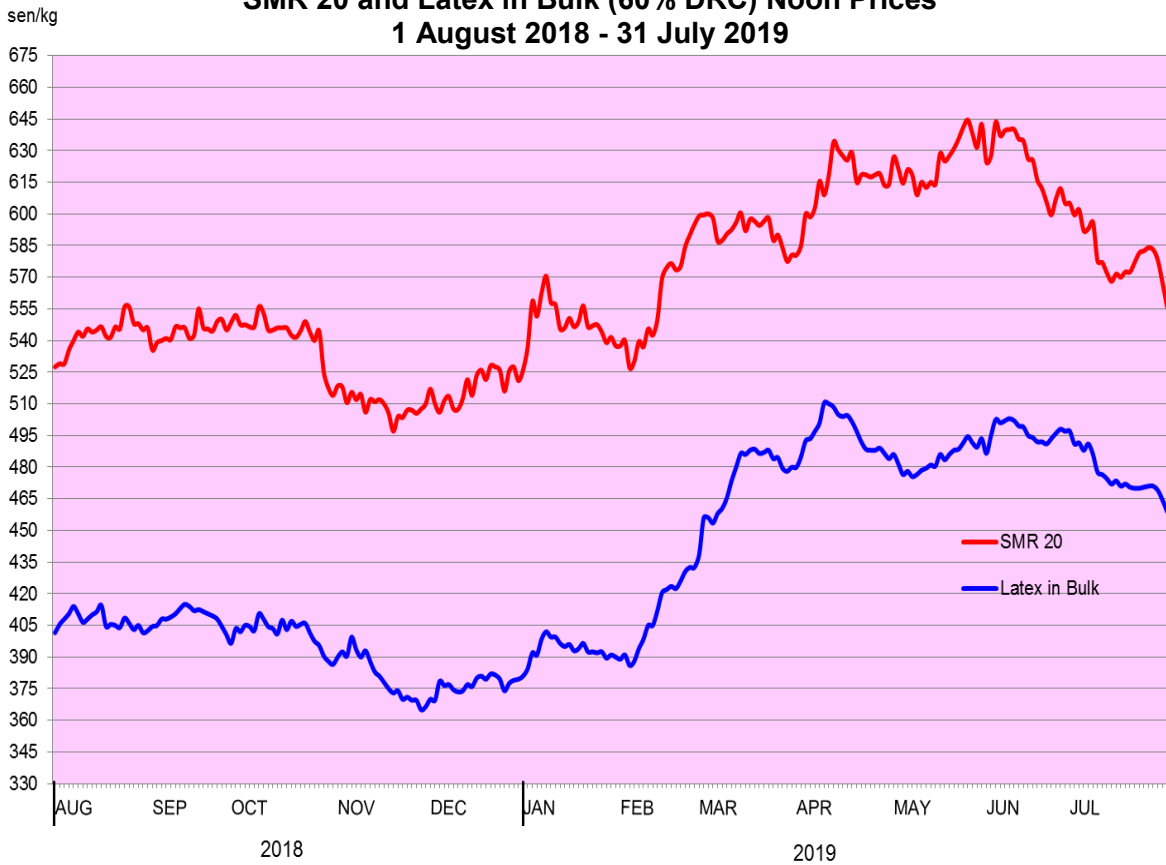
Note: * Official price of latex concentrate in bulk, 60% DRC

Source: Malaysian Rubber Board

MRB Daily Noon Prices, July 2019



**SMR 20 and Latex in Bulk (60% DRC) Noon Prices
1 August 2018 - 31 July 2019**



warehouses monitored by the SHFE which stood at 437,869 tonnes as of 29 July 2019. Prices edged lower as the ringgit strengthened against the U.S. dollar in July at RM4.1065 – 4.1435. The market remained directionless as China's manufacturing activity shrank for the third month in July at 49.7.

Nevertheless, the downtrend during the month was capped by a report of declining natural rubber (NR) production in Indonesia due to a fungal disease and a slight recovery in oil prices. According to the Indonesia Agriculture Ministry as reported in the media, Indonesia's natural rubber output is expected to drop 15% in 2019 compared to the previous year of 3.76 million tonnes due to a fungal disease. The disease has attacked around 381,900 hectares (of plantations) and is predicted to spread further. Meantime, oil prices recovered slightly due to lingering Middle East tensions and after U.S. crude stocks dropped more than expected. However, gains in oil prices were stemmed by a fragile demand outlook amid more signs of slowing global economic growth.

Outlook

Prices on the Kuala Lumpur Rubber Market are expected to remain range-bound in the near term owing to ample supplies, slowing demand and uncertainties on the non-fundamental factors. According to the International Rubber Study Group (IRSG), the global rubber demand is expected to grow at a slower pace of growth to 2.2% in 2019, reaching 29.83 million tonnes before further slowing down to 1.8% growth in 2020 under the International Monetary Fund (IMF) scenario. World NR demand has increased by 4.2% in 2018 to 13.78 million tonnes. Under the IMF scenario the growth is expected to slow down to 2.3% in 2019, reaching 14.09 million tonnes. IMF anticipates the real global economic growth will slow to 3.2% in 2019, down from 3.6% in the previous year and 3.8% in 2017. A sharp deceleration of global economic growth was driven by the ongoing trade tensions between U.S and China. However, NR production is expected to be affected negatively by the outbreak of *Pestalotiopsis* disease which has damaged rubber trees in many plantations in Sumatera, Indonesia, thus will provide some support to the market.

News Briefs

U.S. proposes tariffs on another USD 4 billion of EU goods

The U.S. Trade Representative's office published a list of USD 4 billion worth of EU goods the U.S. could hit with duties as retaliation for European aircraft subsidies. The products range from cherries to meat, cheese, olives and pasta, along with some types of whiskey and cast-iron tubes and pipes. It adds to a list of EU products valued at USD 21 billion that the USTR published in April, according to the release.

- *theedgemarkets.com*, 2 July

China says to push forward opening up of financial, manufacturing sectors

China will ease ownership limits for foreign investors in its financial sector in 2020, a year earlier than scheduled, and push forward opening up of its manufacturing sector including the auto industry, Premier Li Keqiang said. The Chinese government will further ease ownership limits in more sectors while reducing its negative investment list for foreigners, Li said at the World Economic Forum in the northeastern Chinese port city of Dalian.

- *thestar.com.my*, 2 July

Indonesia warns of rubber disease outbreak as farmers cut back on crop maintenance

Some rubber farmers in Sumatra and Kalimantan are seeing production decline due to a fungal disease, Indonesia's Coordinating Ministry for Economic Affairs said in a statement. The disease suspected to have spread in some areas because farmers cut back on crop maintenance such as the use of fertilizers due to low rubber price, the ministry said, adding that there could be an outbreak if it is not quickly and appropriately treated.

- *reuters.com*, 2 July

UPASI opposes demand for duty cut on rubber imports

The United Planters Association of South India (UPASI) has opposed the tyre industry's demand for zero import duty on natural rubber, saying that any attempt to disturb the import duty structure

will be counter-productive in augmenting domestic production. There should not be any tweaking with the import duty on natural rubber, currently at 25% or 30 Indian Rupee whichever is lower, said AE Joseph, President, UPASI.

- *thehindubusinessline.com*, 2 July

U.S. sales drop again, yet SAAR remains strong

Total U.S. light-vehicle sales dropped 2.6% from a year earlier, marking the third time in the past decade that sales in each of the first six months of the year failed to top year-earlier totals. Still, the seasonally adjusted annual sales (SAAR) rate hit 17.29 million, topping the 17 million mark for the third time in four months. At the start of the year, most analysts were 2019 projecting sales to come in below that level after four years above, including a 2016 record.

- *autonews.com*, 2 July

Atlanta Fed pares U.S. second-quarter GDP growth view to 1.3%

The U.S. economy is expanding at a 1.3% annualized rate in the second quarter based on the latest figures on trade balance and factory orders, the Atlanta Federal Reserve's GDPNow forecast model showed. This was slower than the 1.5% pace estimated by Atlanta Fed's GDP recent program.

- *reuters.com*, 3 July

Global plastics, rubber industry to grow 4%

The global plastics and rubber industry has continued to achieve annual growth rates of between 4% and 5% since the turn of the millennium, with the Middle East witnessing phenomenal expansion in its polymerization capacities along with the Asia-Pacific region.

- *factiva.com*, 3 July

ATMA seeks duty relief on imports of natural rubber

The Automotive Tyre Manufacturers Association (ATMA) has expressed concern over the widening gap between the domestic production of

natural rubber (NR) and its consumption and sought duty relief on imports of the commodity. The association demand for NR imports on a duty-free basis under the Tariff Rate Quota (TRQ) Scheme to the extent of domestic deficit. NR accounts for 50% of the production cost of a tyre maker. Shortfall in the domestic supply of NR, forces tyre industry to import this raw material.

- *factiva.com*, 3 July

PM: combining FELDA land helps settlers

A new era for Felda could be on the horizon, with large mixed-scale farming replacing the old methods of reliance on individual plots, as well as single crops. Apart from venturing away from total reliance on traditional cash crops, such as oil palm and rubber, large swathes of Felda's settlements could be amalgamated, which would generate higher yields and returns to settlers.

- *factiva.com*, 8 July

Kottayam: Adoption of rubber holdings to start soon

The Rubber Producers' Societies (RPSs) and the companies in the RPS sector have jointly formulated a programme to adopt untapped rubber plantations to increase rubber production. The concept includes maintenance and harvesting of trees. The programme intends to reduce cost of production by implementing a collective venture and to enhance rubber production.

- *timesofindia.indiatimes.com*, 8 July

China's CPI up 2.7% in June

China's consumer price index (CPI), a main gauge of inflation, rose 2.7% year-on-year in June, the National Bureau of Statistics (NBS) said. The reading, in line with market expectations, remained unchanged from the expansion in May. For the first half of this year, CPI increased 2.2% compared with the same period last year, according to the NBS.

- *xinhuanet.com*, 10 July

China's PBOC, trading platform signal floor for interbank rates

China's interbank trading platform has introduced trading alerts to prevent money market rates from falling below specific levels, three sources with direct knowledge said, following a recent plunge in some short-term rates.

- *cnbc.com*, 10 July

Agricultural prices high on agenda of new minister

Agriculture and Cooperatives Minister Chalermchai Sri-orn will assign key responsibilities to officials in the ministry in the next two days, with focus on boosting the prices of agricultural goods such as rubber. A survey by ruling coalition partner Democrat Party on the production and price of agricultural products found that the price of rubber has seen a sharp decline. The ministry has not taken action yet, as it is waiting for the incoming government to first announce its policies.

- *nationthailand.com*, 11 July

Natural rubber production in May 2019 increased 30.2%

Malaysia's natural rubber production in May 2019 was 44,164 tonnes, increased of 23.5% as compared to 35,761 tonnes as recorded in May 2018. Month-on-month comparison showed the production of natural rubber rose by 30.2% from 33,923 tonnes in April 2019 and this is the highest growth percentage since February 2019.

- *dosm.gov.my*, 12 July

Thai Government uses rubber latex for road construction

The government will continue to use rubber latex for road construction nationwide to address falling rubber prices, said a deputy spokesman of Prime Minister's Office. According to the deputy spokesman, Werachon Sukondhapatipak, the government insisted that it has a policy to use rubber latex in making natural rubber soil cement roads throughout Thailand. It would allow the Rubber Authority of Thailand to buy rubber latex instead of rubber sheets. The rubber latex will be

mixed with chemical substances by the Rubber Traders Association free of charge before it will be sold to provincial administrative organisations for road construction. Buying will start on 15 July.

- *tna.mcot.net*, 13 July

China growth at its slowest since 1992 as Beijing struggles to juice economy

China's economic growth decelerated to its slowest pace in decades, weakened by trade tensions with the U.S. and businesses that held back from making big investments despite encouragement from Beijing. The economy grew by 6.2% in the second quarter, down from 6.4% in the period before, official statistics showed. Growth was slower than the 6.3% year-over-year rate forecast by economists.

- *wsj.com*, 13 July

Rubber export earnings increase by over 61 million USD

During over nine months of this fiscal year, Myanmar earned over 220 million US dollars from the exports of over 0.17 million tonnes of rubber, according to an official of the Commerce Ministry. From October 1 to July 5 of 2018-2019 fiscal year, the rubber export earnings hit 225.189 million US dollars.

Last year, the export earnings from exports of 135,982 tonnes of rubber reached 163.777 million USD. This year, the rubber export earnings increased by over 61.412 million USD and the rubber export volume, by over 40,582 tonnes.

- *elevenmyanmar.com*, 14 July

IMF urges policy makers to be ready for steeper global slowdown

The acting chief of the International Monetary Fund (IMF) urged central bankers and other policy makers to be ready with more stimulus if a global economy already slowed by a trade war downshifts significantly further.

"All need to be ready in case there is a significant slowdown to respond much more forcefully," based on economic data and other circumstances in their own countries, David Lipton, the IMF's interim managing director, said in a Bloomberg

Television interview with Tom Keene and Nejra Cehic .

- *bloomberg.com*, 16 July

Latest World Rubber Industry Outlook now available from IRSG

International Rubber Study Group (IRSG) estimates, for the year 2018, an increase in the global rubber demand by 2.8% year-on-year (y-o-y) up to 29.18 million tonnes. The global rubber demand is forecast to grow at a slower pace of growth to 2.2% in 2019, reaching 29.83 million tonnes before further slowing down to 1.8% growth in 2020 under the International Monetary Fund (IMF) Scenario. Meanwhile, world NR demand has increased by 4.2% in 2018 to 13.78 million tonnes. Under the IMF Scenario the growth is expected to slow down to 2.3% in 2019, reaching 14.09 million tonnes. A further deceleration (1.8%) is expected in 2020.

-*rubberstudy.com*, 16 July

Trump says he could impose more China tariffs if he wants

President Donald Trump reiterated that he could impose additional tariffs on Chinese imports if he wants, after promising to hold off on more duties in a trade-war truce he reached with China's Xi Jinping last month. "We have a long way to go as far as tariffs where China is concerned, if we want. We have another USD325 billion we can put a tariff on, if we want," Trump said.

- *bloomberg.com*, 17 July

Developing Asia set to meet growth outlook despite trade war: ADB

The Asian Development Bank said developing Asia is on track to meet the lender's growth expectations for this year and next, even as trade tensions between the United States and China keep casting a shadow over the global economy. Developing Asia, a group of 45 countries in the Asia-Pacific region, is still expected to grow 5.7% this year and 5.6% next year, the ADB said in a supplement to its Asian Development Outlook report issued in April.

- *reuters.com*, 18 July

Indonesia: boost diplomacy to protect farmers

As evidenced by the cooperative move made by Indonesia, Thailand and Malaysia under the framework of the International Tripartite Rubber Council (ITRC), diplomacy can have real and direct positive impacts on smallholders. Considering the large number of farmers and members of their families in Indonesia, diplomacy focusing on agricultural commodities is one area that can bring real and immediate impacts. According to a census by Statistics Indonesia (BPS), 35.7 million Indonesians depend on the agricultural sector. Agricultural commodities themselves account for 60% of Indonesia's overall exports. Hence, Indonesia should be consolidating its diplomacy on agricultural commodities, particularly amid rising trade tensions between the United States and China, the effects of which will undoubtedly spiral to many economic sectors, including agricultural commodities.

- *The Jakarta Post*, 18 July

China central bank injects 497.7 billion yuan via medium-term loans, rolls over maturing ones

The People bank of China (PBOC) lent 497.7 billion yuan (USD72.31 billion) on 23 July including 200 billion yuan through one-year medium-term lending facility (MLF) loans and another 297.7 billion yuan through targeted medium-term lending facility (TMLF) loans in an attempt to get more affordable funds to struggling smaller firms, as it steps up efforts to support a slowing economy.

- *reuters.com*, 23 July

IMF Cuts Global GDP Forecast for 2019, Citing Fallout From Trade Tensions

According to the latest forecasts of the International Monetary Fund (IMF), real global economic growth will slow to 3.2% this year, 0.1% slower than forecast in April, down from 3.6% last year and 3.8% in 2017. A sharp deceleration of global trade driven by ongoing trade tensions is slowing the global economy more than earlier projections.

- *wsj.com*, 23 July

China says needs 'arduous efforts' to meet 2019 industrial output goal

China's industry ministry said that "arduous efforts" will be needed to achieve this year's industrial output growth target, as trade protectionism weighs on exports and clouds the outlook for the world's second-largest economy. Ongoing reforms and restructuring of the country's industrial sectors pose additional challenges, vice industry and information technology minister Xin Guobin told reporters at a news conference in Beijing. China set a 2019 industrial output growth target of 5.5%-6.0%.

- reuters.com, 23 July

Indonesia's rubber production to drop 15% in 2019 due to disease

Indonesia's natural rubber output is expected to drop 15% in 2019 compared to 2018's production of 3.76 million tonnes due to a fungal disease, a senior agriculture ministry official said. *"The (disease causing) fungus has attacked around 381,900 hectares (of plantations) and is predicted to spread further,"* said Kasdi Subagyono, the ministry's plantation director general. Subagyono said the rubber plantations affected so far are in South Sumatra, North Sumatra, Bangka Belitung, South Kalimantan, Central Kalimantan, and West Kalimantan.

- theedgemarkets.com, 24 July

Gapkindo: Rubber exports down 200,000 tonnes in first half

The Indonesian Rubber Companies Association, Gapkindo, said that the export volume of rubber declined in the first half of this year. As of June, the decline amounted to 200,000 tonnes. *"Our exports from January to June 2019 fell by 200,000 tonnes,"* Gapkindo chairman Moenardji Soedargo said in Jakarta. According to Moenardji, the decline was due to a decrease in the domestic supply of rubber raw materials. He added that the decline in raw material supply also happened last year. However, he did not sense anything out of the ordinary and at that time the decline was more due to seasonal factors.

- en.tempo.co, 24 July

China's tax cuts may be able to offset the cost of trade tariffs, economist says

Tax cuts could end up supporting economic growth in China, even if Beijing's trade war with the U.S. doesn't improve, according to the chief economist of a Chinese investment banking firm. Chinese Premier Li Keqiang announced cuts in taxes worth close to 2 trillion yuan (USD290.66 billion) in March this year, and the country was set to exceed its tax cut target of 1.3 trillion yuan in 2018. "That has supported domestic demand, particularly consumer demand," Liang said, pointing to retail sales, which surprised the market with a 9.8% increase in June from a year ago. Analysts had expected an 8.3% rise.

- cnbc.com, 24 July

Rubber glove industry urged to further tap into African market

Primary Industries Minister Teresa Kok Suh Sim said the awareness in the importance of and demand for rubber gloves has been increasing as it was used as the first line of defence by medical personnel against various contagious disease as shown in the recent Ebola outbreak in Africa. In 2018, Malaysia exported USD100 million (USD1=RM4.12) worth of rubber gloves to 49 out of 55 countries in the African continent, she said in her speech during the Malaysian Rubber Glove Manufacturers Association (MARGMA) networking dinner with the African Heads of Mission in Malaysia.

- thestar.com.my, 24 July

China auto group cuts 2019 sales forecast to a 5% drop

China's biggest auto industry association has cut its sales forecast for this year due to slowing economic growth, and now expects sales to fall for the second year running. China's Association of Automobile Manufacturers (CAAM) said it expected auto sales to fall 5% year-on-year (y-o-y) to 26.68 million vehicles this year.

That compares with its previous forecast for zero growth and last year's decline of 2.8%. Sales of new energy vehicles are still expected to increase, but at a slower pace to 1.5 million, down from previous forecast of 1.6 million, CAAM said.

- *nytimes.com*, 25 July

China's industrial profits fall in June, add to fears of slowdown

Profits earned by China's industrial firms contracted in June after a brief gain the previous month, fuelling concern that a slowdown in manufacturing from a bruising trade war will drag on economic growth. Industrial profits fell 3.1% in June from a year earlier to 601.9 billion yuan (USD87.5 billion), according to data released by the National Bureau of Statistics (NBS), following a 1.1% gain in May. In the first six months, industrial firms earned profits of 2.98 trillion yuan, down 2.4% from a year earlier, compared with a 2.3% drop in January-May.

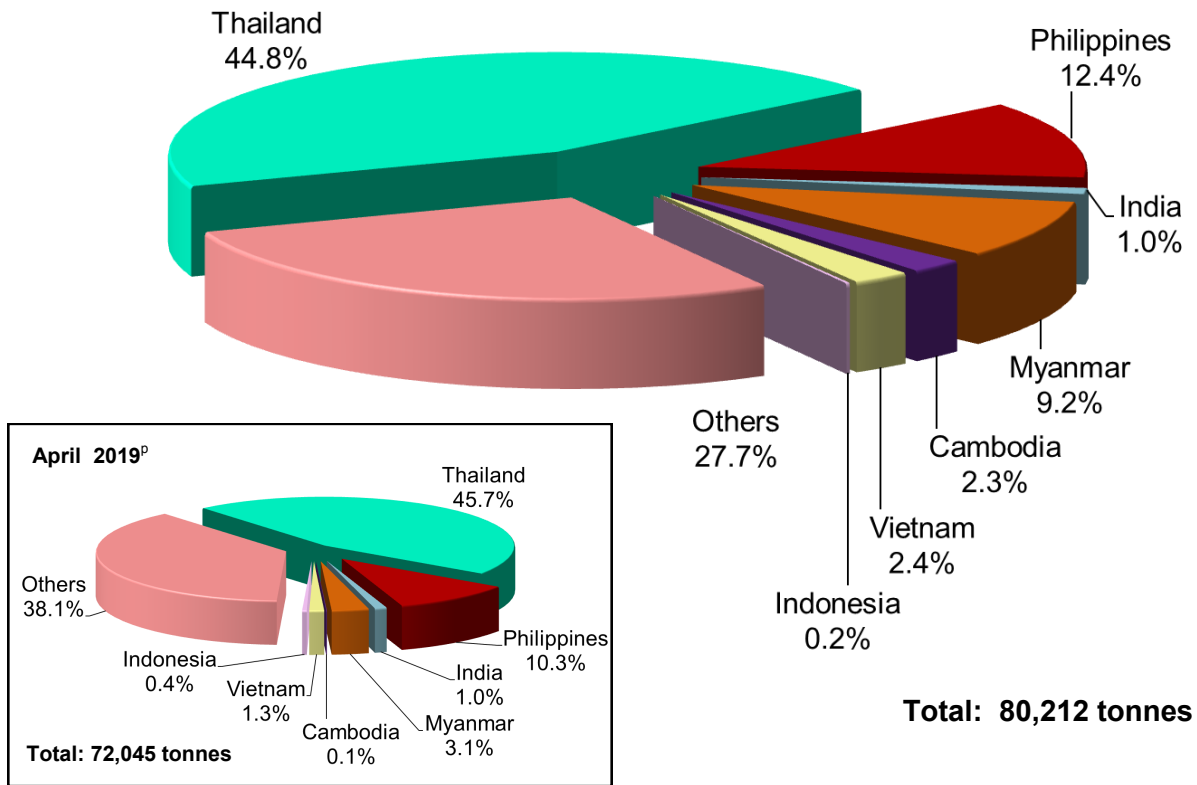
- *reuters.com*, 27 July

Trade war keeps China's factories in reverse gear for third month

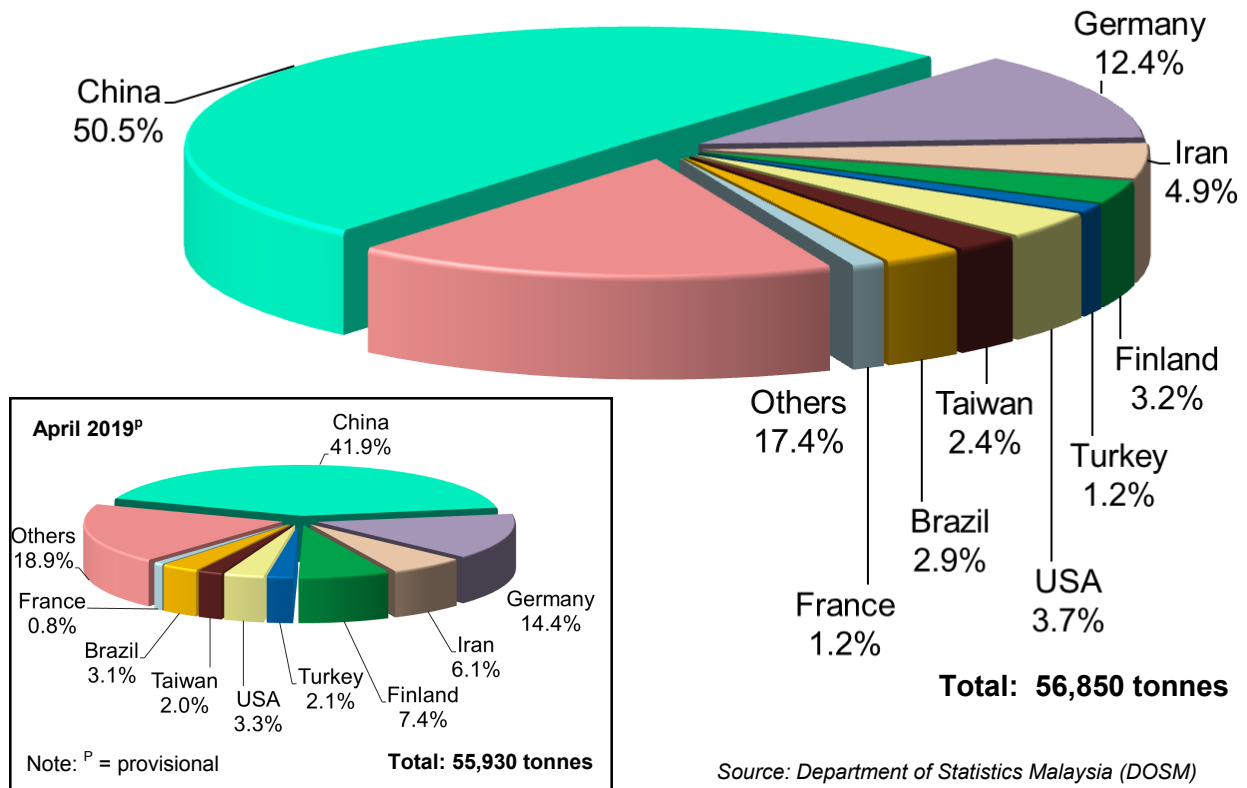
China's factory activity shrank for the third month in a row in July, an official survey showed, underlining the growing strains on the world's second-biggest economy as the Sino-U.S. trade war hits business profits, confidence and investment. The Purchasing Managers' Index (PMI) rose to 49.7 in July, from the previous month's 49.4, China's National Bureau of Statistics said, but remained below the 50-point mark that separates growth from contraction on a monthly basis.

- *reuters.com*, 31 July

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

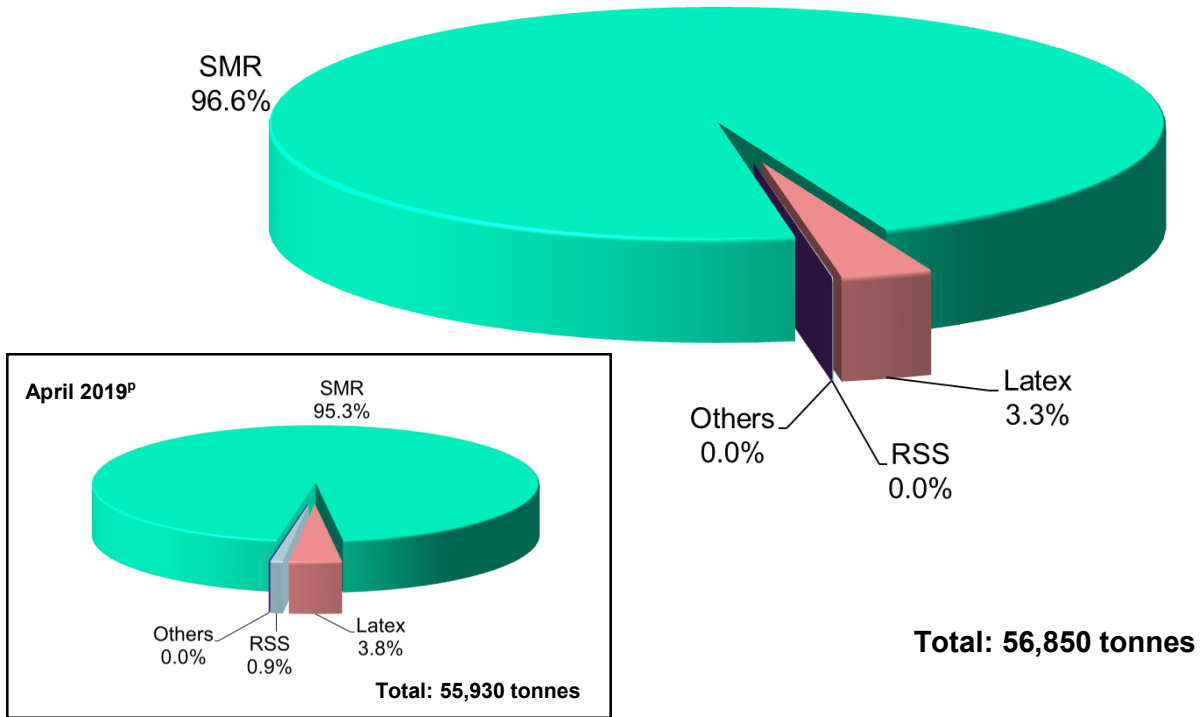


Malaysia's NR Exports by Countries, May 2019^P



Source: Department of Statistics Malaysia (DOSM)

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



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

