

## NATURAL RUBBER

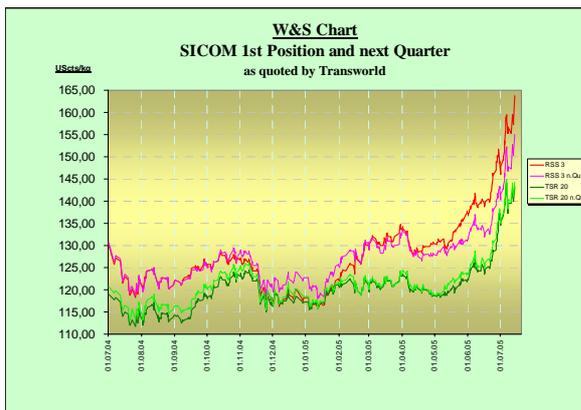
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### The Bull feeds the Bull

What firm condition the Natural Rubber market has is shown in a comparison of SICOM prices at the beginning of the year with the current quotations:

Shipping-period	03.01.05		Shipping-period	14.07.05		Price rise	
	RSS 3	TSR 20		RSS 3	TSR 20	RSS 3	TSR 20
February	118,25	117,25	September	163,75	143,25	45,25	26,00
Apr/Jun	122,25	118,50	Oct/Dec	156,00	144,25	32,75	25,75
Jul/Sep	123,75	119,50	Jan/Mar	152,25	145,00	28,50	25,50



While in the first position TSR 20 had risen by 26,00 USc, the price increase for RSS 3 was 45,25 USc. This strong price rise mirrors the acute shortage of RSS in **Thailand**. Responsible for this is the extreme heat and dry spell that lasted till end May after the "Wintering Season". In South Thailand thousands of containers were said to stand empty waiting for goods that did not arrive because of the raw material scarcity. This extraordinary bottleneck made prices for prompt delivery go up exorbitantly. The Rubber Planters Association of Thailand predicted that,

on account of the drought, the natural rubber production in Thailand will sink by 10% this year.

In order to ensure the adequate supply of natural rubber, the big tyre manufacturers were and are forced to switch to the other big producing countries like **Indonesia** and **Malaysia**. But even from Malaysia as well as **Vietnam** we hear of an extreme shortage of raw material. It is reported that in the 2nd quarter the trees produced 25 to 30% lesser latex than in the corresponding years. It was assumed that the groundwater table has sunk due to the Tsunami. We cannot join this theory and rather believe that once again **El Niño** is responsible. Whether and how long this squeeze will last is hard to say. Frankly speaking we had already expected a relaxation one to two weeks ago, but the situation even escalated in the past few days. This is indeed a fundamental bull run. However, the RSS 3 quotations for the future shipping periods, with considerable reductions towards the current shipment month, indicate that this state will not last forever. The market participants are obviously of the opinion that for the forward positions the situation will uncramp, although the discounts for RSS 3 have become smaller of late.



In the latest **IRSG** Statistic a shortage of natural rubber is, however, not obvious. On the contrary, in the years 2003 and 2004 the production rose by 8,7 and 7,9% while the consumption increased by merely 5,4 and 3,8% respectively. This resulted in a surplus of 370.000 t. Where did this significant increase come from? In the low price phase before 2002 the replanting of rubber plantations were stopped for lack of funds. Over-aged trees became useless. The aftermath will be felt right up to the year 2008 because the tree **Hevea Brasiliensis** needs six years of growth till it is ripe for tapping and in the first years the yield is still quite meagre.

Year	Production		Consumption		Balance 000 t
	000 t	%	000 t	%	
1990	5.120	0,6	5.200	-0,2	-80
1991	5.160	0,8	5.060	-2,7	100
1992	5.450	5,6	5.320	5,1	130
1993	5.310	-2,6	5.430	2,1	-120
1994	5.740	8,1	5.650	4,1	90
1995	6.070	5,7	5.950	5,3	120
1996	6.440	6,1	6.110	2,7	330
1997	6.470	0,5	6.460	5,7	10
1998	6.820	5,4	6.580	1,9	240
1999	6.870	0,7	6.640	0,9	230
2000	6.740	-1,9	7.310	10,1	-570
2001	7.250	7,6	7.190	-1,6	60
2002	7.350	1,4	7.540	4,9	-190
2003	7.990	8,7	7.950	5,4	40
2004	8.620	7,9	8.250	3,8	370

% = percentage change against previous year

Thus, where does that surplus come from? A not to be underestimated part is certainly resulting from measures combined with the evidently higher incomes of the **smallholders** due to the higher natural rubber prices.

Henceforth, they are in a position to invest money in actions and acquisitions in order to increase the output namely by:

- regular fertilization of plantations
- application of stimulants to prolong the latex flow after tapping
- double tapping: the tree is tapped upwards and downwards at the same time
- mounting of "Rain Guards" to the tree to protect the latex from wetness.

These measures were commonly practiced on plantations, merely the "double tapping" has caught our eye only in the last two years. How this would influence the long-term yield of the tree could be answered by no one in particular. Maybe, this works like with a blood donor from whom blood is regularly "tapped". His body produces more blood. In any case, a production increase by these means can be achieved only once. In the following years the yield may be kept at a high level, but not remarkably increased anymore.

On the consumer side we expect for this and next year a further increase of the worldwide demand. The GDP figures published by the **IMF** indicate in the most important economic regions more or less a healthy growth which, however, is risky due to the skyrocketing energy prices.

Country	Real GDP		Consumer Prices	
	2005	2006	2005	2006
EU (25)	1,7	2,2		
Germany	0,8	1,9	1,5	1,2
China	8,5	8,0	3,0	2,5
India	6,7	6,4	4,0	3,6
Japan	0,8	1,9	-0,2	0,0
Russia	6,0	5,5	11,8	9,7
USA	3,6	3,6	2,7	2,4

Source: IMF      Update: 10.06.05

Moreover, the worldwide sales of **commercial vehicles** has acceded enormously, namely in 2003 by 6% and in 2004 by 7%. Even for this and next year strong growth rates are expected. As generally known, tyres for commercial vehicles will be mostly made from natural rubber. It is estimated that 60 to 65% of the NR world production goes in to heavyload tyres. Included in this are earthmoving and mine vehicles where there have been considerable delivery bottlenecks because the production capacities for tires are not sufficient anymore.

The biggest NR-consumer of the world, the PR of **China**, had consumed 1,63 mio t natural rubber last year (vide NR Statistics on our Homepage). In the first 5 months of this year the imports rose by 25.424 t (+4,6%) compared with the same period last year at 535.262 t. At the same time



the NR stocks of the Shanghai Futures Exchange receded to 40.550 end Mai (on 7<sup>th</sup> July even down to 22.120 t). End 2004 they still stood at 91.094 t and End of August last year even at 232.300 t. Also from the biggest Chinese NR cultivation area, on the island of Hainan, production losses due to extreme drought were reported, which had not been experienced in the past 50 years. According to the figures at hand, the consumption in the first five months should have been 765.000 t. Extrapolated over the year it would be 1.84 mio. t an increase of almost 13% compared to the previous year and considerably over the growth rate of the GDP of 8,5%.

Contrary to natural rubber, the imports of synthetic rubber in China, during the first 5 months, have gone down by 31.128 t (-6,8%) to 428.437 t. A part of this decline is certainly replacment of SR in favour of NR due to price reasons. The own-production of SR was 371.000 t in the first 3 months and is practically unchanged compared to the previous year.

The development of the **crude oil** prices has also a growing influence on the trend of the natural rubber market. The vigorous upward motion is partly responsible that the NR prices were driven up. Even if the commutability from SR to NR has their limits and often cannot be immediately implemented, such a factor does have a strong psychological effect. Admittedly, the oil price boom is a double-edged sword. Because, in the long run, the high oil price is a burden for the world economy, which can lead to inflation and finally recession. The forecasts of the



IMF for the GDP and the Consumer Prices are still rather reliant, but as mentioned, they can also topple.

According to experts of the London Market Research Institute "**Economist Intelligence Unit**" (EIU) there are primary indications for a rebound on the commodity markets after the strong price gains on the commodities in the past months. The cooling down of the world economy and an enhancement of supplies will make prices for industry metals and oil fall in 2006 and 2007. For crude oil price drops by 8% in 2006 and 16% in 2007 are forecasted after the increases by 34,2% in 2004 and 31,6% in 2005. But, it is admitted that this forecast is "flawed with great precariousness" since the few disposable capacities of the crude oil output and refineries are making the market interference-prone.

For **natural rubber** the fundamental factors are somewhat different. Here, the supply cannot be extended at short notice, as already explained. That is why we are of the opinion that in this and next year the natural rubber balance will become rather evened out if not actually be at a deficit. The prices will develop accordingly because not only the product **natural rubber has a high elasticity – but also its prices.**

Wz/ph