NATURAL RUBBER

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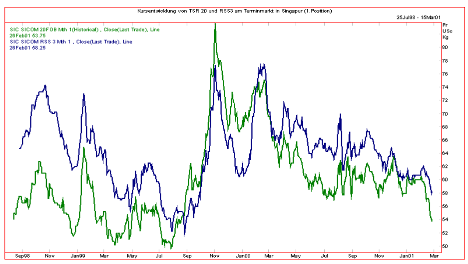
In the past the Chinese New Year celebration that often coincides with the beginning of the Wintering Season was repeatedly responsible for a change of the trend in the natural rubber market. This year celebrations for the New Year of the Snake began very early from 23rd to 25th January – a month before the Wintering Season starts. No trend change occurred. After the natural rubber market had listlessly stepped sideways in January, prices continued their downward movement of the last year since the beginning of this month.

The culprit of the weak tendency in the first instance was **Indonesia**. On the one hand because of the weak Rupiah (IDR) – its value dropped from 9,300 it's highest level this year on 17.1. to 9,905 IDR/USD on 26.2. by 6.5%. And on the other hand, however, also due to the weakening economy in the USA the main buyer of SIR 20. The prices for TSR 20 at the Singapore Commodity Exchange (SICOM) dropped by 6.75 USc per kg (-11.2%) in February. Whereas the quotations for RSS 3 despite a decline by 3.25 USc per kg (-5.3%) did fairly well which was due to the stable condition of the currency in the producing country **Thailand**.

SICOM TSR 20 (green)and RSS3 (blue) (1.Position) as per 26.2.01



After the Thai Baht (THB) had been traded at 43.70 on 2.1. the value rose to 42.96 THB/USD (+1.7%) on 26.2. contrary to the IDR. The political and economical development in both these biggest producing countries (almost 60% of the world production) is a key question anyway for the further development of the natural rubber market. Indonesia with its weak government and absolutely unstable economy as well as the continuous riots going on in the country will have to go on living with a soft currency unless fundamental changes take place.

IDR (blue) and THB (red) against the USD (inverted scale) as per 26.2.01

Note: The Indonesian Rupiah had dropped in January 98 to the lowest value of 15,250 IDR per 1 USD after outbreak of the economical crisis in September 97.

In **Thailand** a new parliament has been elected on the 10. January this year. The (social democratic?) Thai Rak Thai party won the election by 254 seats from 500. The Thai Rubber Industry expects the new government to support the small holders just like their predecessors did. After all almost 800.000 families are dependant on the natural rubber production. At the beginning of November the previous coalition had increased the interventions price by 1.50 to 24 Baht per kg for Unsmoked Sheets (USS). With the absolute majority of the new government party political stability can be expected. And this country is economically better off than Indonesia is in any case.

In **Malaysia**, (still) the third biggest producing country, production had dropped drastically last year by around 20% to 615.769 tons. This is accelerating the persistent trend of a permanent decrease of the natural rubber production since 1988. Malaysia is on its way to becoming an industrialized nation that is pushing its agricultural economy into the background. In the course of this development the country's own natural rubber and latex demand rose to 347.251 tons in the year 2000. The prediction for the present year is 400.000 and it can already be foreseen when Malaysia will become a net-importing country.

For comparison, given below are a few figures of the three countries that together cover about 70% of the world production:

1999	**Indonesia**	**Thailand**	**Malaysia**
BIP/head (USD)	680	2,032	3,480
Growth rate BIP (real, in %)	0.2	4.2	5.8
Industry production (change real in %)	1.7	11.8	9.1
Inflation rate (in %)	20.5	0.3	2.7
Natural Rubber Production (1.000 to)	1,600	2,266	769

Equivalent to 1 USD	**IDR**	**THB**	**MYR**
Prior to currency crisis 1997	2,500	25.00	2.50
On 26. Februar 2001	9,905	42.96	3.80
Devaluation in %	74.8	41.8	34.2

Discussions between the three big producing countries are being held among Ministers to undertake price supporting measures. In December, senior officials in Indonesia had already gone into prediscussions and laid down guidelines that still have to be approved by the Ministers. These guidelines among others are the introduction of a minimum export price, the settlement of long-term sales and the installation of a Bufferstock. This meeting with the participation of all three ministers is being prepared at the moment and is scheduled for end March.

As already mentioned earlier the main reason for the present weakness of the market is a slowdown in the economy in the **USA**. The capacity utilization of the whole US industry sank with 80.2% in January to the lowest level since August 1972. In the automotive industry, one expects a turnover collapse from 17.6 mio vehicles in 2000 to 16 - 16.5 mio vehicles in 2001. After notification about production stops and massive retrenchments in the automotive industry, Goodyear also has meanwhile announced that they are planning on cutting down 7,200 jobs – about 7% of their employees. Besides a decline in turnovers, increased production costs partly because of the higher prices for crude oil based raw materials were given as an argumentation. The other big tyre manufacturers are likewise affected. From the purchasing offices in Singapore we hear that they are overbought and will not be in the market for the coming months.

In **Japan** a further bearish factor has been built up at the Tokyo Commodity Exchange (TOCOM). After vehement speculative buying by deep pocketed outsiders in the second half of last year, big amounts of physicals (RSS 3) have been tendered against these future contracts. As a result the stocks have piled up to almost 80.000 tons – the highest level since 16 years. These quantities are now pressuring on the market and are being offered at prices far below market levels at origin (Thailand). According to reports a part of these stocks are going to be sold to China.

From **China** we are getting to hear of breathtaking figures lately. According to China's General Administration of Customs (CGAC) the net imports of natural rubber (NR) had doubled last year. Contrary to that the synthetic rubber (SR) amount decreased by 29.2%. We compared these figures with the IRSG-Statistic and come up to the following results:

China	IRSG						CGAC	
NR	**Consumption**	**%**	**Production**	**%**	**Net-Imports**	**%**	**Net-Imports**	**%**
2000	1.142.000		461.000		715.300		851.164	
1999	852.000		460.000		401.800		425.839	
Change	290.000	34,0	1.000	0,2	313.500	78,0	425.325	99,9
SR								
2000	1.410.000		796.400		691.900		429.503	
1999	1.260.000		679.300		628.600		606.256	
Change	150.000	11,9	117.100	17,2	63.300	10,1	-176.753	-29,2

IRSG: Year 2000 from October 1999 to September 2000

According to the IRSG-Statistic the consumption of natural rubber has in fact leaped up by 34%. Since the own production is practically unchanged, imports must be enormously increased in order to cover the higher demand. Even though there is still a gap between the net import figures of RSG and CGAC by 135.864 tons this is expected to be closed when the IRSG Statistic also cover the period of the 4th quarter of 2000. The consumption of synthetic rubber has also risen but not to the same extent as NR. Since the production of SR had been increased in the country as well, the additional requirement for import materials was less. In any case the net import figures for SR between IRSG and CGAC are significantly different. We presume that also in this case the IRSG Statistic and CGAC figures will come closer together. It can be in any case ascertained that the whole consumption of rubber in China has enormously risen and at the same time a transfer in favour of natural rubber has taken place. This development is obviously on account of the price differential between NR and SR which is depending on the crude oil price development.

After its highest price level of 37.50 USD/barrel in September 2000 the price for **crude oil** dropped fairly but still lies at a high level with a present price around 26.00 USD, taking into account the average price of the 90's around 18.00 USD.

INRO sold further quantities from the bufferstock at the end of January even if they were presumed to be smaller in tonnage. Offers became uninteresting due to the decreasing market prices. From the original 138.000 tons 75. to 85.000 tons should be sold by now. The remaining quantity of 60.000 tons must be disposed of till latest June. Approximately 20.000 tons are still stocked in Asia. The remaining quantities are distributed in Europe and the USA.

In the producing countries there are complaints about the **lowest price level for 30 years** and one is inclined to say that the market now cannot drop any further. But the past weeks have taught us a lesson and as can be seen on the SICOM price chart the quotations in USD during Juli/August 1999 were still a bit lower. The Wintering Season is now in front of us, when the production will be decreased by up to 40%. Perhaps the market will induce a trend change. This would be deserving for the victimized small farmers and plantation owners.
In the past months reports of the London **Economic Intelligence Unit (EIU)** showed up repeatedly in the press with forecasts for a steep price rise for natural rubber by 70%. *Reasons*: a sharp increase in the consumption of NR among others in East Europe by 22% and China by 20% with a stagnant production and fast diminishing stocks. For the 12-month period from October 1999 to September 2000 the **IRSG**-Statistic indicates a world production of 6,900,000 tons compared to a consumption of 7,250,000 tons. As a consequence the worldwide stocks would be reduced by 350,000 tons to 1,850,000 tons. These figures support the bull market theory of the EIU. However, the rubber market will presumably continue to snake along its way in the Year of the Snake.

Hamburg, 26.02.2001
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