

NATURAL RUBBER

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Last year at the end of November/ beginning December the international Rubber Market had reached its lowest price level for the past 30 years. The Singapore Commodity Market (SICOM) quoted for STR 20 45.50 and for RSS 3 46.00 UScents per kg. Since then an unexpected strong bull market has developed which went to extents undreamt of. The respective SICOM quotations stand today at 84,75 and 85,75 UScents respectively and thus by 86% higher.

What are the reasons for this tremendous price increase?



Due to the price drops many small holders were forced to draw more latex out of the trees in order to nourish their families.

In the countries of origin there is talk of over tapping of trees which decreases the long term yield. As a further consequence of the continued slump fields were not fertilized any more which reduced the yields additionally. On the other hand Plantations – particular in Vietnam – that produced with heavy losses in the last months of the previous year - i.e.

during peak season - cut down their production drastically.

Also at the end of last year the two largest producing countries Thailand and Indonesia together with Malaysia which cover altogether 62,5% of world production announced measures for a price stabilization: Reduction of the production by 4% and the exports by 10%. The psychological effect alone caused a turn around of the market.

Due to the unusual long drought (El Niño) with high temperatures (35-42°C) from mid January to mid June the Wintering Season (February to April) was extremely prolonged this year and induced an acute shortage of raw material. As a result prices went up incessantly. This market development erupted in a financial crisis for a number of - even well known - producers in Thailand because they now had to buy expensive raw material for sales contracts made earlier at much lower prices. On top of this, delivery agreements were not fulfilled by smallholders and intermediaries. Due to the rising market they began to hoard raw materials. On account of this situation some exporters were unable to fulfil their commitments which in turn compelled buyers – dealers as well as the big tyre manufacturers – to cover in the market in order to secure their requirements.

That led to strong additional demand and caused erratic price increases. The whole situation in Thailand is pronounced uncertain and hangs over the rubber market like a sword of Damocles.

This market development cannot be gathered from the Statistics of the International Rubber Study Group (IRSG). According to their statistics, due to the deficit of 590.000 to in 2000 the market should have risen strongly either in this or the following year - but on the contrary prices dropped further.

Year	1999	2000	2001
Production	6.810.000	6.740.000	7.170.000
Consumption	6.660.000	7.330.000	7.030.000
Difference	150.000	-590.000	140.000

When viewing the country statistic below it is remarkable to observe that Malaysia as a producer has dropped from the 3rd to the 4th rank in 2000 already and in 2001 China climbed up to the 1st rank of the consumer chart pushing the USA down to rank 2.

A further factor for the firm rubber market has been a weak US\$ helping the currencies of the Indonesian Rupiah (IDR) to rise by nearly 18% and the Thai Baht (THB) by a good 7%. However, also the EURO went firm today at 0,975 US\$ recovering from its lowest level this year on 01.02. at 0,86 US\$ by 13,5%. This currency increase has softened in Euroland a little bit the sharp price increase of the international rubber market.



The big question is of course, how will it go on? A fact is that the production was considerably lower in the first half year of 2002 compared with the first half of 2001. Exact figures are not available yet. We presume between 10 to 20%. One has to speak currently from an acute shortage. Although in the 2nd half of this year the production will considerably increase seasonally, it cannot catch up with the decline of the first half year. We therefore expect further a steady to firm price development within the next three months. However, when the peak production takes place during the last quarter of this year, prices could start to drop again. It's only left to be asked, how strongly they have risen till then. In the countries of origin there is talk of 1US\$.