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NATURAL RUBBER

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Summary

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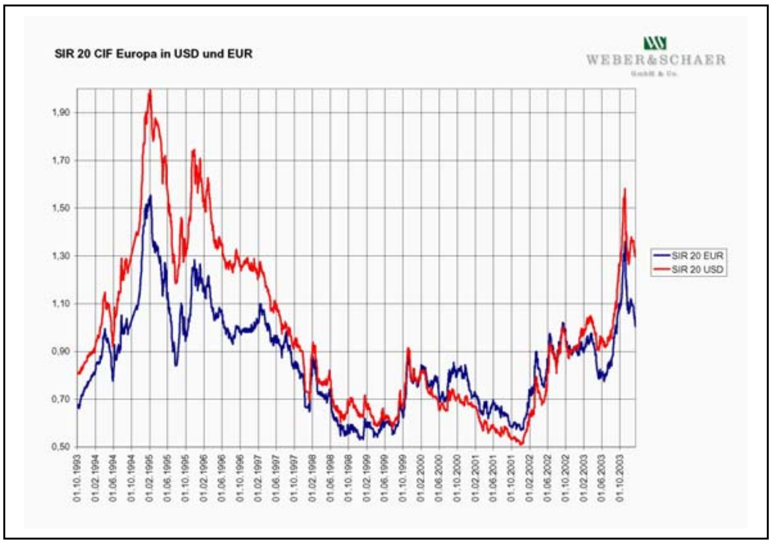
Natural Rubber Market - Quo Vadis?

The **Natural Rubber bull market** triggered off in 2002 continued vehemently last year. Remember the price development: End 2001 the prices for RSS 3 and SIR 20 had dropped to almost 0,45 US$ per kg FOB, the lowest level for over 30 years. End 2002 they climbed up to 0,90 US$ and almost doubled themselves. Last year with the highest level of 1,48 US$ on 03.11. the market prices had trebled. Towards the end of the year, after one of the heaviest collapses at the Singapore Commodity Exchange (SICOM) within a day (10.11. – 0,14 US$) they finally came down to 1,25 US$.

With the firm **EURO,** the price rise got alleviated but was in no way cushioned. Early this year, with over 1,28 US$ the EURO reached a historical height. Currency experts are counting on an increase up to 1,40 US$. Once again we recall: During the DEM-bull market in 1995 prices in April converted in EUR had at one time already risen to 1,43 US$. So, this level is not so weird after all.

In 1994/95 the Rubber market had its last bullish period. The top prices at that time were at the beginning of 1995 nearly 2,00 US$ and 1,55 EUR compared with 1,35 US$ and 1,10 EUR end of 2003 CIF European basis ports.



The price development naturally always has something to do with the currency. Both bull runs are coinciding with distinct weak phases of the US-Dollar. This is clearly indicated by each of the lines running apart on the price chart.

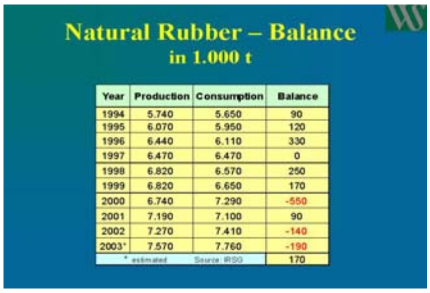
1 USD	IDR	THB	MYR
Vor der Währungskrise 1997	2.500	25,00	2,50
Tiefstkurse in 2001	11.750	45,75	3,80
Aktuelle Währungskurse	8.525	40,00	3,80

But also the currencies of the big producing countries play an important role. After the economy crisis of the **Tiger States** in 1997, especially the Indonesian Rupiah (IDR) but also the Thailand Baht (THB) have crashed and thus largely contributed to the price slump in the Rubber Market till end 2001. The Malaysian Ringgit (MYR) was, at the height of the currency crisis, tied up with the US$ at 3,80 MYR.

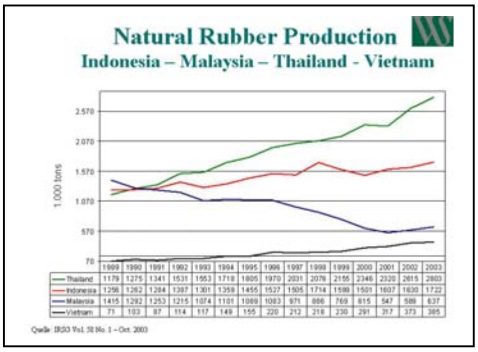
The ultimate determining factor for the price development at raw material markets however is

supply and demand

and the production and consumption quantities play an outstanding role. The figures of the past ten years showed a surplus in six of the years and dating back to the last four, one year was par and the other three had a shortfall. The deficit of 550.000 t in 2000 is a statistical error in our opinion, which most probably did not consider the liquidation of national and international buffer stocks accordingly. If there were indeed a deficit of this amount, the prices in this and the following year would have exploded. As a matter of fact – as already mentioned - they had fallen to the lowest level since 30 years.

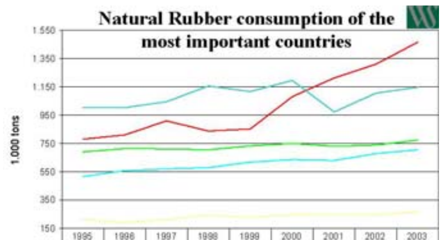

Natural Rubber – Balance
in 1.000 t

Year	Production	Consumption	Balance
1994	5.740	5.650	90
1995	6.070	5.950	120
1996	6.440	6.110	330
1997	6.470	6.470	0
1998	6.820	6.570	250
1999	6.820	6.650	170
2000	6.740	7.290	-550
2001	7.190	7.100	90
2002	7.270	7.410	-140
2003*	7.570	7.760	-190
* estimated	Source: IRSG		170



The world production has gone up by 1,8 mio in the past ten years. Thailand had a decisive role in the increase that pushed up the production during this period from 1,1 mio t to 2,8 mio t. Also those of Indonesia (+363.000 t) and Vietnam (+236.000 t) had respectable increases. Malaysia in comparison had a heavy drop from its top rank for decades before 1990 and is now only the 4th among the world rankings. In the past ten years the production shrunk by 464.000 t.

The world consumption with an increase of 2,1 mio t in the last ten years went up more strongly than the production by 300.000 t. The main factor for this is the rapidly increased consumption of the PR China, which alone in the last five years registered an increase from 614.000 t to 1,45 mio t. Since 2001 China is ranking the top among consumer countries and has pushed the USA down to 2nd position.



	1995	1996	1997	1998	1999	2000	2001	2002	2003
China	780	810	910	839	852	1080	1215	1310	1465
U.S.A.	1004	1002	1044	1157	1116	1195	974	1104	1147
Japan	692	715	713	707	734	752	729	738	774
India	517	558	572	580	619	638	632	679	707
Germany	212	193	214	247	226	250	246	247	268

INRA (International Natural Rubber Agreement) the last worldwide existing commodity agreement had been terminated in 1999 by the big producing countries Malaysia, Thailand and finally also from Indonesia. All stocks were sold till 2000. Even the **national reserve stocks** that were kept during the so-called "cold war" in the western world and certainly also in the east block countries, have, according to our knowledge, all been cleared away, which means that there are no reserves anymore that could be utilized in any emergency situation.

After Malaysia, Thailand and Indonesia had bid the INRA farewell, the three countries, with a world market share of over 65%, established in January 2002 their own "Rubber Cartel" called the **"International Tri-Partite"**. This cartel has naturally the job to force up the natural rubber prices after the historical lows experienced end 2001, by curbing the production by 4% and the exports by 10%. What would happen with the calculated balance of 6%, was not disclosed. But that in the end played no role, because, like a miracle - barely did the cartel come to life - prices shot up, what luck!

This change in trend was not made by the establishment of the Tri-Partite, but above all due to an **acute shortage of raw material**. The long-lasting bear market till end 2001 made plantations cut down their production as the market price fell below the production costs. Also many small-holders stopped tapping because they could not maintain their families with their meagre earnings. An old rule says that 1 kg natural rubber must bring in 2 kg of rice.

Furthermore, **climatic changes** in the past two years have influenced tapping tremendously. In the 1st half of 2002 an unusually long drought **(El Niño)** as well as in the 2nd half of 2003 long continuous rainfall **(La Niña)** led to enormous production loss. These natural incidents are not reflected in the IRSG-Statistik. We on our part are somewhat sceptical, because the quantities that could not be produced due to adverse climate conditions, cannot be caught up on.

Contrary to the above mentioned Tri-Partite agreement, the **Thai Government** decided mid last year to raise the natural rubber production by 400.000 t. For this purpose they made available 160.000 ha land with 90 mio seedlings. Since the natural rubber trees, however, need to grow for 6 years till they are ripe for tapping, this measure can take effect earliest in the year 2009. Even from **Malaysia** we hear that they too intend to boost production. During the high price phase

94/95 the production there was temporarily started up in full force because one could reactivate old fallow plantations. One spoke of 300.000 ha at that time. It is to be doubted whether larger areas with unused natural rubber trees are still available, considering the stormy economical development that took place there. Fact is, that in the past two years the production has increased once more. Sufficient production capacity is available. However, for the additional processing raw material has to be procured from other countries.

Even though it is assumed in this year that climatic influences will not adversely affect the crop and the farmers intend to take out everything that they can get from the trees, which in our opinion however, will still not be sufficient to cover the demand. In **China** the demand will go up further. That country joined the **World Trading Organisation** in December 2001 and as such will have to loosen the import restrictions. In this year already that for granting of import quotas for natural rubber (2003: 1,05 mio t) was lifted and it can be expected that in the near future the import duty of presently 20% will be reduced. The easier import conditions for China - with an own production of 470.000 t - will lend wings to their inquiries at the international markets. A view at the consumption of NR and SR together per head and year easily shows how big the inquiry potential in China still is. According to the latest figures from China's General Administration of Customs, their net imports of NR in 2003 amounted to 1,20 mio t. Adding the local production of 0,47 mio t the consumption must have been around 1,67 mio t, i.e. an increase of 27,5% compared with 2002.

Rubber Consumption (NR/SR)
kilogram per head and year

China	2,4
EU	8,7
USA	10,4
Japan	14,4

When in this year the economical situation in the **USA** – and following hopefully also in the **EU** – comes into pace, the demand for natural rubber here will also rise. Accordingly, we are awaiting a continuous and firm market development in this year and therefore cannot share the opinion of the **IRSG** who predicted a surplus of 150.000 t for 2004 in their latest forecast, whereby the production is estimated with 8,35 mio t (+7,9%) and the consumption with 8,20 mio t (+6,8%).

Gross Domestic Product
Consumer Prices
Changes in %

Country	GDP		Consumer Prices	
	2003	2004	2003	2004
China	8,2	7,7	0,8	1,5
USA	2,9	3,9	2,1	1,3
Japan	0,8	1,1	-0,3	-0,6
India	5,3	5,5	4,0	4,8
EU	1,0	1,8	1,3	0,6

The next events that could influence the market are the **Chinese New Year** beginning 21st. January as well as the **Wintering Season** during the months of February, March and April. The Chinese New Year's Festival (year of the monkey) is often the cause for a change of the trend in the Natural Rubber Market. With the present market condition it is however not possible to foresee which trend the market will take after the New Year's festival. During the Wintering Season tapping, as a rule, will be stopped for 6 weeks or reduced drastically. The raw material scarcity during this period often leads to a price increase for natural rubber.

Wz/ph