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NATURAL RUBBER

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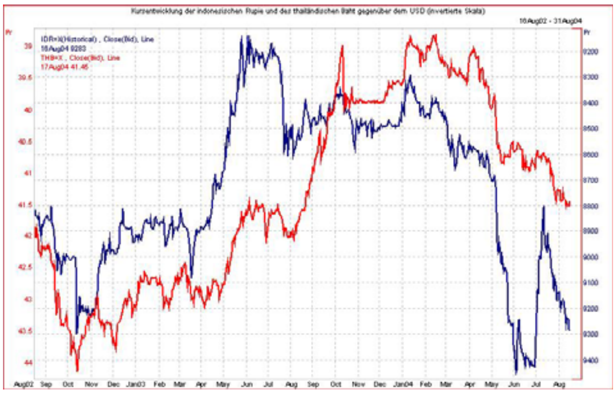
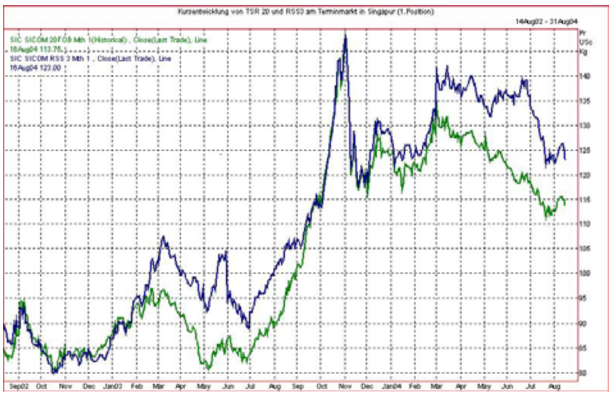
Prices on the international Rubber Market have declined around 0,30 US$ since their highest level beginning November 2003 with 1,48 US$. The drop has mainly resulted due to the fall of the exchange rate of the **Indonesian Rupiah** by 10.5% from 8,600 to almost 9,500 for 1 US$. Thus, considerable pressure has been applied on Indonesia's rubber price. After an interim high of 8,800 beginning July, the Rupiah has henceforth again dropped below 9,270.
The **Thai Baht** had collapsed by 5% in the period under observation, in fact from 39,50 to 41,50 for 1 US$. Moreover, the currency trend was by far not so erratic.





A further factor for the price drop however, is the seasonal depending increase of the natural rubber production. From July to September in **Thailand** is the high production phase. But it is reported that the yield, for the time being, is impaired by bad weather. A further downward tendency of prices is presently not discernable. Time and again there are price corrections induced by weather conditions. July/September is at the same time the period with the most days of rainfall.

In the land of the biggest Natural Rubber Producer of the world – in this year the 3-Mio-t margin will be exceeded – the political situation is very tense. The disturbances caused by radical muslims in Thailands South provinces Narathiwat, Yala and Pattani are not winding up. The night curfew is a severe handicap for the natural rubber production. Since the farmers can begin with tapping only at 7 am after sunrise instead of 2 am, the latex flow is lower and the quality poorer. One speaks of production losses to the extent of 100,000 t per year.

In **Indonesia,** the second largest natural rubber producer of the world, the production according to the IRSG will be in the vicinity of 2 mio tons this year. Since 65% of the plantations are located south of the equator, the 'Wintering Season' here begins half a year later, i.e. September/October. Even if the seasonal conditions south of the equator do not have such a strong influence on the crop as in the north, there is still a shortage of raw material to be calculated with.

Presumably, the high discount for SIR 10/20 compared to the same Types of other origins, will disappear, provided that the Rupiah does not weaken further. The Presidential Election, that did not achieve the required results at the last election on 5th July, will be repeated on 20th September.

The production quantities of **Malaysia** in the IRSG Rubber Statistical Bulletin –April issue – have been drastically revised. Compared to the March issue, quantities in the period 2000 to 2003 have been increased on average by 300,000 t per year. At the same time however, the local consumption quantities have been raised and the imports (mainly from Thailand) strongly reduced. But on balance there still remains a stiff plus. When inquiring at the IRSG, we were informed that this concerns an internal revision of the Malaysian Rubber Board (MRB), which had to be taken over by the IRSG. In detail the figures are as follows:

Year	Production	Consumption	Imports
2000	927,600 (+277,400)	365,000 (+20,200)	548,200 (-233,400)
2001	882,100 (+335,100)	400,000 (+69,600)	475,700 (-183,100)
2002	889,800 (+300,400)	407,900 (+81,600)	456,900 *
2003	985,600 (+288,000)	420,800 (+63,700)	436,200 *

* no older comparisions available

Consequently, Malaysia returned back to the third rank in the world production.

In **Vietnam,** the production after the 'Wintering Season' (February/March) is obviously running smoothly. Prices are easing off slightly since sufficient material seems to be available.

Sri Lanka has big problems with severe monsoon rains. The Pale Crepe, produced only in Sri Lanka, had reached a very high price level on account of the production losses. Even presently the prices are very firm, but are expected by the producers to be lower from October 2004 onwards.

The production in **India** in the period 2003/2004 has increased by 9.6% to 711,000 t. Since the consumption at the same time has gone up by 3.3% to 718,000 t, one hardly needs to import natural rubber. If this trend continues, India could become an exporting country. Smaller quantities are already coming into Europe.

The production of natural rubber in the Chinese Provinces Hainan and Yunnan are increasing according to seasonal conditions, but is by far not sufficient enough to cover the huge demand in **China.** In the first 7 months of this year with 693,883 t there were 3.3% more natural rubber (NR) imported compared with the same period of the previous year. With synthetic rubber (SR), the imports amounted to 654,445 t, an increase of 18.5%.The explanation for the high increase of SR are the lower prices compared to NR in the 4th quarter of 2003 and 1st quarter of 2004. But this situation has reversed in the meantime.

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Because of the rapid rise of the **crude oil** prices to almost 50 US$ per barrel, the SR prices have been enormously scaled up. In the market reports, offers of 1,55 US$ have been mentioned, while NR prices range between 1,15 und 1,30 US$ cif Chinese Port. With this price difference one will again fall back more strongly on NR, because the substitution is considered to be high in China as well as in the whole Asian area – contrary to the Western World and Japan.

The biggest consumption of NR by far, as is generally known, goes into truck tyres**.** As reported recently there is a boom, for sometime now, in the **truck branch.** In the first half year of 2004 the sales of commercial vehicles worldwide moved up by 8%, in Germany even by 15%. Even if this partly concerns replacements, the tyre production will surely increase and the NR demand will rise. It is assumed that the strong demand will further continue. In any case, the order books of the producers are brimmed to the end of the year.

After the decline of the **NR Market** we rather expect a price rise again, even if we are presently in the high production phase. Surely, the present sideward movement could last for sometime, but the next 'Wintering Season' is already in the heads of the market participants.

According to the IRSG the **world production** in 2003 with 8 mio tons has risen by 8.8% compared with the previous year. For 2004 and 2005 it predicted with 8.,9 and 9,6 mio tons increases of 11,7% and 6,9%. These enormous growths however are not at all in conformity with the statement in the press release of the International Rubber Forum on the 40th IRSG Assembly early April in Cameroon: *To summarize, one could say that there has been a global replanting deficit in the world in the last eight to ten years, the consequences of which should be felt until 2015.* Where is the surplus production going to come from? When there are no new plantations available – only with a higher yield by more intensive tapping? Or reactivation of fallow plantations? In the May-June Issue of the *Rubber Asia* Magazine could be read that Malaysia intends to scale down NR planting from 1,4 mio ha to 800,000 ha as part of the government's plan to reengineer the farm sector by planting edible items (Palm oil?) instead of rubber. What are we supposed to believe?
With **world consumption** of 8,1 mio tons (+2.5%) in 2004 and 8,5 mio tons (+4.2%) in 2005 resulted in yearly surpluses of 0,8 mio tons respectively 1,1 mio tons – sheer unbelievable!

Summing it up, we would like to say that we do not calculate with the highly increased world production. On the other hand however, we expect a stronger rise in demand in this and the coming years than predicted by the IRSG, especially from the USA and Japan where, according to the IMF, the real GDP will grow in this and the next year by 4.6% and 3.9% respectively 3.4% and 1.9%, the consumption of Natural Rubber will increase more than forecast. For the USA the IRSG even assumed a slight decline in NR consumption.

TA/Wz/ph