

NATURAL RUBBER

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The Natural Rubber market is still "bullish". Since the beginning of the year the quotations for RSS 3 have risen by around 93 US-cts while TSR 20 gained "only" 61 US-cts. Since beginning 2005 it is only 153 respectively 114 US-cts.

With such a rapid upward movement, one naturally asks oneself, what are the reasons for the enormous price rise and where can the market still go to? Like with all

raw materials the determinant also for Natural rubber, "Supply and Demand", is applicable for the price development.

When the Natural Rubber prices end of 2001, in the sequel of the Asian crisis, had fallen to the lowest level (under 50 US\$/kg) since over 30 years, plantation associations and small holders curbed the production and planting of new rubber trees or replanting ceased. Especially in Malaysia and Indonesia there has been a change from natural rubber to palm oil. Only after the prices had strongly gone up, Hevea Brasiliensis was being planted again. But it is known that a tree needs 6 to 7 years till it is ready for tapping. At the beginning the yield is low and only at the age of 15 the tree produces an acceptable amount of latex. Therefore, we will have to wait for a noteworthy production increase till 2010/2015. Nevertheless, according to IRSG Statistics the production in the years 2003 and 2004 have increased to around 9 respectively 8%. How is this possible?

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	6.872	0,8	6.646	1,0	226
2000	6.739	-1,9	7.315	10,1	-576
2001	7.261	7,7	7.223	-1,3	38
2002	7.345	1,2	7.546	4,5	-201
2003	7.992	8,8	7.967	5,6	25
2004	8.649	8,2	8.342	4,7	307
2005	8.682	0,4	8.742	4,8	-60
2006*	9.070	4,5	9.147	4,6	-77
2007*	9.490	4,6	9.550	4,4	-60
2008*	9.909	4,4	9.992	4,6	-83

% = percentage change against previous year
 * Forecast: according to IRSG 42nd Assembly in Kuala Lumpur 25.04.06

Because of the attractive prices small holders covering around 75% of the world production, as well as plantation associations have done everything to increase the yield namely by:

- Regular fertilization of the plantation
- Use of stimulants (Ethrel) for a longer latex flow
- "Double Tapping" – the bark of the tree is cut both at the top and bottom
- Mounting of "Rain Guards" on the bark to protect the latex from wetness

These measures have certainly largely contributed to the production increase in 2003 and 2004. However, they can only support this increase once. It, therefore, makes sense that in the Statistics for 2005 no further increases took place. For the following year the IRSG forecasted however, a production increase of around 4,5% yearly, whereby the strongest increases were in **Vietnam** with 6%, **India** with 5,4%, **Indonesia** with 5,1%, **China** with 5% and **Thailand** with 4,7%. We can track the production increases in the first three countries, but not for China and Thailand.

In **China** barely 500.000 t Natural Rubber is produced yearly – half of it on the island Hainan. Last year a typhoon ravaged 20% of the rubber plantations there which will result in a production loss of about 50.000 t yearly. A production increase at this point cannot be calculated with presently.

From **Thailand** we heard repeatedly in the past that a production increase there in the future is not to be expected. This country is increasingly developing into an industrial state and is suffering – similar to Malaysia – from lack of labourers. Furthermore, there is no more suitable land for the planting of rubber trees and the three southern provinces Narathivat, Yala and Patani are still being terrorized by Islamic Seceders. Mid 2004 the Thai government declared a state of emergency in these three provinces and proclaimed curfew at night, which caused tappers to work constrained or stop completely. In the first four months of this year, Thailand exported 985.888 t Natural Rubber – a decline of 1,7%.

Like with all raw materials, the Natural Rubber Market is being dominated by the continuously growing demand from the People's Republic of **China**. In the year 2005 the Natural Rubber imports added up to 1.406.824 t – an increase of 122.468 t = 9,5% compared to the previous year. In the first four months of this year the imports lay at 502.443 t and with that 12,3% higher than the reference period of the previous year. With Synthetic Rubber the increase in imports from January to April by 22,5% were even more distinct – the total amount lay at 421.796 t.

But not only China, also **India** poses with a GDP of 7% a rapid economical growth. Their own Natural Rubber production of 800.000 t by now will most probably be insufficient to provide their own domestic industry in the coming year. For this reason it can be calculated that additional imports will be necessary to cover the demand of the country.



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Also in the other commercial centres there is a boom in the economy. The latest forecasts for the actual GDPs of the IWF are as follows:

Country		Real GDP			Consumer Prices		
		2005	2006	2007	2005	2006	2007
China	IMF	8,5	9,5	9,0	3	2	2,2
Germany	IMF	0,8	1,3	1,0	1,7	1,8	2,5
India	IMF	6,7	7,3	7,0	4	4,8	4,9
Japan	IMF	0,8	2,8	2,1	-0,2	0,3	0,6
Russia	IMF	6	6	5,8	11,8	10,4	9,5
USA	IMF	3,6	3,4	3,3	2,7	3,2	2,5
Source:		IMF	Update:		10.06.05		

The demand for Natural Rubber will climb in conformable complexity like the worldwide economical development, as also predicted by the IRSG.

The interdependency of the price development from crude oil to Synthetic Rubber (SR) and hence to Natural Rubber (NR) is emphasized over and over again in the market. But from which



Synthetic Rubber are we talking about in this connection really? Styrene Butadiene Rubber (SBR) has in no way acceded the price rise, however it can anyway only substitute Natural Rubber to a narrow limit. It is, however, different with synthetic **Polyisopren (IR)** whose qualities are close to those of NR. But the availability of IR is downright limited – we guess

the worldwide production capacity to be not more than 500.000 t. Because of short supply and the strong demand the price for IR is regularly conformed to the price level of NK.

At the moment Polyisopren is very scarce. An interchange of NK with SK is obviously only partly possible and needs a longer adaption stage.

Whilst the upward trend for other raw materials and metals obviously tends to reach an end, an end for Natural Rubber is presently not foreseeable. Last week the market had a weak spell when the SICOM-prices while progressing eased by 10 US-cts/kg. Market spectators calculated that now the "Outsider" – speculator or also called investors – would reduce their positions which would relieve the market further. But the drop of the previous week was made up for on one day – that is, Pentecost Monday.

The prices contain plenty of speculation. As long as the demand stays so steady, it will surely remain that way. Should the supply inquiry situation however change, there will be a very conspicuous correction. The IRSG had forecast a deficit of 280.000 t till 2008. We believe that it will be even bigger.

Despite the long experience of up to 40 years of the active colleagues no one remembers such a distinctive bull market.

Wz/ph