

Natural Rubber Supply And Demand Forecast And Price Outlook

The Rubber Economist Ltd

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The Rubber Economist Ltd. expects that the trough of total world rubber consumption may not hit bottom until the end of 2009. This means the decline this year, which is forecast at -9.6 percent, will be even worse than last year and the worst since 1942. Rubber forecasts have been scaled down steadily since the second half of last year. A fall off in 2009 is expected for most countries.

However, the sharp decline globally depends significantly on the performance of China, which is expected to show a recovery in the second half of this year to show a positive growth by the end of the year. However, positive growth rates in world rubber consumption of 8.8 percent and 5.1 percent are expected for 2010 and 2011, respectively.

Despite a return of a sharp growth rate, the average annual growth rate for 2009-2011 will only reach 1.0 percent, and much of the growth will mainly be in Asia/Pacific. This means rubber consumption may only rise to 22.97 million metric tons in 2011, which is lower than that of 23.04 million metric tons in 2007. Consumption of natural rubber (NR) is expected to show a sharper increase than for synthetic rubber (SR), i.e., an annual growth rate of 1.1 percent and 0.9 percent, respectively. The relatively lower price of NR when compared with SR helped to increase NR shares last year and is expected to do so again this year before the trend reverses in 2010 and 2011.

Hence the world percentage of SR is forecast to decline only marginally to 56.2 percent by 2011 as compared to 56.3 percent in 2008. The increasing SR shares in Europe will balance out the decline in North America, leaving the world share relatively stable.

Despite a slowdown in demand, NR output is expected to continue to increase by an average of 1.1 percent over the next three year period. The growth rate, particularly in major producing countries, may be a lot lower than during recent years; however, the relatively fast increase in production in Indonesia means it will move to a closer position to overtake Thailand as the number one producing country.

The continued increase in production in India will also mean it may overtake Malaysia to become the third largest NR producer by 2011. Despite weaker prices than the first half of 2008, many smaller producing countries may find the price levels profitable enough with their lower cost of production. The steady rise in rubber prices since 2002 has resulted in an increase in new planting during this period in many smaller producing countries, which have lower price elasticity than the major producing countries. Unlike NR, many SR consumers are also producers, allowing them some flexibility. Hence, SR output is forecast to show a marginal decline by only -0.2 percent/year. Furthermore, there may be an increase of SR output in Asia in relation to other regions.

The continued increase in rubber output in China means it may overtake Thailand as the largest rubber, NR plus SR, supplier. The world rubber economy, i.e., the total combined NR and SR consumption and production, has and will be increasingly dominated by Asian countries. In 2008, Asian countries comprised 7 of the 10 largest rubber economies. Furthermore, by 2011 Indonesia will overtake Japan for fourth place behind China, the USA and Thailand. A sharp slowdown in demand in relation to supply means NR stocks may continue to increase during the next few years. Compared to NR, SR stocks have and will continue to rise steadily, but not so sharply. Our forecasts indicate that the SR stocks to consumption ratio, which may increase relatively sharply in 2009 before a fall, will leave only a slight increase for the following three year period. This is in contrast to the global consumption to stock ratio for NR, which is expected to increase from less than three months to four months, a return to the level reached in 2000. Despite the rising stocks both in absolute terms and relative to consumption, NR prices may increase during 2009-2011.

The important assumption is that the exchange rate of US\$ to SDR will gradually weaken during this period. The change in the value of the U.S. dollar can influence both consumers and producers. In general, a weaker U.S. dollar results in higher commodity prices and vice versa. This certainly is true for NR, and in particular in 2008 when the U.S. dollar weakened in July, whereas previously it had been appreciating sharply against many currencies. So far in 2009, US\$ has been fluctuating around a gradual depreciation trend, hence prices have been relatively stable, but show a gradual rise from the trough reached last December.

In conclusion, after six years of growth, rubber consumption declined in 2008 and is expected to fall further this year. Even though a rise is expected in 2010 and 2011, growth may only reach 1 percent a year. Despite a slowdown in demand, NR output is expected to continue to increase. SR suppliers can simply turn off the tap as demand slows and hence there will be a gradual rise in stocks. Despite declining sharply in the second half, NR prices rose to a record high in 2008. Rising stocks will have a negative impact on NR prices, but they may not decline as much if the U.S. dollar is weakened.

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