

Balanced outlook for NR in 2013 and beyond

The International Rubber Study Group (IRSG) has in its latest report analyzed the rubber industry outlook, and this appears to indicate a balanced outlook in terms of demand/ supply equation, during the forecast period.

Performance in 2012

The world total rubber consumption contracted in Q4 2012, measured by the moving annual total (MAT) on a YOY basis, decreasing by a monthly rolling average of 0.5%. As a result, the world total rubber consumption was down by 0.2% in 2012.

The world total demand for natural rubber (NR) continued to decrease in Q4 2012, falling by a monthly rolling average 1.2% (YOY), measured by the MAT. For 2012, the NR consumption was down by 0.5% at 10.9 million tonnes. The synthetic rubber (SR) consumption fared relatively better as compared to that of the NR consumption, holding steady in 2012 at 14.9 million tonnes.

The world total rubber supply increased to 26.5 million tonnes in 2012, with the NR accounting for 11.4 million tonnes and the SR 15.1 million tonnes. The result was a 459,000 tonnes NR surplus and 149,000 tonnes SR surplus in 2012.

The world NR exports volume contracted in Q4 2012 to 7.5 million tonnes (on a MAT basis), that is reflected in a slowdown of exports growth in 2012. The world total SR exports further contracted in Q4 2012, decreasing by a monthly rolling average 1.6% (YOY), measured by the MAT. This is a deceleration over Q3 2012, a sign that the worst of the current period of contraction may be over. Nevertheless, the world total SR exports decreased by 2.1% in 2012.

Following a sharp decline of around 30% in 2012, the NR physical prices fell below last year's average price level during January-February 2013. The current trend in NR prices is a reflection of intensification of European debt crisis along with slower demand growth in emerging market economies, especially in China plus reports of Thai government's decision of not extending their rubber buying programme beyond March 2013.

The price of Brent light crude oil has recently seen a rally, increasing by 6.5% in December 2012-February 2013. This triggered an immediate bounce back in the butadiene price in Asia, increasing from January 2013 onwards. The recovery of the butadiene prices in Europe and the US has lagged by two months, coming only in March 2013. This delayed movement fed through to their respective downstream contract prices of SBR and BR, which remained stagnant in January-February 2013, before an up-tick as seen in Europe in March 2013.

On aggregate, the trend of the volume of exports of selected latex general rubber goods from the five leading countries appears to continue to expand in Q4 2012/Q1 2013. Global NR latex consumption increased by 5.2% (YOY), reaching 1.4 million tonnes in 2012, driven by a resurgent demand in the Glove Sector.

Economic indicators

Economic indicators that have proven to be good leading indicators of economic activity in the major industrial and emerging economies have also been discussed. Since economic activity drives total rubber consumption, IRSG has revived this once again. Indicators are discussed with respect to the three major economic regions: The

Americas, Europe and Asia. Recent economic development

Two broad topics have been in the focus of economic policy circles: The political impasse in the US and the ongoing euro area sovereign debt crisis. A possible slowdown of the Chinese economy has not gained the same prominence in the media, although China's effect on the global economy has similar weight. The Japanese economy is anticipated to grow thanks to further quantitative easing as well as a massive expansion of government spending.

The USA

After having experienced a severe economic downturn starting in early 2008, the US economy switched from recession status to no-recession status in June 2009 (National Bureau of Economic Research). Since then the economy has been on a stable trajectory and unemployment has been continuously falling. The US economy has stood strong against the possibilities of a "Fiscal Cliff", a "Debt Ceiling Crisis" and, more recently, the so-called "Sequester Cuts". In fact, the St Louis Federal Reserve Bank publishes an index which estimates the probability that the US economy might swing into recession. This index has gone down to almost zero percent in the last 6 months. Last summer the US PMI, was just hovering above the critical 50 mark, which is the threshold that half of all purchasing managers interviewed report that conditions are better and not worse. This is somewhat a proxy for an expansion (>50) and a recession (<50). At the beginning of 2013, this index has gone up to almost 55 points. Yet, there are fears that negotiations between the two major political parties will fail and adversely affect the economy.

Europe

Europe had a similar drop in industrial production during the 2008 Financial Crisis. However, economic output has not yet reached pre-crisis levels thanks to the ongoing sovereign debt crisis. In fact, crisis countries such as Italy have seen decreasing industrial output, when their respective governments applied strict austerity measures in early 2011. Since the ECB's president Mario Draghi pledged to do "whatever it takes" to preserve the euro, bond markets have calmed down and government bond yields of crisis countries have subsided considerably. Successful negotiations and subsequent agreements among euro area countries have pointed to a resolution that was to hold in the medium run. However, Italian bond market instability re-emerged after the recent Italian elections and the election's unclear outcome. In the past bond markets of individual euro area crisis countries have proven to be highly contagious towards other euro area bond markets and this currently negative development might further depress most euro area economies.

Economic outlook

The continued economic uncertainty in the developed economies and possible harder landing in China has led to the development of three scenarios in the latest outlook of the global rubber industry. The three scenarios are based on different possible world economic outlooks for 2013-2022.

IMF scenario

This is work developed from using the comprehensive world economic outlook of the International Monetary Fund. The data were extracted from the latest World Economic Outlook (WEO), which was released in October 2012.

Positive scenario

This is work developed from using data extracted from the September 2011 WEO. A positive Scenario was developed on the evidence of firm actions being taken in Europe and the US: the European Central Bank (ECB) launched the Outright Monetary Transactions (OMT) in September and in the US Plan "B" is being discussed to avoid its economy going over

the fiscal cliff. A soft landing has been assumed following actions taken post leadership change in China. The reason for choosing the September 2011 WEO is that it readily offered data that reflected reason behind the positive Scenario. Negative scenario This is work developed using partial data from the October 2012 WEO and the assumption that the world economic growth rate will decelerate in 2013, before accelerating at an equally increasing rate up to 2017. A negative scenario was chosen on the basis of the continued economic uncertainty in the outlook of the developed economies, a factor that was specifically raised in the October 2012 WEO. In fact, the world economic forecast of the IMF was predicated on two crucial policy assumptions: European policy makers will adopt policies that generally ease financial conditions further in periphery economies US policymakers will prevent drastic automatic tax increases and spending cuts (the fiscal cliff) The IMF assumes that should both policy assumptions not be fully implemented, the world economic growth rate will be cut-back by 1.75% from its published outlook. Thus, in the negative Scenario, the world economic growth rate in 2013 will be 1.9%, and will rise to 2.6% in 2014. Latest outlook: There are three assumptions. The sharp recovery of total rubber in 2013-2014 is due to the build-up of pent-up demand from two sources: the stagnant growth of 2012 and remnant from the sharp fall in consumption during 2008- 2009. The average world total rubber consumption growth rate was 3.7% for 1961-2007, which came down to 2.3% for 2008-2012. The accelerating world economic growth rates will support faster growth in demand for rubber. The long maturity period of rubber trees (5-7 years) means that new natural rubber (NR) supply potential for the entire forecast period has largely been decided. As such, the NR supply potential (normal production) will continue to increase in 2013-2014. There is flexibility within the NR supply and it is expected to remain throughout the forecast period. The rubber tree is a perennial crop that is harvested throughout the year and its tapping intensity to some extent can be altered in both directions. Natural rubber supply/demand balance With the given world NR production and consumption forecast, the surplus 460,000 tonnes in 2012 is expected narrow down to 179,000 tonnes in 2013 and further 153,000 in 2014 (Table 01). Table 01: Natural rubber supply/demand balance, world ('000 tonnes) Conclusion Thus, the NR market will remain largely balanced in the forecast period (Reference: IRSG Report, January / March, 2013). dailymirror.lk