

IRCo – Rubber Market Watch: 28 January – 1 February 2013

The Movements of Global Stocks, Finance and Energy

Most Asian stocks remained in an uptrend during the week as Japanese equities gained on earnings on the back of a weaker yen, and a pickup in Chinese industrial profits highlighted the region's growth momentum. The Nikkei 225 Index closed higher at 11,191.34 on Friday, or up 3.07% from an earlier week while the Shanghai Composite Index also closed higher at 2,385.42 on the same day, or up 2.89% from an earlier week. The S&P/ASX 200 gained 0.9% in Australia to 4,921.10. Hong Kong's Hang Seng Index ended lower just a few points at 23,721.84 while South Korea's Kospi Index fell 0.2% to 1,957.79.

Major stock indexes in Europe were mixed during the week due mainly to the reports on the economic contraction in the U.S. and Spain in 4Q12, but better-than-expected U.S. employment and the improvement in the euro-zone manufacturing PMI in January capped losses. The Stoxx Europe 600 Index added 0.3% to close at 288.20, or it declined 0.5% on the week. The U.K.'s FTSE 100 Index closed 1.1% higher at 6,347.24 and gained 1% on the week. Germany's DAX 30 Index rose 0.7% to 7,833.39, but shed 0.3% on a weekly basis. And France's CAC 40 Index rallied 1.1% to 3,773.53, leaving it down 0.1% on the week.

The Dow Jones Moving Average stayed in an uptrend amid light volatility due mainly to the following reports during the week. The U.S. Federal Reserve (Fed) pledged to keep purchasing securities at the rate of \$85 billion a month and to hold its target interest rate near zero as long as unemployment remains above 6.5% and inflation remains no more than 2.5%. An increase in U.S. employment in January that supported the Dow on the back of the improvement on the U.S. manufacturing PMI in the same month, but the existing home sales last December fell. And the U.S. GDP growth rate contracted in 4Q12, and the U.S. jobless rate in January increased.

The Dow Jones Industrial Average advanced 149.21 points, or 1.1%, to 14,009.79 on Friday, climbing above 14,000 for the first time since 12 October 2007. The Standard & Poor's 500-stock Index rose 15.06 points, or 1%, to 1,513.17, a day after capping a 5% monthly gain, the biggest since October 2011. The Nasdaq Composite Index climbed 36.97 points, or 1.2%, to 3,179.10.

The euro strengthened against the dollar throughout the week as the European Central Bank (ECB)'s balance sheet contracted while the Fed said it would continue pumping money into the U.S. economy. In the meantime, the Japanese yen still continued weakening as traders bet that newly minted Prime Minister Shinzo Abe will be successful in implementing aggressive monetary easing in a bid to stimulate Japan's economy. The euro strengthened against the dollar and stayed at \$1.3639 per euro on Friday in New York, while the Japanese yen continued weakening against the dollar and stayed at ¥92.72 per dollar on the same day.

Crude oil futures remained on marginal uptrend during the week as investors worried over tight mid-Atlantic gasoline supply, and the dollar weakened against the euro. Light, sweet crude futures on the New York Mercantile Exchange (Nymex) for March delivery rose 28 cents to settle at \$97.77 a barrel on Friday, according to Dow Jones Newswires.

Rubber Markets

The benchmark rubber contract for July delivery on bellwether Tokyo rubber futures continued moving upwards during the week and settled higher at 323.50 yen/kg (350.79 US cents/kg) on Friday mainly supported by the consecutive rise in Japanese stocks and a weaker yen against the dollar during the week. It is noticeable that the daily trading volume at the day session on Friday broke a 20,000 lots level. This can be interpreted that market players are turning to hold longs in anticipation of a further rise of rubber futures during and after the coming Chinese Lunar New Year holiday.

In China, Shanghai rubber futures retreated on Monday before its most active contract for May delivery would rise consecutively from Tuesday to settle higher at 26,290 yuan/ton (\$4,219.90/ton) on Friday because Chinese buyers have to stockpile NR stocks as much as possible in anticipation of tighter NR supply as rubber trees are shedding their leaves until mid May, and Shanghai stocks climbed up steadily throughout the week.

On the physical front, NR prices in Asian rubber markets tracked rubber futures in the region, but NR prices in Thailand were hurt by a stronger Thai baht against the dollar. However, IRCO's DCP could stay above its 14-day moving average on Friday after staying beneath its 14-day moving average a week ago. That is a good sign for rubber smallholders.

IRCO's technical MACD still pulled up IRCO's Signal Line in positive territory on Friday while its RSI rebounded and stayed at 48.31% on the same day. A divergence in IRCO's technical charts has to be confirmed in the coming weeks whether they will continue to rise or not.

Combining an improvement in IRCO's technical charts with some supportive fundamental factors at present, i.e. an improvement in global stock markets, a weaker yen against the dollar, firm crude oil futures on Nymex, and an improvement in investor and consumer confidence confirmed by an improvement in manufacturing PMI in many leading countries, and a 23.5% jump in net profit of Toyota Motor Corp. in 4Q12 should mean something for the rubber market.

If IRCO's technical charts could diverge from their current downtrend in the coming weeks on the back of an improvement in rubber market fundamentals, please be prepared for a \$4.0/kg level in the coming months as Tokyo and Shanghai rubber futures had already climbed to \$3.5/kg and \$4.2/kg on Friday.