Global natural rubber business outlook promising

The latest report of the International Rubber Study Group (IRSG) says that the world total rubber consumption contracted in the in the 3rd quarter of 2012, decreasing to 25.7 million tonnes on a moving annual total (MAT) basis in September 2012, from 25.9 million tonnes on a MAT basis in June 2012.

The world total natural rubber (NR) consumption decreased in the same period in 2012 by 1.3% year-on-year (YOY) to 10.9 million tonnes in September 2012 on a MAT basis, while the world synthetic rubber (SR) consumption fell by 0.2% (YoY) to 14.8 million tonnes over the same period.

The world total rubber supply continued to increase, but at a decelerating rate, growing by 1.2% in September 2012, measured on a MAT basis. The world NR supply expanded to 11.3 million tonnes in September 2012 by 3.0%, measured at a MAT basis.

The result was the lengthening of the NR and SR markets in the twelve months to September 2012, with production outstripping consumption by 436,000 tonnes and by 206,000 tonnes on a MAT basis, respectively.

The world NR exports increased at a decelerating rate in the 3rd quarter of 2012, reaching 7.6 million tonnes on a MAT basis in September 2012. The world total SR exports, however, decreased in the same period, contracting by a monthly average 1.6%, measuring the MAT. It was the first quarter of negative growth since the fourth quarter 2009.

NR physical market prices fell by 20% between January and November 2012. Without significant changes in the weakening state of the global demand, the NR prices remained in the downward trajectory, irrespective of the upward correction seen during the September-October period. With reported increase in stockpiles in China, the implementation of the Agreed Export Tonnage Scheme (AETS) by the three major producers had little impact on prices in the 4th quarter under the overall ‘bearish’ NR market environment.

The continued economic uncertainty in the developed economies and possible hard-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 was developed 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.

Upside scenario

This was developed by using data extracted from the September 2011 WEO. An Upside 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 be-hind the Upside Scenario.

Downside scenario

This was 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 downside 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 Downside Scenario, the world economic growth rate in 2013 will be 1.9%, and will rise to 2.6% in 2014.

Assumptions

The expected 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. Thus, the NR market will remain largely balanced in the fore-cast period.

The forecasted development of the world rubber market under the three scenarios is summarized below.

Production of natural rubber

NR production is derived from forecasts of supply potential based on planting policies and prices: high prices lead to intensive tapping of the rubber trees and vice-versa.

The world NR production is now forecast to rise by 3.6% to 11.4 million tonnes in 2012; this figure ac-counts for 2011 year revised data and first 10 months data on production.

The world NR production is forecast to increase by 3.2% to 11.8 million tonnes in 2013 and by a further 5.8% to 12.5 million tonnes in 2014. A higher production growth for 2014 is driven by a higher share of the 2008 planting becoming available to be tapped in 2014. Asian region will continue to dominate in NR production (Table 2).

Natural rubber supply/demand balance

With the acceptable 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 3).

Short term outlook

NR will likely extend a bull market this year as monetary and fiscal stimulus from Japan to China and the U.S. will accelerate a global recovery and boost raw-material demand.

Futures in Tokyo, a global benchmark, will climb 14 percent to 344 yen a kilogram ($3,981 a metric ton) by March, according to the median estimate from seven analysts surveyed by Bloomberg. The threshold was crossed in the last week of December 2012 for the first time since May.

Call for unlimited monetary easing and a 2 percent inflation target by the new Prime Minister of Japan has sent the yen to a 28-month low against the dollar, helping exporters such as Toyota Motor Corp., boost sales overseas, leading to stronger demand for the commodity used in tyres.

Weaker Yen

The yen touched 86.64 per dollar, the weakest since Aug. 3, 2010, and traded at 86.41, extending last year’s loss to 12 percent. A weaker Japanese currency makes yen-based contracts cheaper for holders of other currencies.

Also, data shows that the world’s largest economy grew at a 3.1 percent annual rate last quarter. The International Monetary Fund expects a 3.6 percent global expansion in 2013, from 3.3 percent last year.

Biggest producers

Rubber production is expected to decline as the wintering season starts in February in Thailand, the world’s largest producer and exporter, slashing latex production. Output in Indonesia, the second-biggest grower, may drop for the first time in four years in 2013 as the country limits output and shipments in coordination with other producers.

Production may decline 8.9 percent to 2.77 million tons from an estimated 3.04 million tons this year, according to a reliable source. That would be the first fall since 2009, when output dropped 11 percent to 2.44 million tons.

Thailand, Indonesia and Malaysia, representing 67 percent of global supply, agreed in August to combat lower prices by limiting shipments and cutting down trees, paring 450,000 tons.

NR will extend the rally, boosted by Japan's stimulus measures, declining supplies during wintering seasons and export-cut measures. It will also draw support from better demand in China, the world's largest consumer, as the nation's economic growth is forecast to accelerate this year.

"As China's economy has been on a recovery trajectory, demand from the auto sector will also recover," says the Market Risk Advisory company.

Sri Lanka

Colombo Auction prices also showed signs of upward movements with Latex crepe 1X fetching the highest price of Rs 420/= per kg and RSS1 at Rs 410/= per kg in the first week of January, 2013. Sri Lanka's NR production in 2012, however, is expected to be lower than last year's production. The lower land productivity in RPC controlled plantations is a matter for concern. As some of the RPCs have missed their annual replanting targets of 3%, such companies should now adopt a higher rate of re-planting and introduce the newly developed clones which have the productivity capacity in the region of 3,500 kg/ha.

It is unlikely that Sri Lanka can achieve the IRSG's forecasted NR production of 161,000 mt in 2013 and 163,000 mt in 2014, as the production in 2012 is only expected to be about 152,000 mt, assuming that Sri Lanka's NR production values had been accurately presented by the IRSG.(Reference, IRSG Industry report, October – December,2012).(The writer can be contacted at treecrops@gmail.com)