

## **IRCo Rubber Market Watch (20 - 24 August 2012)**

By Yium Tavarolit It Doesn't Matter Whoever Tries to Distort Facts on the Ground Please note that the world largest natural rubber (NR) consumer, China, has consumed NR steadily in the first seven months of this year. China's National Bureau of Statistics said last Monday that China's tire production in July rose 5.5% compared with a year earlier to 78.97 million units. In the first seven months of the year, tire output totaled 499.54 million units, up 4.9% compared with January – July 2011. Meanwhile, China imported 990,000 tons of NR valued US\$3.42 billion during the first half of 2012, up 12.8% in volume but down 17.6% in value year on year, added China's Department of Customs. Again on Tuesday, the Department of Customs said China imported 174,030 tons of NR in July, up 33.2% from a year earlier and up 6.6% month on month. Furthermore, it added that NR imports in the first seven months rose 15.4% from a year earlier to 1.16 million tons. The said figures of imported NR were translated into an increase in tire production in China as being mentioned earlier. A steady growth in China's NR demand in the first seven months of this year is one of many reasons why the International Tripartite Rubber Council (ITRC) and International Rubber Consortium Limited (IRCo) late last week were confident and decided to cut back 300,000 tons of NR through the Agreed Export Tonnage Scheme (AETS) and of 150,000 tons of NR through the Supply Management Scheme (SMS) until NR prices will improve to a certain level that is acceptable by both producers and consumers. The Rubber Board, India, on Wednesday said the NR production-consumption mismatch is continuing in the country, and this in turn is increasing the country's imports. It estimates that NR production dropped 0.5% in the April – July period while NR consumption edged up 1.8%. In the said period, 238,700 tons were produced as against 240,000 tons in the same period of the last financial year. The accumulative figure of consumption is 330,250 tons as against 324,425 tons. The NR demand-supply gap is widening in the domestic trade of rubber as in April – July period there was an overall shortage of 91,550 tons, and the shortage in July was 17,000 tons. As a result, India has to import some NR from Southeast Asian countries for the rest of this year. In Thailand, new vehicle sales in the first seven months rose 46.2% to 738,868 units from a year earlier, said Toyota Motor Corp. on Tuesday. On Friday, the Federation of Thai Industries said vehicle production in July rose 44.5% on year to a record high of 212,727 units. These mean NR consumption for tires in Thailand has increased significantly in the first seven month of the year, and an increase is expected to continue. In addition, too much speculation on rubber futures worldwide has forced NR producing countries to find sustainable ways to safeguard their farmers in the long run. Development of a regional rubber market and establishment of national NR price stabilization funds and of an ASEAN Rubber Council within the next ten years' plan are targeted by the ITRC and IRCo and have been endorsed by the three governments. The Movements of Global Stocks, Finance and Energy Asian stocks fell on Friday amid concerns about an unclear move by the U.S. Federal Reserve (Fed) and Euro zone leaders even though the Fed's minutes could buoy markets on Thursday and the Greek Prime Minister met with the leaders of France and Germany on

Saturday in Paris. Japan's Nikkei 225 Index fell 107.36 to 9,070.76, or down 1.17%. China's Shanghai Stock Exchange Composite Index edged 20.97 lower to 2,092.10, or down 0.99%. Hong Kong Hang Seng Index was down 1.3% to 19,880.03. Korea's KOSPI Index retreated 1.2% to 1,919.8 while Australia's S&P/ASX 200 dropped 0.8% to 4,349.00. European stocks also fell for the first week on Friday since June as Greece's prime minister asked the leaders of Germany and France for a two-year reprieve from cutting government spending and Japan's trade deficit widened. However, a late session rebound pushed them into positive territory. The Stoxx Europe 600 Index rose 0.1% to close at 268.00. In Paris, the CAC 40 Index closed marginally higher at 3,433.21. Germany's DAX 30 Index gained 0.3% to 6,971.07. The U.K.'s FTSE 100 Index climbed 0.65 to end at 3,433, or up 0.02%. The Dow Jones Industrial Average banked its first triple-digit gain in three weeks on expectations that the Fed stands ready to bolster growth. The Dow added 100.51 points, or 0.8%, to 13,157.97, rising for the first time in the week. The Standard & Poor's 500-stock index rose 9.05 points, or 0.7%, to 1,411.13, and the Nasdaq Composite Index added 16.39 points, or 0.5%, to 3,069.79. Lingering pressure on a Greek spending cut by prominent Euro zone leaders still weighed on the euro to weaken against the U.S. dollar. The euro was at US\$1.2512 from US\$1.2564 late Thursday, according to EBS via CQG. Against the yen, the common currency was at Y98.45 from Y98.63. The dollar gained against the yen, rising to Y78.70 from Y78.50. Against the Swiss franc, the U.S. currency was at CHF0.9598 from CHF0.9559. The U.K. pound was at US\$1.5807 from US\$1.5862. October-delivery crude oil futures on the New York Mercantile Exchange settled down 12 cents, at US\$96.15 a barrel on Friday as investors were watching whether a brewing storm would pose a threat to key U.S. Gulf Coast oil production and refining operations, Dow Jones Newswires reported.

**Rubber Market** Weak rubber market sentiment and a move of the Thai government to provide an additional 15 billion baht budget for a domestic NR price support scheme and the announcement by ITRC and IRCo late last week to hold back 450,000 tons of NR led the rubber market to stay rangebound during the week. Nonetheless, IRCo's DCP, Tokyo rubber futures, Thai rubber futures, Malaysian and Indonesian physical rubber markets improved slightly on Friday, compared with an earlier Friday, except for Thai physical rubber markets as shown in the table below. In the meantime, Shanghai rubber futures stayed unchanged. On Friday, German Chancellor Angela Merkel in Berlin pledged to assist the Greek government to get out of its debt crisis while China's Premier Wen Jiabao addressed during his two-day visit to a southern province that China needs target measures to promote steady export growth for the rest of this year. Before that day, the Fed also gave a signal on Wednesday that it is ready to deliver another round of monetary stimulus fairly soon unless the economy improves considerably. IRCo's technical MACD and Signal Line improved significantly in negative territory on Friday as well as its RSI which rose from 20.07% on an earlier Friday to 26.47% on Friday. It seems that downside risk is likely to subside in the coming week because the ITRC and IRCo are trying to take market players on rubber futures back to market fundamentals, and global leaders are trying to resolve lingering global economic problems seriously.