

Commodity Spotlight Agricultural

Rubber: Gloomier demand outlook weighs on prices

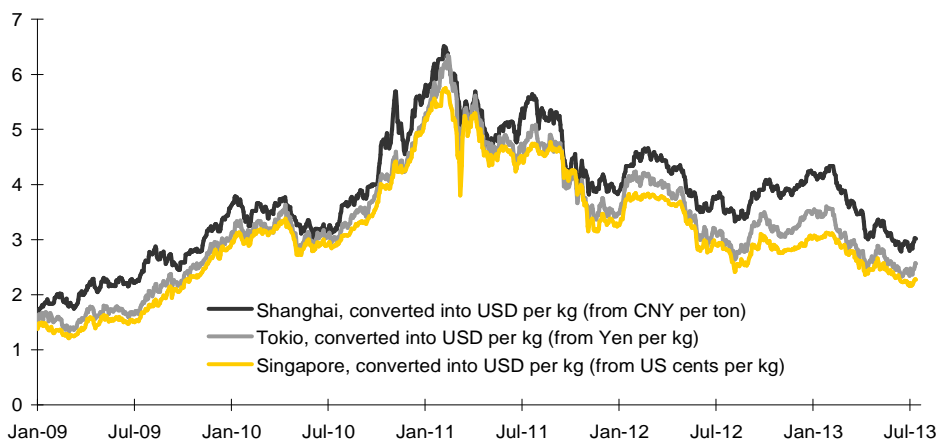
23/07/2013

Several years of supply surpluses on the global rubber market have pushed prices in Singapore down to their lowest level since autumn 2009. High prices in the years before had made it attractive to set up new plantations. After the long growth phase of rubber trees, this is now increasing supply. On the other hand, rubber demand is suffering under the uncertainty about the global economy. The focus is on the USA and China especially. As the world's largest automobile producer, China is also the biggest consumer of rubber, as tyre production accounts for approximately 70% of rubber demand.

The times of rubber shortage after the substantial market deficit in 2010, causing rubber prices to surge to record highs in the winter of 2010/11, are long over. Not only did 2011 and 2012 end with global surpluses – against the expectation – but a positive balance of supply and demand is also anticipated again for 2013 and 2014. This has allowed rubber prices on the Singapore exchange to fall by over 25% since the start of the year (chart 1). Rubber is currently trading in Singapore at around 220 US cents a kilogram. Compared to its record level of 575 US cents a kilogram in February 2011, prices have therefore meanwhile dropped by over 60%. The price rise in the autumn and winter of 2012 was not lasting. In January 2013, the International Rubber Study Group (IRSG) predicted surpluses for 2013 and 2014 of 179 thousand tons and 153 thousand tons respectively – despite the fact that 2012 had already ended with a substantial surplus of 460 thousand tons. The market had expected the IRSG to lift its estimates of surplus supply again and estimates of an oversupply of around 470 thousand tons for both years had already been circulating on the market. The IRSG has not gone this far, but bases its mid July forecast on a number of scenarios. Demand is expected to grow by 2%-5% while the assumed production growth ranges from stagnation to a good 4%. The highest surplus that this could lead to in 2013 would be 284 thousand tons, the lowest 92 thousand tons. At the same time, the IRSG has corrected the surplus for 2012 downwards to 322 thousand tons, but revised the surplus in 2011 upwards by 50% to 92 thousand tons. Although the forecasts were received by the market with a slight plus in prices, all these data and forecasts do not signal a shortage whichever way you look at it (chart 2).

Reasons for this can be found on both the supply and demand side. Once it was known last year that the three major producing countries, Thailand, Malaysia and Indonesia – accounting for 70% of global supply – wanted to take concerted action to reduce their exports by 300 thousand tons between October 2012 and March 2013 and cut down rubber trees, this drove prices over the 300 US cents-a-kilogram mark. The three countries did

CHART 1: Rubber prices at lowest level since 2009



Source: Bloomberg, Commerzbank Corporates & Markets

Commerzbank Forecasts 2013/14

	Q3	Q4	Q1
Grains/Oilseeds/Cotton			
Wheat* (CBOT)	700	730	750
Wheat^ (LIFFE)	210	220	230
Corn*	600	580	600
Cotton**	86	85	83
Soybean*	1375	1300	1325
Softs			
Coffee (Arabica)**	130	140	140
(Robusta)***	1850	1900	1950
Cocoa***	2300	2400	2500
Sugar**	18	18	18
Livestock			
Live cattle**	125	130	130
Feeder cattle**	145	150	150
Lean hogs**	90	85	83

*US-Cents per bushel

**US-Cents per pound

***USD per ton

^EUR per ton

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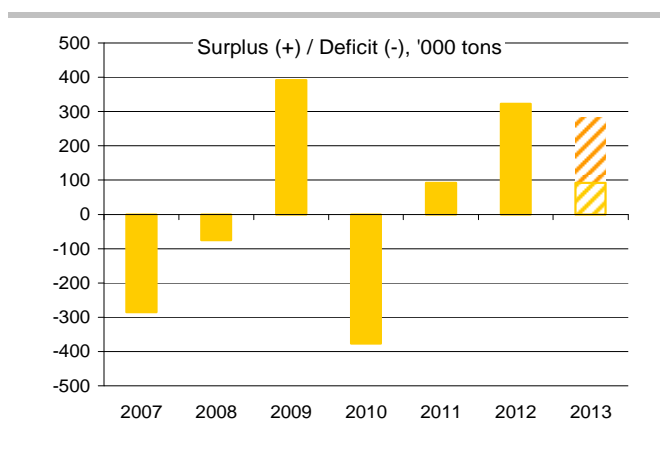
actually stick to their commitment to restrict exports, though they were unable to agree on extending the measures that would reduce supply on the global market. This probably has something to do with the fact that stocks – in Thailand for example – have meanwhile increased again sharply amid rising production and export restrictions. Higher production is not least a consequence of rising prices in the years from 2005 to 2008, leading to a strong expansion of plantations especially towards the end of this period. Given the long growth and maturity phase of 5-7 years, harvesting (“tapping”) can now take place for the first time in quite a number of these plantations. Rubber supply is also subject to seasonal fluctuations. In Thailand, Indonesia and Malaysia for example, the dropping of the leaves marks the beginning of the lower production stage (“wintering”) that usually starts in February and lasts 4-6 weeks. Production can then fall by about half or even to as low as 20% of normal production levels in some regions. This phase is therefore already over in 2013 so no restriction of supply is expected from this side either.

That said, the reasons why another large global surplus is possible this year predominantly lie on the demand side. Although the situation in the US is slowly improving, the euro zone has so far not really escaped the fangs of the sovereign debt crisis. Consequently, upward momentum after the one and a half years of recession will presumably be slow. In the case of the emerging markets, which also give a mixed picture, China is most significant for the rubber market, being the No. 1 consumer. According to the International Rubber Study Group, China accounted for 34% of global consumption of natural rubber in 2012, at 3.85 tons, and imported 2.18 tons of natural rubber in 2012, a plus of 3.64% on the year before (chart 3). While, at a likely 7.2%, economic growth in the world's most populated country should still be considerable in 2013 despite a significant slowdown on previous years, disappointing data from China recently have been a major factor in the latest slump in rubber prices. All in all, the outlook for the global economic trend appeared friendlier a few months ago than it does at present.

As tyre production accounts for some 70% of rubber demand, the automobile industry is of particular interest for the rubber market (chart 4). The focus is on the US and China here too, as they are the most important countries on the global automobile markets and China has become the No.1 producer. For the first half of 2013, the China Association of Automobile Manufacturers has reported a 9% production rise, year-on-year, to 10.8 million vehicles, while trucks account for about of a fifth and have actually increased by 14%, year-on-year. China's automobile sales climbed by 12% in the first half of the year. Car sales rose sharply - although the momentum has eased a little recently. Truck sales picked up at a slower pace, at 6.7%, and their tyres require a substantial amount of rubber. Whether this signals a less dynamic future rubber demand for truck production remains to be seen.

International rubber stocks had already expanded to a 7-year high of 2 million tons by the end of 2012. It is therefore anticipated that global reserves will continue to climb to a 13-year high in the coming year. This outlook does not suggest any significant price surges initially. However, given

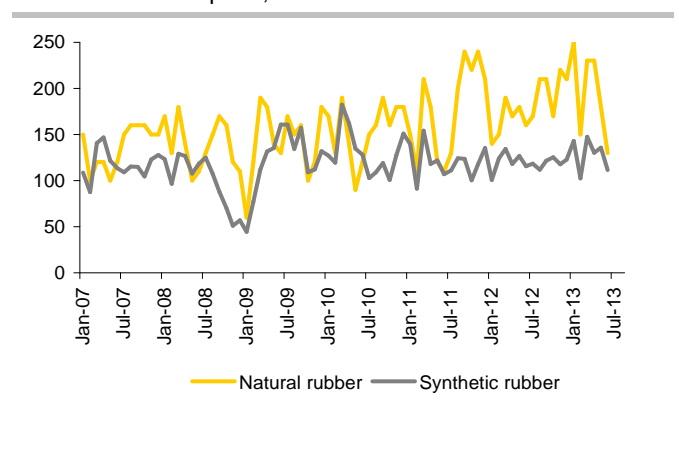
CHART 2: Rubber market surplus is decreasing



Source: IRSG, Commerzbank Corporates & Markets

CHART 3: Chinese imports have disappointed lately

Chinese rubber imports, in '000 tons

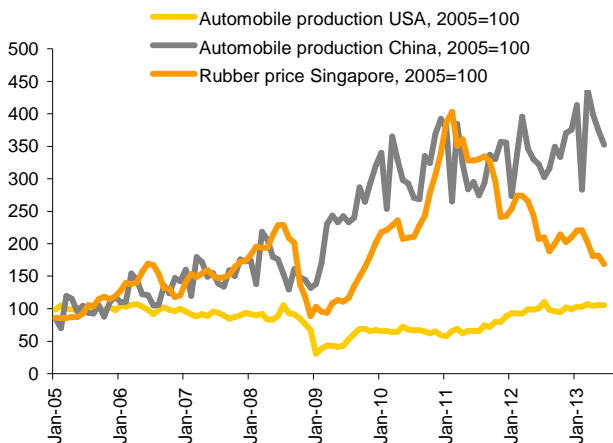


Source: Chinese Customs, Commerzbank Corporates & Markets

its strong economic dependency, positive surprises could soon push up the price of rubber, just as recent sobering data have allowed it to slump. The fact that there is no clear indication of the likely direction of rubber prices on the market at present is also evident in the virtually flat forward curve for rubber priced in US dollars and traded in Singapore. Exchange rate movements versus the US dollar are also very important for internationally significant rubber prices in Shanghai and Tokyo.

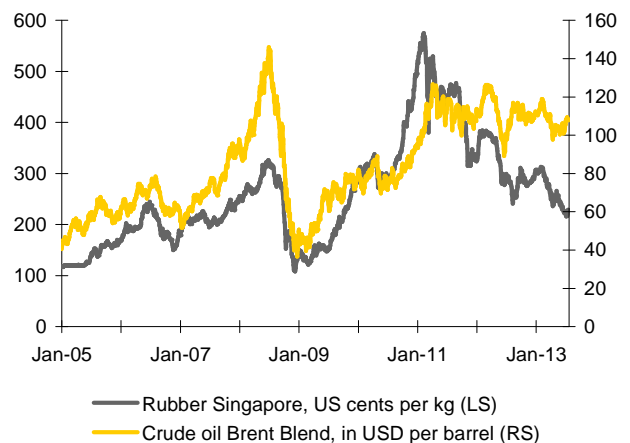
If we do see the expected rise in crude oil prices in the further course of 2013 and 2014, the relative attractiveness of natural rubber for buyers should increase in relation to synthetic rubber made from crude oil. That said, the price of rubber has not profited significantly in past weeks from the slight increase in crude oil prices. Given the plentiful rubber stocks at present, the price correlation should also remain rather loose in the months ahead (chart 5).

CHART 4: Automobile production rises sharply in China



Source: Bloomberg, Commerzbank Corporates & Markets

CHART 5: Rubber price is not pulled along by oil price



Source: Bloomberg, Commerzbank Corporates & Markets

At a glance

TABLE 1: Our forecasts

	Latest		Forecast							Yearly average		
	22-Jul-13	Q113	Q213	Q313	Q413	Q114	Q214	Q314	Q414	2012	2013	2014
Grains/Oil seeds/Cotton												
Wheat* (CBOT)	660	742	700	700	730	750	730	700	700	756	720	720
Wheat^ (LIFFE)	193	243	210	210	220	230	230	220	210	231	220	225
Corn*	498	711	650	600	580	600	610	610	600	688	640	610
Cotton**	86	83	86	86	85	83	84	84	85	80	85	84
Soybeans*	1289	1437	1440	1375	1300	1325	1325	1325	1300	1449	1390	1320
Softs												
Coffee (arabica)**	125	144	134	130	140	140	130	130	130	176	135	135
Coffee(robusta)***	1944	2051	1950	1850	1900	1950	2000	1900	1900	2026	1950	1950
Cocoa***	2348	2176	2300	2300	2400	2500	2500	2600	2600	2336	2300	2550
Sugar #11**	16.4	18.4	17.2	17.5	18.0	18.0	18.5	18.5	19.0	21.5	18.0	18.5
Livestock												
Live cattle**	126	129	120	125	130	130	128	130	132	124	126	130
Feeder cattle**	153	146	145	145	150	150	145	145	150	151	147	148
Lean hogs**	85	86	93	90	85	83	93	88	83	85	89	87

Quarterly / yearly averages* US Cents per bushel, ** US Cents per pound, *** US Dollar per ton, ^ EUR per ton

TABLE 2: Export /import data and Inventories

Exporte	Last release		Net change			% change	
	Due date	Level	1 week	1 month	1 year	1 year	5-year Ø
US export sales in 000 tons, weekly							
Corn	11/07/2013	1743.7	693.9	1594.1	1563.0	865.0	195.1
Wheat	11/07/2013	996.6	-476.7	569.3	407.4	69.1	91.0
Soybeans	11/07/2013	110.6	181.5	77.1	-24.7	-18.3	-3.3
Cotton (in '000 bales)	11/07/2013	90.5	-0.2	-107.9	14.8	19.6	30.0
Chinese imports, 000 tons, monthly							
Soybeans	30/06/2013	6930	-	1830	1310	23.3	39.5
US inventories in mln bushel, quarterly, first day of the month							
Corn	30/06/2013	2764.2	-	-	-384.0	-12.2	-23.2
Wheat (total)	30/06/2013	718.3	-	-	-24.3	-3.3	16.3
Soybeans	30/06/2013	434.5	-	-	-233.0	-34.9	-25.3

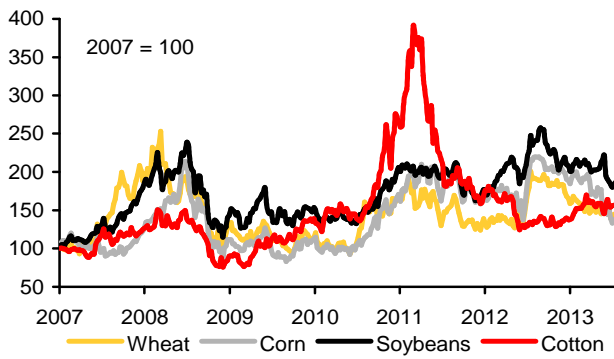
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

TABLE 3: History

	latest	% change			Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	
		1 week	1 month	ytd									y-o-y
Grains/Oil seeds/Cotton													
Wheat*	660	-2.2	-7.2	-15.9	-28.3	800	769	708	621	644	647	883	853
Corn*	498	-3.9	-11.7	-29.7	-37.5	673	724	693	623	640	599	775	739
Cotton**	86	2.1	1.7	14.6	19.3	179	152	105	95	93	80	73	73
Soybeans*	1289	0.2	1.2	-8.5	-20.5	1385	1362	1358	1179	1273	1404	1638	1482
Softs													
Coffee (arabica)**	125	-1.2	4.4	-13.4	-32.7	256	273	257	230	206	171	173	155
Coffee(robusta)***	1944	-0.3	11.4	0.9	-10.4	2286	2473	2207	1898	1948	2084	2109	1965
Cocoa***	2348	2.8	9.4	5.3	5.2	3288	3032	2970	2445	2298	2208	2430	2408
Sugar #11**	16.4	2.6	-3.0	-15.8	-31.3	30.2	23.9	28.4	24.7	24.3	20.9	21.1	19.7
Livestock													
Live cattle**	126	-0.5	3.4	-5.0	1.8	113	111	117	122	126	117	125	129
Feeder cattle**	153	0.3	4.2	-0.8	12.8	130	132	137	146	155	155	143	148
Lean hogs**	85	0.4	-12.1	0.0	8.7	92	95	88	88	89	89	77	82

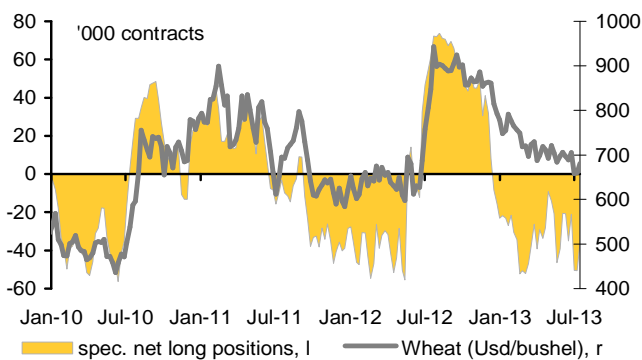
* US Cents per bushel, ** US Cents per pound, *** US Dollar per ton, Source: Bloomberg, Commerzbank Corporates & Markets

CHART 6: Performance: Grains/Soy/Cotton since 2007



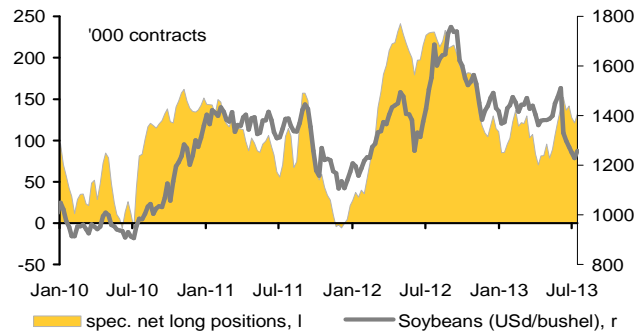
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 8: Net long positions of money managers (wheat)



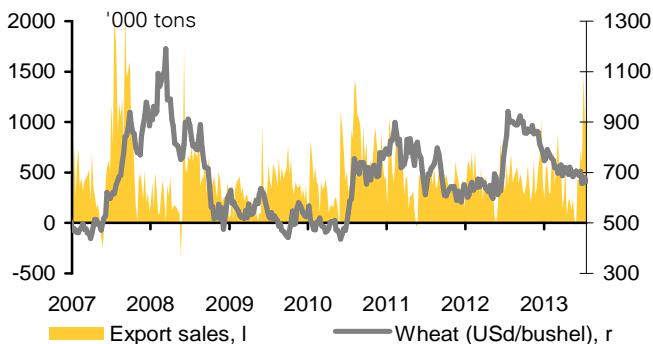
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 10: Net long positions of money managers (soybeans)



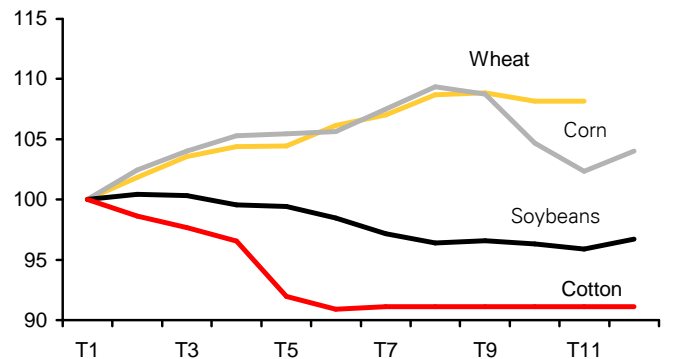
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 12: US exports: wheat (weekly data)



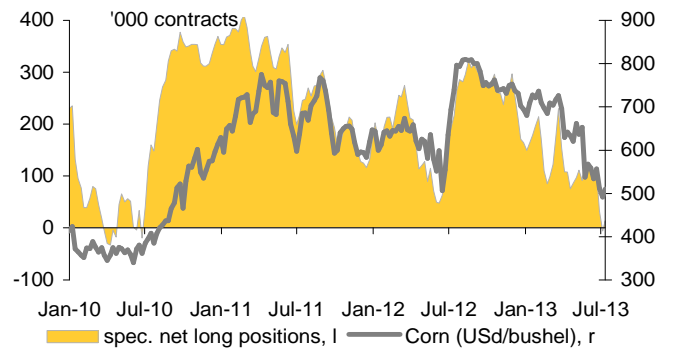
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 7: Forward curve: Grains/Soybeans/Cotton



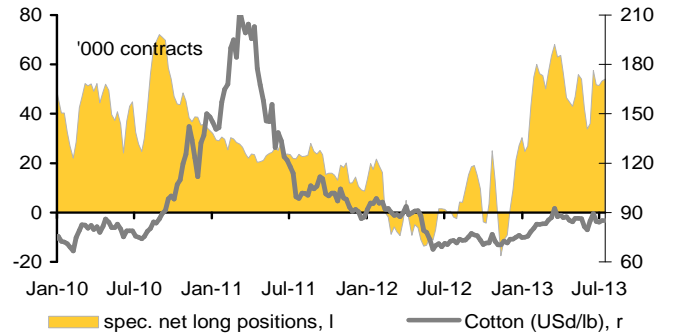
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 9: Net long positions of money managers (corn)



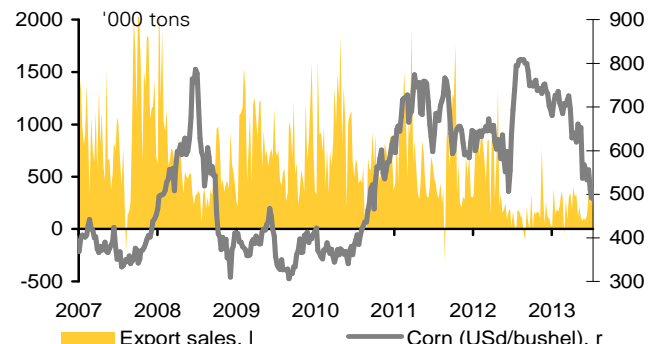
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 11: Net long positions of money managers (cotton)



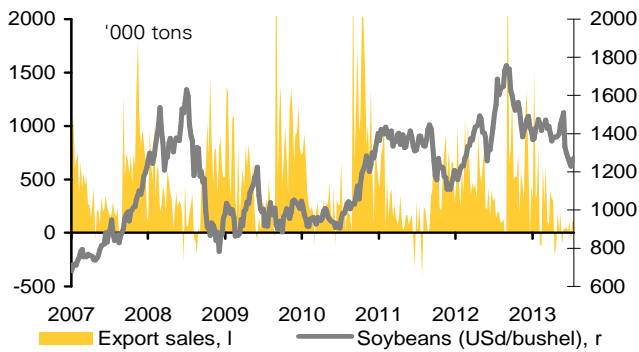
Source: ICE US, Bloomberg, Commerzbank Corporates & Markets

CHART 13: US exports: corn (weekly data)



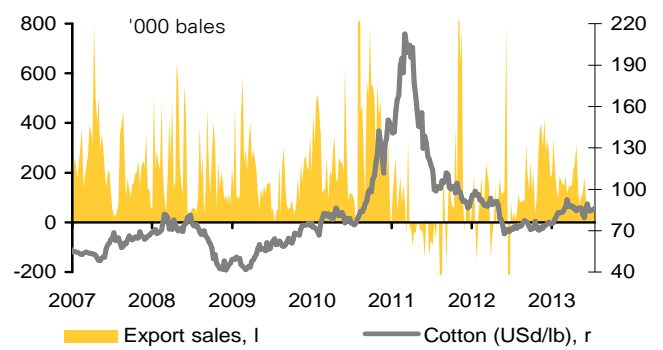
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 14: US exports: soybeans (weekly data)



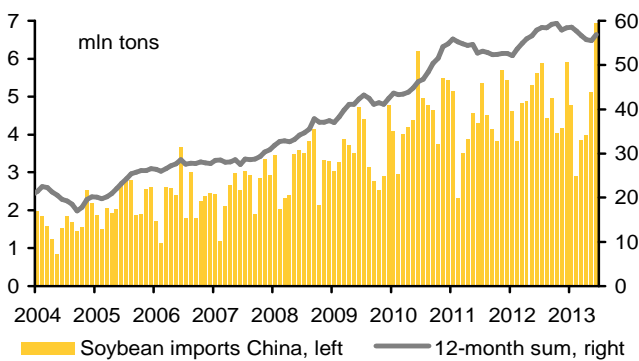
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 15: US exports: cotton (weekly data)



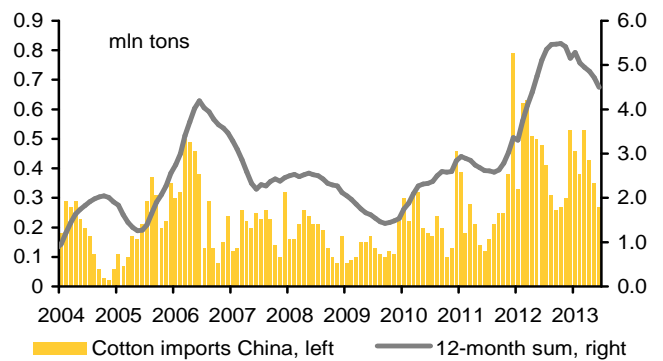
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 16: Soybean imports China (monthly data)



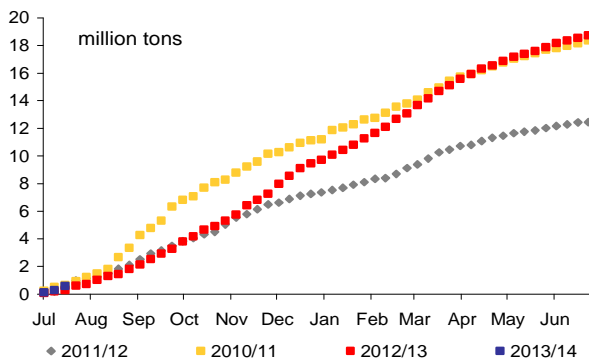
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART 17: Cotton imports China (monthly data)



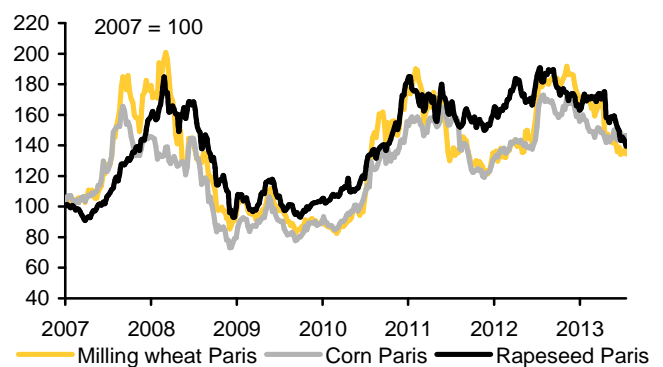
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART 18: EU wheat exports, weekly data cumulated



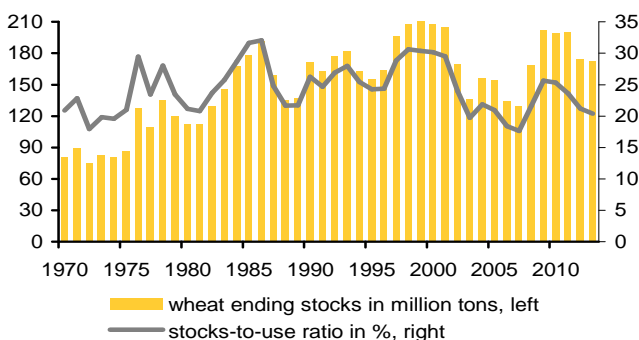
Source: EU, Reuters, Commerzbank Corporates & Markets

CHART 19: Performance: EU grain prices since 2007



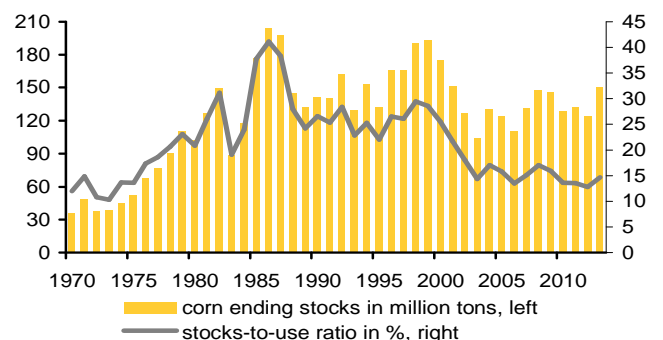
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 20: Global wheat stocks



Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 21: Global corn stocks



Source: USDA, Bloomberg, Commerzbank Corporates & Markets

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