Natural rubber: The bounce back

Rallying oil prices, weather-related supply disruptions and export interventions have all been bullish factors for the natural rubber market. However with export intervention a short-term fix, and plenty of uncertainty around demand, the outlook for natural rubber remains fragile.

Rubber production in Thailand

Content
- ITRC agreement supports prices...for now
- Indian supply recovery?
- Chinese imports edge lower

ITRC agreement supports prices...for now

The natural rubber market has seen somewhat of a reversal in fortunes, with TSR20 futures rallying as much as 22% so far this year, a trend that we have seen with a number of commodities this year, particularly the energy complex. Oil prices rallied as much as 35% with OPEC+ members remaining committed to cutting oil output by 1.2MMbbls/d over the first six months of 2019. Moving forward though, the big question is whether OPEC+ will continue with its deal over the second half of this year. We do not believe that the deal will continue in its current form, with the market already expected to be tight over 3Q19, whilst the expiry of waivers for buyers of Iranian oil means the potential for an even tighter oil market. We are of the view that ICE Brent will remain well supported in the region of US$70-75/bbl for the
Thai monthly natural rubber exports (k tonnes)

Indian supply recovery?

The picture for the global natural rubber market last year could have looked even gloomier had it not been for India turning to the world market for imports. Over the 2018/19 fiscal year (Apr-Mar) India imported 582kt of natural rubber, a 24% increase YoY. These additional imports were largely a result of a smaller crop following devastating flooding in Kerala, which saw production over the year fall by almost 8% YoY to 642kt, according to India’s Rubber Board.

Assuming that India experiences a normal monsoon this year (early forecasts are pointing towards a normal to drier monsoon), we would expect to see a recovery in Indian domestic
output for 2019/20, which should reduce the country's domestic deficit.

Elsewhere, both Vietnam and Cambodia continue to see strong growth in export flows. Vietnamese exports increased 26.1% YoY to 401kt over the first four months of 2019, adding nearly 75-80kt of rubber to global supply over the period. Meanwhile, Cambodian supplies increased by 10-12kt, with exports rising 23% YoY to 48.2kt in 1Q19. Additional supply from these two growers does partly offset the cuts that we are seeing from ITRC members.

Indian natural rubber production & net imports (k tonnes)

Chinese imports edge lower

Chinese natural rubber imports remain under pressure, with imports over the first quarter of 2019 totalling 470kt, down 16% YoY. This is a trend that we have seen for a while now, with imports over full year 2018 falling by 7% YoY to total 2.6mt. The downward pressure shouldn't come as too much of a surprise when looking at tyre output in the country. While Chinese output data is fairly distorted at the start of the year owing to the Chinese New Year, tyre production continues to trend lower. Cumulative output over the first three months of this year totalled 187m units- down almost 11% YoY. 

Sluggish demand in China continues to see SHFE natural rubber inventories remain at more than comfortable levels. Currently, stocks total almost 431kt, which sits towards the top end of the five-year high for this time of the year.

The data does not get any better when looking at Chinese vehicle sales, which declined for the ninth consecutive month in March, according to China’s Association of Automobile Manufacturers. Sales in March totalled 2.52m, down 5.2% YoY. However the one positive to take away from this is the fact that the YoY declines are narrowing, whilst moving forward expectations are that a reduction in VAT will support sales.
SHFE natural rubber inventories (k tonnes)

Source: Bloomberg, ING Research

Warren Patterson
Head of Commodities Strategy
+31 20 563 8921
Warren.Patterson@asia.ing.com