

RUBBER INDUSTRY

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Krungsri Research's View:

- Thailand's rubber industry is still suffering from the decline in product prices, due mainly to high global excess supply. However, milder decline in rubber price should help reduce stock losses troubling entrepreneurs.
- The markets of Thai ribbed smoked sheets (RSS), technically specified rubber (TSR), and rubber compound are highly uncertain, depending on the conditions in the downstream industries – which, in turn, are driven by changes in the global economy and the situation in the importing countries, particularly China. Conversely, the concentrated latex market is anticipated to expand steadily, thanks to robust demand for hand gloves.

Overview

Southeast Asian region is the world's most important plantation area for rubber. Thailand, Indonesia, and Malaysia are three major producers with total production representing 75% of the global output.

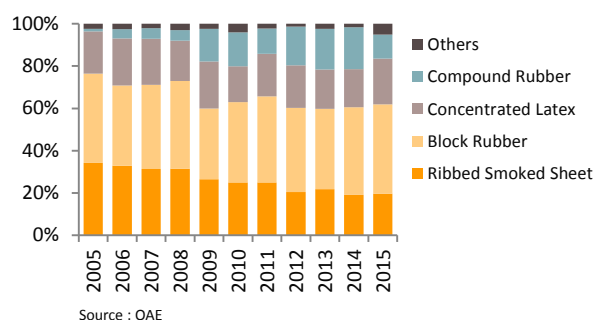
In 2015, Thailand was the world's no.1 rubber producer with 4.5 million tonnes of output or 35.7% of total production, followed by Indonesia, China, India, and Malaysia with the shares of 26%, 7%, 6%, and 5.5%, respectively.

China is the world's largest rubber consumer, accounting for about 40% of total world consumption. The majority were utilized in the production of car tyres – most of which are exported to the US (80%). Besides, **China is also playing an increasing role in rubber production.** Since 2006, Chinese fund has invested heavily in the expansion of rubber plantation area in CLMV (Cambodia-Laos-Myanmar-Vietnam). Outputs from these countries have started to enter the market during the past 1-2 years. In 2015, CLMV contributed nearly 10% of global production.

Policies to enhance the development of the rubber industry is crucial to the sector's performance. **So far, there has not been any clear-cut strategies on the downstream businesses. Most Thai rubber products (85%) have concentrated on primary processing for exports, serving the demand from importing countries who are producers of downstream products.** Thai operators, thus, often face tough competition, as a result of low product differentiation. Currently, Thailand's major competitors include Indonesia and Vietnam, while Malaysia has switched to focusing on both the production and export of downstream product with higher added value, such as hand gloves, condoms, etc.

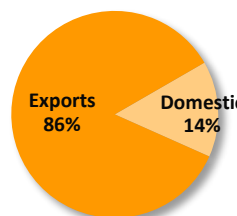
Thailand's major rubber export market is, of course, China (50% of total rubber exports), followed by Malaysia (13%), Japan (8%), and South Korea (5%). Currently, Thailand is world's no.1 exporter of many rubber products, i.e. concentrated latex, ribbed smoked sheet (RSS), and compound rubber with market shares of 75.9%, 73.9%, and 26.6%, respectively. As for export of technically specified rubber (TSR), Thailand is second to Indonesia with the market share of 21.9%.

Figure 1: Manufacture of Natural Rubber in Primary Form (Thailand)



Source : OAE

Figure 2: Thai Natural Rubber Industry



Domestic Consumption (by Volume)

End-user industry	%Share
Auto Tyre	57
Elastic	19
Glove	14
Other Tyre & Tube	5
Others	5

Source : Compiled by Krungsri Research

Figure 3: % Share of World Exports



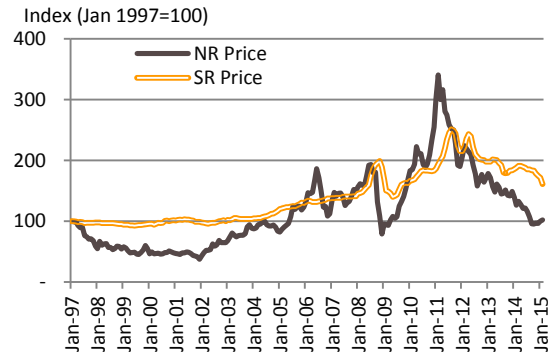
Source : Trademap

▲ Situation

In recent years, global natural rubber (NR) industry has encountered significant pressure from a continued drop in prices. Price of ribbed smoked sheet no.3 (RSS3) – the industry's reference product – nosedived from the highest average price of THB190.3/kg in February 2011 to only THB52-55/kg today. Most producers are troubled with risk from stock losses. The collapse of rubber prices was caused by the following factors:

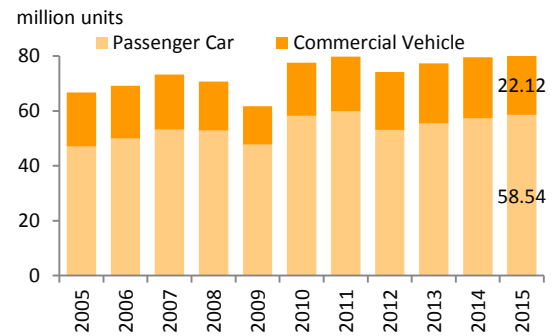
- Slowing-down demand growth:** About 75% of the global rubber output are used to produce car tyres. The fragile recovery of the global economy causes the growth of automobile industry to be only around 2-4% per annum (Source: LMC International). Consequently, the demand for car tyres has increased at a slower pace. Demand for rubber, thus, has not yet rebounded much; rubber consumption was 12.1 million tonnes in 2015.
- Sharp increase in new supply:** Expansion of plantation area in many Asian countries (especially, in CLMV) has resulted in acceleration of output exceeding demand. **Production in 2015 was 12.3 million tonnes, leading to record high global rubber stockpile of 3.4 million tonnes at the end of 2015 – doubling the level 10 years ago.**
 - Thailand:** Government's promotion of rubber planting by an additional 1 million rai, bringing about an increasing volume of new rubber supply into the market during 2012-2015.
 - CLMV:** China has increased investment in rubber plantation in CLMV by about 1 million rai per annum during 2006-2012. Consequently, Chinese output – both from the mainland and CLMV – is forecasted to increase to about 25% of the global production by 2022 (Source: The Economist Intelligence Unit).
- Substituting products:** Currently, synthetic rubber (SR) made from oil input may not be perfectly substitutable for natural rubber (NR). However, the large drop in oil price during 2005-2011 has resulted in a substantial decline in the price of SR. In addition, China – the world's major producer – has been developing a technology such that synthetic rubber can increasingly replace natural rubber in the production of car tyre, especially for the passenger cars which occupy a dominant market (Figure 5). **This causes a significant structural change in the global rubber industry; most evidently, the consumption of SR has expand constantly in the last 10 years and currently stands at 60% of total rubber consumption.**

Figure 4: Global Natural Rubber Price



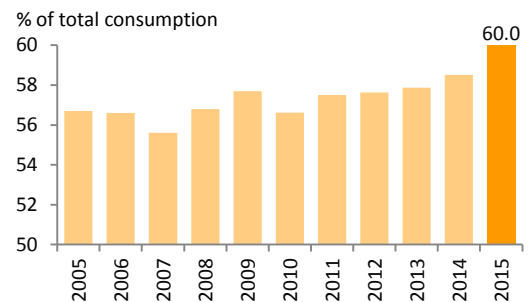
Source : ORRAF

Figure 5: Global Automobile Production



Source : ORRAF

Figure 6: Synthetic Rubber (SR) Consumption



Source : IRSG and forecasted by Krungsri Research

^{1/}New production technology of tyre for passenger cars – especially radial tyres – now contains 60% of SR from 40% in the past.

Thai rubber industry in 2015 continued to enjoy the increase of exports in quantity term (+7.04% YoY); however, export value has plunged dramatically (-16.02% YoY), in line with a sharp fall in global rubber prices.

- **Block rubber:** Export in quantity term grew by 18.95% YoY, due to recovery of automobile industry in developed countries, especially the US. Additionally, China has imposed a policy to stimulate domestic automobile market, leading to rise in demand for rubber as input in the car tyre industry.
- **Concentrated latex:** Quantity exported has also increased by 0.94% YoY, thanks to demand from Malaysia.
- **Rubber sheet:** Export, in terms of quantity, declined by 8.33% YoY, as a result of higher competition in the world market and weak demand.
- **Compound rubber:** A considerable 45.97% YoY drop in quantity exported was caused by policies of China – a main trade partner – that support the use of and reduce the import tariff of compound rubber with high SR content. A large production of such product is available in China, while Thailand focuses on producing compound rubber with less than 5% SR content.

▲ Outlook

Excess supply situation is expected to keep on putting downward pressure on natural rubber prices. The price of RSS3 would remain in the range of THB52-55 in 2016, as compared to THB54.4 last year, largely because the growth of global rubber supply is forecasted to surpass its demand.

The International Rubber Study Group (IRSG) estimated that the global demand for natural rubber during 2016-2018 would rise by 4-5% per annum, while the global supply of natural rubber would increase by a faster pace of 8-10% per annum – mainly as a result of additional output from CLMV. **Global natural rubber stockpile would gradually increase to 3.5, 3.7, and 4.0 million tonnes in 2016, 2017, and 2018, respectively.**

It is expected that the joint effort of the three main producers (Thailand, Indonesia, and Malaysia) to control rubber supply through reduction of export quantity by 615,000 tonnes during March to August 2016 would help prevent a further slide in rubber prices to some extent. However, this would be effective for only a short period because the three nations' joint cooperation tends to lack commitment and continuity – not to mention the fact that **the rubber prices would not rebound to be as high as in the past, due to the lack of speculative demand in the global market.**

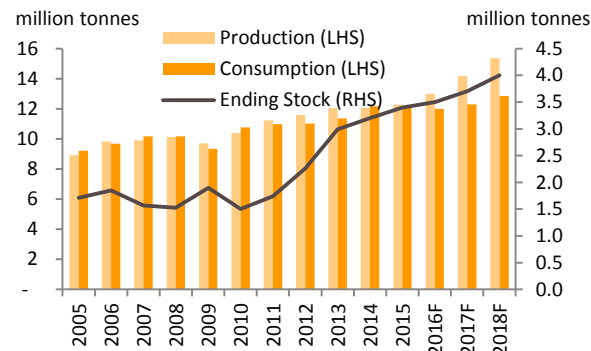
As China's rubber production (including those from investment in CLMV) is projected to gradually increase, it would lead to a further slowdown of Chinese rubber import. This turns out to limit upward movement of global rubber prices.

Figure 7: Thai Natural Rubber Exports

Year	Natural Rubber					Compound Rubber	
	Value (USD, m)	Export-Q (million tonnes)				Value (USD, m)	Export-Q (million tonnes)
		RSS	TSR	Conc. Latex	Total		
2011	13,176	0.79	1.25	0.88	3.00	4,912	419
2012	8,745	0.67	1.08	0.95	3.00	2,144	649
2013	8,234	0.81	1.47	1.04	3.44	2,182	810
2014	6,022	0.72	1.53	1.06	3.41	1,587	811
2015	5,057	0.66	1.82	1.07	3.65	711	438
% YoY	-16.02	-8.33	18.95	0.94	7.04	-55.18	-45.97

Source : MOC

Figure 8: Global NR Production, Consumption, and Ending Stock



	2011	2012	2013	2014	2015	2016F	2017F	2018F
Production	11.23	11.60	12.04	12.07	12.28	13.00	14.18	15.35
% YoY	8.08	3.29	3.79	0.25	1.74	5.86	9.08	8.25
Consumption	10.98	11.01	11.36	12.16	12.10	12.00	12.30	12.85
% YoY	2.04	0.27	3.18	7.04	-0.49	-0.83	2.50	4.47
Surplus/Deficit	0.25	0.59	0.68	-0.09	0.18	1.00	1.88	2.50
Ending Stock	1.74	2.26	2.99	3.20	3.40	3.50	3.70	4.00
% YoY	16.00	29.89	32.30	7.02	6.25	2.94	5.71	8.11

Source : IRSG

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