

Commodity Spotlight Agricultural

05 February 2014

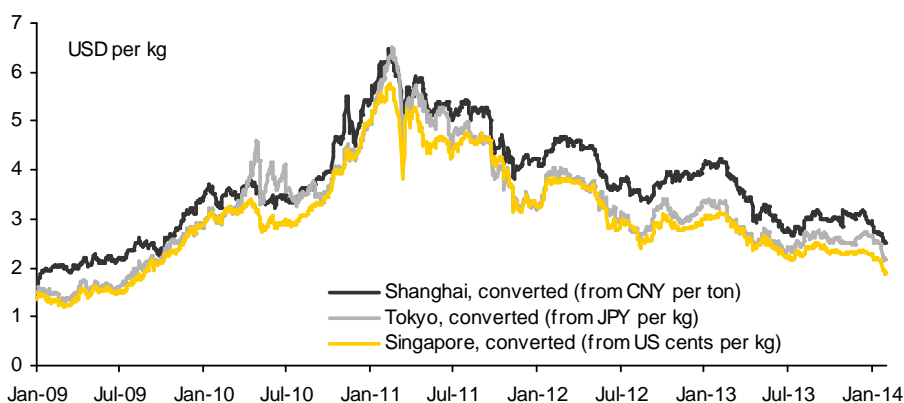
Natural rubber: Continuing oversupply weighs on prices

The rubber price hit a multi-year low in late January, as the market for natural rubber is driven by a combination of rising supply and concerns about weaker demand. Many of the plantations set up several years ago when prices were high will now be harvested for the first time, pushing supply further up. On the demand side it is especially weaker economic data from China, the world's largest rubber consumer country, that are clouding the outlook. In 2014, supply looks set to exceed demand for the fourth consecutive year. This makes large price surges appear unlikely.

In late January, the futures contract for natural rubber traded in Singapore fell below the mark of 200 US cents per kilogram, hitting the lowest level since September 2009 (chart 1). Rubber has cheapened by 13% since the start of the year, after having already seen an annual price loss of 25% in 2013. The recent price decline was triggered by a strong rise in rubber stocks in China. Stocks in bonded warehouses in the Qingdao port increased to a good 300 thousand tons in mid-January and were thus 10% up on end-November. Stocks in the warehouses monitored by the Shanghai Futures Exchange increased in late January to 208 thousand tons, which marked the highest level since October 2004. Since end-September, stocks there have swollen almost continuously by more than 60% in total (chart 2, page 2). The strong build-up of stocks in China is attributable to very robust Chinese imports in the last three months of the past year. The upsurge in imports at year-end can be explained with the lower price level and the temporary suspension of the export tax in Thailand, the world's largest producer of natural rubber. In December, Chinese rubber imports reached a record level of 350 thousand tons and were thus about twice as high as on average in the third quarter (chart 3, page 2). Since a large part of this amount was probably buying brought forward, we are likely to see much less Chinese demand for rubber on the global market in the coming months. Supply should thus be ensured even for the period starting in late January, when for several weeks the extraction of rubber sap is much lower for seasonal reasons.

As recently as autumn 2013, several supportive factors were still seen for the rubber price: The surplus in 2013 was expected to decline by 12% to 284 thousand tons on the previous year according to the forecasts of the International Rubber Study Group IRSG, as Thailand and Malaysia reported a decline in production for the first half of last year compared to the previous year. The situation on the rubber market is now viewed differently, and not only in light of much higher stocks in China.

CHART 1: Rubber prices have fallen to multi-year lows



Source: Bloomberg, Commerzbank Corporates & Markets

Commerzbank Forecasts 2014

	Q1	Q2	Q3
Grains/Oilseeds/Cotton			
Wheat* (CBOT)	580	600	620
Wheat^ (Liffe Paris)	195	195	190
Corn* (CBOT)	440	460	480
Corn^ (Liffe Paris)	175	175	175
Soybean* (CBOT)	1275	1250	1200
Rapeseed^ (Paris)	365	360	360
Cotton **	83	78	75
Softs			
Coffee (Arabica)**	125	120	125
(Robusta)***	1800	1700	1700
Cocoa^ (Liffe London)	1800	1800	1800
Sugar** #11	15.5	16.0	17.0
Livestock			
Live cattle**	140	135	130
Feeder cattle**	169	160	150
Lean hogs**	93	95	88

*US-Cents per bushel

**US-Cents per pound

***USD per ton

^EUR per ton

°GBP per ton

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Rubber supply from Thailand is expected to continue rising

Contrary to earlier assumptions, it is to be expected that rubber supply in Thailand increased in 2013. In 2014, expectations are again for a higher supply from the world's largest producer country. What is not clear is to what extent the protests that have been going on for months in the capital Bangkok are impacting Thai rubber supply. Rubber plantations are located in the south of the country, where things have been quiet so far, but it is to be assumed that plantation workers also left their workplaces to take part in the protests. For this reason the country's second largest rubber producer fears that Thai production could fall by 10-20% in January and February. The Office of Agricultural Economics, however, currently expects Thai production to rise by a good 4% to 4 million tons in 2014, not least because of a much larger acreage where rubber trees are ready for tapping. This would also be the fourth consecutive increase in Thai rubber production.

Oversupply on the global rubber market since 2011

Alongside Thailand, Vietnam has contributed to the growing rubber supply in recent years. With a massive increase in production by 39% to nearly one million tons between 2010 and 2013, the country has become the third largest rubber producer behind Thailand and Indonesia and now outranks Malaysia. According to IRSG estimates from end-October, global production of natural rubber will also expand by 4.5% this year because rubber trees planted between 2006 and 2008 will be ready for tapping. The global rubber market has been characterised by oversupply since 2011 because in recent years supply growth has far outstripped the increase in demand. What is not clear is whether a higher surplus than in 2013 is to be expected for 2014 as the research company The Rubber Economist forecasts. And note that The Rubber Economist even sees a somewhat smaller increase in supply than the IRSG.

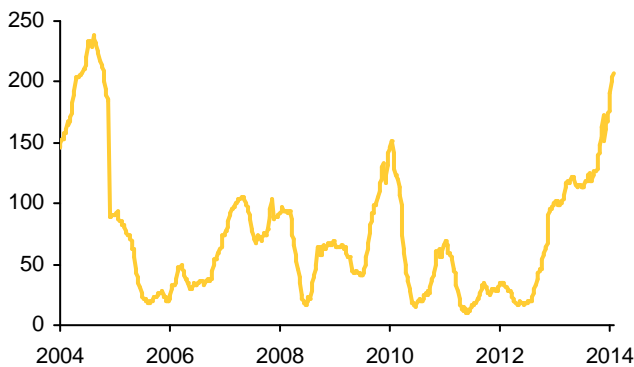
Economic activity in China is key to rubber demand

In this regard, demand is key. The IRSG estimates this year's increase in demand at 3%. China's economic situation is of paramount importance to the strongly cyclical demand for rubber. After all, China accounts for 35% of global demand for rubber and, according to IRSG data, consumed 3.9 million tons in 2012, of which about 70% went into tyre production. The International Monetary Fund expects economic growth in China to decelerate slightly from 7.7% in 2013 to 7.5% this year. Moreover, recent economic data from China, such as industrial production and the purchasing managers' index for the manufacturing sector, turned out disappointing.

Robust activity in car sector and unrest in Thailand could reduce supply surplus

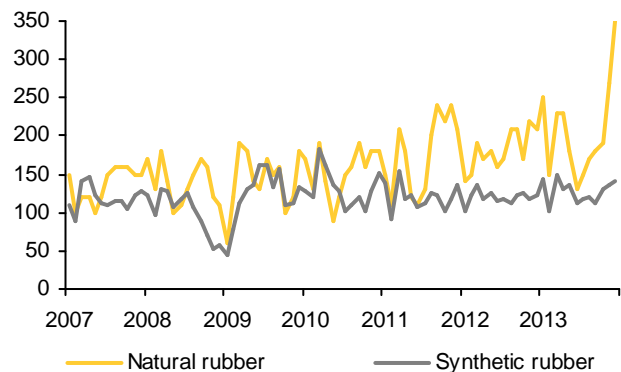
But there are also factors pointing in the opposite direction: The China Association of Automobile Manufacturers expects car sales in China to rise by 10% this year. This would come after an increase by almost 16% to a record level of nearly 18 million vehicles last year. In the US, last year's vehicle sales were the highest since 2007. What is more, recent data has given hope that the car market in Europe may recover this year after a six-year slump. At the same time, the risks arising from the political situation in Thailand have yet to be resolved. All this could lead to a reduction of the supply surplus in 2014 and support a rubber price that has come down quite sharply. However, in light of the ample supply on the market, we don't see significant recovery potential for the rubber price.

CHART 2: Rubber stocks in China at a nine-year high
Deliverable SHFE stocks in thousand tons



Source: SHFE, Bloomberg, Commerzbank Corporates & Markets

CHART 3: Chinese rubber imports have surged recently
In thousand tons



Source: Chinese Customs Authority, Bloomberg, Commerzbank Corporates & Markets

At a glance

TABLE 1: Our forecasts

	Actual	Forecast								Yearly average		
	3-Feb-14	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	2013	2014	2015
Grains/Oil seeds/Cotton												
Wheat* (CBOT)	564	580	600	620	650	650	640	630	620	690	610	640
Wheat^ (Liffe Paris)	192	195	195	190	185	185	180	180	175	210	190	180
Corn* (CBOT)	436	440	460	480	480	490	500	510	520	570	470	510
Corn^ (Liffe Paris)	173	175	175	175	175	175	180	180	180	205	175	180
Soybeans*	1293	1275	1250	1200	1150	1150	1150	1200	1200	1400	1220	1180
Rapeseed^ (Paris)	365	365	360	360	350	350	360	360	370	415	360	360
Cotton**	85	83	78	75	70	72	74	76	78	84	77	75
Softs												
Coffee (arabica)**	136	125	120	125	130	130	125	125	120	125	125	125
Coffee(robusta)***	1839	1800	1700	1700	1600	1600	1650	1700	1750	1850	1700	1700
Cocoa° (London)	1862	1800	1800	1800	1850	1900	1950	1950	2000	1600	1800	1950
Sugar #11**	15.7	15.5	16.0	17.0	18.0	18.5	19.0	19.5	20.0	17.5	16.5	19.5
Livestock												
Live cattle**	139	140	135	130	132	128	126	128	130	127	134	128
Feeder cattle**	168	169	160	150	155	158	153	148	153	153	159	153
Lean hogs**	93	93	95	88	83	83	91	86	81	89	90	85

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

The actual price refers to the most active forward contract, which can differ in terms of maturity.

TABLE 2: Import data and Inventories

Imports / Inventories	Last release		Net change		% change	
	Due date	Level	1 month	1 year	1 year	5-year Ø
Chinese imports, 000 tons, monthly						
Soybeans	31/10/2013	7400	-	1370	1510	25.6
Cotton	31/10/2013	610	-	440	80	15.1
US inventories in mln bushel, quarterly, first day of the reporting month						
Corn	30/09/2013	10426.1	-	2393.4	29.8	6.8
Wheat (total)	30/09/2013	1462.7	-	-207.9	-12.4	-10.6
Soybeans	30/09/2013	2147.6	-	181.4	9.2	-3.3

Source: USDA, Bloomberg, Commerzbank Corporates & Markets

TABLE 3: History

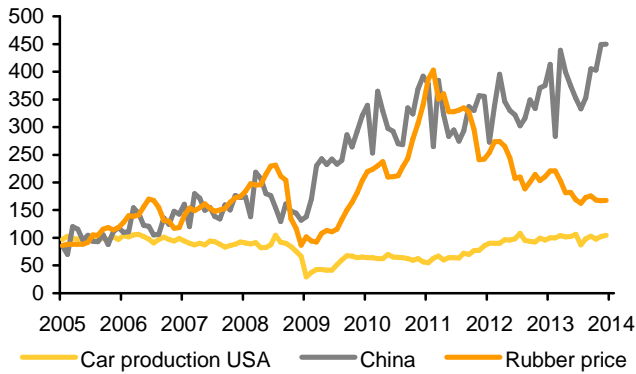
	Actual	% change				Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
	1 week	1 month	ytd	y-o-y									
Grains/Oil seeds/Cotton													
Wheat* (CBOT)	564	0.4	-6.2	-6.1	-25.5	644	647	883	853	742	698	651	655
Wheat^ (Liffe Paris)	192	-0.1	-7.5	-7.9	-22.2	196	207	259	264	243	212	189	205
Corn* (CBOT)	436	1.4	3.5	3.9	-40.3	640	599	775	739	711	648	495	430
Corn^ (Liffe Paris)	173	0.3	0.7	1.2	-26.1	207	213	250	247	231	220	189	174
Soybeans*	1293	1.2	2.3	0.6	-12.6	1273	1404	1638	1482	1437	1442	1416	1298
Rapeseed^ (Liffe Paris)	365	2.2	-0.2	-0.2	-22.1	458	479	509	473	467	439	375	373
Cotton**	85	1.4	3.2	1.1	4.7	93	80	73	73	83	86	86	81
Softs													
Coffee (arabica)**	136	18.0	16.2	22.2	-6.3	206	171	173	155	144	134	120	111
Coffee(robusta)***	1839	4.6	9.5	7.0	-11.6	1948	2084	2109	1965	2051	1950	1825	1626
Cocoa° (Liffe London)	1862	0.5	6.5	6.5	29.2	1489	1499	1619	1545	1433	1517	1621	1740
Sugar #11**	15.7	7.2	0.1	-1.9	-14.0	24.3	20.9	21.1	19.7	18.4	17.2	16.7	17.7
Livestock													
Live cattle**	139	-0.7	2.2	3.5	5.3	126	117	125	129	129	120	127	133
Feeder cattle**	168	-0.3	-0.1	0.3	12.8	155	155	143	148	146	145	156	166
Lean hogs**	93	-0.3	7.6	9.2	5.6	89	89	77	82	86	93	87	88

US Cents per bushel, ** US Cents per pound, *** US Dollar per ton, ^ EUR per ton, ° GBP per ton.

The actual price refers to the most active forward contract, which can differ in terms of maturity.

CHART 4: Car production in China rises strongly

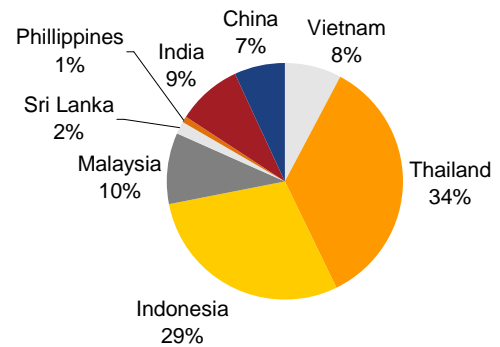
Total car production, rubber price in Singapur indexed 2005 = 100



Source: Bloomberg, Commerzbank Corporates & Markets

CHART 5: Main rubber producing countries in Asia

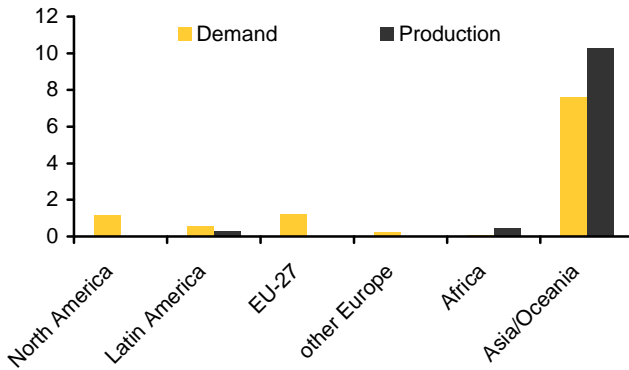
Share in production of Association of Natural Rubber Producing Countries ANRPC, 2011



Source: ANRPC, Commerzbank Corporates & Markets

CHART 6: Asia dominates the market for natural rubber...

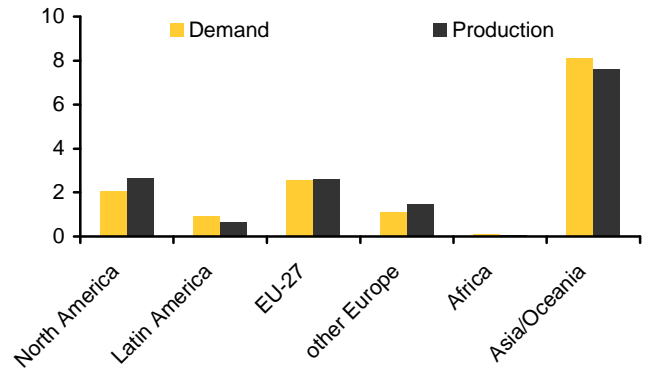
2011, in million tons



Source: IRSG, Commerzbank Corporates & Markets

CHART 7: ... and for synthetic rubber

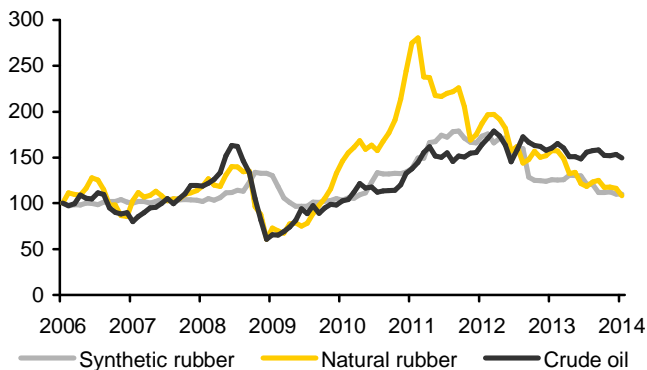
2011, in million tons



Source: IRSG, Commerzbank Corporates & Markets

CHART 8: Crude oil and natural rubber prices are important for import price for synthetic rubber

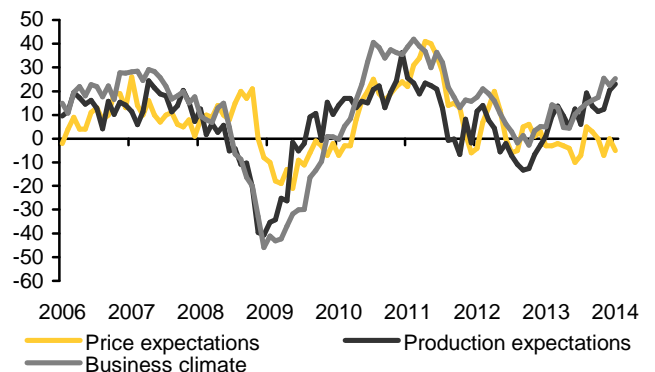
Rubber price Singapur in EUR, Import price France, Crude oil price Brent in EUR, indexed January 2006 = 100



Source: Bloomberg, Commerzbank Corporates & Markets

CHART 9: Expectations in Germany are mildly friendly

ifo business climate rubber industry, seasonally adjusted



Source: ifo, Bloomberg, Commerzbank Corporates & Markets

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