



# International Rubber Study Group

## RUBBER INDUSTRY REPORT

*Vol. 8, No. 10-12*  
*April-June 2009*

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### ***Executive summary***

Driven down by the rapidly deteriorating state of the world economy, global rubber consumption reached 21.1 million tonnes in the year to March 2009, its lowest level since April 2006; year-on-year consumption growth plunged to -9.4%, compared to growth rates of -3.2% at the end of 2008 and (providing a stark illustration of how markets have evolved over the last twelve months) 6.9% in March 2008. Global natural rubber (NR) consumption declined by over 0.4 million tonnes between the end of 2008 and March 2009, with the rate of decline in consumption accelerating from -1.6% to -6.8% in year-on-year terms over the period; global synthetic rubber (SR) consumption fell by over 0.7 million tonnes over the same period, with year-on-year consumption growth declining from -4.5% to -11.3%.

Global rubber output fell from 22.7 million tonnes at the end of 2008 to 21.8 million tonnes in March 2009, while the rate of decline in production in year-on-year terms accelerated from -2.0% to -6.5% over the same period. The sharp reduction is mainly due to a steep decline in SR output, which fell to 12.2 million tonnes in March 2009 compared to over 12.8 million tonnes in December 2008; over the period, the rate of decline in SR production accelerated from -4.6% to -9.8%. Global NR production is also estimated to have fallen (albeit less markedly than for SR) from 9.9 million tonnes at the end of 2008 to 9.6 million tonnes in March 2009; over the period, NR production growth slowed from 1.8% to -1.9%.

Despite lower production, the more pronounced decline in consumption resulted in a widening of the global NR surplus from 150,000 tonnes at the end of 2008 to 290,000 tonnes in the year to March 2009. SR consumption is estimated to have plunged by -11.3% in the twelve months to March 2009, compared to a production decline of -4.6%; this follows contractions in both production and consumption of around -5% in 2008. Global stocks of both NR and SR are estimated to have risen steeply in relation to the level of consumption in early 2009.

World NR exports fell back to 6.29 million tonnes in the year to March 2009, compared to 6.60 million tonnes at the end of 2008. A sharp fall in the exports of the major

NR producers, except in the case of Vietnam, contributed to the overall trend. Among the five major NR importers, the decline in imports continued in the first quarter reflecting the continuing slump in demand. The inexhaustible rise in SR exports seen between 2000 and 2007 was halted in 2008 as the bottom fell out of world demand; exports peaked in the year to April 2008 at 7.77 million tonnes, before crashing down to 7.12 million tonnes by the end of the year, and falling further to 6.55 million tonnes by March 2009. For the first three months of 2009, SR imports by the major importers, except China, have fallen, reflecting the sharp drop in demand as a result of the world recession and falling exports.

NR prices increased by 57% at the end of May 2009 from their low of US\$1.10 per kg reached on 9 December 2008. The fundamental factors contributing to the upsurge in prices, amid low underlying global demand, included slow production after wintering (mainly due to heavy rains in Thailand, Malaysia and Vietnam) as well as buying demand from China and India; prices also advanced on market sentiment over signs of an easing of the recession and improving oil prices. NR latex prices broadly followed the same trend as solid NR prices.

The price of light crude has been on an upward move again, rising from its lowest level in over five years of US\$31.41/barrel in late December 2008 to the current price of US\$61.02/barrel in late May. With the customary time-lag the upward movement of the oil price fed through to the monomer prices, rising in February for styrene and later still in May for butadiene. The latest series of synthetic rubber prices, however, were more influenced by the movements of the respective markets' butadiene prices, meaning that elastomer prices did not recover until April/May.

The latest data on export volumes of selected latex general rubber products (GRP) from the four leading exporters suggest that the overall downward trend of the industry may have eased further still over the first quarter of 2009, led, mainly, by the against the grain performance of the leading exporters (China and Thailand in all cases) of each of the five sectors, expanding export volumes when others were contracting.

The outlook for the production of passenger cars and commercial vehicles is bleak, with all regions forecast to see a substantial reduction in output levels in 2009; meanwhile, the world recovery in 2010 is expected to be slow, reflecting the tentative upturn in the economy. Sales of passenger car tyres are expected to suffer from a greater rate of fall in 2009 and a slower rate of recovery in 2010 relative to the commercial vehicle tyres sector. The outlook for total rubber consumption in 2009 is, not unexpectedly, bleak; the two leading contributors towards the demise are North America and Europe, where consumption is projected to fall by 15.2% and 13.7%, respectively. The subsequent recovery is expected to come from Asia, where demand is forecast to increase by 4% (or around 500,000 tonnes) in 2010. World NR consumption is projected to fall by around 500,000 tonnes in 2009, while the demand for SR is forecast to decline by 7.9%; the subsequent recovery will be slower for SR as compared to NR. World NR production is projected to fall by 2.3% (or 229,000 tonnes) in 2009, with the three major producers - Thailand, Indonesia and Malaysia – all contributing to the forecast decline in supply.