



Short-Term Outlook for Natural Rubber

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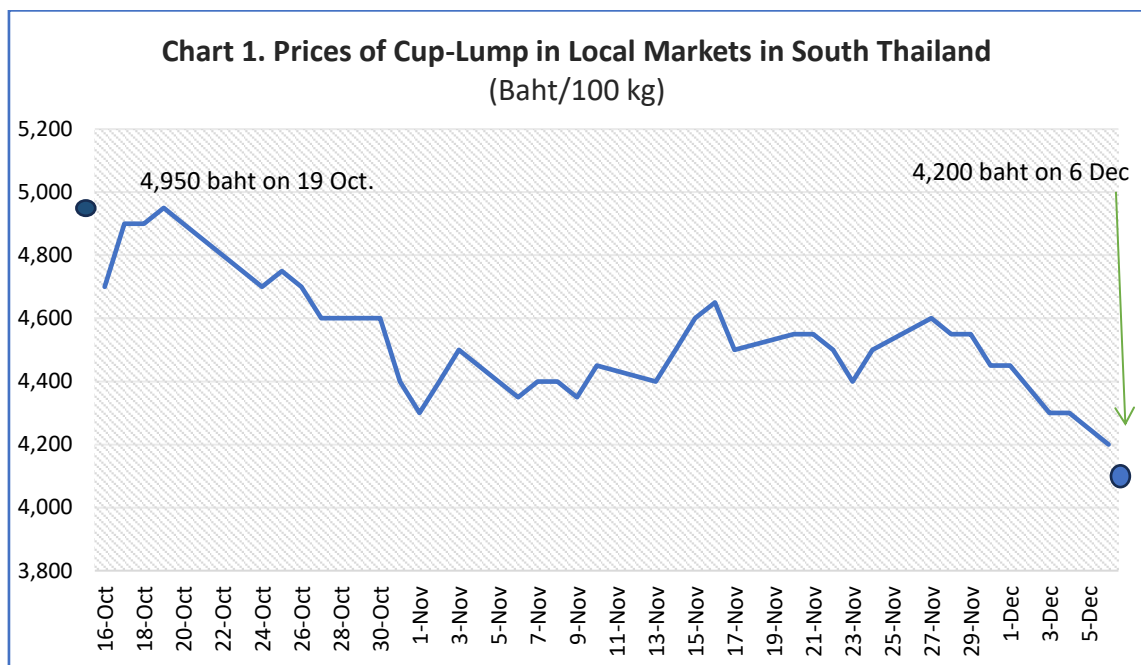
Short-Term Price Outlook

There are fresh worries over the demand prospects for natural rubber (NR) amid signals of a slowing U.S. economy and the Moody's downgrading of credit outlook for China. Sentiment in broader Asian physical NR market is weighed down by fresh concerns over the demand prospects and seasonal increase in the supply. Besides an unfavourable supply-demand fundamental, NR prices in key Asian physical markets are weighed down by a stronger dollar, potential weakening of the currencies of major NR exporting countries and the slump in crude oil prices. Possibility of an imminent tight global supply, expected by March 2024, has not yet evoked any positive sentiment in the market.

As regards NR contracts traded on key futures exchanges in Asia, the prices are likely to reflect the growing concerns over the demand and an unfavourable supply-demand fundamental. Apart from the negative influence of market fundamentals, sentiment is weighed down by a bearish trends in global equities, stronger dollar, and slump in crude oil prices. It seems the positive influence of a dovish Federal Reserve (i.e., shift towards monetary policy easing and rate cutting) is outweighed by the above set of unfavourable factors.

Key developments potentially influencing the direction of NR markets in the short-term are pointed out below:

1. The weather warning issued by the Thailand Meteorological Department (TMD), for the 24 hours starting the midnight of 6 Dec, forecasts “scattered thundershowers with isolated heavy rains” in Songkhla, Pattani, Yala and Narathiwat Provinces in southern Thailand’s east coast. In the southern Thailand’s west coast, “scattered thundershowers” should be expected mostly in Phang Nga, Phuket, Krabi and Trang Provinces. As reported here yesterday (6 Dec), the weather condition in the largest producing country is becoming increasingly favourable for latex harvesting. Prices of cup-lump dropped further to 4,200 baht per 100 kg on 6 Dec as arrivals at local markets have improved (Chart 1).



2. The U.S. ADP (Automatic Data Processing Inc) National Employment Report, released yesterday (6 Dec), showed that the U.S. non-farm private sector added just 103,000 jobs in November, down from 106,000 jobs added in October, and far below analysts’ expected increase of 130,000 jobs. The ADP payroll data measures the monthly change in non-farm, private employment, based on the payroll data of approximately 400,000 U.S. business clients. As per the JOLTs (Job Openings and Labour Turnover survey) data released on 5 Dec, job openings fell more than expected in October. Both the JOLTs data and the ADP data point to a slowing U.S. job market. A slowing job market could increase the probability of Federal Reserve beginning the rate-cutting cycle early next year. On the other side, the cooling job market signals that the Federal Reserve's aggressive interest rate hikes over the past two years could be hitting U.S. economic growth.

3. The weekly initial jobless claims data to be released today (7 Dec) and non-farm payrolls data to be released on 8 Dec will be closely monitored by investors for getting further clues on the Fed's potential policy move.
4. As previously reported here, NR prices are expected to be weighed down in the short-term by an unfavourable supply-demand fundamental. The weak demand prospects and seasonal increase in supply are likely to keep the supply comfortable at least till mid-Jan 2024. However, a situation of tight global supply is expected to emerge by the end of March 2024 in view of the seasonal fall in supply in the major producing countries.
5. The U.S. dollar inched higher yesterday (6 Dec) to a two-week high against a basket of six other peer currencies, largely driven by a weakening Euro. The Euro lost yesterday on bets that the European Central Bank (ECB) will cut interest rates as early as March. The Dollar Index Futures were traded at 104.084 by 1.45 AM GMT today (7 Dec). A stronger dollar typically exerts a downward pressure of NR prices quoted in dollar terms.
6. U.S. equities broadly closed in the red yesterday (6 Dec) largely dragged by concerns over a slowing U.S. economy. The cooling jobs market, although helps in reigning inflation, could slow the economy. Moreover, the slump in crude oil prices yesterday sent oil-lined equities substantially down. Among the key benchmark averages, Dow Jones Industrial Average closed 0.2% lower yesterday, S&P 500 lost 0.4% and Nasdaq was down 0.6%.
7. Asian equity markets are broadly bearish this morning (7 Dec) amid new concerns over a slowing U.S. economy and stronger dollar. As of 1.45 AM GMT today (7 Dec), China's Shanghai Shenzhen CSI 300 and Shanghai Composite indexes were down 0.2% and 0.1%, respectively. Hong Kong's Hang Seng index lost 0.5% and Japan's Nikkei 225 Index tumbled 1.2%.
8. Crude oil prices slumped yesterday largely pulled by a growing concern about a cooling global economic activity which can dent the demand prospects for crude oil. In addition, market participants are sceptical about the execution of the supply cuts agreed by the "OPEC+" group in its meeting on 30 Nov. Demand prospects for crude oil are increasingly challenged following the data showing a cooling U.S. jobs market, Moody's downgrading of credit outlook for China, persistent economic risks to the Chinese economy from a property market downturn and a lack of government stimulus. Strikingly, a considerably larger-than-expected draw in the weekly U.S. inventories failed to evoke any positive sentiment in the crude oil market because of a more dominating negative influence of the demand concerns.

The weekly U.S. crude inventories fell by 4.6 million barrels, compared with estimates for a decline of \$1.03 million barrels. Brent crude oil futures were traded at US\$ 74.62 a barrel by 1.45 AM GMT today (7 Dec).

9. For China, the official trade report for November is due out this morning (7 Dec). As per analysts' consensus reading, exports are estimated to have dropped by 1.1%, year-over-year, in November after a 6.4% annualised drop in October. Imports are estimated to have expanded by an annualised 3.3% rate in November, faster than 3.0% expansion seen in October.
10. The third quarter (Jul-Sep) GDP data for the Eurozone and Japan are due out today (7 Dec). As per analysts' consensus estimate, the Eurozone economy contracted 0.1%, quarter-over-quarter, during the third quarter after 0.1% expansion in the second quarter. The Japanese economy is estimated to have contracted 0.5%, quarter-over-quarter, in the third quarter after a 1.2% expansion in the second quarter.

11. The U.S. imported 85,800 tons of NR (HS 400110, 400121, 400122, and 400129) during Oct 2023, down 10.5% from the same month in the year before. The total quantity imported during the first 10 months of this year (Jan-Oct 2023) is down 20.9% at 715,800 tons, as per Customs data released yesterday (6 Dec) by the U.S. Census Bureau (Table 1). This year’s abnormal fall in imports is partly due to the excess imports carried out in the previous year in anticipation of a huge post-pandemic demand for manufactured goods.

Table 1. Quantity of NR Monthly Imported in the U.S.
(‘000 tons)

	2022	2023	% Change in 2023
Jan	91.2	69.1	-24.3
Feb	90.9	74.1	-18.5
Mar	98.8	91.0	-7.9
Apr	55.9	66.7	19.3
May	90.7	57.1	-37.0
Jun	84.6	61.0	-27.9
Jul	101.1	76.3	-24.5
Aug	88.9	65.6	-26.2
Sep	107.5	69.1	-35.7
Oct	95.9	85.8	-10.5
Nov	91.6	90.0*	-1.7
Dec	58.9	75.0*	27.4
Year Total	1,055.9	880.8	-16.6

Products covered: HS 400110, 400121, 400122, and 400129.

Note: HS 400110 (Latex) is accounted in its estimated dry weight based on 60% DRC.

* The figures for Nov 2023 and Dec 2023 are projections by *WhatNext Rubber Media International*.

Source: Compiled by *WhatNext Rubber Media International* based on data released on Dec 6, 2023, by the *U.S. Census Bureau*.

Supplementary Information

1. Table 2 shows the quantity of various forms of NR monthly imported in the U.S during the period from Jan 2022 to Oct 2023.

Table 2. Quantity of Various Forms of NR Monthly Imported in the U.S.
from Jan 2022 to Oct 2023 ('000 tons)

	Latex, Dry weight ¹ (400110)	RSS (400121)	TSR (400122)	Primary forms (400129)	Total
Jan-2022	3.4	10.4	76.4	1.0	91.2
Feb-2022	1.8	9.2	79.5	0.5	90.9
Mar-2022	2.6	8.1	87.4	0.7	98.8
Apr-2022	2.4	6.8	46.6	0.1	55.9
May-2022	2.5	11.8	75.8	0.6	90.7
Jun-2022	1.4	7.3	75.5	0.5	84.6
Jul-2022	1.7	8.2	91.0	0.1	101.1
Aug-2022	1.5	9.9	77.5	0.0	88.9
Sep-2022	1.3	13.5	92.5	0.1	107.5
Oct-2022	2.5	11.7	81.3	0.4	95.9
Nov-2022	1.7	10.3	78.8	0.8	91.6
Dec-2022	1.3	11.3	45.8	0.4	58.9
Year Total	24.0	118.4	908.2	5.2	1,055.9
Jan-2023	1.8	12.9	54.2	0.3	69.1
Feb-2023	2.0	4.7	67.3	0.1	74.1
Mar-2023	1.4	7.6	81.9	0.1	91.0
Apr-2023	1.2	11.4	54.0	0.1	66.7
May-2023	0.8	4.8	51.4	0.0	57.1
June-2023	0.8	8.4	51.7	0.1	61.0
July-2023	1.0	9.8	65.4	0.1	76.3
Aug-2023	1.2	10.5	53.4	0.5	65.6
Sep-2023	1.6	9.2	58.2	0.2	69.1
Oct - 2023	1.9	9.0	74.7	0.2	85.8

Products covered: HS 400110, 400121, 400122, and 400129.

Note: HS 400110 (Latex) is accounted in its estimated dry weight based on 60% DRC.

Source: Compiled by *WhatNext Rubber Media International* based on data released on Dec 6, 2023, by the *U.S. Census Bureau*.

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