

February 2013



Data Research  
研究报告



# Natural Rubber Monthly

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Qingdao International Rubber Exchange Market

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# 2013

## Introduction

Future market trend in February suffered from a sharp turn, compared with the continuous bullish macro data in January, the data in February turned bad. As a result, rubber futures and other bulk commodities experienced a waterfall decline of ten consecutive working days after the rising trend in the beginning of the month. The rubber futures of Shanghai Futures Exchange fell all the way from 27,500 yuan/ton to 23,500 yuan/ton, at a staggering decline of 17%. There have been only seven times in history for such a fast decline in such a short time.

In the aspect of natural rubber, production in main producing countries continues the slight increase. However, there is no improvement on consumer side of developed countries in Europe and the United States. Although China imports show significant growth year on year, the stocks in Free Trade Zone is still an obvious burden on the market price. The oversupply situation still exists.

The automotive market verifies such a phrase that “Some gotta win, some gotta lose” The United States continues to play a front role in boosting; Europe is bogged down in the economic quagmire as always; rebound situation of Japan in the second half of last year begins to fall. Performance of emerging market is unstable, sometimes good and sometimes bad. Chinese festivals shows significant role in boosting the car market, but the pre-Spring Festival car peak has passed. The market is waiting for the Ching Ming holidays and the two sessions.

In the aspect of tire, China's biggest tire export market, the United States, will continue to revive, which breeds optimistic atmosphere. In addition, due to the relatively cheap rubber price, tire factory shows strong willingness of production because it is profitable, which is conducive to the stability of the rubber consumption. However, tire export consumption growth lags behind, which brings no further bullish aspects.

Global macro economic situation is improved somewhat, but it still in the tough edge of recession. The United States' solution of "financial cliff", the Fed's stance on QE3 policy, the outcome of Italy election and China's new policies after the two sessions are expected to significantly influence the market trend.

On the whole, the Free Trade Zone stock hits a new high again and the downstream tire business starts recovery after the Spring Festival. However, tire enterprises purchase whenever they use, and the downstream demand of tire is flat, so the storage situation remains grim in free trade zone. March to May cargo is always available, which constrains rubber price from rising. Oversupply situation is still going on. The delivery stocks of Shanghai Futures Exchange are climbing, which is suppression on the rebound of rubber. At present, the de-stocking process enforces huge pressure on the market and the market outlook is still not optimistic. Rubber price in March is expected to continually plumb.

Please refer to our website for the price and data covered by this report.

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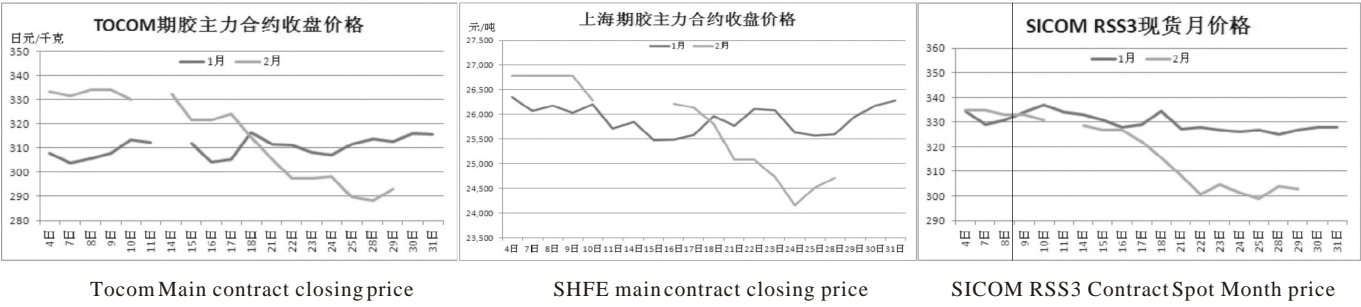
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Part I Market Condition Analysis

Rubber price trend showed a down turn in February; the price fell sharply after hitting the high point. The depreciation of the yen, as well as the state purchase rumors, played a stimulating effect on rubber price. However, the bearish macro environment, the sluggish need of the Chinese market after the Spring Festival and other factors together lead to the collapse of futures price and the low price of raw material market. Although the abroad offer was strong due to the stop tapping period, and the domestic synthetic rubber raw material and price increased step by step, foreign natural rubber market had to lower the high head under the flagging demand

1. Futures Market Condition

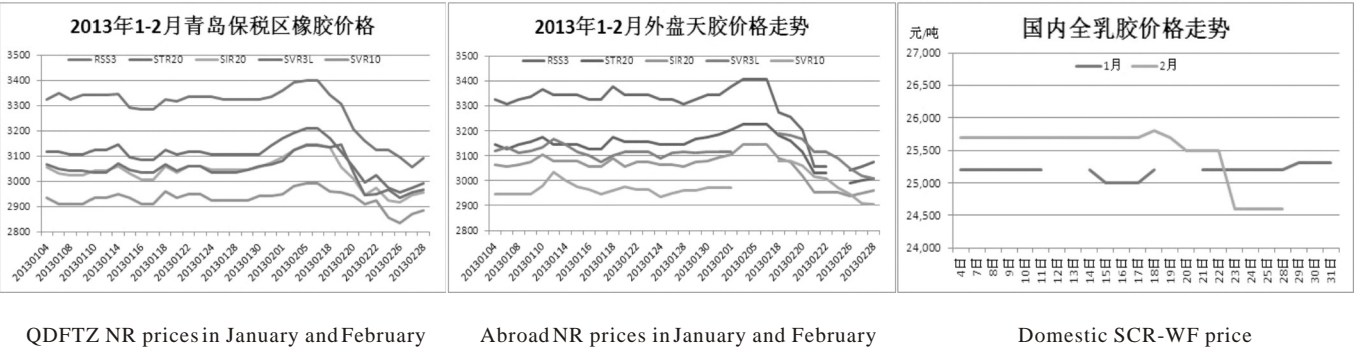
First, we need to look at the change of price trend of three futures exchanges in Tokyo, Shanghai and Singapore. In February, the market condition should be contrary to many people's expectations. After a rising trend in the beginning of the month, market experienced a waterfall decline of ten consecutive working days, all the way down from the highest point. Rubber futures of Japan TOCOM market fell all the way down from 330 yen to 280 yen. At the same time, Shanghai Futures Exchange fell all the way down from 27,500 yuan/ton to 23,500 yuan/ton, at a staggering decline of 17%. There have been only seven times in history for such a fast decline in such a short time.



TOCOM market reached the highest price of 337.8 yen on February 6<sup>th</sup>, only a little lower than the highest 344.4 yen of the same month last year, along with the advent of the traditional Chinese Spring Festival to suspend trading. Since then, rubber price dropped all the way down to a low of 280 yen. At the last trading day before the Spring Festival, Shanghai Futures Market rubber price fell, and this sagging trend continued after the Spring Festival, down to the lowest 23,550. SICOM market spot price, as well, following the sagging trend of the futures, dropped all the way down; RSS3 price dropped from USD 3350 to USD 2980.

Accounting for main reason of this decrease, let's analyze from macro aspect. In mid-February, the Europe G20 meeting first released some criticism for the sharp depreciation of yen, and then the Federal Reserve also proposed early withdrawal of QE. Due to last year's economic malaise, each country once again resorted to monetary easing policy, which could stimulate economy to rebound within a short period of time; but on the other hand, side effects were increasingly obvious. Market's expectation of inflation began to weaken. Yen's inflation stopped at 94.5 and Japan rubber price dropped accordingly. Dollar also rebounded from the low of 78, which was a pressure on the rising trend of bulk materials. Besides, the number of new loans of all major banks was far more than expectation in January, which raised concerns about domestic inflation expectation. For China's central bank, sell repo tucked money occurred in the capital market for the first time, in order to balance money. Lacking of bullish factors in macro economic, bulk materials collectively fell after rise; the decline range of rubber was at the top due to previous huge stock.

2. Spot Goods Market Condition





In February, natural rubberspot price fellafter hitting high,and further droppedto the lowestlevel since 2013. For the spot goods in Qingdao Free Trade Zone, the highest price of natural rubber occurred in the beginning of February; the highest price of RSS3, STR20, SIR20, SVR3L and SVR10 was respectively USD 3400, 3210, 3145, 3140 and 2990 per ton. Lowest price appeared at the end of the month, respectively USD 3050, 2950, 2910, 2930 and 2830 per ton. The maximum price difference between RSS3 and STR20 was USD 200 per ton, and this difference gradually narrowed to around USD 100 per ton over time. The premium of STR20 over SRI20 was USD 40-80 per ton and this premium narrowed as well. Before mid-February, the price difference between SVR3L and SIR20 stayed flat, but after the middle of the month, SVR3L price went higher and the premium was around USD 10-30 per ton. Taking all these rubber varieties into account, the premium of RSS over STR, together with the premium of STR20 over SIR20, was basically within the normal range. The premium of SVR3L over SIR20 stayed flat, or increased to about USD 20 per ton, which was still in advantage relatively. In addition, Thai standard compound rubber offer was almost the same with STR. Thus, in terms of price, there was no clear advantage of compound standard rubber at all.

Abroad natural rubber price trends were similar to that of Qingdao free trade zone, all high at early then low at end. The highest prices of RSS, STR, SIR, SVR3L and SVR10 were at early of this month, the highest prices were \$3400, \$3220, \$3140, \$3220, \$3140 /MT respectively. The lowest prices of RSS, STR, SIR, SVR3L and SVR10 were at the end of this month, the lowest prices were \$3040, \$2990, \$2940, \$3010, \$2900 /MT respectively.

The RSS prices were higher than STR prices. The price differences between RSS and STR were shrank from \$180/MT to \$60 / MT; The lowest, only \$20 /MT. The STR prices were higher than that of SIR. The price differences between STR and SIR were on the range of \$50 to \$80 /MT. The SIR prices were lower than that of SVR3L, the price gap at the beginning and end of the month were low, however during the mid were high. The gap at the beginning of the month was \$100 / MT, and at the end of the month was \$50 / MT. The biggest gap occurred during mid which expanded to \$160 / MT. Compared with all kinds of rubbers from abroad, RSS were much cheaper than before and the prices of SVR3L and SVR10 were also not competitive . The quotations from abroad the compound rubber and raw rubber were almost the same.

In February, at the first half of the month, the quotations of the latex from domestic state farms were strong and maintained on RMB25700 yuan/MT; however it's slipped to RMB24600 yuan/MT at the end of this month. Compared with SHFE spot contractual prices, its relative stable, the price trend was similar with Singapore's price trend.

Generally speaking, the prices from domestic state farms were not competitive; the prices of imported rubber from abroad and especially the compound rubber were relatively competitive. Abroad quotations of Vietnam rubber were higher, without any competitive advantage, but the prices of SVR3L in Qingdao free trade zone were more attractive, and the buyers' market recognition was higher. In addition, at the first half of the month, abroad prices were generally higher than domestic prices, which caused to prices upside down situation. On the second half, the RSS rubber prices backed to normal, especially abroad RSS prices were relatively high transactional.

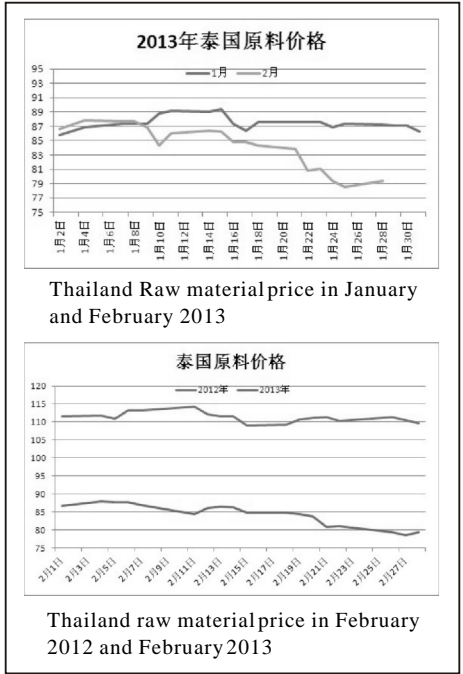
### 3. Raw Material Market Condition

Thailand's rubber and raw material market is mature and transparent; it has significant guiding function on global rubber raw material market. It's very typical, so here we use Thailand's raw material change to analyze abroad rubber raw material market change in February.

In February, Thailand's raw material market under high pressure, raw material prices declined significantly. On early February, the price fluctuated around 87 baht, into the mid of this month price slightly slipped to about 84 baht, price continued to fall at the second half of this month, fell to below 80 baht, the lowest was 78.59 baht. The picture on the left above is the USS3 prices comparison of January and February in Hatyai market. As you can see, the raw materials prices steady in January, fluctuated at 85 to 89 baht per kg, at the first half of February prices slightly declined, at the second half of this month the price declined obviously, down by 9.4% and its 7.28 baht per kg lower than that at the beginning of this month; In comparison, the average price fell modestly, compared with January the February average price down only 3.66% and its 3.2 baht per kg.

The picture on the right above is the USS3 prices comparison between February 2012 and February 2013. Both two price trends show beginning high and end low. However the USS3 price fell sharply compared with the same period in 2012, the average price fell 27 baht per kg or by 24.3%.

USS3 price weak and fell in February 2013, the main reason was the downstream demand. In early February, Chinese New Year came, tire factories had holiday, stopped buying, market stagnated; In late February, although Chinese factories

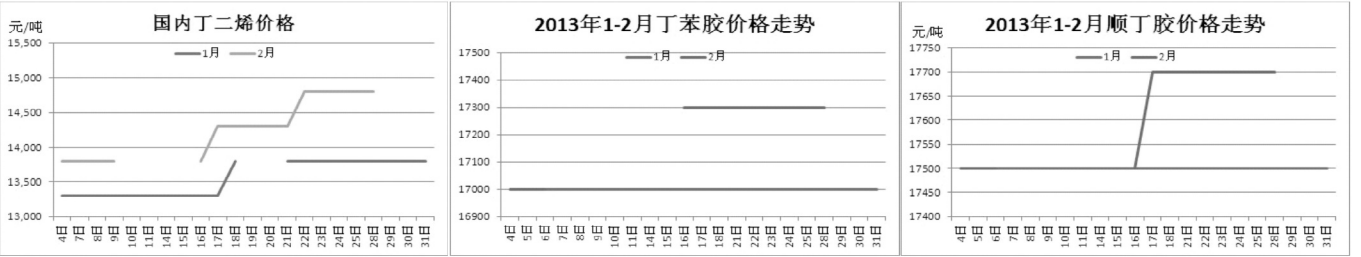


return to work, but Thailand rubber producing areas began to stop cutting, latex production declined, and USS3 price still no improvement, because the tire factory had enough raw material inventory, the new purchasing plans would be decided in accordance with the tire sales condition after the holiday, so that the Thailand exporters lack the confidence of stockpiling their raw materials. And the strong strength of the Thai baht has also weakened the Thailand's rubber competitive advantage. In late February, the inventory of Qingdao free trade zone recorded at 355000 MTS, the upside down selling price situation would still last, so abroad buying power was limited.

Usually while Thailand into full stop cutting period, raw material prices will be supported, but this year the climate of Thailand is in good condition, and is expected to open cutting half a month earlier than normal, stop cutting period will shorten, supply will increase; And the high inventory of downstream, the de-stocking slowly, abroad buying during cutting will not increase much.

In conclusion, although Thailand has stop cutting in February, but the raw material USS3 price still fell, the market still in its weakness. In march, while Thailand into full stop cutting, raw material prices is expected to remain stable, but subject to the downstream high inventories, hopeless to surge.

### 4. Synthetic Rubber Market Condition



For synthetic rubber, as the domestic raw material butadiene's price continued to increase since January which led up the synthetic rubber factory prices. Butadiene rose by 7% in February, the highest price was 14800 yuan/MT, occurred at the end of the month; the lowest price 13800 yuan/MT, occurred at the early of the month. SBR 1502 factory prices in February rose by 2%, the lowest price was 17000 yuan/MT occurred at the end of February, and the highest price 17300 yuan/MT. BR factory price rose by 1% in February, the lowest price was 17500 yuan/MT occurred at the end of this month; The highest price at the early of this month and its 17700 yuan/MT. The gradually increased prices of synthetic rubber and its raw materials didn't bring any substantial support for the gloomy NR market.

From the overall price run, constrained by the macro policy and economic forecasts, the NR price fell after hit high; though there were favorable factors occasionally, but the overall atmosphere was bearish, the declining trend was unavoidable, the later trend shock down.

## Part II Supply and Demand Analysis

### 1. Natural Rubber

According to a report released by ANRPC, the production quantity of natural rubber continued to increase slowly. The major producers Malaysia, India, Vietnam imports data were changed tremendously, by a positive turn negative year-on-year growth. Main consumer of natural rubber-- China, imports were still in high quantity; while in the United States the trend continued to downward. China rubber imported 38.4% in the first two months. Does the rapid development of global rubber industry would depend on the single growth of China NR imports?

The imported price of the standard rubber from abroad were RMB1000 lower than China latex, and the compound rubber was about RMB2500 lower than China latex. This situation led to the imports increased sharply. Rubber imports quantities surged by 85.3% year-on-year in January, compound rubber imports increased by 117%. Due to the large proportion of the standard rubber in Qingdao free trade zone warehouse, the RSS imports ratio increased, the standard rubber proportion fell respectively. And more importantly, this led to the Qingdao free trade zone and even the whole Shandong area rubber imports growth shrank.

Besides, the rumors that the rubber production countries would purchase and store their rubbers at early time and recently the huge price gap between domestic and abroad natural rubber led up the willingness to put in warehouse and delivery increased and also the inventory of futures increase rapidly. The price of the compound rubber and China SCR5 upside down also made the total quantity of the compound rubber in Qingdao free trade zone warehouse increased gradually. More over the total inventory in

Qingdao free trade zone at a record high to 355000MTS. Tough the quantity of Qingdao free trade zone was increasing, but the imports quantity of Dongying also increased by 97%.This shows virtually that the uncompromising between traders and purchasing factories.

According to the latest reports released by the ANRPC, in 2012, Indonesia's rubber yield was 3.26 million MTS, 920000 MTS in Malaysia, India was 915000 MTS, 860000 MTS of Vietnam, and China 800000 MTS. Year-on-year growths in turn were 7.7%, 7.3%, 7.3%, 7.7%, 7.3% respectively. For exports, in 2012, Malaysia exported 1.34 million MTS rubber, up by 6.9%; Vietnam exported 1.02 million MT, up by 25%. For imports, in 2012, India imports rose by 56%, Malaysia rose by 31%. The consumption, in 2012, India was 990000 MTS, up by 3.1%; Malaysia, 460000 MTS, up by 9.4%; Indonesia's 500000 MTS, up by 6%; Vietnam 150000 MTS, up by 3.4%.

In addition, the report also shows that from January to February, 2013, ANRPC members (except Thailand and Indonesia) the rubber yields increased by 3% year on year. Among them, Malaysia was 185000 MTS, up by 6.9%; Vietnam, 120000 MTS, up by 4.3%; Cambodia, 12000 MTS, up by 71.4%. In the first two months, Malaysia increased 6.5% to 210000 MTS and Vietnam increased 3.8% to 165000 MTS; Cambodia increased 22% to 11000 MTS.

More importantly, Malaysia, India, Vietnam rubber imports were declined, followed by -11%, -35% and -39% respectively.

In January of 2013, China had imported 250,000 metric tons natural rubber, a big growth of 85.3% year on year and a growth of 18.8% than last month, which made the highest importing volume in a single month.

According to the main grades of the importing natural rubber, in January the standard rubber had been imported 161,000 mts, which approached 64% of the whole amount; RSS had been imported 41,000 mts, which approached 16.3% of all; compared to the lowest level (4.4%) happened in last month, this increased 5.6%. This situation had a direct relevance with the high stock amount of standard rubber and the low stock amount of RSS in Qingdao Bonded Warehouse.

According to the main source of imports in January, 160,000 mts were imported from Thailand, which occupied the most amount, about 64%. The second largest source of imports was Indonesia, which was 32,000 mts of 13%. Vietnam had 25,600 mts, which occupied 10%. Malaysia was No. 4, which had 25,000 mts.

According to the main importing places in China, In January, Shandong province had imported 117,000 mts, which occupied 47% of the whole importing amount, with a growth of 47.4% year on year.; Shanghai, Guangdong, Zhejiang, Fujian, Jiangsu had respectively imported 26,000 mts, 17,000 mts, 16,000 mts, 14,000 mts, 12,000 mts, which occupied 10%, 7%, 6%, 6%, 5%.

In January, according to the Shandong province, Qingdao Free Trade Zone had imported the largest amount of natural rubber, which is 43,000 mts, occupied 17% of the importing amount of the whole province. Dongying imports 20,000 mts, which was 9% of the whole province. And the importing amount of natural rubber in Qingdao Free Trade Zone increased 5.9% year on year, Dongying had a sharp growth of 97% year on year.

In January, China had imported 135,000 mts compound rubber, with a growth of 117% year on year and decreased 5.6% than last month. Shandong had imported 63,000 mts, which occupied 46% of the whole amount with a growth of 164.7% year on year. Zhejiang and Fujian were in the second and third place, had respectively imported 16,400 mts and 10,000 mts with a growth of 287% and 511%.

According to the cities, Qingdao Free Trade Zone had imported 34,000 mts compound rubber, which occupied 1/4 of the total amount, secondly was Hangzhou with 13,600 mts and Dongying with 11,700 mts. Hangzhou and Dongying increased 394% and 197% year on year.

According to the countries of origin, Thailand had 65,000 mts, which was the most; secondly was Malaysia with 46,000 mts, Indonesia 13,000 mts, Vietnam 3,360 mts, Cambodia 2,000 mts. And, Indonesia and Vietnam had the fastest growth of more than 900% year on year.

Compared to other cities' 200% growth of importing, on the large pressure of high stock in Qingdao Free Trade Zone (especially natural rubber's stock is more and compound rubber's stock is less), the growth of natural rubber's importing had a big contraction in Qingdao Free Trade Zone. Other main rubber consuming regions in Shandong, such as Yantai, Weihai, etc, the growth was also over 100%.

In addition, in January, America had imported 76,000 mts natural rubber, which decreased 3.84% year on year and decreased 3.37% than last month; Japan had imported 61,000 mts natural rubber, which increased 4.5% year on year and with a big growth of 36.8% than last month..

This indicated that America's natural rubber consuming hasn't improved; because

the importing amount of Japan was not so much, it was hard to change the whole situation; Europe, which still suffers the debt crisis, can not improve in a short time; and China's natural rubber importing got a growth of 38.4% in last two months, but it seemed farfetched to only rely on China's consuming to pull all the world's natural rubber industry.

According to the main rubber countries' stocks over last months, China's stock was still increasing and the stocks of Thailand, Malaysia and Indonesia also kept in a high level.

The stock of Qingdao Free Trade Zone is always concerned. Till the end of February, the latest stock data made a new history again, which reached to 355,000 mts. From the above figure, we can figure out that the amount of natural rubber and compound rubber kept increasing. After the new year, the cargoes removal was less, some of the big warehouses' removal amount decreased to 200-300 mts. But the entry of the cargoes to the warehouses was large, in order to avoid the saturation, the warehouses basically didn't get orders. The new arrival cargoes faced a very embarrassing situation. The data displayed that in January the natural rubber importing amount of Qingdao Export Processing Zone increased 3,300 mts. It showed that the Qingdao Free Trade Zone was full and it forced the importers to transfer the storage places. Meanwhile, the importing growth of other regions also hinted that the importers started to transfer the storage places.

From the figure, we can find out that from the end of November to now the stock of Shanghai Futures had a big growth. On the one hand, because of the rumor that the State Reserves will order 20,000-50,000 mts rubber from the Futures, it forced a part of SCR-WF entering the Futures delivery point. On the other hand, because of the high premium of contract 1301, it caused that people can import RSS at a lower price than contract 1301 then complete the delivery into the market.

From the point of the stock, the amount of Qingdao Free Trade Zone keeps increasing. On the one hand, the previous orders arrive to the port continuously and make the supply adequate. On the other hand, it shows that the factories' willingness to buy the physical cargoes is not so strong, it causes the removal of the cargoes gets less. Behind this, in the areas of tyre producing, the importing amount of natural rubber is getting more and more. It seems like a battle.

## 2. Automobile Market

In 2013, the world vehicles market has got a result of the first two months. It still showed that some glad and some sorrow, which followed the trend of 2012.

Among the mature markets, America still plays a role of pulling; Europe is in deep trouble the same as usual; Japan's bounce of the second half of last year is changed to decrease. China's vehicle enters into a micro-increasing time. The European vehicles industry has to spend some tough time to get better under the affection of the Debt Crisis.

### The Americas:

#### America

American economy' recession and slow recovery hasn't stopped the growth of new vehicles' sales volume because of the low interest rate. In January 2013, the sales volume of America's light vehicles had reached to 1,043,192 with a 14.2% growth year on year. The February's sales volume increased 3.7% year on year, it was obviously slower than last few months. It was thought that the petro price, cold winter and changes in the federal budget were the main reason of February's growth drop, but they were still optimistic to the market. The first two months of this year, the sales volume of America's light vehicles had reached to 2,235,537, which increased 8.4% year on year based on the same time of 2012 (2,062,911). American vehicles market had a high growth since 2011, most months had a 10% growth year on year. The total sales volume of 2012 was 14,492,398, which increased 13.4% year on year. This was the third straight year with a double-digit percentage growth since 1973.

#### Canada

This February, Canada's vehicles sales volume kept decreasing year on year as last month. In February, the sales volume of light vehicles was 1,032,000 with a 3.3% decreasing year on year. This January, the sales volume of passenger vehicles in the light vehicles market had a 4.2% decreasing year on year, from 46,285 last January to 44,359. The sales volume of light trucks reached to 58,867 with a 2.6% decreasing year on year. Canada's light vehicles' sales volume decreased 2.8% year on year, and the sales volume of passenger vehicles decreased 4.7%.

#### Brazil

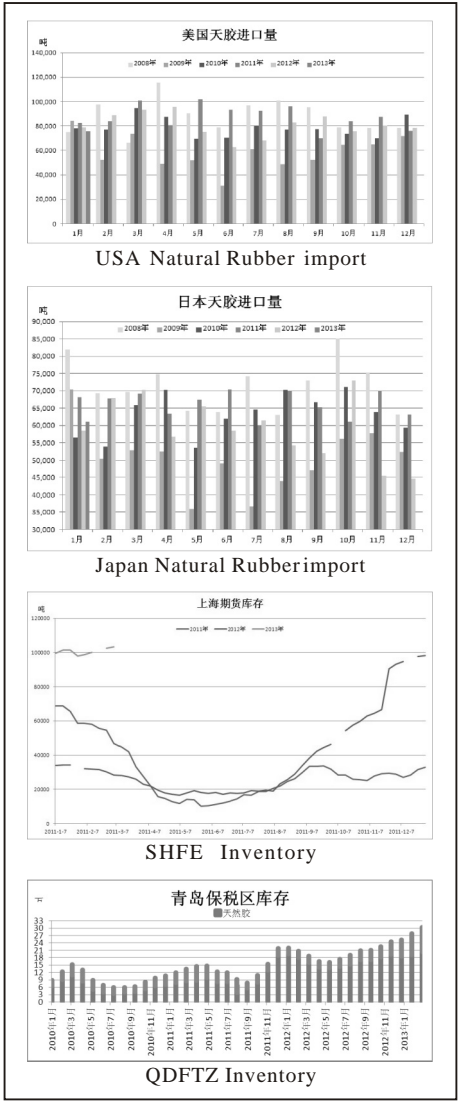
According to the data of Brazil Vehicle Association, the sales volume of light vehicles was 222,730 in February 2013 with a 5.6% decreasing year on year. The sales volume of the first two months was 517,790 with a 6.4% growth year on year. If added the heavy trucks and passenger vehicles, the sales volume in February was 235,109 with a 5.8% decrease year on year. The total sales volume from January to February increased 5.6% year on year.

#### Argentina

This February, the domestic sales volume of vehicles reached 67,676, with a 6% growth year on year; In January it decreased 7.7% year on year. The total sales volume of the first two months was 125,766 with a slight decreasing of 0.8% year on year.

#### Europe:

Sincere 2012, European vehicles industry has been getting hit gradually and hasn't been recovered from the depressed situation. The drop of sales volume brought the low profit and deep losses, some companies even got a big business crisis. According to the data of European Vehicles Manufacturers Association, European vehicles' sales volume was 918,280 in January 2013 with a





8.5% decreasing year on year, which kept decreasing for 16 months(the lowest in 23 years). In January, Germany, France, Italy, Holand, Spain and Sweden, etc all decreased year on year. Besides, France and Italy had a double-digit decreasing year on year. Even Germany who was good at vehicles manufacture, hadn't been survived, with a 8.6% decreasing in January year on year. According to the data of LMC, this February, the vehicles sales volumn of 17 western European countries(including Northern EU and Southern EU, etc the developed countries) was about 772,000 with a 10.6% decreasing year on year. From January to February this year, the total vehicles sales volumn was 1,629,266, the same time in last year was 1,804,724, with a 9.7% decreasing year on year. Among the 17 countries of LMC, only Belgium, Greece, Norway, Portugal and the UK had a increasing in February. 13 countries, including Germany(the biggest vehicles market in EU) were all decreasing, which accounted for over 70% of the number of countries

**Australia:**

90,218 new vehicles were sold out in February, a year-on-year increase of 5.2%, while new car sales increased by 11.3% in January. New car sales totaled up to 175,648 in the first two months, an increase of 8.1%.

**Asia**

**Japan:**

New car sales slumped with a two digit percentage both in January and in February. 229,333 vehicles were sold in January, a year-on-year drop of 12.9%, while a sharper fall of 13.5% were seen in February.

**India:**

The Society of Indian Automobile Manufacturers (SIAM) revealed that due to weak economy growth, continuously high oil price and interest rate, passenger vehicle sales in February plunged down by 25.7% in comparison to the same period of last year to 158,513, the largest decline since 2000. 68,388 commercial vehicles were sold out in February, declined by 11.1% from 76,891 in last February. SIAM's figures showed that automobile sales increased by 30% in the 2010-2011 fiscal year but the increase contracted to 2.2% in the 2011-2012 fiscal year because India Reserve Bank increased the interest rate repeatedly and India GDP growth began to slow down. SIAM initially forecasted the total passenger vehicle sales would increase by 10% to 12% in this fiscal year (from April 2012 to March 2013), but last month it changed its passenger vehicle sales forecast to a 0 -1% increase after 3 adjustments. Even so, Chief Manager Sugto Sen in SIAM said, by the end of next month when this fiscal year finished, India automobile sales could hardly reach the new forecast, and the total sales were inclined to fall down.

**China:**

Automobile sales gained high-rate growth in January, spurred by a better macro-economic environment, obvious demand growth and especially the massive car purchases before spring festivals due to the “ high-speed toll free during public holidays” policy. China automobile production passed 1.9 million in January, and total sales passed 2 million, recording new highs both. Passenger vehicle sales grew up by 50% in January, exceeding 1.7 million for the first time. It became a major characteristic of China Automobile market that people loved to buy new cars before the lunar new year. Therefore, car consumption demand was intensively released before Spring Festivals. Car dealers prepared more reserves before the peak consumption season, and car manufacturers provided more supply. These caused the inventory index in January a tiny increase, but still within a reasonable range.

In February, China produced 1.3472 million vehicles, declined by 31.42% compared with January, a year-on-year fall of 16.25%. Car sales were 1.3546 million, a month-to-month decline of 33.42% and a year-on-year decline of 13.56%. Although car sales declined heavily in February, total sales in the first two months still increased due to a large increase in January. Data showed that in January and February the total automobile production were 3.3117 million and the total automobile sales were 3.3891 million, increased by 14.1% and 14.7% respectively. The automobile market went into a recovery period in February, when consumers' demand decreased obviously. According to China Automobile Dealers Association (CADA), the vehicle inventory alert index in February was 57.17%, a month-to-month increase of 11.91%, showing the stock risks were obviously going up. The vehicle sales increased by 23% compared with the same period last year if calculating on the actual working days in February, the sixth consecutive month of large increase since last August.

Seen from the conditions in January and February, Passenger car production and sales both increased in high speed, being the driving force to pull the whole automobile sales. Total passenger car production and sales were 2.7262 million and 2.8374 million, increased by 17.8% and 19.5% respectively year on year. But Commercial vehicles declined continuously. In February, commercial vehicles production and sales were 242.1 thousand and 242.7 thousand, decreased by 29.5% and 21.4% respectively month to month, and decreased by 30.3% and 31.4% respectively year on year.

Due to China New Year holidays, heavy truck sales declined largely. It is reported that the estimated heavy truck sales in February were 40 thousand, a large decline of 48.8% from 78,119 in same month last year. In addition, heavy truck manufacturers prepared a lot inventory last February but many manufacturers and dealers dared not to prepare large stocks this February due to weak demand from end users. This caused the decline of production and sales. In details, Sinotruck sold 9000 heavy trucks in February, the No.1 in the industry, however a 40% decline year on year, Dongfeng Motor Corporation and FAW decreased by 53.5% and 62.7% respectively, Foton Motor and Shaanxi Automobile Group fell down by 46% both in sales. In third group, Baotou Bei Ben Heavy Duty, JAC Motors and Hongyan Motors declined by 78.5%, 25.5% and 2.4% respectively. The total sales in the first two months were 83 thousand, decreased by 28.6% from 116.3 thousand in same period last year. Whether the market will warm up or

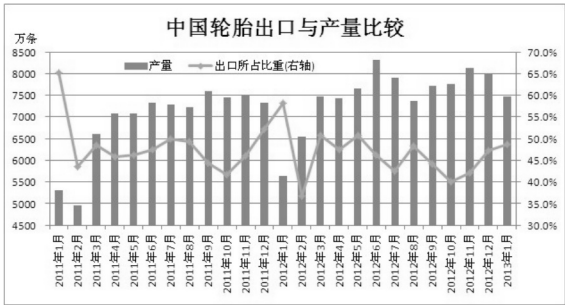
not is mainly determined by the traditional peak sales season in March and April.

Due to China New Year holidays, both car production and sales fell down in February, but according to the total production and sales in the first two months, China Automobile market in general opened with a good condition this year and market demand was relatively robust. There are 21 working days in March, two days less than last March, being an unfavorable factor. But NPC & CPPCC to be held in March will bring lots of exciting news and a new round of Financial Investment, boosting the consumers' confidence and pushing the automobile market development. Besides, the Ching Ming Festivals in early April might bring a new peak in sales in the second half of March because of free high-speed toll. Manufactures were dissatisfactory with February sales below previous high expectations, therefore, their promotion would last till March, contributing to March sales. From last November to the end of February, the dealers' inventory totally declined by more than 160 thousand, and the manufacturers would increase the wholesale sales for a better score at the end of the month, also the end of the season. People in the automobile industry estimated the market would get better gradually, but the manufacturers should still be alert and not too optimistic to control the inventory risks.

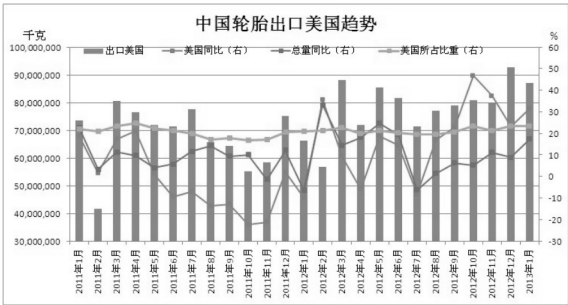
In general, automobile sales saw a gradual recovery in major economies, especially USA having an eye-catching performance. But the debt crisis plagued Europe, Japan and India slumped. China automobile market saw a nice performance due to the pull of passenger vehicle sales but the commercial vehicle sales, especially heavy truck sales caused eyebrows to raise. The automobile market was believed not to be too bad because of the expectations of NPC and CPPCC and Ching Ming Festivals.

**3. Tire Market**

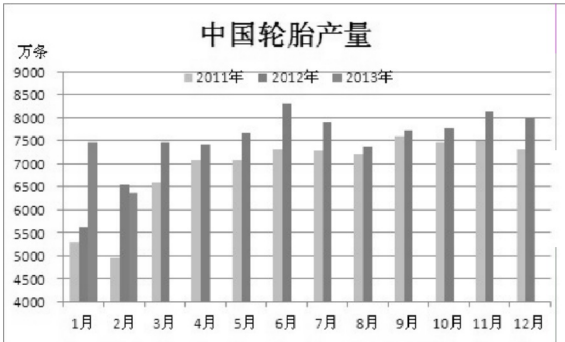
Seen from some major countries, the economic environment and vehicle sales performance had direct influence on China's tire export. USA tire import saw a good performance in January. Both tire production and tire export grew in January, different from last year when the tire production increased but export declined. The tire production increased more than the export, therefore the export-to-production rate decreased. This indicated that the tire inventory was still in high level at present.



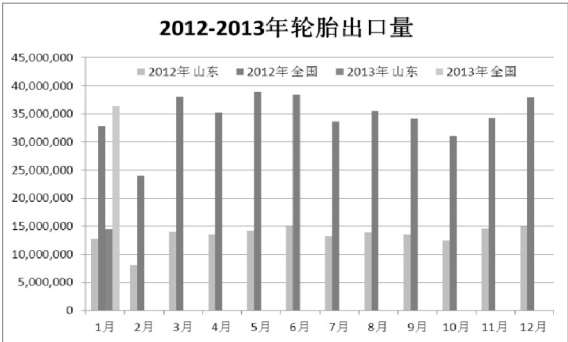
China Tire production and Export



China Tire Export to US



China Tire production in 2011, 2012 and 2013



Tire export in 2012 and 2013

The China tire production in February 2013 fell down by 2.7%, year on year, to 63.65 million. In January and February, the total production increased by 13.8% to 138.3 million. In the aspect of export, the total tire export were 36.4 million in January, a year-on-year growth of 11%. Among them, Shandong exported 14.42 million tires, a year-on-year increase of 13.6%, but a month-to-month decline of 4%. In terms of cities, Dongying exported 4.98 million tires in January, the most in Shandong, Qingdao 4.3 million, Yantai 1.37 million, Weihai 0.83 million, Qingdao E&T Zone 0.61 million, a month-to-month increase of -4%, 1.6%, -6.8%, 9%, -8.9% respectively. Other cities such as Jimo, Rongcheng, Zaozhuang and Jining exported different amount of tires ranging from 0.2 million to 0.4 million. In addition, Hanzhou in Zhejiang and Xiamen in Fujian exported more than 2 million tires each in January. Beichen district in Tianjin, Shenzhen and Kunshan exported more than 1 million tires each. Seen from the export-to-production rate in January, it slide down compared with the same period in 2011 and 2012, but the export

amount still increased. This indicated China tire production were surplus and a lot tires were overstocked in domestic market. A bright spot among this was that the falling trend of export-to-production ratio starting from last July began to go up in January. But the future market conditions were uncertain.

USA was the largest export market of China tires. The figures showed 87 thousand MT tires were exported to USA in January, a year-on-year increase of 31.5%. And the increase rate of January was higher than that of any month in 2012.

It reflected the export status were quite good in the first month of the year, and the US market began to recover after the expiry of the special protection tariff.

Besides, tire exports to other main export market such as UK, Australia, Canada and Mexico saw an increase of 17% or so. Export to Saudi Arabia increased even by 175%, to Russia 61%. Export to The United Arab Emirates and Brazil declined by more than 20% in growth rate, Germany more than 40%.

In general, tire foreign trade was relatively stable, mainly influenced by future global economic conditions and overseas market demand. Under the circumstance of larger production, what is more important is to confront the pressure of cutting down tire production and de-stocking.

## Part III Economic Analysis

### U.S.A.:



USA ISM Manufacturing Index

USA Unemployment Rate

U.S.A. Durable Goods order month rate

The data released in February showed that U.S. January PPI MoM up by 0.2%, the first time rise in four months; January U.S. housing starts is 890,000 after season adjustment, less than expectation. But the single-family housing starts and building permits is the highest in the 53 months and 54 months reflecting the growth of real estate industry. U.S. January factory orders month rate fell by 2.0%, expectation 2.2%, former value increased by 1.8%. Although January factory orders month rate is down, the decline percentage is less than expectation. FEB ADP employment increased by 198,000, higher than the market expectation 170,000, and corrected former value of an increase of 215,000, the initial value is an increase of 192,000.

From many signs we can see slight expansion on U.S. economy activity in January and February is slightly. The U.S. economy was improved and Dow Jones Index continuously rise. The recovery of U.S. economy strengthens U.S. Dollar and suppresses the price of commodity. Although the recovery of economy will promote the consumption of cars and the demand for tire, but it will take longer time to influence the rubber price.

The Fed's January meeting minutes showed that several Fed policy maker said on the meeting that the QE3 may need to be stopped or curtailed before the employment is significantly improved. After this was released, the commodity price sharply came down. It shakes up the loose monetary conditions, which is the foundation for commodity price to rise. Although Fed chairman Bernanke said Fed will not stop the QE policy lately, the market confidence is not as firm as before and market is worrying about the future of the monetary policy.

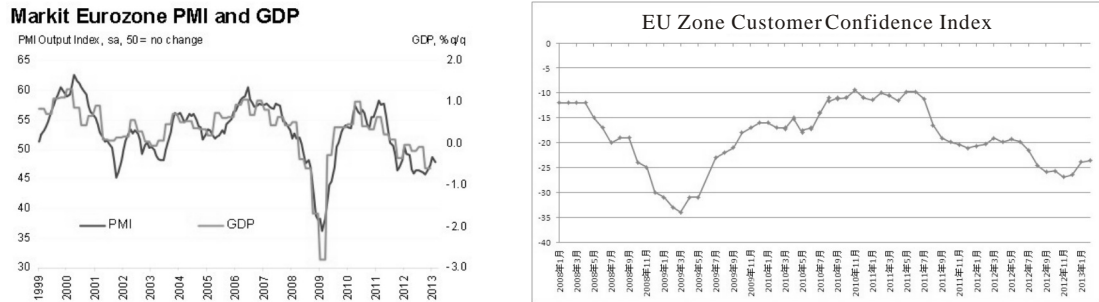
Taking into effect of Financial Cliff, there is a long way to go for U.S. economy recovery, and it shows neutral impact on rubbers.

### Europe:

According to the data from the market statistical agency Markit, the corporate activity of countries such as France, Spain and Italy sharply dropped in February, which dragged the whole Eurozone economy into further recession, and leading to a bigger gap with the German economy.

The data showed that the euro zone in February Markit composite purchasing managers index (PMI) the final value fell to 47.9, slightly better than market expectations of 47.3, the former value of 48.6. The euro zone Markit Service PMI for February final

value fell to 47.9, the former value of 48.6, and the initial value of 47.3. Although the data was better than the previously announced initial data, it was still below the 50 the Dividing Line.



The data also showed that the corporate activity of Spain and Italy was still in recession. Germany FEB Markit composite PMI slow down and below the 19 month high point.

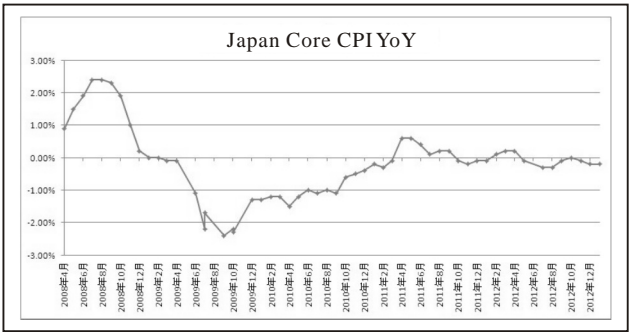
The latest survey results also showed that the first quarter of the 2013 euro-zone economy was expected to shrink by about 0.2%. Finally, Eurozone is still in recession and we don't know when it will get rid of the debt crisis. Eurozone economy recovery is still unforeseeable.

### Japan:

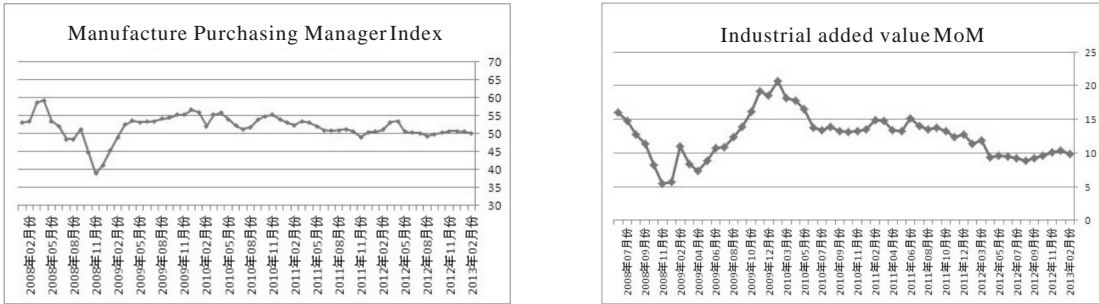
When Japanese Prime Minister Abe took office in December last year, he promised that he will recommend new central bank governor to launch unlimited loose monetary policy to drive down the Japanese Yen, so as to help Japan economy recovery. This once caused 'Abe transaction' in the foreign exchange market, and the Japanese Yen depreciated rapidly in just a few months by 20%. Japanese Yen depreciation played an important promoting role in TOCOM rubber rise from 275 Yen to 330 Yen.

Although the market expected that Japanese Yen will depreciate more, the impact on TOCOM rubber will be weakened and impact on rubbers priced by U.S.D will be weaker.

The data showed that Japan February Markit / JMMA manufacturing purchasing manager index (PMI) rose to 48.5 after season adjustment, higher than January - 47.7. The index rose, but still lower than the 50 the dividing line. Japan economy is in austerity.



### China:



The data showed that China February Manufacture purchasing manager index final value was done to 50.4, which was done from two years' high point 50.4 in last month. This index is above the dividing line 50 for 4 successive months, which shows that China economy is in moderate expansion.

China's TWO SESSIONS will start soon and market has good expectation on new government's expansion policy. Even though the current economy is still not good, but market is optimistic.

In summary, world economy is becoming a little better, but moving around the edge of recession. The solution to U.S. financial cliff, FED's attitude on QE policy, result of Italian election and the expectation on new policy after China's TWO SESSIONS will have import effect on market trend.



## Part IV Market Outlook

Rubber price experienced huge fluctuations in February, hitting new low after creating new high during some ups and downs. Now we analyze the future market in the macro and fundamentals.

At present, the lowest price at TOCOM has dropped to 267 yen, the main contract's to 280 yen. At about 94 yen to the dollar, the price of delivery month contract has been as low as USD2.84/kg, forward month contract USD2.98/kg (freight charges and other costs out of consideration), and the lowest price of RSS3's delivery month contract at SICOM reached only USD2980. Therefore, taking the futures price relations as the only factor, it may be an oversold level that TOCOM rubber dropped from 330 yen to 280 yen. Meanwhile, Abe's government will keep its yen-devaluation economic stimulus policy in suffering G20 warning, so there is need for TOCOM to experience a rebound. The lowest price at SHFE is RMB23550/MT, a higher price in comparison with TOCOM and SICOM. Domestic compound rubber is RMB21500-21800/MT, SVR3L RMB23000/MT (17% tax), and RSS3 RMB23800-24000/MT. Actually, SHFE price takes no advantage. But contract1305 experienced some changes in Feb.27. Market rumors said that the State Reserves Bureau collected rubber once again to prop up spot price, which was proved to be true later. Contract1305 and contract1309 premium shrink sharply, and betting against forward month contract is challenged. Coinciding with the two sessions, we suggest making decisions on the basis of the latest news.

View from the fundamentals in term of supply and demand, bonded warehouse inventory hit a new record high. Most tire factories came into operation after the Spring Festival, but they only buy rubber when immediate demand occurs. What is worse, demand for tire also presents to be small. Therefore, warehousing situation in the Free Trade Zone keeps severe. Besides, cargoes from March to May are available at any time, which further suppresses the up-trend of rubber price. On the other hand, Chinese purchasers are high on buying goods, causing there being great quantities of cargoes arriving at port in succession, which contributes to the extension of over-supply situation. Meanwhile, delivery inventories at SHFE is piling up and up, suppressing the rebound of rubber price. At present, the urgent need to digest inventories will press a lot on the market. Future market situation still instills little optimism, and more drops can be seen as the main trend in March.

## Part V Postscript

At the time that you get hold of this February issue in late March, China Rubber Annual Conference must be near at hand and the market situation will be unraveled soon. Our forecast on market situation in early March will also become meaningless and its reference value will shrink a lot. In view that March's being yet to finish makes the March issue still unavailable by then, the whole staff of editorial board has discussed and decided to enclose our second quarter outlook with this issue to keep its original reference value. May it can enlighten you on market judgment.

SHFE RU1309 price chart



In early March, Shanghai rubber dropped to RMB24000. Whether this supporting level can be broken absorbed wide market attention. Thanks to the strong propping function of this level, Shanghai rubber lingered here as long as 7 days without rebound,

after which it dropped sharply to RMB22405 within 3 trading days, which indicated the obvious weak market situation. For about the second quarter market trend, we will analyze in three aspects: the macroeconomy, monetary policy and fundamentals.

### 1. The macroeconomy

In the past two weeks, nothing could be more significant than China's two sessions. During the two sessions, China's leadership changed its members successfully, discussed a series of significant problems concerning national economy and people livelihood and made remarkable achievements. Premier Li Keqiang administrates the State Council. His governing concepts in deepening reform, scientific development, benefiting the livelihood of the people and some other contents will be implemented in future years. The simple and down-to-earth style of the two sessions makes countrymen feel fresh; the exciting fruitful achievements make China Dream seem true; and China's prosperous future makes investors feel safe and steady. On the other hand, however, the practical manner of this leadership makes previous strong expectation on new economic stimulus policy turn to bubbles, which further leads to the absence of previous market situation played during the two sessions. The domestic macro affects little on market situation, so does it in Europe and America. Therefore, generally speaking, since the macro contributes little, it can't be considered as the leading factor in this certain period. Yet, whether the government will publish new policy is unpredictable, so we can't get rid of the factor that the new government may take stimulus measures later.

### 2. Monetary policy

Despite of the repeated news from the Federal Reserve that the US will not retreat from QE recently, the market worry on slack policy will not vanish absolutely until everything come to a close, which may spread negative influence on market situation at times. The president of China's central bank indicated during the two sessions that the central bank would continue its sound monetary policy, which means that loose monetary policy will not be taken temporarily. On the whole, the market liquidity is turning tight and has little influence on recent market situation.

### 3. Fundamentals

In the macro and monetary policy's weakened state, the fundamentals may ascend to the prominent factor here. According to the latest inventory data of Qingdao Free Trade Zone, the inventory increased slightly to 358300 tons with its growing rate much smaller than before, but this can't be considered as an optimistic signal that market situation is turning better. The abrupt fire in Shangshitong warehouse in Mar.7 turned three warehouses of rubber there into ashes and caused serious loss, after which the Free Trade Zone government and municipal fire-fighting bureau strengthened fire-preventing work and represented higher request to the enterprises there. To meet the regulatory requirements, all storage enterprises began to inform their customers to take away their goods piled outside and reduce warehousing quantity at the same time. Influenced, the inventory increased much slower and may keep this slight increase for a certain time or even begin to decrease under the strict government of the supervision level, which, however, can't be regarded as a signal that the goods have become less. It is said that 30000-40000 tons rubber have been at port and are waiting to be put in storage. According to some freight forwarders, there are great amounts of rubber piled at port in Qingdao, causing the containers can't be transported to certain ports in Thailand in time, and indirectly resulting in the delay of Thai freighters for about one week. Great quantities of cargoes ordered by some merchants also arrive at port during March and April in succession, which may lead the total inventory in Qingdao to exceed 400000 tons in April.

Good weather in producing area lasts till this year. Hainan and Yunnan area in China began to tapping rubber trees in March. It is said that East Wind plantation will begin to tap in Mar.20. Vietnam is also expected to begin tapping in April with advanced wet season. Northern Thailand will also join the tapping rank soon. Last year's left inventories and the new rubber press much on the market.

From the demand perspective, most tire factories came into operation after the Spring Festival, but they only purchase goods when immediate demand occurs. What is worse, demand for tire also presents to be weak. From the increasing inventory of synthetic rubber, we can get that domestic demand for tire is still feeble.

The fundamentals in terms of both supply and demand present immense pressure, which will further drag the market down to a lower position.

In conclusion, Shanghai rubber's dropping more than 5000 points by nearly 20% in just one and a half month after the Spring Festival reflected not only the weak fundamentals after the macro influence got powerless but also the market expectation. However, since the market has not digested the concerning factors during the rapid drop, Shanghai rubber is expected to experience a rebound to challenge RMB24000. If no significant bull news comes out in macro, the rebound will stop at RMB24000 (not more than RMB24500), after which the fundamentals will continue to dominate the market to extend in low. It may break RMB22000 and challenge the supporting level of RMB20000 in the second quarter.