IRA Chairman remarks

At the 22nd Biennial General Meeting of the International Rubber Association
Marina Mandarin Hotel, Singapore
Sunday, 19 March 2017

Last year we have witnessed another challenging time in the rubber industry, repeating the lackluster performances of the previous few years. Rubber prices have been sold down very aggressively, mirroring those of other commodities in the face of stronger US dollars and weaker global economies. SIR20 traded as low as $1.05 a kilo and RSS3 at $1.20 with some even calling for SIR20 to drop to as low as 80 cents a kilo then.

Luckily, none of these extremely bearish forecasts have come true. Instead, we did see the rubber market rebounding to over $2,000 a ton by the end of 2016.

But the rally in the last quarter of 2016 was also followed by a 30% selloff in the SHFE over the last 4 weeks. The extreme movements in the prices are caused by the SHFE funds which are treating rubber future contracts like a casino. This is unproductive and very damaging to our industry. SHFE rubber funds do not trade physical rubber and yet they seem to have excessive influence in the pricing of the natural rubber prices, many of which simply do not reflect the real cost of the physical rubber.

Physical operators like us; whether we are producers, processors, middlemen or consumers like tire makers must make an effort to reverse the significant influence SHFE rubber future imposing on our buying and selling prices. For the last few months, we have no idea why SHFE is up or down in its daily trading, other than the same group of people continuing to trade 5 to 6 million tons a day hoping to squeeze out whatever profit they can take from the poor fellows on the other side. As an industry group, we must try to look for a way out to take back the control of our own destiny. Failing to do so would mean more demise of some industry participants, particularly those from the producing side.

Regrettably, we are now also witnessing the withdrawal of many participants of the physical rubber from SGX SICOM and TOCOM. Dealers, producers etc are reducing their activities in the SGX SICOM market, for example. MTM costs have become too expensive and painful, and as a consequence everyone decides to do less. The volumes in SGX SICOM has collapsed to as low as 2,000 lots from the standard 8,000 to 10,000 lots per day.

The time has come for us to take a leadership to make a change to this casino mentality. We must encourage lesser speculation in our industry and better still lesser number of dealers/funds engaging in our industry particularly those in SHFE. Inviting more speculators to our industry will not necessarily see an increase in depth or liquidity to the exchanges.

Mr. Paul Sumade Lee
IRA Chairman