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# A shift in dynamics has led to the exuberance in prices of key commodities

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Major structural changes in the dynamics of the global commodities scene have propelled world commodities to staggering record prices.

Crude oil, gold, coal, iron ore, copper, soybean and wheat closed on a firm note last year registering price increases of between 30% and 50% but tin and rubber are charting new highs week after week.

As of yesterday, crude oil had risen 16% to US\$85, gold 20% (US\$1,310), copper 37% (US\$9,440), soybean 48% (US\$1,390) and 45% wheat (US\$839).

Year	Smallholders	Estimated Income (RM/month)	Production (tonnes)	Yield (kg/ha/year)
2006	224,034	1,560	1.21 mil	1,358
2007	258,802	1,730	1.13 mil	1,414
2008	276,392	1,900	1.01 mil	1,420
2009	264,894	1,440	800,790	1,440
2010*	N.A.	2,592	734,260	1,470

\* Jan to Oct 2010  
Source: Department of Statistics, Malaysian Rubber Board Risda Survey

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Over the past decade, there have been significant merger and acquisitions as well as consolidation among world steel giants, iron ore mining and fertiliser companies thus creating mammoth entities which controlled the world's mineral-based commodities.

The green fuel hype in mid-2000 also saw major food-based agriculture crops such as soybean, wheat and sunflower being replaced by corn for the production of bio-ethanol.

This had triggered a debate among world leaders, economists and NGOs on whether food crops should be shared to generate bio-diesel.

## Food for thought

Global food security is in a dire situation as exceedingly high crude oil and natural gas prices had increased the cost of production. This in turn translates into higher demand for bio-fuels.

Food prices have been on the rise over the last 10 years. Rice, soybean and corn prices have reached record highs and the increasing cost of grains has led to more expensive meat, poultry, eggs and dairy products.

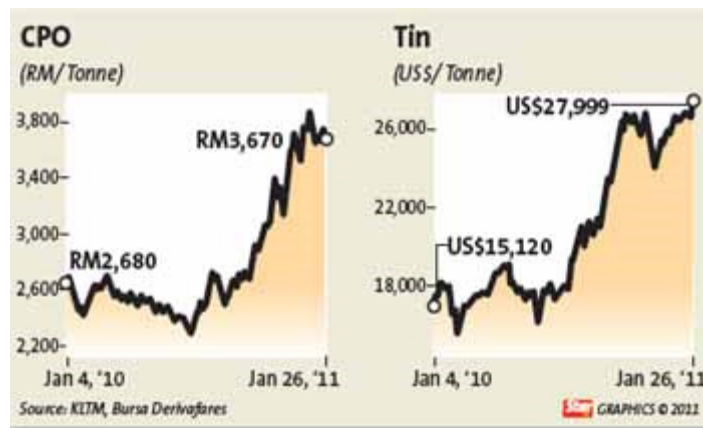
Strong demand from China and India have also put pressure on the prices of food commodities worldwide.

Exacerbating the situation is the unpredictable global weather which had been wreaking havoc on the production of agricultural

crops.

According to the latest United Nation's Food and Agriculture Organisation and the Organisation for Economic Co-operation and Development Agriculture report, food prices would increase in the next 10 years.

“The global economic recovery, rising world population and the rapid growth in the emerging economies will also increase both the demand and trade of food commodities.”



### The China factor

Credit Suisse in its Commodity Outlook 2011 says global economic growth will remain supportive of commodities with strong trade activities in the emerging economies and in the G7 countries - the US, Japan, Germany, Britain, France, Canada and Italy.

China's demand for strategic base metals and agriculture crops would be strong while the economic recovery in the G7 countries would be the catalysts to boost commodity prices this year.

“Again the development in China will be a key influence on the global supply and demand for many types of commodities this year,” says an analyst with a bank-backed brokerage.

Important issues arising from the substantial changes in commodity prices particularly agriculture-based food crops would have a significant impact on global economy and inflation.

“This has a big impact on the emerging economies which share of food prices in its consumer price baskets is higher than the developed nation.



“Most notable is China which had policies to limit food price inflation,” says Credit Suisse.

However, the risk of having food price inflation policies like price caps and trade restrictions would eventually reduce the effectiveness of price mechanism in the adjustment process.

For example, if major exporters were to impose export restrictions, the reduction in supply to the global market could result in significantly higher food prices in the longer term.

Credit Suisse expects commodities used heavily in the construction, infrastructure, production and food-based goods to attract the most demand this year. This include base metals and agriculture commodities, which would closely track the price movements of major energy-based commodities like crude oil and coal.

### **ETP agenda**

The devastating floods in Australia early this month had led to the focus on coal. A disruption in coal exports from Australia to China could result in power shortage in factories which in turn could derail China's economy .

On the local front, commodity-related custodians are mostly positive on the crude palm oil (CPO), rubber, tin and timber this year.

Performance Management and Delivery Unit (Pemandu) director for palm oil, agriculture and rubber industry John Low says CPO status as the world's most tradable vegetable oil has prompted the Government to spruce up the upstream and downstream operations under the Economic Transformation Programme (ETP). It will focus on generating an additional RM125bil to the gross national income (GNI) of about RM178bil in 2020.



Malaysian Rubber Board's Datuk Dr Salmiah Ahmad says many rubber estates have been cleared to make way for oil palm which resulted in a serious shortage of natural rubber and rubber wood.

Low says the contribution of RM33.1bil from upstream and RM14.1bil from downstream were based on price assumption of RM2,350 per tonne for CPO, RM2,800 for palm kernel oil and RM475 for fresh fruit bunches (FFB).

The Government is also pushing for accelerated re-planting programme mainly to clear the backlog of 365,414ha of oil palm oil trees of above 25 years old, which are largely low-yielding.

Furthermore, the targeted 26 tonnes per hectare national average for palm oil will not be just on replanting but also holistic initiatives such as implementing codes of practices, clustering smallholders into cooperatives and increasing the number of MPOB agriculture officers.

“Stringent FFB quality management at mill gates to weed out-sub standard FFB will also be implemented, compelling planters to improve quality control.

“This target is also to provide quality planting materials in the plantations and smallholders. There are planting materials available today that can give up to 30 tonnes per ha.”

The target of 26 tonnes per hectare as a national average was not impossible since Malaysia has an average yield of 21 tonnes per ha with the top 15 Malaysia companies producing an average of 24.5 tonnes per ha in 2009.

CPO which was traded 30% higher in 2010, is testing a new support level of RM3,800 to RM4,000 per tonne before the end of the first quarter this year.

### **Resilient rubber**

As a strategic commodity, rubber is also getting special attention. The Government has allowed rubber hectareage to be maintained at one million. There will be additional one million ha via suitable land bank in Sabah and Sarawak apart from increasing replanting activities to 40,000 ha per year from 20,000 ha currently. Contribution from rubber is expected to reach RM48.9bil by 2020.

Malaysian Rubber Board director-general [Datuk Dr Salmiah Ahmad](#) says many rubber estates have been cleared to make way for oil palm which resulted in a serious shortage of natural rubber and rubber wood. This situation has also made it difficult for the multi-billion ringgit domestic integrated rubber industry such as the rubber gloves and rubberwood furniture producers.

Realising the need to quickly address the short supply situation, a 10-year strategy for the rubber industry and the Malaysian Rubber Board (MRB) were launched in May last year.

The move is to ensure continued viability of a fully integrated rubber industry which holds equal importance to palm oil in the economy.

The MRB Strategies 2010-2020 covered the empowerment of the entire rubber sub-sectors - upstream, midstream and downstream.

In the upstream sector, MRB is tasked to enhance national rubber productivity through the development of high-yielding clones as well as the adoption of mechanised and automatic system in rubber plantations.

Rubber grades SMR 20 and Latex-in-Bulk are currently trading at new highs at RM16.70 and RM10.34 per kg respectively.

### **Tin making come back**

Tin is also making a strong comeback given the consistently high tin price which is trading at record price of US\$29,200 per tonne.

Malaysian Chamber of Mines [president Datuk Seri Dr Mohd Ajib Anuar](#) predicts that tin price may hit US\$40,000 per tonne in the next five years. The Perak state government has enacted the Mineral Act to protect explorers and miners given the capital intensive nature of the mining business.



Malaysia Smelting Corp's Datuk Seri Dr Mohd Ajib Anuar predicts that tin price may hit US\$40,000 per tonne in the next five years.



Malaysian Timber Board's Dr Jalaluddin Harun targets timber product exports to achieve RM53bil by 2020.

Ajib says a revival in the mining sector should materialise if the primary mineral deposits belt on the east coast of Peninsular Malaysia is discovered by experts.

"A confirmed discovery of tin, gold, copper and other minerals could lead to a significant transformation in the local mining sector," adds Ajib.

He says mining should be undertaken on a large scale. Unlike mining for secondary tin deposits, prospecting and discovery of primary tin deposits are capital intensive ventures that could in turn attract major foreign investors.

### **Timber targets**

Meanwhile, timber which is not part of the National Economic Key Areas of the ETP is striving to achieve its targets under the National Timber Industry Policy (NATIP) by 2020, says Malaysian Timber

Board director-general [Dr Jalaluddin Harun](#).

The NATIP targets to achieve RM53bil in exports of timber products by 2020 based on an annual export growth of 6.4% with 60% of the exports to be derived from value-added products from 40% currently.

Malaysia will need new market expansions, usage of alternative raw materials like plantation timber i.e. biomass, fibre and agri-residues, rattan and bamboo.

The local timber industry players should also look at design, innovation and technology in the area of bio-technology, nano and high performance green buildings.

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