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One Year Summary of INE TSR20 Futures

Rubber physical market continue growing

The top China natural rubber companies have invested in natural rubber plantings in Southeast Asia, Africa and other regions in the past ten years. The natural rubber resources operated in international market are already 2.5 times of China domestic market. As a result, there is an increasing demand for price risk management and operational risk management of TSR20, which is the main type of natural rubber produced and utilized in the international market.

The historical price of TSR20 futures (RMB/ton)

TSR20 futures market operates stably with increased market participation

Since its listing on August 12, 2019, TSR20 futures market has been stable with increased market participants and open interest. As of July 21, 2020, the cumulative trading volume of TSR20 futures reached 3.313 million lots, and the cumulative notional value was 331.06 billion yuan.

The price differential between TSR20 futures, SHFE natural rubber futures, Qingdao Free Trade Zone spot market and international natural rubber futures stays stable. TSR20 futures have over 0.90 correlation with SHFE natural rubber futures and SGX TSR20 contract, and develops benign interactive relationship with Southeast Asian natural rubber market. It has fairly reflected the changes of supply and demand relationship in China and international markets. The delivery volume by international companies accounted for about 27% of the total delivery volume of NR2003 contract. Among them, the international sellers accounted for 50% of the total sold volume, while the international buyers accounted for 5%.

Due to the high production of natural rubber and low applicability of natural rubber to the downstream tire industry, the participation from tire manufacturers into natural rubber futures trading is low. The new listing TSR20 together with its bonded delivery mechanism coincides with the bonded production of the tire manufacturers. 52% of imported TSR20 is used for manufacturing processing, meaning most TSR20 is directly imported by downstream manufacturers as raw materials for commodities export. Since TSR20 imposes 1,500 yuan/ton or 20% tariff, 36% of China importers prefer import and export TSR20 in bonded warehouses.

Expanded Deliverables and Warehousing

Let's compare the underlying products of INE TSR20 and SICOM TSR20. SICOM use to be the benchmark center of the global natural rubber market, and its products objectively reflects the spot price fluctuations in the main natural rubber production area. Approximately 70% of the world's tire manufacturers have established purchase office in Singapore, take SICOM futures as baseline with premium for the purchase from the suppliers. The monthly average price of SICOM's natural rubber futures has thus become the benchmark price of global natural rubber market for long-term contract and international procurement. SICOM approved 121 factories (26 from Thailand, 78 from Indonesia and 17 from Malaysia). The main deliverables of SICOM rubber are from Indonesia, Thailand and Malaysia. Among them, Indonesia, Thailand and Malaysia's deliverables accounted for 66%, 22% and 12% respectively.

SICOM's market participants are mainly natural rubber producers in Southeast Asian and spot market traders in Singapore. Since Singapore itself is neither a consumer nor a producer, local funds lack interest in participating, thus the trading volume has continued shrinking. In addition to the exchange traded futures contracts, SICOM also listed TSR20 CFDs and OTC contracts. China market is now seeing a buying surge from top international tire companies, although some companies still concern the quality of deliverables and switching of processing technology. Given SICOM deliverables need to be certified by the international tire factory, it will take some time for China market to go through the transition and market cultivation.

The first batch of designated delivery warehouses for INE TSR20 are 10 bonded warehouses located in Shanghai, Qingdao and Haikou. The initial approved storage capacity was 370,000 tons, among which 300,000 tons can be used.

In order to optimize the warehouse layout, the exchange may take below actions: firstly, add Tianjin, Dalian and other qualified bonded warehouses into the list of designated delivery warehouses based on market needs; secondly, continue to explore the feasibility of setting up designated delivery warehouses in Southeast Asia to further serve local industrial customers.

Source: INE https://mp.weixin.qq.com/s/SS2XzL3rpLsN--G7HR0Zmw