

Recovery in rubber prices unlikely in 2019 due to unfavourable demand-supply fundamentals

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The world consumption of natural rubber (NR) is likely to slow down in 2019 on account of anticipated lower global economic growth, trade war concerns and geopolitical issues.

Global consumption is projected to increase at a slower rate of 4.2 per cent to 14.590 million tonnes (mt) in 2019 compared to the 5.2 per cent rate of growth preliminarily estimated for 2018, Jom Jacob, Senior Economist, Association of Natural Rubber Producing Countries (ANRPC) Kuala Lumpur, Malaysia, told *BusinessLine* during his recent visit to Kottayam.

Slower consumption

Consumption in China, which accounts for 40 per cent of world consumption, is anticipated to take a slow track by increasing only by 3.2 per cent to 5.85 mt in 2019, compared to the 5.3 per cent rate of growth preliminarily estimated for 2018 and the 7.5 per cent growth attained in 2017.

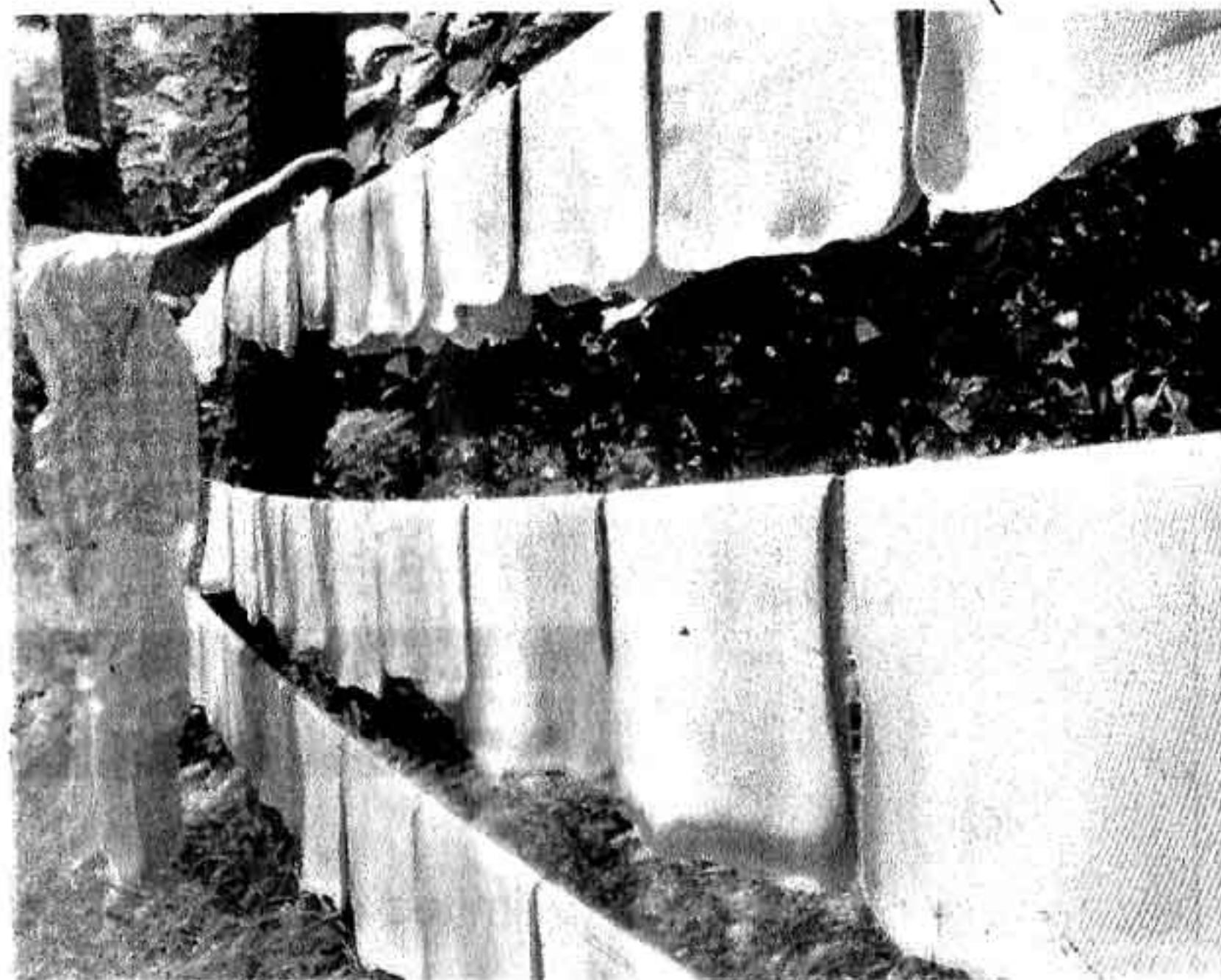
In India, Consumption is likely to slow down to 4 per cent in 2019. As per prelimin-

ary estimates, India consumed 1.218 mt of NR during 2018, up 12.6 per cent from the previous year, largely driven by high demand from the heavy commercial vehicle tyre sector. The country accounted for about 9 per cent of global consumption in 2018.

Global output may rise

The world production of NR is likely to grow faster at 6.6 per cent to 14.844 mt in 2019 compared to the 4.3 per cent increase preliminarily estimated for 2018. While the overall average annual yield per hectare is expected to remain stagnant due to unfavourable rubber prices and climatic stress, there would be a considerable expansion of the mature area, in varying degrees across countries.

Enthused by the unprecedented peak in rubber prices during the 2010-12 period, farmers had planted rubber trees extensively seven years ago. A part of that is expected to be opened for tapping in 2019. The expansion of area would be more pronounced in Thailand where around 200,000 hectares are expected to be added in 2019.



While a substantial expansion of mature area is expected in Cote d'Ivoire, Myanmar, Cambodia, Laos and Brazil, only a moderate scale of expansion is expected in Indonesia, Vietnam, China, Malaysia and India. The mature area in India is anticipated to expand by 26,000 hectares in 2019.

Production in Thailand is likely to increase by 6.6 per cent to 5.135 mt this year as against the 8.8-per cent increase posted in 2018, as per preliminary estimates.

About 35 per cent of the world production currently

comes from Thailand. India's production fell by 9.5 per cent to 645,000 tonnes in 2018 due to the deluge in Kerala, a key grower, in August 2018, which was followed by widespread leaf diseases and deterioration of soil quality.

Moreover, mature trees, occupying around 190,000 hectares, were not tapped last year due to the unfavourable prices. Assuming normal weather conditions, India's production is expected to partly recover by posting a 10 per cent rise this year.

Although the anticipated world production (14.844 mt) and world consumption (14.590 mt) closely match each other, market fundamentals are likely to stay unfavourable throughout the new year. This is on account of the fact that the world production has the potential to make a substantial increase in the event of prices becoming attractive.

For instance, in the event of prices bouncing back, production from Thailand in 2019 can be 14 per cent more than what is anticipated. Similarly, Malaysia can produce 53 per cent more and India can produce 65 per cent more if prices make a marked recovery.

Any substantial recovery in prices can unlock substantial supply into the market and thereby offset possible bullishness. The market sentiment in 2019 is likely to continue under the grip of the "production potential" factor.

Rubber & oil prices

The NR market is influenced by a set of factors which are external to the rubber sector. Like other Asian commodities, the NR market has

a negative relationship with the US dollar. A stronger US dollar usually exerts downward pressure on the NR market.

As the US Federal Reserve plans two more upward revisions in its policy interest rate in 2019, the dollar is likely to stay stronger during the new year. This indicates the possibility of the currency factor staying unfavourable for NR.

The global economic outlook and anticipated developments in the crude oil market do not favour a recovery in NR prices in 2019. According to the Energy Outlook released on December 11, 2018 by the US Energy Information Administration, Brent crude oil is anticipated to average at \$61 per barrel in 2019, considerably lower than the preliminarily estimated average of \$71.40 in 2018. The NR market usually tracks the crude oil trends with very few exceptions.

In short, the emerging world economic trends, supply-demand fundamentals, currency factor, and crude oil outlook indicate that the possibility is remote for NR prices to bounce back in 2019.