

Raw Input

Rubber price likely to be range-bound

Despite possible production loss in Kerala, the auto slowdown should keep the price in check

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The domestic price of natural rubber has been moving up slowly over the past few months. After a peak of ₹200-240 a kg in 2011, the average monthly price of natural rubber stabilised to ₹160-180 a kg over the next 1-2 years. But the price fell sharply after that. From about ₹186 a kg in July-August 2013, the average monthly price halved, touching rock bottom in February 2016 at ₹94 a kg.

While it did rebound to touch ₹159 a kg in February 2017, natural rubber price in India has cooled off in the past two years, moving in a narrow band of ₹120-135 a kg. It is only since May 2019 that the price has again moved up to ₹140-150 a kg.

Consumption cools off

This price rise has happened at a time when consumption in the country has dropped. Fiscal 2018-19 saw natural rubber consumption at 12,11,940 tonnes, up 9 per

cent from the quantity consumed in 2017-18. But provisional data available until June 2019 suggest that consumption in India for the first three months of this fiscal stood at 2,93,000 tonnes, about 3.6 per cent lower than the 3,04,050 tonnes consumed in April-June 2018.

With the auto sector accounting for over 70 per cent of the natural rubber consumption, this fall is in tune with the poor volume growth seen in the auto industry. After growing in double digits in 2017-18, volume growth in new vehicle sales came down to 5.15 per cent in 2018-19. It has worsened this fiscal, with volumes dropping 13.9 per cent in the first four months of this fiscal.

Thus, the rise in rubber price despite lower consumption is an anomaly. In earlier years, higher demand had pushed up prices, and vice-versa. In 2016-17, for instance, total consumption of natural rubber grew 5 per cent over the previous year, driving up the



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price of natural rubber. A 2.6 per cent drop in consumption in 2015-16 over 2014-15 saw the price drop.

Global prices trail

The domestic price rise in the past few months has not mirrored the international trend. While the international price (Bangkok) did shoot up in June 2019, it has since cooled off in July and August. As of August 2019, the international price stands at ₹108 a kg, about 25 per cent lower than the Indian price of ₹143 a kg. This trend is not new though.

The international price has

been lower than the Indian one by 5-25 per cent since June 2017. The slowdown in China, aggravated by the country's trade war with the US, has been a key reason for the low international price. The Asian giant consumes about 40 per cent of the global natural rubber produce.

The domestic price could have probably risen because of a shortfall in domestic production and a fall in imports. In April-June 2019, production came in at 1.23 lakh tonnes, lower than the 1.26 lakh tonnes produced in the same period last year. Heavy rainfall again this year in Kerala — which produces 78 per cent of

the country's natural rubber — could have further affected production in August, the numbers for which are not yet out. Imports came down 14 per cent during this period.

Outlook

The Rubber Board has projected the production for 2019-20 at 7.5 lakh tonnes, and consumption at 12.7 lakh tonnes. To fill the gap of about 5.2 lakh tonnes, import of 5 lakh tonnes is expected.

Considering the possible production loss in Kerala, the domestic price may move up. But by also taking into account the slowdown in the biggest consumer, the auto industry, the price will more likely be range-bound. Sharp spikes in the international price, too, are unlikely as the global slowdown is likely to keep the price in check.

As per the International Rubber Study Group, growth in demand for natural rubber is expected to slow down to 2.3 per cent in 2019 (over 2018) and further to 1.8 per cent in 2020 (over 2019). World natural rubber demand had increased by 4.2 per cent in 2018.



Shrinking demand

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