COMMODITY CORNER

Rubber prices set to remain firm as floods hit production

Tapping is unlikely to begin soon and it will further reduce the output

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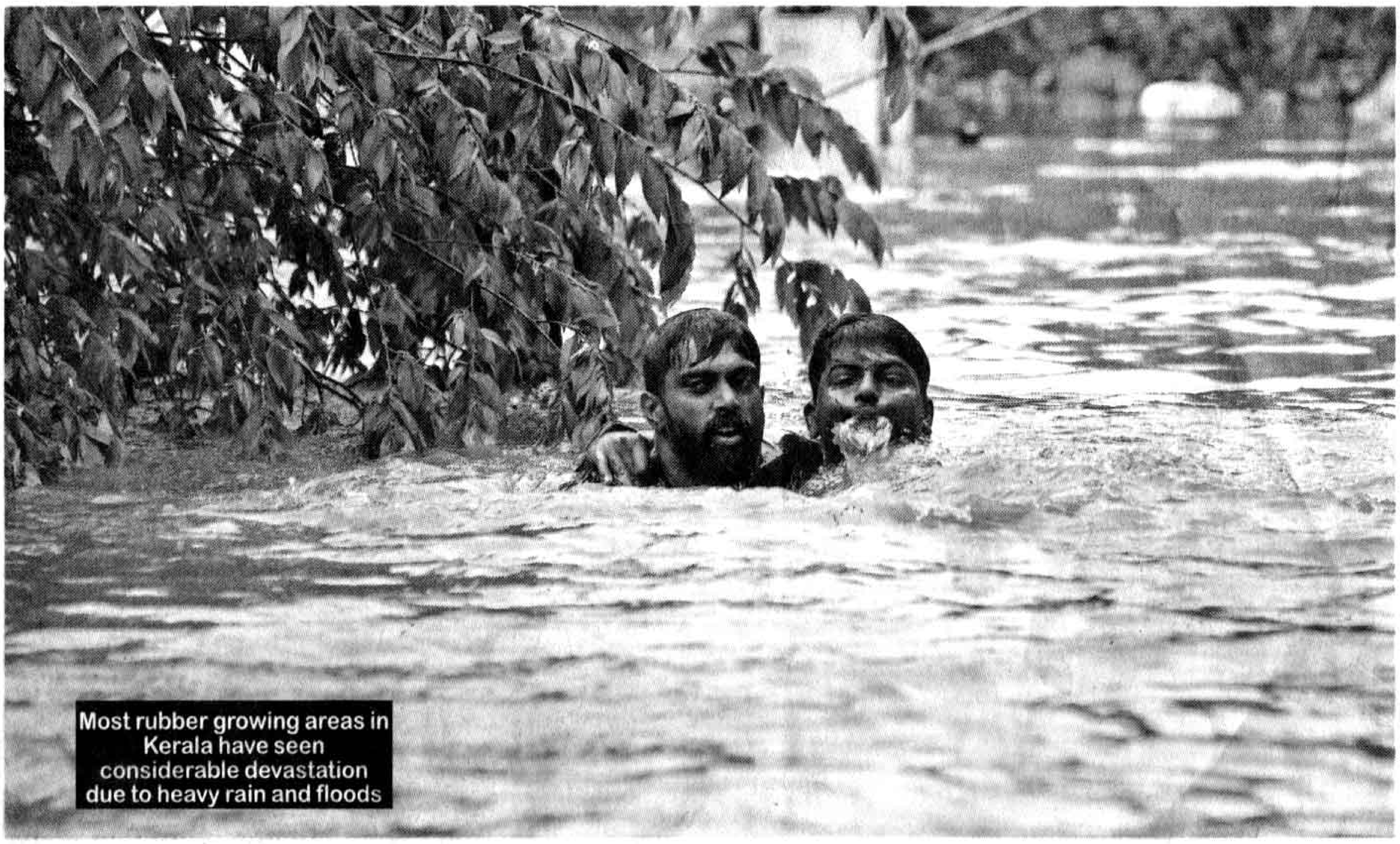

Most rubber growing areas in Kerala have seen considerable devastation due to heavy rain and floods

PRICES of natural rubber in the Indian market have remained firm in the past couple of months. Heavy rains and floods in Kerala are expected to lend further support to domestic prices. But the bearishness in the international market will put some pressure on prices.

Rubber prices were quite volatile in the first few months of the year. In the beginning of the year, rubber was trading at Rs 138 per kg in the National Multi Commodity Market. In the Tokyo Commodity Exchange (TOCOM), rubber was trading at 216 yen a kg in January as the Shanghai futures rose ahead of the Chinese Lunar New Year. But by February prices slipped to 179 yen a kg as the market started turning bearish, said Veeresh Hiremath, head of research, Karvy Commodities.

Corrections in the crude oil prices also affected the natural rubber prices, as synthetic rubber is a derivative of crude oil.

According to the Association of Natural Rubber Producing Countries (ANRPC) estimates, global output of natural rubber will rise 6.1 per cent to 14.2 million tonnes this year and global demand might grow only 2.8 per cent to 13.3 million tonnes. Thus, the supply-demand equation does not support any upside in prices. TOCOM prices fell to this year's lowest of 163.8 yen a kg last week.

Indian rubber prices, which fell to the low of Rs 117 per kg in March under the influence of global cues, however, started moving up and touched Rs 129 a kg by end of July. After the summer, production had not picked up as rains started lashing rubber-growing areas of Kerala. The supply started dwindling and increased the gap with demand.

Natural rubber production hit six-year low of 126,000 tonnes in the June quarter while consumption stood at the highest level at 302,000 tonnes. The production-consumption gap widened to 58 per cent in the June quarter from 46 per cent in the year ago period. Production contracted by 12 per cent as consumption went up by 14 per cent.

Consequently, the tyre industry started complaining about high import duties, which were curbing supply from abroad. "Rubber import is imperative to meet the huge demand supply gap. But supplies are being squeezed in view of a restrictive policy environment. The customs duty on import of rubber is 25 per cent.

Moreover, the tyre industry needs to adhere to pre-import condition for natural rubber import against the tyre export obligation. Further export obligation period for tyres has been reduced from 18 months to 6 months making it tough for the industry," said Rajiv Budhraja, director general of ATMA.

The tyre industry found that relaxed import duties will be beneficial as the price gap between domestic and international prices have been increasing in the past two months. Malaysian rubber prices were Rs 23 lower and Thailand prices Rs 4 less than Indian prices in the first week of May. By second week of August, Thai rubber became cheaper by Rs 39 and Malaysian rubber by Rs 38 than Indian rubber, as per the data from Geojit Financial Services.

The supply-demand gap will only widen going ahead. By August, floods hit Kerala and most rubber growing areas have seen considerable devastation. Tapping will remain halted for some more time and hence production will further decline in the next one to two months, said Hiremath.

"Prices will remain firm in the domestic market. But the bearishness in the international market will limit the upside in prices," he added.

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