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Rubber prices to remain weak

Export demand from China, rising consumption will support rates

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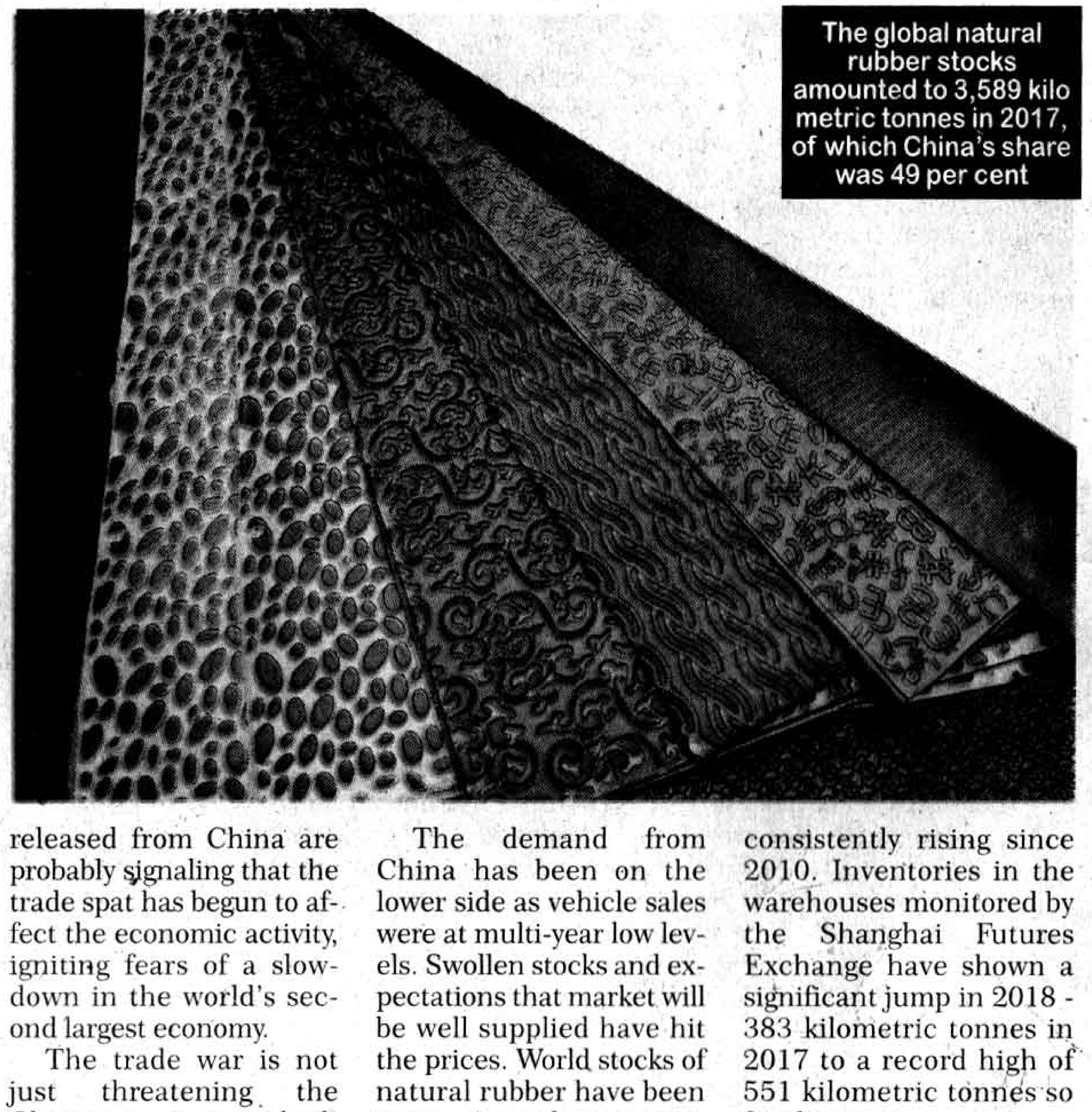

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Natural rubber prices have been on a downward slide in the past few months. Downside pressure still continues in the market as Indian prices are still at a premium compared to international rates.

In the spot market RSS -4 prices have fallen from Rs 132 per kg in the beginning of September to Rs 118 last week. In September, prices were firm due to the monsoon season and the floods in Kerala, which disrupted production. But once tapping resumed, prices started correcting. By that time, the macro-economic developments too started playing out in the rubber counter.

Gloomy demand outlook in the backdrop of US-China trade spat, falling crude oil prices, bloated inventories in a market plagued by oversupply have been pulling down rubber prices, said Hareesh V, head, commodities, Geojit Financial Services.

The worsening trade relations between the US and China have aggravated concerns over demand from the top consumer, further burdening an already frail market. The recent economic indicators released from China are probably signaling that the trade spat has begun to affect the economic activity, igniting fears of a slowdown in the world's second largest economy.

The trade war is not just threatening the Chinese economy, which has a trade surplus with the US. As per a recent report, IMF has forecasted that the global economy would grow 0.2 per cent slower in 2019 due to the trade war by the US with its trading partners.

The demand from China has been on the lower side as vehicle sales were at multi-year low levels. Swollen stocks and expectations that market will be well supplied have hit the prices. World stocks of natural rubber have been rising. According to various reports, global natural rubber stocks amounted to 3,589 kilometric tonnes in 2017, of which China's share was 49 per cent. The share has grown to 60 per cent so far this year. Stocks in China have been consistently rising since 2010. Inventories in the warehouses monitored by the Shanghai Futures Exchange have shown a significant jump in 2018 - 383 kilometric tonnes in 2017 to a record high of 551 kilometric tonnes so far this year.

The crude oil has witnessed one of the steepest falls in recent times. Brent crude has declined from \$85 per barrel to \$65 and WTI crude from \$76 to \$55 per barrel. Crude oil being a raw material of synthetic rubber, prices of the latter has been falling and this too has hit the rubber counter.

Rubber futures in the Tokyo Commodity Exchange have fallen more than 20 per cent since the beginning of the years. Prices were trading at 200 yen per kg in January and have come down to 154 yen. All the major international spot markets too have been witnessing a similar downward slide.

The negative outlook for rubber in the international market will put pressure on Indian prices as well. Moreover, prices in Malaysia and Bangkok are trading at a discount when compared to Indian prices. This will force tyre manufacturers to procure more from the international market and the demand for Indian rubber will be lower. Moreover, most of the tyre manufacturers would have already finished their rubber shopping to cater the year-end demand for automobiles.'The outlook is bleak for natural rubber. Prices can move towards Rs 115 and Rs 110 per kg in the coming days," said Hareesh.

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