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Rubber unlikely to bounce back soon

Despite decline in domestic production, slowdown in China could keep global prices in check

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Domestic prices of natural rubber have been hovering around a narrow range of ₹120-130 a kg for more than a year now. After the peak of ₹200-240 a kg seen in 2011, average monthly prices of natural rubber stabilised to around ₹160-180 a kg over the next 1-2 years. But prices fell sharply after that.

From about ₹186 a kg in July-August 2013, average monthly prices halved, touching rock bottom in February 2016, at ₹94 a kg. While it did rebound from this low to touch ₹159 a kg in February 2017, natural rubber prices in India have cooled off since then.

Consumption rises

This drop has happened at a time when consumption has picked up and the country is faced with a production shortfall due to the damage caused by floods to rubber plantations in Kerala. Fiscal 2017-18 saw natural rubber consumption at 11,12,210 tonnes, up 6.5 per cent from the 1,044,075 tonnes consumed during 2016-17. Provisional data available until October 2018, too, suggest that consumption in India during April-October 2018 stood at 7.16 lakh tonnes, 16 per cent higher than 6.18 lakh tonnes in the same period in the previous year.

With the auto sector accounting for two-thirds of the natural rubber consumption, this rise in consumption is in tune with the good volume growth seen in the auto industry. After initially slowing down due to the GST transition, overall auto volumes picked up pace to grow in double digits in 2017-18 as well as this fiscal.

Besides, domestic rubber production has also taken an unexpected hit this year due to the floods in Kerala, which produces 78 per cent of the country's natural rubber. In April-October 2018, India produced 3.44 lakh tonnes of rubber, about 10 per cent lower than the same period last year.

Thus, the fall in rubber price despite higher consumption and lower production is an anomaly. In earlier years, higher demand had pushed up prices and vice-versa. In 2016-17, total consumption of natural rubber grew 5 per cent over the previous year, driving up natural rubber prices. A 2.6 per cent drop in consumption in 2015-16 over 2014-15 saw rubber prices drop.

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One reason for the cooling off of domestic prices in the last one year could be the fall in international prices in this period. International prices (Bangkok) dropped from ₹184 a kg in February 2017 to ₹98 a kg now. For most months during this period, international prices have stayed well below domestic prices, with a difference of anywhere between ₹6 and ₹30. Towards the end of 2016-17, international rubber prices did look like it would continue its uptrend as it faced some supply tightness due to repeated floods in Thailand and increased demand from China, which consumes about 40 per cent of the global natural rubber produce.

But this was not to be. A recovery in production in Thailand and increased global supply. At the same time, anti-dumping duty on Chinese tyres by countries such as the US and India affected tyre production in China. More recently, the US tariffs against China slowed Chinese consumption across sectors, including vehicle sales. On the other hand, Indonesia and Vietnam, too, saw higher production in 2018.

The fall in international prices, coupled with the production shortage, has increased imports into India. As per latest available data, total imports for April-October 2018 stood at 3.56 lakh tonnes compared with 2.63 tonnes during the same period a year ago. This is a rise of a whopping 35 per cent.

Outlook

The Rubber Board initially projected production for 2018-19 at 7.3 lakh tonnes. In July 2018, it was revised to 7 lakh tonnes. Latest projections, taking in the impact of the floods in Kerala, put the number at a much lower 6 lakh tonnes. The Rubber Board projects the consumption of natural rubber in 2018-19 at 12 lakh tonnes. To fill the gap of about 6 lakh tonnes, imports — originally projected at 4.5 lakh tonnes for this fiscal — have been revised to 5.8 lakh tonnes.

However, the Chinese slowdown could continue to keep international prices in check over the next few months. This could have a rub-off effect on domestic prices as well, keeping it range-bound.

- Higher production in Thailand, Indonesia and Vietnam
- Anti-dumping duty on Chinese tyres
- Slowed Chinese consumption due to US tariffs

Swelling imports

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