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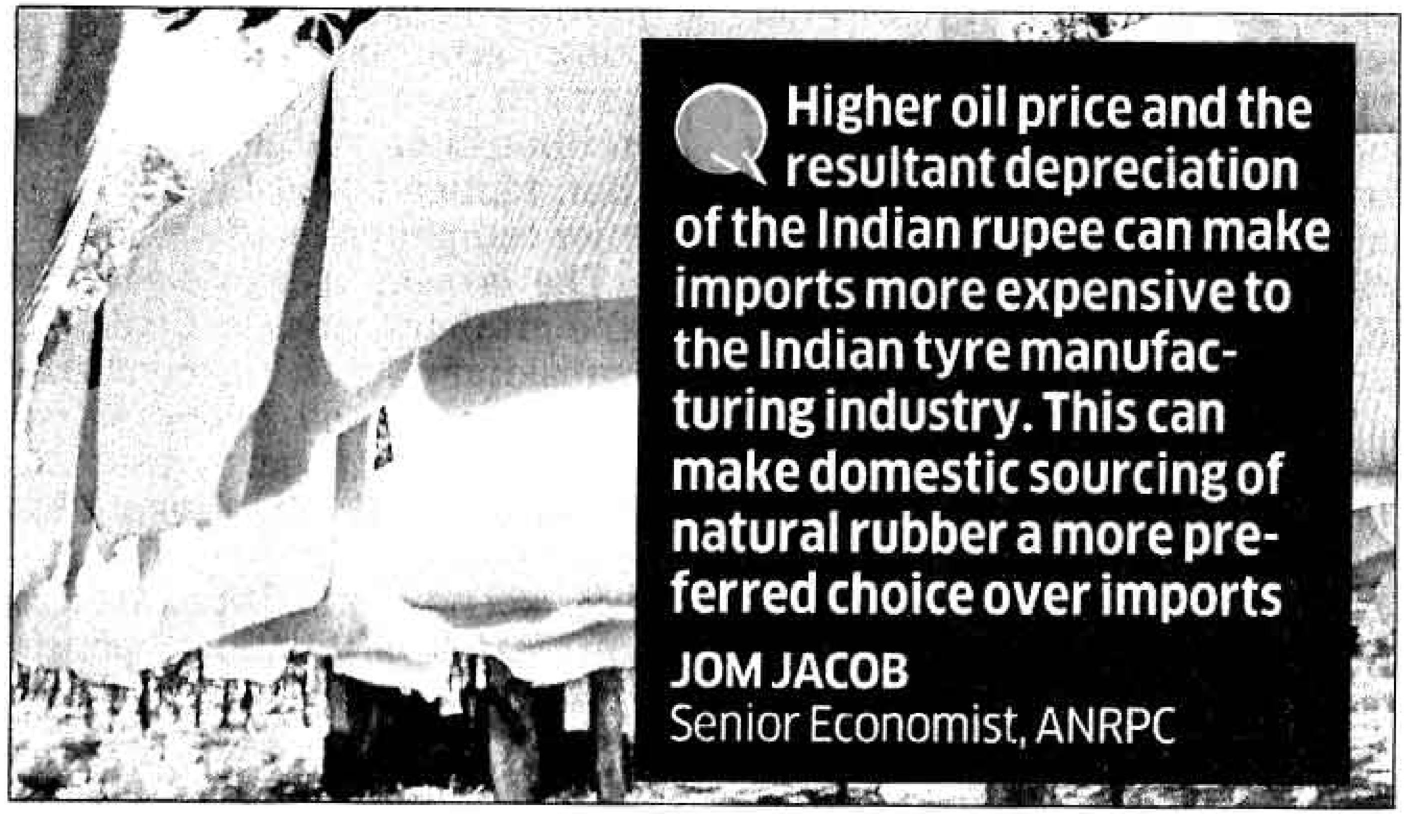
Global Price Rally may Reduce Rubber Imports further

TRADERS' WORRY The current global price along with 25% duty is expected to make imports unviable

Krishnakumar.PK
@timesgroup.com



Kochi: The rubber industry expects the rally in international natural rubber prices and depreciation of the rupee to further reduce imports of the commodity into the country.

Rubber imports fell 18% year-on-year in April-October 2019, according to Rubber Board data.

Global prices of RSS-3 grade sheet rubber increased over 4% in the past few days to ₹117.08 on Wednesday. The SMR20 grade rubber, which accounts for bulk of imports by the tyre industry, was priced higher than usual at ₹108 per kg.

The sheet grade RSS-4 rubber in India has moved up marginally to ₹132 per kg. But the futures are indicating a bullish trend. The active January contract on the Indian Commodity Exchange (ICEX) hovered around ₹137 per kg on Wednesday.

"Technically, prices have broken above key resistance at ₹135.50 and are likely headed to early December highs of ₹137 and possibly higher in the near term," said Akshay Agarwal, managing director, Acumen Capital.

The current global price along with 25% duty is expected to make rubber imports unviable.

"Higher oil price and the resultant depreciation of the Indian rupee can make imports more expensive to the Indian tyre manufacturing industry. This can make domestic sourcing of natural rubber a more preferred choice over imports," said Jom Jacob, senior economist, Association of Natural Rubber Producing Countries (ANRPC).

Jacob said the increase in rubber prices has been largely driven by the announcement of the signing of the phase one US-China trade deal on January 15.

"The price recovery is not due to crude oil. The trade deal has scaled up speculative investors' outlook on global economy and the demand for natural rubber, especially from China which accounts for 40% of the global demand for natural rubber," he said.

Crude oil rally leads to increased substitution from synthetic rubber to natural rubber. But the actual substitution in response to changes in their price differential is insignificant, said Jacob.

"Even if the higher oil prices lead to substitution from synthetic rubber to natural rubber, the global supply has adequate capacity to meet any additional demand," he said.

But weather may spoil the plans for a better tapping in January, the last of peak production months. "Hot weather is preventing growers from getting a good yield. Trees have also started losing leaves which usually happens in summer," said George Valy, a Kottayam-based rubber dealer.

If the local market is not able to meet the requirement of the tyre industry, then it may go for import of natural rubber regardless of the price, he said.