

## **Sector analysis: Rubber prices fall due to surplus output, lower China demand**

The recent fall in the rubber prices augurs well for tyre manufacturers. Over the last six months, RT1, the benchmark for international rubber prices, has fallen by over 20% to \$23,460 per five metric tonne. One of the main reasons for the fall in prices is the surplus production in major rubber producing countries. According to the International Rubber Study Group, global rubber production is expected to increase 7.8% to 11.8 million tonne in 2012. This would mean a surplus of 81,000 tonne for 2012 compared to a deficit of 159,000 tonne a year ago. Indian tyre manufacturers on an average import 30% of their rubber requirement. Although, depreciation of the rupee has limited the benefits, rubber prices are still at attractive levels compared to a year ago. RSS4 (ex-Kottayam) is down 17% at Rs187 per kg compared to the price a year ago. Another factor that has affected prices is the slowing automobile demand in China. Automobile sales in China from January to May this year grew just 3.2% compared to the same period last year. This is very low when compared to the over 15% growth seen in the previous two years. As a result, demand for rubber has slowed since the start of this year. Automobile demand in India on the other hand is expected to grow at a decent rate. According to the Society of Indian Automobile Manufacturers, automobile sales in FY13 are expected to grow 10% compared to a 2% growth in FY12. This would revive demand for tyres in the coming quarters. In addition, the Indian automobile industry had grown at a healthy rate of nearly 30% in FY10 and FY11. As a result, automobiles sold in FY10 and FY11 would increase the demand for replacement tyres in the coming quarters. International rubber prices are likely to remain at the present level for some time due to the surplus production. However, for local tyre manufacturers, a lot would depend on the strengthening of rupee for availing a substantial benefit from the low prices.

**Most Favoured Stock** Apollo Tyres: The company increased prices of bus and truck tyres last month. Besides, it is expected to complete its capacity rampup by September 2012.