Top rubber producers set mechanism to prop up prices-source (update)

* Top producers to intervene if rubber prices fall below $2.70 per kg

* Physical prices are hovering around $3.00 per kg

* Traders cast doubt on effectiveness of schemes

By Niluksi Koswanage

KUALA LUMPUR, Oct 5 (Reuters) – The world's top rubber-producers, Thailand, Indonesia and Malaysia, have set up a support mechanism to intervene if rubber prices fall below $2.70 per kg, a Malaysian industry source told Reuters on Friday, in a bid to prop up prices.

The deal was struck on Thursday when officials from the Southeast Asian countries met in Thailand to review measures to support the market, said the source who attended the meeting.

There was no immediate confirmation from the Malaysian government.

"The last thing left on the table was the defence price," said the source, declining to be named as they were not authorised to discuss the outcome. "It had to be sorted out quickly for the three governments since a lot of small farmers are rubber producers in the respective countries."

Small farmers are key vote banks for these countries, especially for Malaysia, which has to call elections by April, 2013. A slump in rubber prices near polls can often swing votes away from governments.

Physical prices are hovering around $3.00 per kg after the three countries, which account for 70 percent of global output, agreed in August to cut exports and replant trees to shore up the market which was flagging at the time.

Exports from all three countries started to fall in October, the source said. Under the agreement, Thailand was supposed to have cut back exports by 150,000 tonnes, Malaysia by 40,000-50,000 tonnes and Indonesia by around 100,000 tonnes.

TALK UP THE MARKET?

Tokyo (TOCOM) rubber futures, which set the tone for physical prices, rose to their highest level since late May on Friday, as main producers began cutting exports in the fourth quarter and crude oil moved above $110 a barrel.

In turn, the price of benchmark Thai RSS3 grade has risen more than 17 percent to above $3 in the past month.

The source said the export cuts would be carried out over six months from October.

The breakdown of Malaysia's 40,000 tonnes of export cuts includes 20 percent for each month in the last quarter, 15 pecent in January and

February next year and 10 percent in March, he added.

Traders cast doubt on the effectiveness of the scheme, noting they were often announced to “talk up the market” and signal to small farmers that their governments were doing something.

“So fine, the market has gone up on these announcements but in actual fact, prices are being directed by crude oil and the global economic scenario which is not that bad,” said a trader in Singapore. “It is a repeat of what happened in 2008.”

The global financial crisis helped send Thai RSS3 rubber to a seven-year low of $1.10 a kg, prompting the three countries to cut exports by a total of 915,000 tonnes in 2009.

It was never clear how much each country managed to hold back and the policy was quietly shelved in the middle of 2009 after prices began to recover, fuelled largely by rising demand in China, the world’s biggest rubber consumer.

Traders said China, which is on a week-long holiday this week, is expected to restock with some rubber grades when it returns to the market next week, supporting prices. (Editing by Miral Fahmy and Ed Davies)