Thailand: Rubber stocks likely till price rises

The fall in the price of domestic rubber despite government intervention is an effect of the euro-zone crisis, and the government may decide to keep stocks until the price improves. Among agricultural exports, rubber has been hit the hardest by the crisis as importers have turned to Malaysia and Indonesia for products cheaper than Thailand's. The government allocated a 15-billion-baht budget to buy rubber from cooperatives and community businesses at 100 baht a kilogramme of raw rubber sheet and 104 baht per kg of smoked rubber sheet. Prapas Euanontat, president of the Thai Rubber Association, said the government has already bought 50,000 tonnes of rubber from cooperatives. However, the price of rubber in Thailand has continued to decline, reflecting the price in the world market and clearly indicating the level of impact from the EU crisis (see table). He said the government's price intervention policy failed to lift the domestic price because the amount purchased by the government is low compared to total rubber production. The government plans to spend 15 billion baht to stock rubber _ the budget will cover around 150,000 tonnes of rubber while total domestic production is around 3.6 million tonnes a year. In order to lift the price, the government may need to announce stock holding until it gets an appropriate price. "China, a major buyer of Thai rubber, is likely to delay orders because of the downward trend in rubber price. Exporters will wait to buy when the price dives deeper," said Mr Prapas. Luckchai Kittipon, chief executive officer of Thai Hua Rubber Plc, also said that the government should clearly indicate its plan to hold stock while waiting for the price to pick up. He said the downward trend in global rubber prices was caused by a variety of factors including the slowdown in the economic growth of China, a major importer of rubber and agricultural products from Thailand. The economic committee chaired by Prime Minister Yingluck Shinawatra is scheduled to meet this week to monitor the impact of the euro-zone crisis on individual Thai export markets. Apichart Jongsakul, secretary-general of the Office of Agricultural Economics, said the Agriculture and Cooperatives Ministry will propose that the government consider the impact on the farm sector. The agency has drawn up two scenarios. In the first case of slight impact on the Thai economy because Thailand can seek new markets in Asia instead of the EU, the agricultural sector would grow by 3.4% from a target of 5%. In the second scenario with a greater impact, the sector would grow by 2.9%. Mr Apichart said the government should specifically monitor rubber and products because the rubber industry is highly sensitive to economic growth, while Thailand's competitors like Indonesia and Malaysia are offering lower priced rubber products favourable to importers. Prices of other products such as rice, fresh and frozen shrimp also continued to decline. The ministry planned to maintain exports to strong economies like the UK, Germany and Netherlands while replacing weaker ones with new Asian markets. Asian markets like Japan, South Korea, Singapore and Thailand are in the same position as exports are a major contribution to their economies. Mr Apichart expressed concern over Thai exports to China because 12% of Chinese farm products were shipped to the EU while Thailand exported 15% of its farm products to China.