The great global Rubber crash

By Sreekumar Raghavan Panic is indeed spreading in rubber markets worldwide and major growing nations Thailand, Indonesia and Malaysia are undertaking market intervention measures to shore up prices that have hit almost a three year low. Eurozone and US economic crisis and slower growth in emerging nations have all been attributed for the steep fall in prices. But this is nothing new to rubber as it is a cyclical crop and every 6-7 years there is a bull cycle followed by a bear cycle. However, in 2012, the confluence of higher production and retarded demand seems to have played havoc with the plantation crop. Steep fall in crude oil prices could further aggravate the situation. Fall in automobile sales in many countries have adversely impacted rubber and weaker crude oil prices call for synthetic rubber substitution in many industires. The charts for the near month rubber futures at India's National Multi Commodity Exchange (NMCE) is showing a steep downward curve with bears dominating the scene since February. At TOCOM , the benchmark December delivery contract has fallen steeply to 227 yen. According to a Reuters report, Thai and Indonesian rubber grades were sold at their lowest level since 2008 after a recent sell-off in TOCOM futures, but cheaper prices ignited buying interest from top consumer China. Spot prices monitored by India Rubber Board has fallen from Rs 188.50 per kg in the beginning of July to Rs 179.50 on Wednesday. Domestic rubber prices have fallen from a peak of Rs 240 per kg in a span of just 15 months while Thailand prices remain weaker at Rs 168 per kg making it easier for tyre companies to import the commodity. According to Association of Natural Rubber Producing Countries (ANRPC), global rubber production is expected to rise 5% to close to 11 mn ton due to rising production from Indonesia, Malaysia and Vietnam. Market participants expect a further dip in rubber prices till 2013-14 until the dark clouds over Eurozone and US fades away. Viewing from a long term perspective, India rubber consumption may rise to 2 mn tonnes by 2020 but due to lack of areas to productively grow rubber, production may lag necessitating higher imports. But, rubber growers should rejoice that the crop has provided reasonable average farm gate prices year after year despite some sharp downturns which is quite natural for cyclical commodities. For the short term, there seems to be no positive trends emerging from NMCE charts, with RSI falling to 18.93 from highs of 70 indicating a bearish trend to prevail