Rubber rallies again on cartel action, stimulus measures

TOKYO, KOTTAYAM, INDIA: Rubber futures at Tokyo Commodity Exchange (TOCOM) has risen to a four month high of 273.1 Yen per Kg rising 2.7 Yen on Wednesday as stimulus measures in USA, Europe, the rubber cartel's decision to cut down exports and supplies and record high automobile sales in September in USA provided impetus for revival of a bullish trend.

On Wednesday, benchmark March 2013 contract at TOCOM rose 2.7 Yen per kg to 273.1 kg after falling to a low of 206 Yen per kg a month ago.

Production in 2012 is expected to rise 3.2% to 11.3 mn tons while it will rise 4.4% to 11.8 mn tons in 2013, according to International Rubber Study Group. Consumption in 2012 is expected to be 11.2 mn tons and in 2013, 11.8 mn tons.

The recent uptrend in prices is the result of QE3 measurs that will create more liquidity in the financial system, analysts said.

On the other hand weak global growth may limit upside gains for most commodities including rubber. In US markets, automobile sales of major companies –Hyundai, Honda, Mitsubishi, Toyota Motors, Porsche, BMW, Mercedez Benz among others witnessed a surge in September providing positive sentiments for tyre sector demand but replacement market remains dull and will witness a decline in demand analysts said.

The Rubber cartel represented by three major producing regions, Thailand, Indonesia and Malaysia have agreed to cut production, exports to stem the recent sharp decline in natural rubber pries. They will cut ageing trees and cut supplies by 450,000 tons in remainder of 2012-2013. Thailand has approved a budgetary spend of 30 bill baht ($974 mn) to procure rubber from farmers at above market rates.

QE 1 and 2 measures by US Fed Reserve from 2008 had resulted in doubling of rubber prices upto February 2011 and thereafter prices plummeted. The QE3 has now provided the right stimulus for a bullish reversal. Production in key regions especially Thailand has been disrupted by heavy rains causing drop in supplies in the short term. From October 1, the rubber cartel will cut exports by 300,000 tons in the global market to provide firm support to prices.

The uptrend in rubber may be limited by weak trends in crude oil prices as weak economic growth prospects provide a subdued demand outlook for oil. On Tuesday, Asian physical rubber markets remaind steady. Indian prices for RSS$ grade remained unchanged at Rs 19500 per 100 kg but imports continue to be attractive for tyre makers even as Rupee has advanced against the US dollar.