

## **Natural Rubber future appears uncertain**

NR market's slow growth in recent times, after the unrealistic boom in the beginning of this decade, is mainly due to a lull in demand across the globe. The issue is whether NR prices will bounce back or will continue to be very volatile. The future supply-demand equation is not all encouraging. Much depends on the highly unpredictable twists and turns of the global economy in the days to come. The bull run of natural rubber prices, witnessed in the latter half of the last decade, peaking as much as around \$5 in 2011 (over Rs. 500 in Sri Lanka), is apparently unattainable, if the current price trends are any indication. Though the situation is not alarming as such, especially as the price is still somewhat fair at around \$2.75 (Rs 350 – 400 in Sri Lanka), what really worries both the growers and consumers alike is the future behaviour of the price spiral. Most of the recent industry forecasts indicate a slow recovery of the European and US economies and a somewhat slackening of the economic growth in emerging economies like China and India. Vehicle sales are also down in most of the economies, both in the developed and the developing ones, which means that the demand for NR from tyre and auto components industry that consume the lion's share of NR supply will come down with its tell-tale impact on NR consumption. So the question of an imminent bounce back of NR prices is ruled out at least during 2013. There are indications that the situation may improve by 2014 and the market may gain momentum. But the forecasts are vague as to what extent the prices will bounce back. It has been predicted by some experts that natural rubber prices are likely to decline to the levels of around \$ 2.50 for the next few years and then further down to around \$2.00 afterwards. According to him, prices will improve only towards the end of the current decade. According to market analysts, unless and until the EU and US economies recover fully, NR consumption cannot be expected to be back on a fast track due to the sheer fact that they still continue to be the biggest markets. Production IRSG's latest report says that, in 2012, world NR production was 11.406 million tonnes registering an increase of 3.6% from 2011. In 2013, production is projected to touch 11.771 million tonnes registering an increase of 3.2% and in 2014, it is expected to touch 12.453 million tonnes — an increase of 5.8 percent. Meanwhile, NR consumption which was around 10.946 million tonnes in 2012, is expected to touch 11.592 million tonnes in 2013, an increase of 5.9 percent. In 2014, it is expected to go up to 12.3 million tonnes, an increase of 6.1 percent. The gap in 2012 was 460,000 tonnes and this is projected to touch 179,000 tonnes in 2013 and 153,000 tonnes in 2014. It has also been reported that the world NR supply expanded by a monthly average rate of 2.8 percent in the last quarter of 2012. Taking the year 2012 as a whole, NR production outstripped consumption by 459,000 tonnes. As a result, the implied stocks increased to 1.6 million tonnes in December 2012 on an annual moving average (AMA), sharply increasing from June 2012, and that the surplus of 2012 has been the largest in absolute tonnage terms since 2000, when the NR market was in deficit of 625,000 tonnes. IRSG, further says that the apparent unresponsiveness of the supply side of the NR industry to signals from the demand side could be a reflection of an increased capacity, with an additional 220,000 hectares of tappable area available during 2012, coupled

with an average price level that continues to be deemed as remunerative to smallholders. The additional capacity is the result of the surge in new planting and replanting of rubber trees that began in 2005. In Sri Lanka, the total NR production for year 2012 was forecasted to increase by 3 percent, but in actual event, NR production has come down by 10 percent in year 2012 from year 2011, and in the first quarter of 2013, it has come down by about 15 percent, mainly due to adverse weather conditions. Forecast Rubber consumption and prices are mainly dependent on global economic growth which, at present, is not all promising. Consumption of NR in the EU countries, USA, Japan and South Korea has declined considerably, while consumption in China is slow of late. Tyre companies are reportedly cutting NR purchases due to slowdown in auto industry. It is apparent that, generally, bearish sentiments weigh on NR market currently though signs of mild recovery are visible. All indications are that tightness in NR supply will continue. Projected NR production-consumption balance is thin and there was only a mild improvement in demand for NR in the recent past. Moreover rubber prices have always been highly volatile, influenced by weather, currency exchange, oil price, policy changes in major consuming countries and speculative factors, political instability etc. Some market analysts say, that there is flexibility within the NR supply and this is expected to remain throughout 2013-14. The rubber tree is a perennial crop that is harvested throughout the year and its tapping intensity, to some extent, can be altered in both directions. Thus, the NR market will remain largely balanced during this period, according to them. Automobile sales

Consequent on the lingering economic crisis, the worst affected is the automobile and tyre sector across the world. The situation has not improved significantly in many regions. According to ETRMA, the market for consumer tyres was down by 12 percent due to, amongst other factors, bad weather conditions, delay of the change from winter to summer tyres, and the current economic environment. The truck tyre market remained on the same low levels of the previous year and the agro and motorcycle tyre market was also at significantly lower levels compared to the same period in 2012. Industry expects the market for summer tyres to perform slightly above last year in the coming months, according to ETRMA. However, according to IRSG, over 2013-2014, tyre sales will benefit from the build-up of pent-up demand from the stagnant growth of 2012 and the remnants from the sharp fall in consumption during 2008-2009. Total world tyre production is forecast, by them, to increase by 6.6 percent in 2013, with 2013 output expected to expand by a further 6.9 percent later.

ANRPC version According to the latest ANRPC Statistical Bulletin, continuous indicators of recovery in the US economy and China's positive growth in its manufacturing industries have given positive impact on the rubber market during the month. The debt issues in the European Zone, coupled with the turmoil in Cyprus, pose headwinds for the rubber market in this region. However, market fundamental remains strong for natural rubber with a continuing tightness in supply due to seasonal wintering of rubber trees, according to them. Based on the data reported by ANRPC member countries on March 17, 2013, the total natural rubber produced for the year 2012 by ANRPC member countries increased by 3.1 percent to 10.642 million tonnes as compared to previous year's 10.325 million tones, after taking

into consideration the latest revisions. The estimated natural rubber production figures for the year 2013 reported this month show a revision by China with its provisional annual production increase from 837,000 tonnes to 843,000 tonnes whilst India will have an estimated reduction in its natural rubber production from 959,000 tonnes to 951,000 tonnes. Total NR consumption by ANRPC-member countries registered an increase at the rate of 5.6 percent, amounting to 6.612 million tonnes in 2012 from 6.261 million tonnes as reported in 2011. China showed moderate consumption growth at 6.4% in 2012 and has an estimated 9.0 percent higher growth in the year 2013. Total provisional NR consumption for Q1 2013 has been revised to 1.368 million tonnes against 1.312 million tonnes as reported earlier. The Indian consumption was reduced in 2012 and 2013 by 21,000 tonnes and 15,000 tonnes to 987,000 tonnes and 985,000 tonnes respectively. Conclusion Price fall in the recent past has been mainly owing to a demand recession for rubber at home and abroad arising out of the world economic downturn and a fall in demand for rubber products. Fall in sale of vehicles is one major factor causing decline in demand for tyres and tubes which account for 57 percent of the NR consumption globally and 65 percent of the NR consumption in India. Demand fall for vehicles and the consequent fall in demand for tyres and other auto rubber components have led to low consumption of rubber leading to the price fall around the world. A close analysis of the rubber consumption across the continents shows that only Asia had a positive growth in the year while all other continents had negative growth. This was the main reason for rubber price decline to an annual average of around \$ 3.40 a kg in 2012 from \$ 4.85 a kg in 2011 for RSS 3 in one of the markets. With a full-fledged economic recovery not in sight for the time being, the dull sentiments in the global NR market are likely to continue throughout 2013. The possibility of the prices bouncing back cannot be ruled out provided the global economy recovers fully. But when that will happen is something for which the industry has to wait and see ( References; Rubber Asia, May- June 2013, IRSG quarterly report and ANRPC monthly statistical bulletin). [dailymirror.lk](http://dailymirror.lk)