

# World NR price may go down in 1997

Economic recovery in many countries may boost demand for natural rubber but its price may go down

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THE outlook for natural rubber in 1997 is better than in 1996. The International Monetary Fund in its bi-annual survey of global economic prospects suggests that the world economy may grow by about 4% in 1997. Rubber consumption in the Asian region mainly in the countries like Japan, China, Korea and India may go up further this year. The Japanese demand for NR is estimated to reach 6,76,000 tonnes in 1997 against 6,70,000 tonnes in 1996. China's NR requirement may grow by a wider margin, from 7,80,000 tonnes in 1996 to 8,20,000 tonnes. Consumption in India is also expected to rise from 5,40,000 tonnes to 6,00,000

tonnes in 1997. Economic recovery in Europe and America on the anvil may also see improved demand for NR.

## Supply constraint

Supply constraint is also a factor to reckon with. The overall NR supply may not match the demand in 1997. Thailand and Malaysia may see stagnation in NR production as their industrialisation programme gets precedence over the agricultural sector. Indonesia has prospects of improving upon the output of 1996, as also India and China, but the overall NR supply may fall short of the demand. This mismatch should see the

international price firming up in 1997.

But certain other factors are also worth noting. More buyers are now concentrating on futures market, thinking that the price may go up in 1997. Many have contracted purchases up to June, 1997. But this may exert a negative influence as well. Contracting large volumes in futures market at a pre-determined price may bring about a negative influence on physical market.

As physical trade largely determines the price of a commodity, the regulating effect of forward trading on daily volumes may arrest the tendency for the price to rise. The World Bank's prediction for 1997 is also not in favour of a price rise in rubber. According to the Bank, natural rubber price may go down by 2.7% on the average in 1997 compared to the market in 1996. Its prediction of a dip in price did come true in 1996. Will the World Bank prove to be true again?

## Slow growth

The world had entered 1996 on an optimistic note, hoping for improvement in economies and industrial output in several countries. Considering the prospects for continued progress in the economies of the OECD countries and the major developing nations, the International Rubber Study Group (IRSG) had predicted the outlook for the world elastomer industry to be steady. The Economist Intelligence Unit had forecast

rubber made from low quality feedstock material such as shell scrap, black shell and earth scrap blended with tree latex and cuplump, seldom meet consumers' specifications, though crumb units in the estate sector which use fresh scrap are able to maintain the values prescribed.

In the international market crumb rubber fetches a better price compared to RSS-4. This is largely owing to the use of quality feed material. There latex lump is the main feedstock for crumb rubber, which is able to ensure the values specified for technological properties. Our growers never make latex lump. They are able to realise better price for latex processed into sheet rubber. Even unprocessed field latex fetches them price of processed lower grade sheet rubber. Consequently crumb rubber

processors in India get only scrap rubber as feedstock.

Demand recession for crumb rubber if continued further, may make a shakeout in the industry imminent. Units unable to process quality material may fall by the wayside. A few of them notified for sale in the Kochi-Aluva belt, have failed to attract buyers.

## Excess rubber supply

These are largely problems created by the excess rubber supply in various grades. The demand for raw rubber is bound to pick up in the near future. The peak season will end by January. Consumption of NR has been estimated to rise to 620,000 tonnes in 1997-98 against 5,70,000 tonnes in 1996-97. During the next financial year supply of rubber consisting of the carryover stock and the produc-

tion may fall short of the demand composed of consumption plus stock reserve by 45,000 tonnes.

The three months ahead from February are low production months. Tyre units have started coming into the market with orders for volume purchases, as they have to keep some quantum in stock beyond the portion for current consumption. A reasonable quantum in stock with major consumers will help the market to avert a price rise in the lean season. The price rises generally on account of the buyers rushing to the market apprehending a shortfall in supply or in a bid to corner large quantum for current consumption. Once they keep the right quantum in stock and make controlled purchases from week to week, they can stave off rise in price beyond a limit. □

that the world elastomer consumption would rise by 3.5% during 1996. These had raised optimism of the rubber producing nations about steady growth in NR consumption and improvement in price. But as the months passed, signs of slow growth emerged in the developed nations which accounted for more than 50% of the world NR consumption.

Asia and Oceania region, however, lived up to the prediction about economic growth. But Europe and America were largely in a depressed mood. Lack of consumer confidence and insufficient industrial growth gripped many countries in the region, though there were a few with steady growth pattern. These have influenced the growth in rubber consumption and price movements in the market.

### Slide in price

The World Bank correctly read the market's mood when it forecast that rubber price would decline by 5.1% in 1996. In fact the slide in price was greater. Average price of RSS-3, which commands the highest volume in sheet rubber trade in the world market, came down from 391 Malaysian Ringgit per quintal in 1995 to 343 Ringgit in 1996, recording a decline of just over 12%. This is despite an improvement in the world NR consumption by 2.7% during the first half of 1996. The following figures give the monthly averages for these two years for RSS-3 in the world market.

Price of RSS-3 in Kuala Lumpur market		
	Monthly average	
	1995	1996
	M. Ringgit/quintal	
January	414	385
February	446	384
March	455	383
April	453	358
May	418	360
June	370	358
July	325	327
August	315	315
September	332	317
October	351	302
November	404	314
December	400	311
Yearly average	391	343

### Malaysian rubber price per quintal

	November				December			
	Malay- sian RSS 4	Indian Rs.	Malay- sian SMR 20	Indian Rs.	Malay- sian RSS 4	Indian Rs.	Malay- sian SMR 20	Indian Rs.
1	297.00	4194	312.00	4405	Sunday			
2		Saturday				301.00	4259	307.50 4351
3		Sunday				300.00	4245	307.50 4351
4	301.50	4257	310.00	4384	299.50	4238	305.00	4316
5	305.50	4317	309.50	4373	298.50	4233	303.50	4304
6	308.00	4361	308.50	4368	298.50	4233	303.50	4304
7	309.00	4375	309.50	4380	Saturday			
8	309.00	4385	310.00	4399	Sunday			
9		Saturday				298.50	4242	304.00 4320
10		Sunday				298.50	4245	305.50 4344
11	309.00	4385	310.50	4406	299.50	4256	306.00	4348
12	309.00	4385	310.50	4406	300.50	4270	307.00	4362
13	308.00	4371	310.50	4406	300.50	4276	307.50	4376
14	306.00	4339	310.50	4405	Saturday			
15	305.50	4329	310.00	4393	Sunday			
16		Saturday				302.00	4297	309.00 4397
17		Sunday				302.00	4297	309.00 4297
18	306.00	4339	311.00	4410	301.50	4275	309.00	4388
19	307.00	4353	311.50	4417	302.00	4288	309.00	4388
20	308.00	4361	311.00	4404	301.00	4271	308.00	4371
21	308.00	4361	310.50	4400	Saturday			
22	306.50	4340	308.50	4368	Sunday			
23		Saturday				301.00	4271	307.50 4363
24		Sunday				301.00	4268	309.00 4382
25	306.00	4336	308.50	4371	301.00	4265	309.00	4379
26	306.50	4343	308.00	4364	301.00	4265	309.00	4379
27	306.50	4337	308.50	4365	299.50	4244	309.50	4386
28	304.50	4309	306.50	4337	Saturday			
29	303.00	4284	306.00	4327	Sunday			
30		Saturday				300.00	4254	310.00 4396
31	..	..			300.50	4270	310.00	4405

All through ten of the 12 months in 1996 the price was lower. The only month to record a slight improvement was July. In August the prices in both the years averaged alike.

Drop in consumption by major players like the USA, Canada, Brazil, Germany and the general slowdown in the growth of industrial production

resulted in the price decline. It is true that growth in NR exports in 1996 at 0.5% and in the net imports by consuming countries at 0.7% was marginal. But it indicated consuming countries' optimism for a better year. Peaks and troughs in price have reigned over the rubber market many times in the past despite market fun-

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