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Website : www.emp.com.my Email: TWKANG@emp.com.my

Rubber producers seek to stabilise sky-high rubber prices

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RUBBER-PRICES/MEETING

- * Top producer Thailand happy with prices above \$3/kg
- * Thailand, other producers looking to stabilise prices
- * Vietnam may join the consortium of top rubber exporters
- * Details of price stabilisation measures likely on Tuesday

By Niluksi Koswanage

KUALA LUMPUR, Jan 18 (Reuters) - A spike in rubber prices towards their strongest level in more than 50 years may not be sustainable and key producers are looking for ways to prevent a repeat of a brutal correction more than a year ago.

Cash rubber has been traded above \$3 a kg in January, within sight of a 56-year peak around \$3.25 struck in the middle of 2008 on an oil-driven rally in Tokyo futures and tight supplies in the three main producers.

While higher prices bring cheer to farmers, Thailand says cash rubber should ideally range between \$2.10 and \$3.00 a kg, as government officials gather for a three-day meeting in the Malaysian capital.

Thailand, Indonesia and Malaysia, which account for 70 percent of world rubber output, form the International Rubber Consortium (IRCo) that uses supply-related mechanisms to manage prices.

"The Thais, like everyone else, are all the more happy if rubber prices keep going up beyond \$3.00, as it benefits the farmers," said a senior industry official who attended the meeting that started on Sunday.

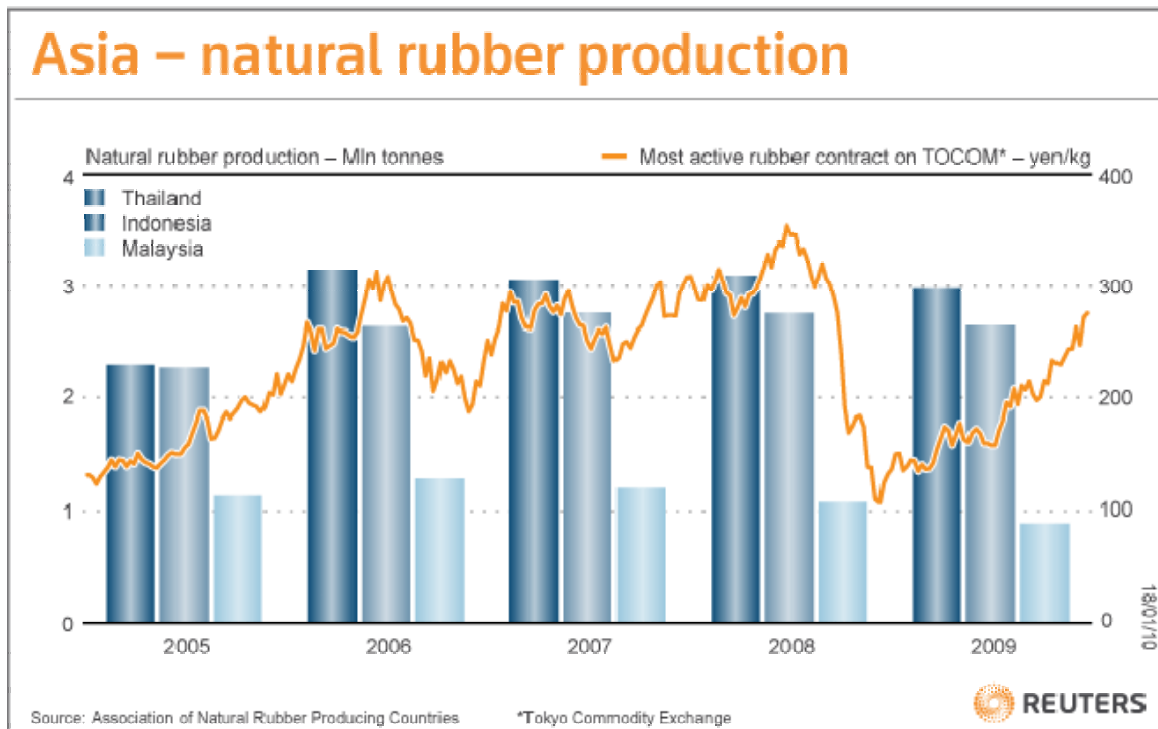
"But the focus here is for sustainable prices because prices may go up too high and then slump, causing havoc," the official, said, declining to be named due to the sensitivity of the issue.

Rubber prices tend to track the yen-based Tokyo rubber futures, which are normally driven by speculative buying and other factors such as oil and movements in the Japanese currency. [RUB/T]

Tokyo's most active contract rallied to its highest in nearly 30 years above 350 yen a kg in June 2008 before gradually losing strength and tumbling to a six-year low of 99.8 yen in December, when cash prices also dropped to around \$1 kg.

The fall in cash prices prompted the three main producers to agree on measures to slash exports by 915,000 tonnes in 2009 to shore up the market.

"If I were a Thai producer, I would be very happy. But from the position of Thailand as a country, then they need to make sure that if there's going to be a sharp drop, they will be ready," said a dealer in Singapore.



Some traders say possible measures to stabilise this year's rubber price rally could include opening up more land for rubber cultivation, imposing export levies and releasing any stocks held in reserve.

In the run-up to the conference, Thailand and Indonesia said they were happy with current Thai benchmark prices of the commodity, which traded at \$3.10 a kilo on Friday, and kept no stocks due to tight supply and strong demand.

"There is a great deal of secrecy about the conference. The plans could move either way and we could see cash and future markets moving sideways until more details come out," said a regional rubber trader in Malaysia.

VIETNAM JOINS THE PARTY?

Also on the agenda of IRCo is the possible membership of Vietnam, the fourth largest rubber exporter whose production could overtake Malaysia in the next five years or so, industry officials said.

"Adding Vietnam to the grouping makes sense because when the other countries tried to cut down exports in 2009, Vietnam actually got more market share," said an analyst.

The Agriculture Ministry said 374,000 hectares of the total area were productive.

Vietnam aims to produce 700,000 tonnes of latex from 700,000 hectares under plantation next year, including areas in neighbouring Laos and Cambodia.