

09/08/2002

Rubber market reacts softly to producers' pact

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RUBBER prices reacted softly after the world's top three producers formally inked an agreement to regulate production and exports with a view to push up prices.

Traders said news of the rubber pact has been discounted and factored into the market by players ever since the formation of the pact surfaced December last year.

"There were heavy selling activities on the Singapore Commodity Exchange (Sicom) and sentiment was volatile at Tokyo's Commodity Exchange (Tocom)," a trader told Business Times in Kuala Lumpur yesterday.

Malaysia's SMR 20 rubber increased a mere 1.1 per cent to RM3.10 a kg from RM3.06. On Tocom, rubber sheet no 1 increased 0.6 per cent or 7 sen higher at 101.8 yen per kg.

Thailand, Indonesia and Malaysia - the world's top three natural rubber (NR) producers respectively, formally formed a joint venture body called the International Tripartite Rubber Corp (ITRCo) in Bali, Indonesia yesterday.

ITRCo, which accounts about 60 per cent of the world's NR output aims, to monitor rubber sales and stocks produced by the three countries.

"The objective of the ITRCo is to create fair and remunerative prices for more than 10 million smallholder farmers in the three countries," read a joint statement from the three ministers who signed the agreement.

The agreement was signed by Thai Agriculture and Cooperatives Minister Chuchee Hansawad, Indonesian Trade and Industry Minister Rini Suwandi and Primary Industries Minister Datuk Seri Dr Lim Keng Yaik.

The event was witnessed by the respective leaders, Thailand's Prime Minister Thaksin Shinawatra, Indonesian President Megawati Sukarnoputri and Malaysia's Prime Minister Datuk Seri Dr Mahathir Mohamad.

Suwandi said ITRCo has set floor prices of raw material at farmer price levels of 6,000 rupiah per kg or 67 US cents (US\$1 = RM3.80) in Indonesia and 30 baht (100 baht = RM0.046) per kg or 71 US cents in Thailand as the indicative prices to start purchasing rubber and withholding stocks.

"If prices fall below that level, the corporation will start buying rubber from farmers," she said, adding that the floor prices would be reviewed periodically.

The new joint venture will be based in Bangkok, and Thailand has committed to cover all the operational costs of the office for the first year.

The joint venture has an authorised capital of US\$225 million but the three countries have collected US\$1 million each as its initial working capital.

"As long as prices sustain above the RM3 a kg level, that is good enough for the industry," said another trader.

He said prices of rubber such as SMR 20 has been consistently higher between 30 to 40 per cent for the past few weeks from last year's average of RM2.20 a kg.

The establishment of ITRCo follows an agreement in December in Bali by the three producers to cut exports by 10 per cent and output by 4 per cent in both 2002 and 2003.

Traders said under the plan, an estimated production cutback and export curb of 170,000 tonnes and 380,000 tonnes, respectively, can be seen to be removed from the market.

The formal signing of the deal had been postponed three times.