

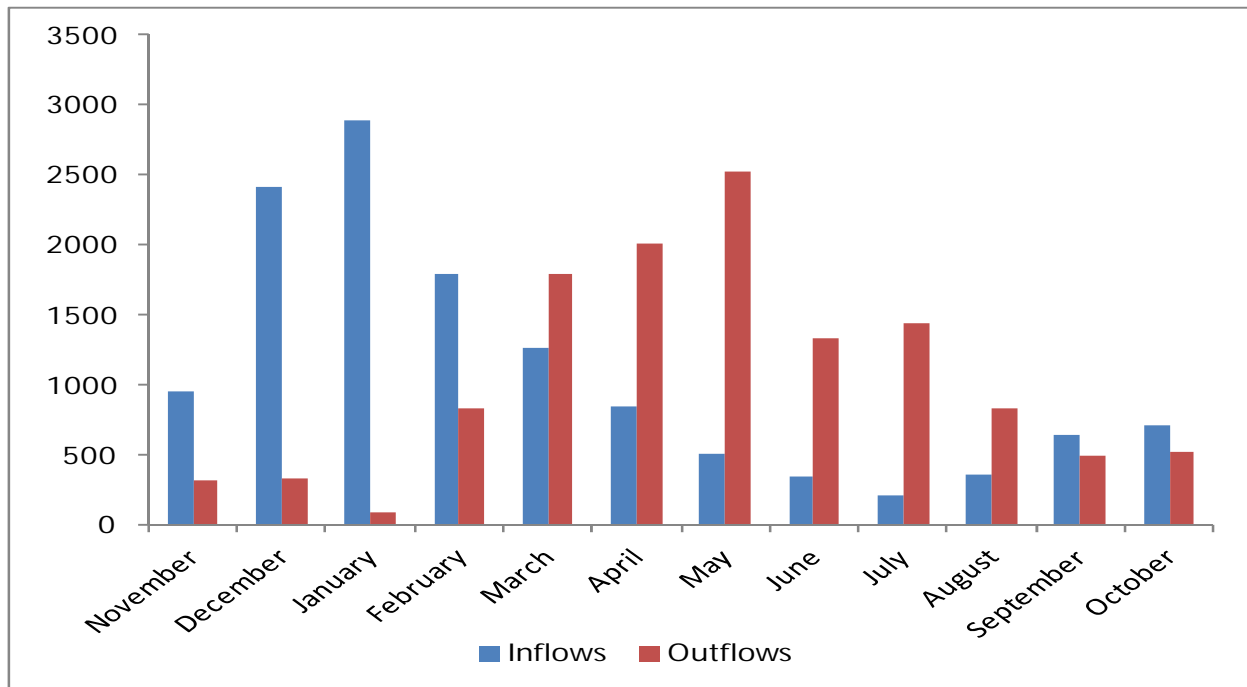
Natural Rubber

The market is in Contango period (September to February)

07 October 2011

Introduction

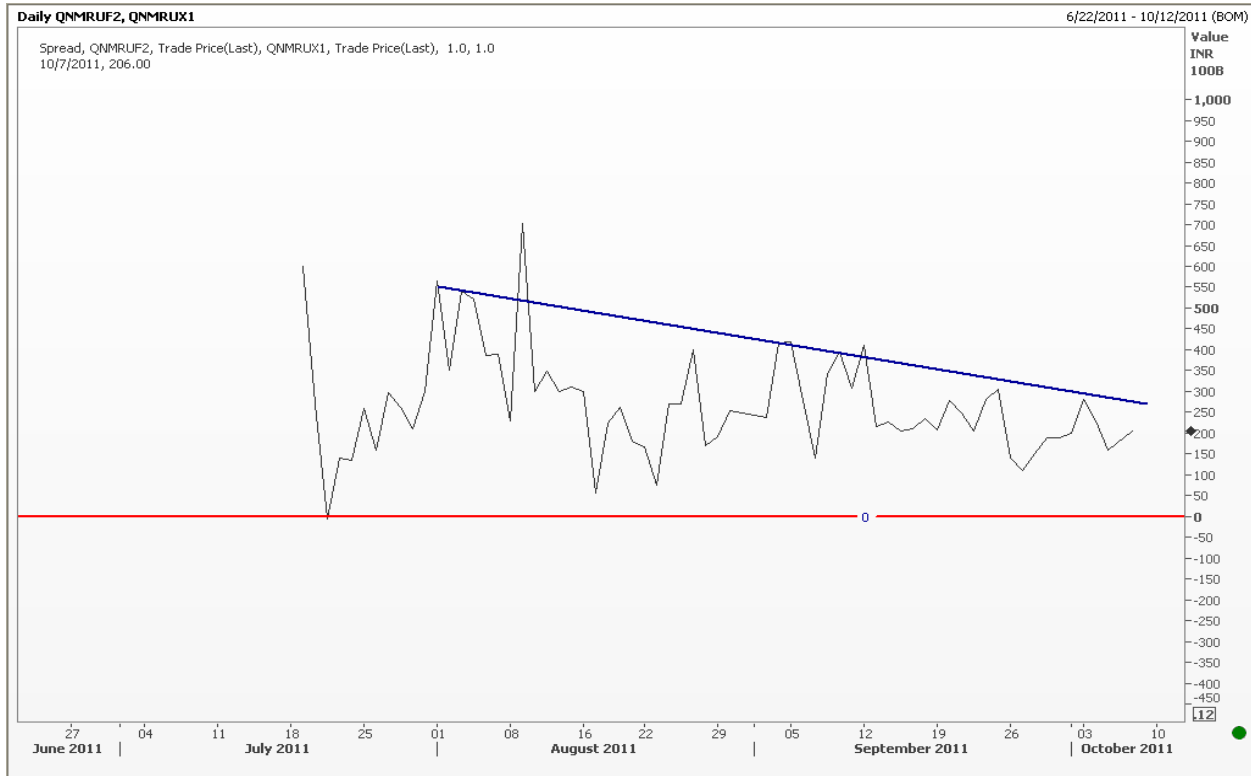
Natural rubber is one of the most important commercial crops grown in India and being an agricultural commodity a conspicuous seasonal production pattern is witnessed because of whether changes. Rubber production season or “tapping season” ideally begins following the month of November, when more of the commodity comes into the markets and the warehouses are restocked. The tapping season reaches its peak during the months of January and February. During the month of March the production starts subsiding and remains low till November after which production picks up again. The seasonal stock movements of rubber depicted below corroborates with the seasonality.



Seasonal spread Analysis (Far month – near month)

It is observed in the below chart, market is moving into Contango mostly from September onwards. It touches peak backwardation around August – September months and turns into Contango. The Contango ends mostly in May month and once again turns into backwardation. The backwardation difference touched as high as Rs1500 in 2010, but mostly averaged at Rs800. In Contango, it touched high of Rs1000 in February 2011, but remained below Rs500 for most of the years. Market is moving towards Contango since September 2011 and current difference is at Rs430.

The difference between Jan 2012 and Nov 2011 contract is mostly stable around Rs100-400 for last few weeks. January contract is in Contango with November since its launch and never fell into backwardation. It touched high of Rs700 on one occasion. Technically, there is strong trend line resistance at Rs280, break and sustain above may test Rs400 and Rs560.



Spread Sheet:

	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Nov-11	0	135	247	431	482
Dec-11		0	112	296	347
Jan-12			0	184	235
Feb-12				0	51
Mar-12					0

Trading Tactics:

Sell November futures and Buy January futures

At present, the spread between November and January futures (Jan is trading higher than the Nov) is at Rs +250 per tonne. We expect this gap to widen to +600 and + 900 in coming months.

Outlook: We expect change in market dynamics, where far month contracts trade higher compared to near month futures, a situation called as Contango. The Contango is expected to last till February - March.

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