

Who Can Tire Of Rubber?

Few tread on the subject, but it is strange how one of mankind's earliest and most important inventions, the wheel, has come to depend on the congealed sap of a tropical tree to be really useful. Furthermore, while synthetic rubber has been around for the better part of a century, it does not compare to the natural latex in terms of durability and heat resistance; you would not want to land in an airplane equipped with synthetic rubber tires.

As a tropical tree, rubber's zone of production is confined to its native areas in South America and primarily to the colonial plantations established in what are now Malaysia and Indonesia. You might think this confined geography coupled with an ever-increasing global population of tires would lead to surging prices for smoked rubber sheets. Not so: Even after a substantial bounce to nominal record prices for rubber, the average annual increase in constant-dollar terms since 1947 has been 0.64%.

Now that China has become the world's largest automobile market and other Asian markets are certain to increase their demand for tires, not to mention the TSA increasing its demand for gloves, the rubber market has become particularly sensitive to any disruption in supply such as the unexpectedly heavy monsoon rains in Thailand. Memo to file: How can a monsoon rain be unexpectedly heavy? Oh, well.

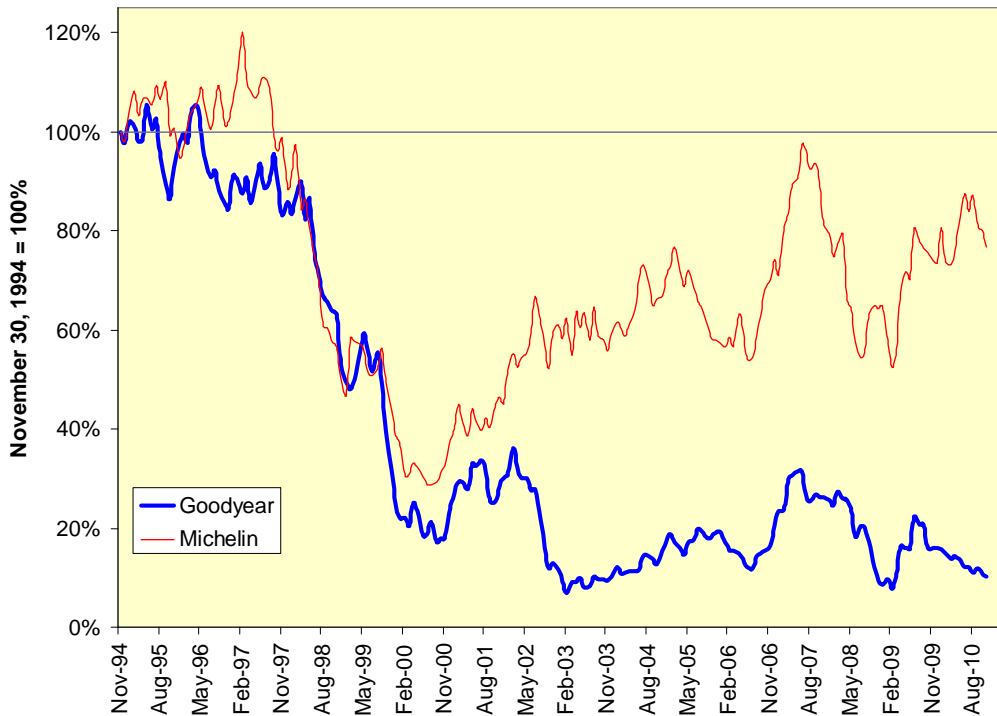
The chart of constant-dollar continuous front-month rubber futures traded on the Tokyo Commodity Exchange tells us what we need to know.

**Constant-Dollar Price Of Tokyo Rubber Futures
(Converted To USD)**



Do not, however, try to play the price of rubber via tire manufacturers. Let's take the relative performance of two non-Asian tire manufacturers, Goodyear here in the U.S. and Michelin in France, to their respective national stock market indices. Both have underperformed substantially, with Goodyear looking particularly bedraggled over the past decade. Nor be deceived by the recent World Trade Organization ruling China has been dumping tires; the surest way to consign any industry to the long-term scrap heap is to give it a wall of tariffs, countervailing duties, import quotas or surly Customs officials working on its behalf. The U.S. automobile and steel manufacturers tried this and spent decades being second-rate.

Relative Performance Against National Indices: Selected Tire Manufacturers



As most rubber is grown on large plantations, you could get adventuresome and try your hand on exchanges in Sri Lanka or Indonesia or Malaysia; the less-adventuresome can try plantation stocks listed in London such as Anglo-Eastern Plantations or Narborough Plantations. Then go out and get yourself a Sydney Greenstreet costume just to complete the investment, and limit your libations to Pimm's Cup and gin-and-tonics, extra quinine to ward off the malaria plasmodium.

The TOCOM futures are probably the most liquid and regulated of the rubber futures markets, but unless you intend to work Tokyo hours, you probably should not try this yourself.

Regardless, until some enterprising genetic engineer figures out a way to produce rubber latex out of dandelion sap – yes, this is an avenue of research – the rubber market should remain strong as the demand for tires can increase faster than the amount of land devoted to rubber plantations.