

Rubber Extending Bull Market With Record Car Sales

Diminishing rubber supplies and record car sales are extending a five-month bull market that's poised to raise costs for tiremakers.

The surplus will contract 61 percent in 2013 as global consumption rises to a record high, according to the 35-nation Singapore-based International Rubber Study Group. Futures will advance 11 percent to 350 yen a kilogram (\$3,830 a metric ton) in Tokyo this year from the current 315.9 yen, the median of 12 analyst estimates compiled by Bloomberg shows.

Thailand, Indonesia and Malaysia, representing 67 percent of global output, are cutting down trees and stockpiling to bolster prices that slumped to an almost three-year low of 205.6 yen in August. Futures surged into a bull market the following month as supply contracted and economies strengthened, boosting demand for cars. Tires account for 70 percent of rubber consumption.

"Less supply from Thailand and other Southeast Asian countries will help prices," said Makoto Sugitani, the head of sales at Newedge Japan Inc. in Tokyo who correctly predicted in October that prices would gain 10 percent by the end of 2012. "Expectations for a global economic recovery will accelerate rubber's advance."

Rubber rose 4.4 percent on the Tokyo Commodity Exchange this year, extending its gain since the August low to 54 percent. The Standard & Poor's GSCI gauge of 24 raw materials advanced 4.2 percent this month and the MSCI All-Country World Index (MXWD) of equities added 5.9 percent. Treasuries lost 1 percent, a Bank of America Corp. index shows.

Plantation Acres

Global stockpiles reached a seven-year high of 2 million tons at the end of 2012, enough to meet North America demand for about two years, according to IRSG data. The biggest growers responded by agreeing to cut down aging trees across 247,000 acres of plantations, an area about 50 percent greater than Singapore, and reduce exports by 300,000 tons in the six months to March.

Indonesia, the second-largest producer, will harvest 8.9 percent less this year, the first retreat since 2009, the agriculture ministry said in December. While the government in Thailand, the biggest grower, expects domestic output to increase 3.4 percent in 2013, it has already bought more than 182,000 tons to stockpile. Malaysia has yet to predict how much its farmers will tap.

The International Rubber Consortium Ltd., which coordinated the reductions, will meet this quarter to decide if the cuts should be extended, said Chief Secretary Yium Tavarolit. The three-nation group hasn't said when it plans to sell the supply being stockpiled.

Car Market

A fourth consecutive year of rising demand will narrow the surplus to 179,000 tons and 153,000 tons in 2014, from 460,000 tons in 2012, the

IRSG predicts. China, which consumes 34 percent of the world's rubber, will buy 7.2 percent more, up from 4.5 percent in 2012, the group estimates.

Rising prices may boost costs for Bridgestone Corp. (5108), Michelin & Cie. and Goodyear (GT)Tire & Rubber Co., the biggest tiremakers. Bridgestone used a record 1.89 million tons of natural rubber and its oil-derived synthetic equivalent in 2012, said Makoto Shiomi, a spokesman for the company. He declined to say whether Bridgestone had locked in prices for future supply.

"We aren't so confident that demand is getting better," Shiomi said. "Recent movements in rubber prices don't affect the pace of consumption."

Monetary Fund

Japan and the 17-nation euro area tumbled back into recessions and the International Monetary Fund cut its estimate for 2013 global growth to 3.5 percent from 3.6 percent on Jan. 23. Natural-rubber inventories in China reached 101,482 tons on Jan. 10, the highest since March 2010, Shanghai Futures Exchange data show.

The rebound means most plantations are profitable and may spur extra shipments from producers outside the three-nation group restricting supply, said Prachaya Jumpasut, the managing director of the Rubber Economist, a London-based adviser to the industry. Rubber trees can be grown anywhere that has a similar climate to a tropical rain forest, with plantations in parts of Africa and Latin America.

Consumption will exceed supply by 46,000 tons this year, compared with a deficit of 15,000 tons in 2012, according to RCMA Commodities Asia Group. The Singapore-based trading company's estimate assumes a 220,000-ton reduction in shipments from the biggest producers. The global rubber market is valued at \$38.5 billion, based on annual consumption.

Commercial Vehicles

Bridgestone will report a 17 percent gain in profit to 205 billion yen this year, according to the mean of 17 analyst forecasts compiled by Bloomberg. Shares of the Tokyo-based company rose 39 percent to 2,391 yen in the past year and may reach 2,503 yen in the next 12 months, based on 13 estimates compiled by Bloomberg.

Almost 50 percent of the rubber used by Bridgestone is synthetic, with the proportion of the natural material typically increasing for tires designed for heavier vehicles, Shiomi said. A tire for a medium or heavy commercial vehicle uses as much as 18 kilograms (40 pounds) of natural rubber, while those for passenger cars contain less than 1 kilogram, according to CLSA Asia-Pacific Markets.

Global auto sales will rise 2.4 percent to 82.7 million this year, according to LMC Automotive Ltd., a research company in Oxford, England.

China may surpass 20 million for the first time this year, the state-backed China Association of Automobile Manufacturers said Jan. 11.

“Demand from China’s tire-making industry will rise,” said Tong Jingjing, an analyst at Sri Trang (Shanghai) Ltd., a unit of Thailand’s biggest publicly traded rubber exporter. “Supply from Southeast Asian producing countries will be limited.”