Rubber Seen Dropping as Chinese Inventories May Equal Record

Rubber is poised to drop as sustained supplies from Southeast Asia and falling demand from China’s tiremakers push stockpiles to match their record at Qingdao port, the main shipment hub, an industry executive said. Futures fell for the first time in four days. Inventories in the bonded zone, where traders store deliveries before paying duties, will probably climb to 250,000 metric tons by end-August from 240,000 tons last week, Li Xiangou, chairman at the Qingdao International Rubber Exchange Market, said in an Aug. 17 interview. China accounts for 33 percent of global demand and tires represent 70 percent of natural-rubber consumption in the country. Reserves last reached 250,000 tons in mid-January, he said. Rubber traded in Tokyo has plunged 59 percent from a record in February 2011, cutting costs for tire makers such as Bridgestone Corp. (5108), Goodyear Tire & Rubber Co. (GT) and Michelin & Cie as the economy slowed in China, the world’s largest auto market, and Europe struggled to contain its debt crisis. Thailand, Indonesia and Malaysia, the top three shippers, agreed to cut exports by 300,000 tons in a bid to boost prices. “So far there’s no bright spot in the local rubber market wherever you look,” said Li. “Demand is dropping due to a weak auto market while shipments from Southeast Asia are streaming in at the usual pace.” Prices may drop further this month and in September, he said. The northeastern port of Qingdao is in Shandong province, which produces about half of China’s tire output, according to data compiled by Sri Trang Agro-Industry Pcl (STA), Thailand’s largest publicly traded rubber exporter.

‘Too Pessimistic’ Rubber for January delivery fell as much as 1.8 percent to 217 yen a kilogram ($2,730 a ton) before settling at 219.40 yen today. That follows a three-day gain of 6.5 percent. Futures reached a record 535.7 yen on Feb. 18 last year and dropped to the lowest level since October 2009 on Aug. 14. “One can be too pessimistic these days after the recent sell off,” Li Shiqiang, general manager at the China unit of Sri Trang Agro, said in Qingdao Aug. 17. “Once sentiment recovers, tiremakers will replenish their inventories, boosting demand, and a sharp fall in prices will also trigger government actions in producing countries.” Thailand, Indonesia and Malaysia, which represent about 70 percent of global supplies, plan to cut down aging trees across 100,000 hectares (247,105 acres). The move, combined with the export cut, will remove 450,000 tons from the market, the International Tripartite Rubber Council, which represents state agencies and exporters, said in a statement Aug. 16. ‘Bear Market’ The increase in Qingdao stockpiles is partly because Thai shippers reduced direct sales to some Chinese buyers because of contract difficulties and prefer to store supplies at warehouses there instead, according to Pongsak Kerdvongbundit, honorary president of the Thai Rubber Association. They deliver to customers once they receive payment, he said. “We are in the long painful process of a bear market due to the global economic recession,” Tang Lizhi, president for the China region at Okachi (Shanghai) Co., the unit of the largest rubber broker on Tocom. “The bear market will last for a while, with a sporadic rebound along the way whenever China cuts interest rates or reduces banks’ reserve requirements.” Potential Stimulus Governments from the U.S. to China may take new measures to stimulate growth, boosting demand for commodities. Premier Wen Jiabao said easing inflation provides room to adjust monetary policy, state television reported last week. Federal Reserve Chairman Ben S. Bernanke may talk about monetary options at a conference in Jackson Hole, Wyoming, at the end of the month. Chancellor Angela Merkel has signaled Germany's support for a European Central Bank plan to resolve the region's debt crisis. Rubber may find a "bottom" in the fourth quarter after the U.S. presidential election and China's party congress, said Li of the Qingdao International Rubber Exchange Market. China's economy expanded 7.6 percent in the second quarter from a year ago, the slowest pace in three years. Truck sales fell 10 percent in July from a month earlier, China Automotive Information Network data show. Passenger-vehicle sales trailed analysts' estimates for the first time in five months. "Many Chinese tire makers are mired in high inventories of end-products right now," Li said. "They have moderated their raw material purchases." Warehouses 'Full' Declining truck sales and slowing growth will cut demand for heavy-duty tires, reducing total natural-rubber demand by 5 percent this year, according to Shen Jinrong, chairman at the biggest tiremaker Hangzhou Zhongce Rubber Co. A tire for a medium to heavy commercial vehicle uses as much as 18 kilograms (40 pounds) of natural rubber on average, compared with less than 1 kilogram for a passenger car, according to Jeremie Capron, an analyst at CLSA Asia-Pacific Markets in Singapore. "The warehouses are so full that the dealers are dumping the new shipments at a discount to the tire factories because they can't find storage for them," Li said. "I think the year- on-year reduction will be more than the 5 percent estimated by Zhongce," he said, without giving an exact figure. Global natural-rubber supply will exceed demand for a third year in 2013, according to RCMA Commodities Asia Group in Singapore. Production will top usage by 299,000 tons, from a surplus of 321,000 tons this year and 4,000 tons in 2011, according to Chief Executive Officer Chris Pardey, a former commodities trader at Cargill Inc. and Noble Group Ltd. Consumption may rise 2.5 percent to 11.2 million tons in 2012 as output grows 3.2 percent to 11.3 million tons, the International Rubber Study Group said last month. Demand will probably climb 4.3 percent to 11.7 million tons next year as production gains 4.4 percent to 11.8 million tons, it said.