Asia Rubber-Fears of defaults resurface as prices plunge

* Dealers fear defaults as prices fall * SIR20 sold at 109.50 to 111.00 cents/lb * SMR20 sold at $2.50-$2.55, RSS3 at $2.60/kg By Lewa Pardomuan SINGAPORE, Aug 15 (Reuters) – Fears of defaults gripped the rubber market this week as tyre grades tumbled after price-setting Tokyo futures slipped to their weakest since late 2009 on concerns over the health of the global economy, dealers said on Wednesday. Though some tyre grades were sold to top consumer China overnight, the hefty drop in prices in recent months has caused anxiety among sellers, who were forced to renegotiate contracts with Chinese buyers late last year. Dealers said defaults could be happening again this year, with the price of some tyre grades already falling nearly 30 percent since January because of weaker Tokyo futures and ample supply in Southeast Asia. "We heard about defaults by Chinese buyers, but I don't have the data on volumes," said Edy Irwansyah, executive secretary of the North Sumatra branch of the Indonesian Rubber Association. "This kind of thing is a like habit. Whenever prices drop, defaults happen." Indonesia's SIR20 was traded at between 109.50 and 111.00 U.S. cents a pound ($2.41 and $2.44 a kg) for October shipment, down from 127 cents in early August and 156 cents in January. Thai and Malaysian grades changed hands at higher prices. Late last year, the ASEAN Rubber Business Council blacklisted buyers who defaulted on shipments and urged members to ignore requests from Chinese buyers for discounts following a plunge in prices. Buyers in China shocked the market late in 2008 when they refused to pay for their cargoes after prices tumbled by more than half as a result of the global financial crisis that hit carmakers in Europe, North America and Japan hard. "It won't be surprising to see defaults because the market has dropped so fast. We have to be careful of course. We only do business with reliable customers and make sure they won't run away. We will insist they put some deposit in our bank first," said a dealer in Singapore. "We have no cases of defaults so far. But I don't know what will happen tomorrow." The key Tokyo Commodity Exchange rubber contract for January bounced on Wednesday after better-than-expected U.S. retail sales figures bolstered investor appetite for risk, but the contract was within sight of the near 3-year low hit in the previous session. Tokyo rubber futures set the tone for physical prices, but futures contracts are often influenced by macroeconomics. The debt crisis in Europe and Chinese trade data released last week are weighing on sentiment. Among other grades, Malaysia's SMR20 was traded late on Tuesday at $2.50 to $2.55 a kg, while Thai RSS3 was sold at $2.60 a kg — well below a lifetime high f $6.40 a kg in February 2011. There were no reports of deals for another Thai grade, STR20. "China bought some SMR20 and SIR20 last night. But technically the market is weak. People are cautious about defaults and prices keep hitting new lows," said a dealer in Kuala Lumpur. "I don't see any factors which can support TOCOM rubber." WEEK AHEAD Dealers expect more declines in prices next week if TOCOM extend losses, but main producers may also take fresh measures to support the sagging physical market. Thailand in January approved a 15 billion baht ($476 million) intervention scheme to buy 200,000 tonnes of rubber from farmers to push up unsmoked rubber sheet

to above 120 baht per kg. But the government has only bought around 10,000 tonnes so far and USS3 prices were stuck around 90 baht.

($1=31.49 baht)