

Rubber Trades in Bear Market as China Stockpiles Swell

Rubber fell into a bear market as expanding stockpiles in China signaled easing demand from the world's largest consumer of the commodity used in tires. Rubber for delivery in September on the Tokyo Commodity Exchange dropped 2.6 percent to 266.9 yen a kilogram (\$2,844 a metric ton), a 20 percent decline from this year's highest settlement for a most-active contract of 334 yen reached Feb. 6. Thailand, the biggest producer and exporter, extended curbs on shipments today to the end of May to boost prices. Inventories in warehouses in Qingdao, China's main shipment hub, reached an all-time high on March 15 as the nation's industrial output had the weakest start to a year since 2009. "China's growth is not strong enough to absorb surplus supply," said Takaki Shigemoto, an analyst at research company JSC Corp. in Tokyo. "Inventories may continue to expand unless producers take additional steps to restrict shipments." China's benchmark stock index fell as a key manufacturing gauge missed economist estimates while the Nikkei 225 Stock Average slid after the Bank of Japan (8301)'s Tankan index of confidence among large manufacturers also lagged forecasts. Five of nine analysts and traders in China surveyed by Bloomberg last week forecast prices to fall in the three months through June. Rubber in Tokyo, the international benchmark, slumped 9.4 percent in the first quarter while the most-active contract in Shanghai plunged 16 percent. Thai Plans Indonesia, Malaysia and Thailand, which represent about 70 percent of global output, reduced exports by 300,000 tons in the six months through March and removed aging trees to help curb slumping prices, according to Thai Deputy Farm Minister Yuttapong Charasathien. The measures came after futures in Tokyo slumped to a three-year low of 205.6 yen in August. Officials from the three nations will meet in Phuket April 10-12 to discuss further price support measures, including extending export reductions, Yuttapong said by phone from Bangkok today. Indonesia will review overseas shipments, said Mardjoko, exports director for agriculture and forestry products at Indonesia's Trade Ministry, by text message today. "The top three may impose additional measures to boost prices, which may be able to help in the short term," Sureerat Kunthongjun, an analyst at Agrow Enterprise Ltd., said by phone from Bangkok. "The long-term outlook is depressed by weak demand and high inventory level." "Multiple Risks" Qingdao inventories climbed to 358,300 tons by March 15, said Cai Zhiwei, general manager at the Qingdao International Rubber Exchange Market, in an interview on March 22. Stockpiles monitored by the Shanghai Futures Exchange climbed to 117,696 tons, the highest in over three years, the bourse said March 29. China accounts for 34 percent of global demand, according to the International Rubber Study Group. "Multiple risks remain for the rubber outlook — inventory overhang, a weak global economy and rising production," said Cai. "Barring any major stimulus on the macro front, there'll be renewed weakness in rubber prices." Demand for tires for large trucks will slow this year as China shifts from heavy industries

to a more consumption-driven growth model, said Shen Jinrong, chairman of Hangzhou Zhongce Rubber Co., the nation's largest tire maker, on March 27. "The heavy-truck sector accounts for about half of China's total natural-rubber consumption," Shen Jun, a trader at Shanghai Flow International Trade Co., said by phone from Shanghai today. "While China's economy has recovered since the fourth quarter of last year, infrastructure projects and investment isn't catching up at a speed that will stimulate heavy-truck sales." The Japanese yen, which depreciated 7.3 percent this year against the dollar, helping increase trading volume on the Tokyo Commodity Exchange, won't be enough to support the rubber price, said Kazuhiko Saito, an analyst at broker Fujitomi Co. "The yen's weakness alone cannot support rubber futures as the fundamentals of the commodity are getting worse," Saito said by phone from Tokyo. "We have abundant supply from Southeast Asian countries and a weak recovery in Chinese demand." Bloomberg