

Rubber Poised for Record Glut as Shippers End Curbs

Rubber is headed for the biggest glut on record, prolonging the bear market that began in April, as supply exceeds demand for a third year and Southeast Asian exporters ended curbs on shipments. The surplus will expand 57 percent to 490,000 metric tons this year, enough to meet U.S. demand for six months, according to RCMA Commodities Asia Group, the Singapore-based company that has traded rubber for nine decades. Futures in Tokyo, a global benchmark, will drop at least another 5.8 percent to 225 yen a kilogram (\$2,369 a ton) by the end of December, according to the median of 16 analyst estimates compiled by Bloomberg. Five anticipate 200 yen, a price last seen in 2009. Thailand, Malaysia and Indonesia, representing about 70 percent of supply, failed to agree on new curbs at a meeting last week after reducing exports by 300,000 tons in the six months through March. While record global car production signals rising demand for tires, that won't end the glut caused by farmers expanding output by 18 percent in three years after prices more than doubled since the end of 2008. "There isn't enough demand out there to absorb the surplus," said Kazuhiko Saito, the chief analyst at Fujitomi Co. in Tokyo who has covered the market for almost a quarter century. "We're going to see an influx of rubber unless governments intervene as production from Southeast Asia moves into high gear." Raw Materials Rubber fell 21 percent to 238.9 yen on the Tokyo Commodity Exchange, or Tocom, this year and is now 55 percent below the record 535.7 yen reached in February 2011. Lower prices should reduce costs for Bridgestone Corp., Michelin & Cie. and Goodyear Tire & Rubber Co., the biggest tiremakers. The Standard & Poor's GSCI gauge of 24 raw materials dropped 2.4 percent since the start of January and the MSCI All-Country World Index of equities climbed 7.2 percent. Treasuries lost 1.1 percent, a Bank of America Corp. index shows. RCMA Commodities Asia was anticipating a 2013 surplus of 353,000 tons in March and increased its estimate because of signs that demand in China, Europe and the U.S. is weakening. The International Rubber Study Group also may need to increase its forecast for a 179,000-ton glut because consumption is weaker than anticipated, said Lekshmi Nair, a senior economist at the Singapore-based group. The 35-nation body said in January that demand would rise about 6 percent to 11.6 million tons and production 3.2 percent to 11.8 million tons. The new forecast will be released next month, Nair said. New Measures Thailand, Malaysia and Indonesia also failed to extend their export curbs at a meeting in April. Tokyo futures had already plunged more than 20 percent from this year's high of 337.8 yen in February by then. Officials from the International Tripartite Rubber Council met again June 12 and 13 without deciding on any new measures. Thailand had sought to reverse the slump by unilaterally extending its export restrictions for 60 days. While that helped futures rally to 299 yen by May 13, the slump resumed before the additional curbs ended. Thai export prices fell 13 percent to 86 baht a kilogram (\$2,802 a ton) this year from the peak of 198.3 baht in 2011, according to data from the Rubber Research Institute of Thailand. The imbalance between supply and demand may be superseded in Tokyo trading by moves in the yen, which reached a four-year low last month against the dollar amid the Bank of Japan's

monetary stimulus measures. A weaker yen increases the appeal of futures denominated in the currency and was the main reason why the Tocom rubber contract jumped 20 percent in less than four weeks from the middle of April, said Makoto Sugitani, head of sales at commodity broker Newedge Japan Inc. Yen Weakens Price swings in futures have doubled since February to the highest level in 18 months, increasing the challenges for forecasters. Predictions in the Bloomberg survey of analysts ranged from 200 yen to 400 yen. The yen is forecast to average 105 to the dollar in the fourth quarter, a depreciation of 10 percent from now, according to the median of 74 analyst forecasts compiled by Bloomberg. "Rubber futures in Tokyo will rally again if the yen resumes its decline," said Tokyo-based Sugitani, who correctly predicted in October that prices would advance 10 percent by the end of 2012. "The yen is the biggest factor in determining the direction." Tocom futures dropped 4.4 percent last week as the yen rallied the most since July 2009, with investors reassessing the BOJ's stimulus. Growing Cycle Rubber production is expanding as trees planted from 2006 to 2008 become mature enough for tapping this year, said Kona Haque, an analyst at Macquarie Group Ltd. in London. Rubber rallied 23 percent in Tokyo in 2006 and 2007, encouraging more planting. Futures doubled in 2009. China, the largest buyer, will import 14 percent less in the seven months ending in December than a year earlier, the Association of Natural Rubber Producing Countries estimates. Purchases are slowing after shipments jumped 27 percent in the first five months of the year, according to the Kuala Lumpur-based group, whose members represent about 93 percent of supply. Inventories in Qingdao, China's main hub, reached a record 371,100 tons on April 26, according to Cai Zhiwei, the general manager at the Qingdao International Rubber Exchange Market. Stockpiles were 350,700 tons on June 14. China accounts for 33 percent of global demand and tires represent 70 percent of natural-rubber consumption in the country, according to exchange's estimate. Heavy Industry While demand will increase this year for tires used for passenger vehicles in China, the world's largest automobile market, it will slow for large trucks as the government shifts its focus from heavy industry to more consumption-driven growth, Shen Jinrong, chairman of tiremaker Hangzhou Zhongce Rubber Co., said in March. 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, a brokerage in Hong Kong. Global automobile sales will rise above 83 million units to a record this year, according to LMC Automotive Ltd., a research company in Oxford, England. Bridgestone (5108), the biggest tiremaker, used 450,000 tons of natural and synthetic rubber in the first quarter, 4.3 percent less than a year earlier as Japanese and U.S. demand weakened, the Tokyo-based company said May 8. The company still expects to consume a record 1.93 million tons this year, said Makoto Shiomi, a spokesman for the company. "We're quite negative unless there is government intervention," said Chris Pardey, RCMA's chief executive officer and a former commodities trader at Cargill Inc. and Noble Group Ltd. "Demand estimates for Europe, China and now also the U.S. are falling." Bloomberg