

Global rubber shortage to narrow this yr

BLOOMBERG

8 June

A global natural-rubber shortage may narrow this year as high prices spur farmers from Indonesia to Myanmar to boost tapping, according to the International Rubber Study Group, potentially capping costs for tyre and glove makers.

Production may increase 5.8 per cent to 10.9 million tonnes this year from 10.3 million tonnes a year earlier, Stephen Evans, secretary general at the group told the Global Rubber & Tyre Markets conference in Jakarta today. That may narrow the supply deficit to between 200,000 tonnes and 300,000 tonnes from 400,000 tonnes in 2010, he said.

Increased supplies may accelerate a 27 per cent decline in rubber prices from a record

535.7 yen a kilogram on February 18 and cap costs for companies such as Bridgestone Corp. and Michelin & Cie. Rubber advanced to an all-time high as global demand led by China outstripped supply after rain and flooding curbed output in Thailand and Indonesia, the two largest exporters.

"A high market price has stimulated a surge in tapping and also planting that will be a significant way to close the supply gap," Evans said. "We see this is happening now and taking place in Myanmar, Cambodia and may be in Indonesia as well", where farmers are highly sensitive to prices, he said.

Rubber futures have gained for four straight weeks and may extend the recovery from this year's low of 335 yen a kg, according to broker Fujitomi

Co. Rubber for November delivery fell as much as 2.2 per cent to 384 yen a kilogram (\$4,902 a tonne) before trading at 390.3 yen at 3:26 pm local time on the Tokyo Commodity Exchange. Futures more than doubled in 2009 and surged 50 per cent last year.

PERSISTENT RAIN

Persistent rains in southern Thailand, the biggest grower, have disrupted tapping, slowing the resumption of the rubber harvest after the traditional February-to-May low-production season. A weakening La Nina weather event, which brought excess rains to Southeast Asia, may boost rubber output in the second half of this year, Evans said.

"We're looking at a phase where we would continue to see high prices and a close bal-

ance between demand and supply," said Rajeev M Pandia, director of Gujarat Reclaim & Rubber Products Ltd.

The global rubber shortage may widen to 1 million tonnes by 2020, as demand from tyre makers will boost consumption to about 15.4 million tonnes, Evans said. Demand this year may gain 4.7 per cent to 11.2 million tonnes, he said.

"China and India's automotive sectors will continue to support demand," he said. "China has a very big plan for expansion of their automotive sectors. Strong vehicle output will definitely lead to strong tyre sales, especially for replacement, as 75 per cent of tyres are sold to the replacement markets."

CAR SALES

China's annual automobile

sales may rise to 30 million vehicles in 2015 from 18 million last year, Xinhua News Agency reported on May 30, citing Dong Yang, deputy executive director of the China Association of Automobile Manufacturers. Car sales in India may more than double to 3 million by 2015, according to the government.

Global tyre demand is expanding at a faster pace than production, led by growth in China, as vehicle sales are increasing, Sumitomo Rubber Industries Ltd. President Ikuji Ikeda said on May 26.

Sales of passenger-car tyres worldwide are forecast to grow 6.1 per cent this year from 2010, while sales of commercial-vehicle tyres are forecast to rise 11 per cent, the International Rubber Study Group forecast on January 26.