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Record Tire Sales Rally Rubber on China-Japan Trend: Commodities
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By Aya Takada, Supunnabul Suwannakij and Yasumasa Song

Sept. 27 (Bloomberg) -- Record demand for autos in China, the world's largest market, and the biggest increase in Japanese vehicle production in three decades means tiremakers will make the most sales ever, reigniting a rally in rubber prices.

China's vehicle sales exceeded the combined global total of General Motors Co. and Volkswagen AG, the world's top two automakers, in the first half, and Japanese output more than doubled in three months as factories reopened after the March earthquake. Tire demand will shrink rubber stockpiles to 12 percent of use in 2012, a four-year low, estimates Citigroup Inc.

Prices may jump 18 percent to \$5 a kilogram (2.2 pounds) by Dec. 31, a Bloomberg survey of 15 analysts and traders shows.

Expanding vehicle sales in China and other emerging markets will compensate for weakening demand in developed economies roiled by debt crises, giving carmakers their best year ever, according to JD Power & Associates, a research company.

Bridgestone Corp., the biggest tiremaker, has more orders than it can handle, eroding rubber inventories just as rains delay harvesting in Thailand, the largest producer.

"There are pessimistic views about economies as concerns grow over Europe's debt crisis, but we cannot ignore the fact that auto sales in emerging markets are still expanding," said Tetsu Emori, the Tokyo-based chief fund manager at Astmax Co., who helps manage about \$400 million of assets. "Demand for the commodity will be influenced more by emerging economies than mature markets."

23-Foot Tsunami

Rubber futures traded on the Singapore Exchange reached a record \$6.488 on Feb. 17 before slumping 35 percent to \$4.198 as the temblor and 23-foot tsunami that hit Japan on March 11 closed factories and power plants in the world's third-largest car market. The nation's vehicle production collapsed to its lowest level since at least 1982 in April, data from the Japan Automobile Manufacturers Association show. Tires account for about 60 percent of rubber consumption.

Japanese output is now resurging and reached 790,325 vehicles in July, about 1 percent less than in February, the data show. Toyota Motor Corp., Asia's largest automaker, and Yokohama, Japan-based Nissan Motor Co. expect to resume full production globally by next month. Carmakers are boosting output "like we never have before," Toshiyuki Shiga, the head of the Japan Automobile Manufacturers Association, said Aug. 31.

Commercial Vehicles

Global sales of cars and light commercial vehicles will rise 4 percent to 75.4 million units this year, and a further 10 percent to 83.3 million in 2012, Westlake Village, California-based JD Power estimates. Tire purchases will increase 6.5 percent to an all-time high this year and a further 5.7 percent in 2012, according to Arifumi Yoshida, director at Citi Investment Research & Analysis in Tokyo, who was ranked equal-first by Bloomberg for his recommendations on Bridgestone.

Those forecasts may have to be trimmed should the global economy tip back into recession. Rubber for February delivery in Tokyo dropped 13 percent in the week through yesterday to 303 yen (\$3.96) per kilogram on concern the European debt crisis will hurt demand. The contract jumped as much as 6.9 percent today, the most in six months, before settling at 318.4 yen on optimism European officials will find ways to tame the crisis.

The International Monetary Fund cut its global growth forecasts to 4 percent for this year and next on Sept. 20, compared with earlier estimates of 4.3 percent for 2011 and 4.5 percent in 2012. The U.S. Federal Reserve said the following day that there are "significant downside risks" in the U.S. economy, the second-biggest car market.

Emerging Markets

Demand for cars and light vehicles in developing economies wasn't big enough to maintain a worldwide expansion during the recession of 2008 and 2009, the worst since World War II, according to Tokyo-based Nomura Securities Co. While emerging-market sales jumped 30 percent over that period, the global figure retreated 9 percent, the brokerage estimates.

The Standard & Poor's GSCI gauge of 24 commodities fell 3.3 percent this year, better than the 14 percent slump in the MSCI All-Country World Index of equities. Treasuries returned 8.8 percent, a Bank of America Corp. index shows.

Vehicle sales in China, the biggest rubber consumer, may expand about 5 percent this year, the Association of Automobile Manufacturers said July 8, cutting its previous forecast of 10 percent to 15 percent.

China's economy will expand 9.3 percent this year, compared with 10.4 percent in 2010, the median of as many as 10 economists' estimates compiled by Bloomberg show. The central bank raised interest rates five times since October and ordered lenders to set aside a record amount for reserves.

Lehman Brothers

This year's growth in China would still be almost six times the projected expansion in the U.S. and more than five times the pace of the euro region. Nomura predicts a 7.6 percent gain in Chinese auto sales this year, accelerating to 10 percent in 2012. That should ensure demand for tires keeps strengthening.

"The global tire market has never been so tight," said Citigroup's Yoshida. "Tiremakers can't respond quickly enough to demand because they suspended expansion plans after the Lehman shock," he said, referring to the failure of Lehman Brothers Holdings Inc. in 2008.

Bridgestone and Michelin & Cie., the second-biggest tiremaker, raised prices for truck and bus tires in Japan by 10 percent this

month, the second increase this year. Tokyo-based Bridgestone's U.S. unit will raise some prices in the U.S. and Canada by as much as 8 percent from Nov. 1 to reflect higher raw-material costs, the company said Sept. 7.

Petrochemical Research

Even after the slump in rubber futures since mid-February, prices are still 15 percent higher than a year ago and about double the average of \$2.135 over the past decade.

The cost of synthetic rubber, derived from crude, surged 76 percent in the past year and reached \$4,450 a ton on Aug. 3, the highest since at least 1997, according to data from Sutton, Surrey-based ICIS, a petrochemical research company. A supply shortage will widen this year because of shutdowns and capacity constraints, according to Ben Santoso, an analyst at DBS Vickers Securities Pte in Singapore.

Bridgestone will report a 19 percent gain in net income to 117.46 billion yen (\$1.53 billion) in 2011, the most in four years, according to the mean of 13 analysts' estimates compiled by Bloomberg. Profit at Clermont Ferrand, France-based Michelin will rise 18 percent to 1.24 billion euros (\$1.67 billion), the mean of 10 estimates show.

Even after raising prices, Bridgestone has yet to recoup all of the increases in raw-material costs, said Kaoru Tomizawa, the company's public relations manager. Officials at Michelin's office in Japan declined to comment.

Provinces Flooded

Global demand for natural rubber will rise 5.3 percent to 11.58 million metric tons in 2012, the third consecutive annual increase, Citigroup estimates. Production will expand 5.4 percent to 11.59 million tons, too little to prevent a decline in stockpiles relative to consumption, the bank predicts.

Production in Thailand and Indonesia, which represent 60 percent of global supply, is below normal, said Yium Tavarolit, chief secretary of the International Rubber Consortium Ltd., a venture between the two countries and Malaysia to market the commodity. Rainfall is disrupting tapping in Thailand and trees are shedding their leaves in Indonesia's South Sumatra, he said.

Fifty-seven of Thailand's 77 provinces had flooding since July, said the Department of Disaster Prevention & Mitigation.

Rubber stockpiles monitored by the Shanghai Futures Exchange stand at 33,766 tons, compared with a five-year average of 63,213 tons, bourse data compiled by Bloomberg show. That's helping shore up prices, compensating farmers for lost output.

"Prices over 100 baht (\$3.24) are more than enough to keep me happy," Wiwat Anantararat, a 55-year old farmer, said by phone from Trang province in southern Thailand. "I've built a new two-storey house paid by cash from tapping trees and expanded the plantation."

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