1BN) Bear Market in Tin Shuts 70% of Indonesian Capacity: Commod ities

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Bear Market in Tin Shuts 70% of Indonesian Capacity: Commodities
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By Yoga Rusmana and Maria Kolesnikova

Aug. 21 (Bloomberg) -- Indonesia idled about 70 percent of tin-smelting capacity in its biggest producing region amid a three-month bear market, curbing the world's biggest exports and setting the stage for a global shortage.

Producers in Bangka-Belitung province closed about 24 of 28 smelters, the Indonesian Tin Mining Association estimates.

Demand will exceed supply by 7,000 metric tons next year, equal to about 60 percent of global stockpiles tracked by the London Metal Exchange, Barclays Plc estimates. Futures will average $22,000 a ton in the fourth quarter, 18 percent more than the price of $18,571 today, according to the median of 12 analyst estimates compiled by Bloomberg.

Tin tumbled as much as 32 percent this year on concern that slowdowns from the U.S. to China to Europe will cut demand for the metal used in everything from cans to televisions and smart phones. Smelters in Indonesia, representing about 40 percent of global exports, started shutting down this month. That may help reduce the nation's output by as much as 14 percent in 2012, according to St. Albans, England-based ITRI Ltd. The research group also expects a supply deficit in 2013.

"Most smelters have closed," said Hidayat Arsani, the president of the Indonesian Tin Mining Association. "The price just cannot cover the cost. Ideally, the price should be around $21,000 or $22,000 a ton. If this continues, we can't work anymore."

Nickel Slumped

Metal for delivery in three months, the LME's benchmark contract, fell 19 percent in the past year. Of the bourse's six main industrial metals, only nickel and aluminum slumped more.

The Standard & Poor's GSCI gauge of 24 commodities gained 4 percent and the MSCI All-Country World Index of equities advanced 12 percent. Treasuries returned 3.3 percent, a Bank of America Corp. index shows.

Indonesian smelters also curbed production at the end of last year as prices fell as much as 44 percent in eight months.

LME-monitored inventories declined 43 percent in the fourth quarter, the most since 2004. Futures rallied 19 percent in the first three months of this year before retreating once more.

LME stockpiles are shrinking again, reaching 11,630 tons yesterday, 50 percent less than a year ago. Canceled warrants, or orders to remove metal from warehouses, jumped to 6,350 tons on Aug. 14, the most since 1997, suggesting users are soaking up inventory, bourse data show. Barclays and Morgan Stanley estimate the market is in a third year of deficit.

Largest Producer

Any rebound would boost profit for PT Timah, the world's third-largest producer. Shares of the Pangkalpinang, Bangka Belitung-based company slumped 40 percent in the past year in Jakarta trading and will rally 17 percent to 1,521.25 rupiah in the next 12 months, according to the average of eight analyst estimates compiled by Bloomberg.

Slowing growth remains the biggest risk to tin, a market valued at $9.3 billion last year based on consumption. China, which represents about 47 percent of demand, expanded at the slowest pace in three years in the second quarter, and export growth in July collapsed to 1 percent from 11.3 percent in June.

The 17-nation euro area contracted 0.2 percent in the second quarter after stagnating in the first three months.

"We're very pessimistic about consumption," said Sun Si, an analyst at Beijing Antaike Information Development Co., which has researched industrial metals for two decades. "Macro-economic risks remain, and while we expect an improvement from the end of the third quarter through the fourth quarter, it may not be significant."

Historical Volatility

Forecasting tin prices may be harder than for other industrial metals because the volume is lower and price swings are common. The LME handled 157,296 tin futures and options last month, compared with 5.1 million for aluminum and 3.1 million for copper. Its 100-day historical volatility is at 26.4 percent, making it the second most-volatile after nickel, data compiled by Bloomberg show.

While a Bloomberg survey of 15 traders and analysts in June 2011 predicted a gain of about 15 percent to $30,000 by the end of the year, futures declined 27 percent. A separate survey in January anticipated a 20 percent gain to $26,000 this year. Prices advanced to $25,880 the next month, then retreated.

Exports from Indonesia dropped 6.4 percent to 55,613 tons in the first seven months of this year, according to data compiled by Bloomberg. Companies in Bangka-Belitung produced about 80,000 tons last year, out of a national total of 105,000 tons, according to data from the government and ITRI, which is predicting a contraction of as much as 15,000 tons in 2012.

Global Stockpiles

Next year's predicted shortage may cut the ratio of global stockpiles to consumption to a record low of 1.7 weeks, from 2.6 weeks in 2012 and more than seven weeks in 2009, Barclays estimates. The bank expects world output to gain 0.3 percent to 354,000 tons in 2013, from growth of 0.6 percent in 2012.

Global mine supply fell 6 percent in the first five months and a second-half recovery is unlikely unless prices rally, according to Credit Suisse Group AG. Chinese output fell 4 percent to 82,471 tons in the first seven months, according to government data. Exports also may be disrupted by the nationalization of Glencore International Plc's Colquiri tin and zinc operations in Bolivia and violence in the Democratic Republic of Congo, according to Barclays.

PT DS Jaya Abadi, one of the Indonesian smelters that curbed output, sent its 150 workers on leave until September, according to Sukito Gunawan, a director of the company. The producer in Pangkalpinang will review its options again that month, he said.

Breaking Up

Small-scale miners in Bangka-Belitung, who supply smelters with ore, have also stopped work. Ari Saputra, 22, said that his boss ordered a halt to mining at Batu Belubang beach more than a month ago, and he now earns a living breaking up the bamboo rafts used for dredging ore. The crews extract ore offshore and from riverbeds.

Speculation that policy makers in China and the U.S. will take more measures to support growth may lift prices, according to David Wilson, an analyst at Citigroup Inc. in London. The Federal Open Market Committee said Aug. 1 it will pump in fresh stimulus if needed to boost economic growth and create jobs.

China reduced interest rates twice this year, and has cut banks'
reserve requirements three times since November.

Net Income

PT Timah will report an 8 percent gain in net income to 968.14 billion rupiah ($101.8 million) this year before profit drops 12 percent to 852.8 billion rupiah in 2013, the mean of as many as 12 analyst estimates compiled by Bloomberg shows. President Director Sukrisno said in an interview in Jakarta on Aug. 3 that Timah will slow tin sales to the spot market this year and expand stockpiles.

"We are surviving," said Gunawan, the director at DS Jaya Abadi, who estimates monthly output this year averaged 300 tons out of capacity of 800 tons. "Some say that $17,700 is already the bottom and it will rebound again but it will depend on the European economy. If there's no concrete action, and meanwhile China is reducing consumption, it may stay as it is."

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