

Pepper – The Big Fall

Pepper futures witnessed sharp decline in last couple of session on NCDEX. The futures price that rose to 16500 levels, fell by nearly 15% in last seven days. The major reason behind this fall is slack export demand. Indian prices are ruling firm in the international market at \$3420 per tonne as compared to the rates of \$3000 per tonne from Indonesia, \$3100-3150 per tonne of Vietnam and \$2900 per tonne of Brazil. Spot rate has also fell to Rs. 14600 per quintal in the major market at Cochin.

Higher prices in India have led to a rise of 42% in the imports of black pepper during April-October period. India has imported 11,500 tonnes of pepper during April-Oct'09 against 8,100 tonnes imported during the same period in 2008. The eye-catching point is the exports during the same period have also been 11,500 tonnes. It is a prevalent news in the market as of now that India would turn to a net importer for this spice by the end of the year 2009 as overseas prices are much lower as compared to Indian rates.

According to Spices Board India, pepper production has been estimated to be higher by 10% as compared to last year to 55,000 tonnes during this fresh arrival season against 50,000 tonnes produced in 2008-09. Reports from the recently concluded 2009 Global pepper conference in Brazil (29 Nov'09 - 4 Dec'09) indicate that continuity of better production in the coming year. Brazil projected to be stagnant at 35,000 tonnes in 2010, Vietnam slightly lower at 90,000 tonnes, Srilanka higher at 15,582 against 11,208 tonnes during 2009; and Indian stagnant at 55,000 tonnes. This confirms that there will not be any serious supply crunch in 2010.

In India, harvesting has started across the major growing states of Kerala, Karnataka and Tamilnadu. Small quantities of fresh arrivals in the range of 10-15 tonnes have started arriving in the physical market. Significant quantities of fresh arrivals in the range of 100-120 tonnes will come to market by the January 2010.

The prevailing fundamental factors suggest further lower side correction in prices. Prices are likely to witness sharp fall once fresh season's harvesting picks up the momentum. After Indian, Vietnam is the next to harvest its produce by the month of March 2010. So, downtrend in prices is likely to

be maintained for now. Prices are expected to touch 13800-13600 levels by the month of January-February.

Technical analysis

Although, pepper futures witnessed a rally in the last week and after witnessing a high of 16140 levels market took reversal and currently trading lower at 14180 levels. Overall, prices declined as much as 8% from the recent rally. Market has breached the trend line support at 14400 levels and a weekly closing below the same may lead the prices to test 14060, 13800 then 13600 levels. However, the formation of weekly bearish candle renders sideways to lower prices movements for the coming week. Closing below the short term (10, 20) EMA suggests a lower correction in the near term. The momentum indicator RSI (14) weekly is trading at 0.48 levels and showing a lower potential. Conversely if prices sustain above 14060 levels may help prices to trade sideways in the near term.





Elliot Wave Theory:

Pepper prices completed the *minor wave 5 of Intermediate wave 3* at around 16675 levels in the weekly continuation charts.

Currently prices are in *Intermediate wave (4)* a corrective wave as per Elliot wave theory.

We expect *Intermediate wave (4)* either to take a minimum correction of **38.2% (14060)** or maximum correction of more than **61.6% (12400)** correction for its higher move from **(10245-16465)**.

We expect prices to trade sideways to higher in the medium term as *Intermediate Wave (5)* an impulsive wave which progresses with underlying bullish trend will resume after the completion of the *Intermediate wave (4)*.

Short term outlook:

A closing below the 14060 levels minor correction cannot be ruled out. However, market is witnessing a major crucial support at 13600 levels sustain above the same likely to bounce back. If, once market breaches the support at 13600 and sustain below the same confirms downtrend in the medium term.

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