

Pepper Seasonal Report

Demand surpassing supply

[Pepper prices are expected to rise gradually due to factors like dwindling arrivals and gaining domestic and export demand. Lower production in top pepper producing countries could further support the price rise. Prices are expected to repeat the last year's Bull Run and could rise to 15500 levels this year.]



Karvy has successfully predicted the pepper move from August 2009 till now. Reference our sequel of reports:

1. **Pepper Short Term Report** 03 August 2009
2. **Pepper Seasonal Report** 10 November 2009
3. **Pepper – The Big Fall** 09 December 2009

Links:

http://www.karvycomtrade.com/downloads/karvySpecialReports/karvysSpecialReports_2010032218940.pdf

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Pepper prices have shown a wavy uptrend in 2009. A major rally in pepper prices was witnessed by the end of July 2009, when it touched Rs15,600 per quintal at the major market of Cochin. This rise was supported by tight global supply situation and high international prices. Moreover, the Indian parity price increased substantially—quoting around \$2,900 per tonne tracking improvement in prices of other countries. The difference between Indian price and that of other countries reduced dramatically to around \$150 per tonnes from \$300-\$400 per tonne a month ago. Besides, Vietnam shipped 10,000 tonnes of pepper during first half of July, bringing down its inventory to an estimated 20,000-30,000 tonnes. In addition, lower production expectations in Brazil further assisted the gain in prices.

After that, another upward wave was observed in the month of November on account of emerging export demand from the US, Europe, Middle East and Singapore. Export for the month of September 2009 was reported around 1,500 tonnes in quantity terms—higher by 2% compared to the same period in 2008. Reports of delay in arrivals due to deficient monsoon further led to the gain in prices. Usually, the arrivals start by the month of November; however, last year, due to erratic weather conditions and deficient monsoon rains, it started by the month of December—a delay of one month.

Figure 1: Pepper spot and NCDEX futures prices trend



In the beginning of the year 2010, pepper prices were trading on the lower side as the trading activity at the major market of Cochin remained sluggish. Prevalent cold waves across the US and Europe— major buyers—led to subdued export demand. Although the activity was expected to resume February onwards, the continuity of holidays across the

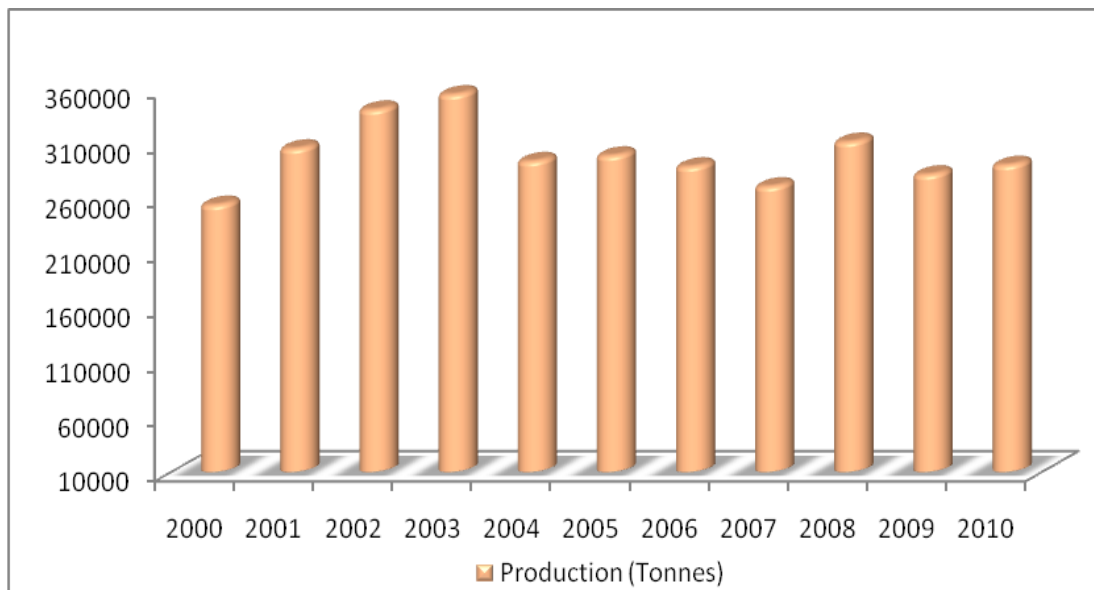
major pepper trading countries like Vietnam, China, Brazil and the Middle Eastern countries led to significant fall in prices. Spot prices had fallen by 10% during this period to Rs12,950 per quintal at Cochin market.

The rise in prices started from the second week of March 2010. The major reasons leading to the gain in prices are tight supply situation in the local and international markets. We will discuss each of these aspects in detail in this report.

Global scenario

According to the estimates of International Pepper Community, the global pepper production during 2010 is expected to increase by 3% over the previous year to touch 2,90,742 tonnes. Meanwhile, the production of Black Pepper is likely to be at around 2,23,782 tonnes and that of white pepper is estimated to be at around 66,960 tonnes.

Figure 2: Global pepper production since 2000



However, consumption figures were estimated to be at around 3,20,000, compared to 2,97,784 tonnes during 2009. The carry-over stocks from 2009 have been pegged at 79,124 tonnes. The consumption of producing nations for 2010 is projected to be around 1,20,750 tonnes, against 1,14,710 tonnes of 2009 while the exportable surplus of producing nations is projected around 2,90,156 tonnes, against 3,22,924 tonnes in 2009. During 2009, the overall output reduced in Indonesia, Brazil and Sri Lanka. On the other hand, the Indian output remained stable while that of Vietnam increased.

Table 1 presents the production data for major pepper producing countries, according to projections summed up for 2010 during the 37th IPC meeting and Global Pepper conference

in Belem, Brazil. The production in Vietnam is expected to be lower because of the damage caused due to storms. Brazil and Indonesia production is expected to remain stagnant while it is expected to be higher for Malaysia, India, China and Sri Lanka.

Table 1: Production of pepper in major producing countries

Rank	Country	Production (Tonnes)		
		2008	Estimate 2009	Projection 2010
1	Vietnam	90,000	1,00,000	90,000
2	India	50,000	50,000	55,000
3	Brazil	41,000	35,000	35,000
4	China	37,000	23,000	32,500
5	Indonesia	45,000	25,000	25,000
6	Malaysia	22,000	23,000	23,500
7	Sri Lanka	13,338	11,624	15,592
Global		3,11,838	2,81,974	2,90,742

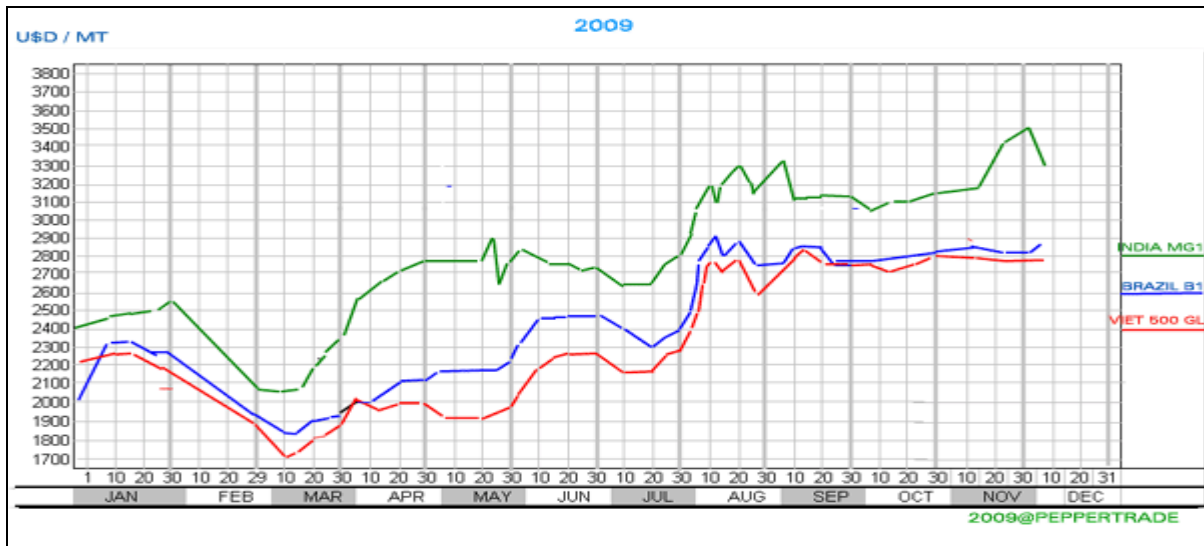
GLOBAL EXPORTS

During 2009, exports from most of the countries decreased due to the estimated lower output for the year. However, Vietnam created history by exporting nearly 1,35,000 tonnes, compensating for lower exports from other countries. During January–September, 2009, the exports from Brazil, India, Indonesia, Malaysia and Sri Lanka totaled at around 87,000 tonnes as against 1,02,500 tonnes in the same period last year—a significant fall of 15%. If this performance is extrapolated to the situation of total export from these countries in the year, it is estimated that export of pepper from these five countries in 2009 would be around 112,500 tonnes. Taking into account that export from other sources (China, Thailand, Madagascar, Ecuador, etc.) remained at around 10,000 tonnes, the total export of pepper in 2009 would be around 257,500 tonnes.

Global price trend for 2009

Figure 3 depicts the pepper prices from major producing countries of India, Vietnam and Brazil in the international market for 2009. Prices have been mainly trading in the range of \$1,700 per tonne to \$3,500 per tonne in the international market. The Indian prices were higher on account of quality premium. Prices plunged during Feb–March because of supply pressure from India and Vietnam in the international market.

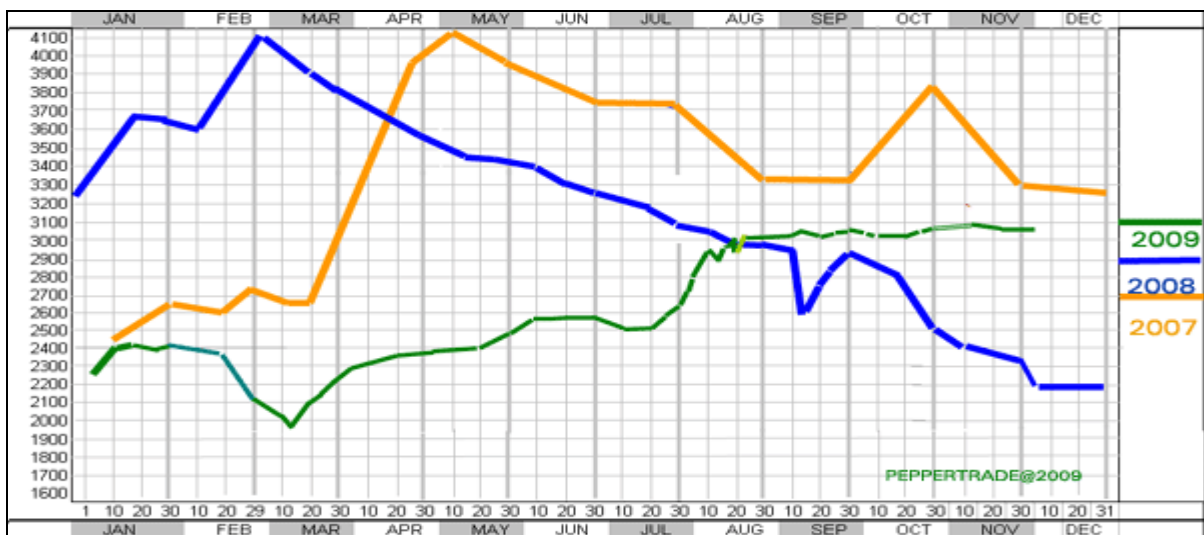
Figure 3: Price trend of major producing countries for 2009



Source: Peppertrade

Prices recovered by the starting of March 2009, on the back of gaining domestic demand from respective countries, coupled with intermittent export demand from the major buying countries like the US and Europe.

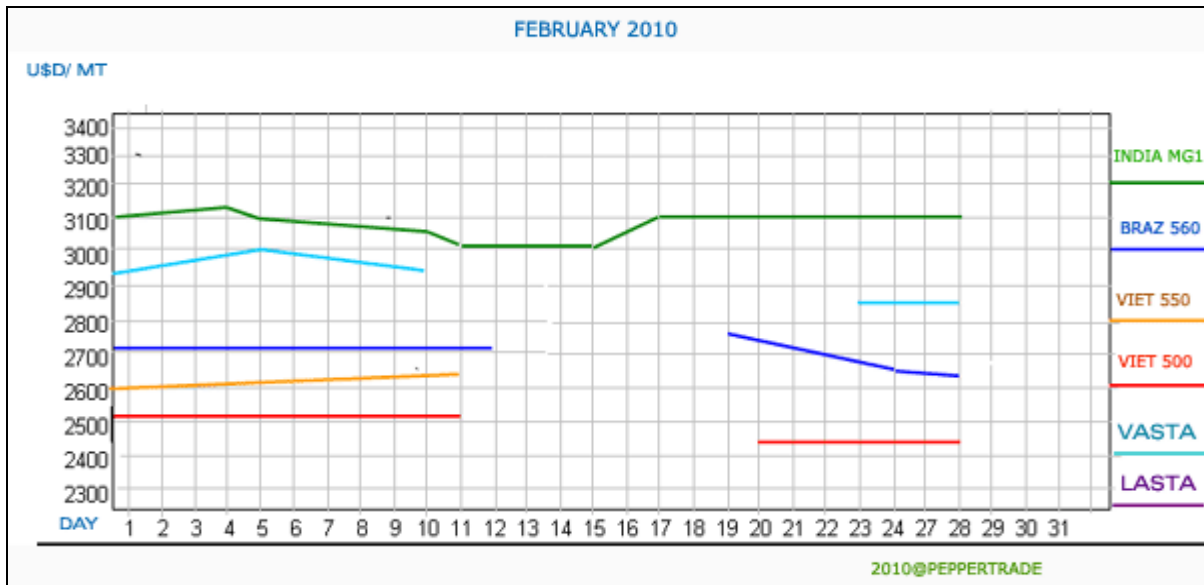
Figure 4: Comparative analysis international prices since 2007



Source: Peppertrade

Figure 4 shows the comparative price trend of 2009 vis-à-vis previous two years. In the previous two years, prices were higher in the beginning of the year, and it used to undergo correction by the year-end. However, for 2009, prices displayed a gradual uptrend. The driving factor was the downtrend in global pepper production. The pepper production for 2009 declined by 9.6% over the previous year to 2,81,974 tonnes.

Figure 5: International prices during February 2010



Source: Peppertrade

Note: VASTA = Vietnam ASTA, LASTA = Indonesia ASTA

According to Figure 5, the international prices during February 2010 show a stagnant pattern. As stated earlier, the markets in the major pepper producing countries of Vietnam, Brazil and Indonesia were closed for holidays during February 2010. Hence the gap in prices is witnessed from February 1-20, 2010. The Indian prices have been hovering around \$3,100 per tonne during this period.

Global supply-demand dynamics for 2010

According to the global figures released by the IPC (International Pepper Community), the balance sheet of supply-demand for 2010, indicates a shortage of nearly 22,216 tonnes. The IPC forecast this year's world pepper consumption to be around 3,20,000-3,50,000 tonnes—significantly higher than last year's global production of 2,85,000 tonnes. According to them, the global consumption—excluding China and India—had grown between 4-6% per year. The closing stock of 2009 or the carry-forward stock for 2010 is estimated to be at around 79,124 tonnes while the carry forward stocks for 2011 have been projected at 72,082 tonnes.

Table 2: Balance sheet of Global supply & demand for 2010

Supply (tonnes)		Demand (tonnes)	
Production	2,90,742	Consumption	3,20,000
Carry forward stocks for 2010	79,124	Carry forward stocks for 2011	72,082
Total	3,69,866	Total	3,92,082
Shortage: 22,216			

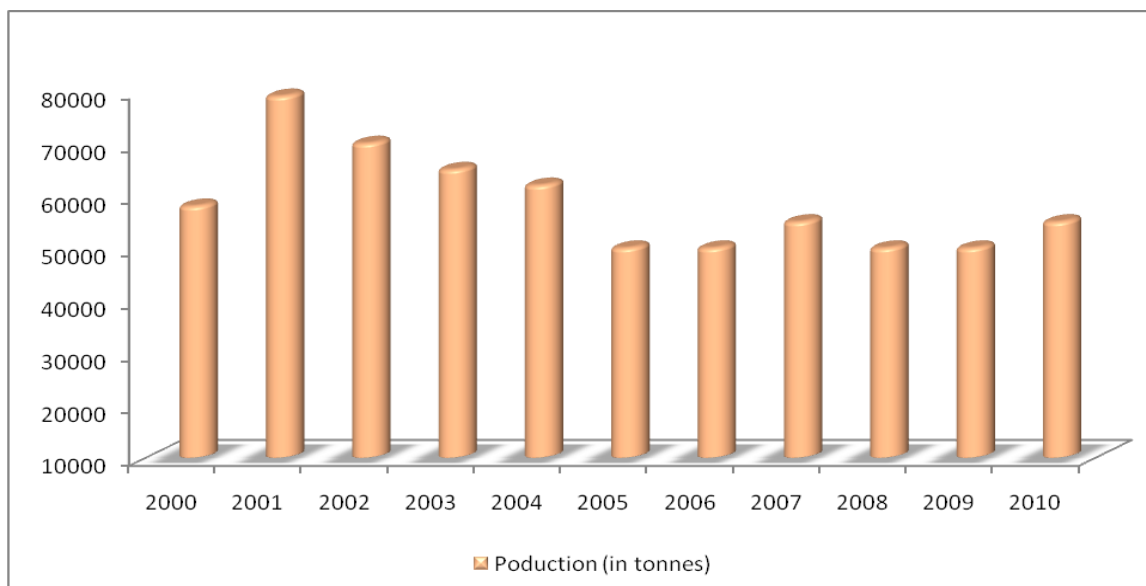
Indian scenario

The pepper production in India has been stagnant at around 50,000 tonnes since last three years. According to the Spices Board India, the pepper production for 2010 is expected to increase by 10% over the previous year to 55,000 tonnes.

This year, the harvesting was delayed by one month and it started by December 2009. Despite the higher production estimates for this year, arrivals have remained on the lower side. According to markets sources, the arrivals until now have been only 50% of the total production expectations of 55,000 tonnes. This could either be attributed to the fall in production or to the reluctance among growers to sell at these levels.

The pepper production has been declining in the country since 2001, because of which, we have shifted to second place from the top pepper producer. Now, Vietnam is the largest Pepper producing and exporting country in the world.

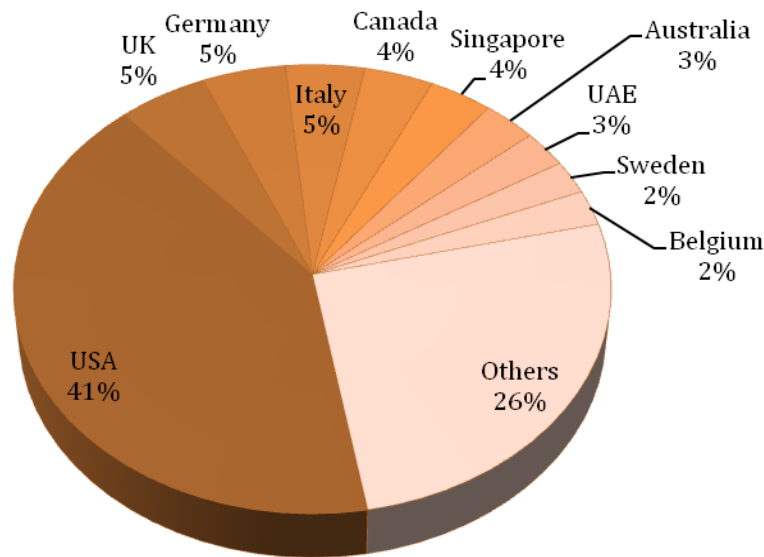
Figure 6: India's Pepper production since 2000



Indian exports

The Indian pepper exports for 2009-10 is estimated lower by 17.5% compared 2008-09 to 22,000 tonnes. According to the data released by the Spices Board of India, the exports during April-January 2009-2010 have been 16,250 tonnes valued at Rs25,897 lakhs. This is 25% lower in quantity terms and 27% lower in value terms compared to the same period in 2008-09.

Figure 7: Countries to which India exports pepper



Source: Spices Board (Export data 2007-08)

Since the beginning of the year, the exports have been lower—except for the month of Sept 2009—when export quantity was slightly higher than the corresponding period of the last year. The exports for Sept 2009 have been 1,500 tonnes, which was 2% higher than Sept 2008’s figure of 1,475 tonnes. The exported quantity for Jan 2010 is 1,500 tonnes valued at Rs2,595 lakhs—lower by 29% and 16% in quantity and value terms, respectively—than the corresponding figures for 2009. The US, the largest buyer of pepper in the world, remained as the major market for Indian the pepper. The other major buyers are the UK, Italy, Canada and Germany, as per 2008 export statistics.

India: supply-demand dynamics for 2010

According to the figures released by the Spices Board of India, the pepper balance sheet for 2010 appears to be balanced in terms of supply and demand. The production figures are hovering around 55,000 tonnes, while the consumption figures are hovering around 44,000 tonnes, annually. Exports have been targeted at around 25,000 tonnes, while imports are

likely to be around 14,000 tonnes. The closing stock for 2009 is estimated around 11,350 tonnes, while the carry forward stocks of 2010 have also been projected at 11,350 tonnes.

Table 3: Balance sheet for India regarding pepper supply & demand for 2010

Supply (tonnes)		Demand (tonnes)	
Production	55,000	Domestic consumption	45,000
Imports	14,000	Exports	25,000
Ending stocks of 2009	11,350	Carry forward stocks	10,350
Total	80,350	Total	80,350
Balanced			

Outlook

Global: The global pepper production in 2010 is likely to be higher, while the exports are likely to decline due to lower production in individual countries. A slight increase in production coupled with exhausted carryover stocks is expected to result in higher prices in the global market. For the year 2010, the production is expected to increase by 3% over the previous year to 2,90,742 tonnes, while exports have been projected to be lower by 10.5%, against the previous year to 2,18,074 tonnes. Moreover, it is evident that the productivity of traditional pepper producing countries is at low levels, making remuneration to the farmers not attractive to remain in the industry. For both black and white pepper, the lucrative prices witnessed from around early 2007 to early 2008 is yet to be achieved. Given the slow growth rate of pepper production and exhausted carryover stocks, the prices may continue to rise in the global market.

Upon analyzing all of the above mentioned factors, it is expected that the international demand-supply gap is expected to prevail during 2010. A clearer picture will be available from April onwards, upon confirmation of Vietnam's pepper production. The Vietnamese production is expected to be lower by 10% over the previous year to 90,000 tonne due to damage by storms. Moreover, in Brazil, the crop is in growth stages and it is expected that if rains continue to remain insufficient till April, then the production in Brazil might be lower by 40% compared to previous year. This could drag the global production to negative territory.

Indian: The tight global supply situation for 2010 is expected to benefit the Indian market, as India is the second largest producer of pepper. Moreover, the Indian pepper always fetches a premium price in the international market because of its preference and intrinsic

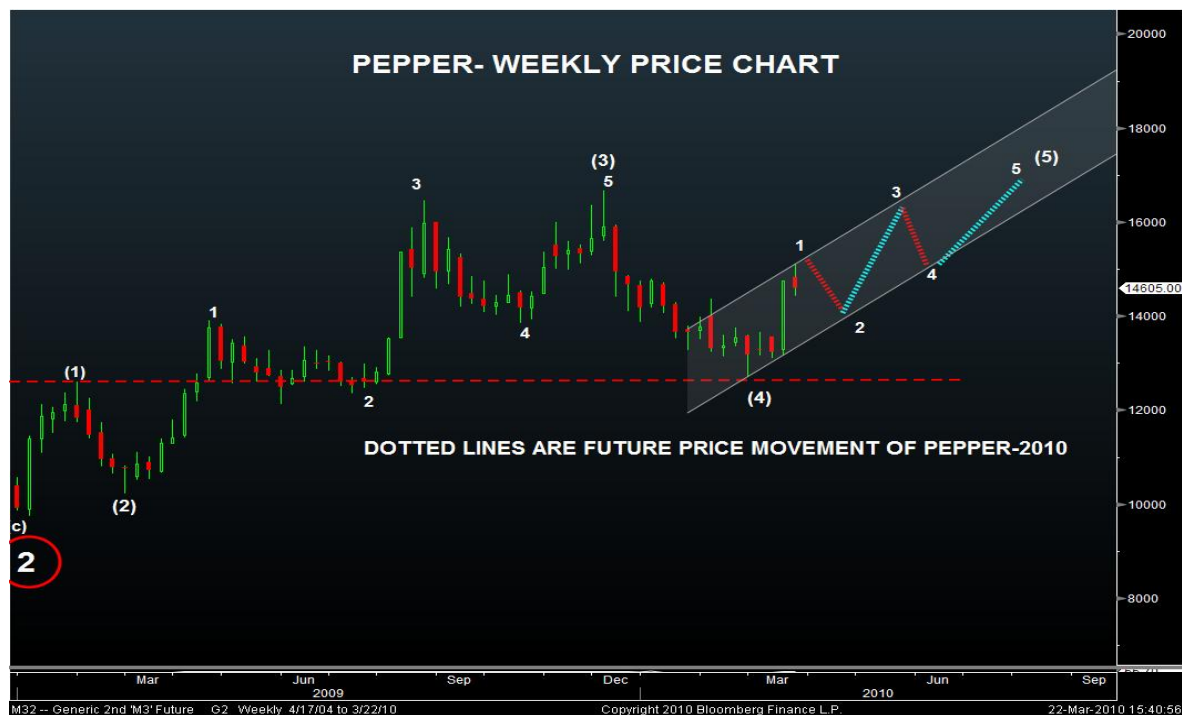
qualities. Out of the total pepper supplies in India, the majority is consumed at home (60-65%). On the other hand, export constitutes the major share of demand for other major pepper producing countries. The rise in prices started from the second week of March because of increasing domestic demand and expected to remain on the higher side. The export enquiries for Indian Pepper are expected to increase in the coming months, as Vietnam is not in a hurry to sell while the production in Brazil is expected to be lower.

In the international market, the India prices are quoting \$3,200-\$3,250 per tonne (FOB) while prices for Vietnam, Indonesia and Brazil are quoting at \$2,950 per tonne (FOB), \$2,950-3,000 per tonne (FOB Lampung), and \$2800 per tonne (FOB Belem) for ASTA quality, respectively. The narrowing of the price difference between India and other countries is expected to result in export enquiries for Indian pepper.

Although the pepper harvesting season has been over in Kerala, some arrivals are going on from the Karnataka region. This year, the arrivals until now have been only 50% of the total production in the country, which has led to believe that either production is going to be very less this year, or growers are reluctant to sell at these levels.

Pepper prices are expected to rise gradually due to factors like dwindling arrivals and gaining domestic and export demand. Lower pepper production in top producer countries could further support the price rise. Prices are expected to repeat the last year's Bull Run and could rise to 15500 levels this year.

Technical analysis



Market witnessed a recent low of 12710 then prices reverted higher and currently trading around 14600 levels. As explained in the price chart, 12710 is the 4th intermediate wave of primary wave-1 of CYCLE-3. ***Since, the bottom of intermediate wave (4) is higher than intermediate wave (1), the wave principles are not violated and suggesting the price trend to remain higher in the short to medium term.*** The recent surge is also supported by higher volumes that intimate a bullish trend to intact. Projected price actions are derived on the basis of Fibonacci and Elliot wave principles and market probably may move accordingly.

Recommendation-short to medium term: (April-June) 2010: Buy 1st lot at 14450-14500, 2nd lot at 14000-14150 T1- 15130/15200, T2-15800/16000, T3-16300/16500, SL below 13000

Note: All three months contracts are in contango. The average or approximate rates can be taken for any contract to trade.

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