



## Black Pepper – At Crossroads...

The Indian pepper prices are expected to continue the bull run in short term taking cues from prevailing tight supply situation. This year incessant rains had damaged the domestic crop which ultimately reflected in drastic fall in production. As of now, Vietnam and India are the only suppliers of pepper in the world. Vietnam has exported around 50% of their total pepper crop. Now, growers in Vietnam are holding back the crop in anticipation of further rise in prices which is supportive for India pepper prices. However, we expect prices might witness corrections in medium term as pepper crop from Indonesia and Brazil will hit the market in June-July. Thus, fresh arrivals from these two major producers might impact Indian pepper prices negatively. However, the downtrend may not last for a long time considering the overall tight supply situation in the world market.

### **KCTL Recommends**

As per our analysis we believe the ongoing rally in pepper is likely to end near Rs. 33,500-35,000 ranges. Short term investors still can take advantage of Rs. 2,000-3,000. However, those who wish to take positions for 3 to 4 months may look to take short on those levels for a possible target of Rs. 25K to 26K.

**Short term recommendation:** Stay long till Rs. 33000 to 35000 SL below Rs. 27500

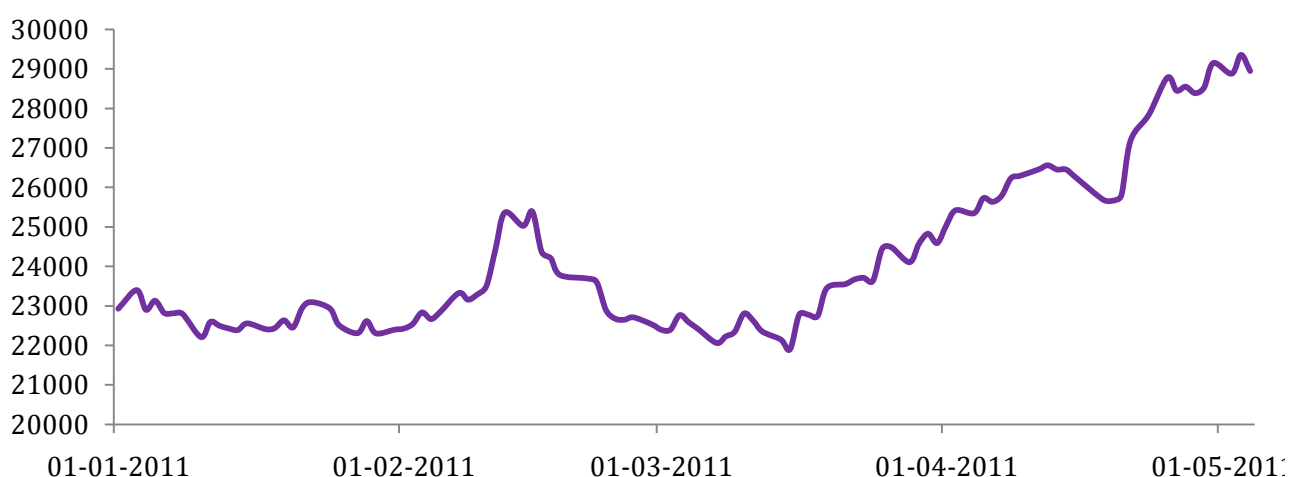
**Medium term recommendation:** Average short positions in the range of Rs. 33,500-35,000 targeting Rs. 25000 and then Rs. 23500 with stop loss above Rs. 37500

## Pepper

### Review

Black Pepper is known as king of spices and it proved itself the king of agri futures since beginning of the year 2011 as prices in both spot and futures market witnessed an unprecedented rally. Prices were hovering around ₹22,930 per quintal in the month of January 2011. It made a new all time high of ₹30,999 levels recently in the month of May. Similarly, the volumes which have gone down in pepper futures have started gaining again. The major reason for fall in prices during March is fresh crop arrival from Vietnam which reduced the demand for Indian pepper. However, fall was limited due to emerging demand at global and domestic front. Prices started rising gradually from April onwards and traded higher creating a new high everyday.

**Chart 1: Pepper Price Movement at NCDEX Platform- 2011**



Source: Bloomberg & KCTL Research

**Table 1: Global Pepper Production (Tons)**

Countries	2009 (Actual)	2010 (Estimated)	2011 Projected
Vietnam	10,0000	95,000	10,0000
India	50,000	50,000	48,000
Brazil	40,700	34,000	35,000
Indonesia	47,500	52,000	37,000
Malaysia	22,000	23,500	25,700
Sri Lanka	13,812	16,730	17,102
Non IPC- Countries	44,650	45,150	47,150
<b>Global</b>	<b>318,662</b>	<b>316,380</b>	<b>309,952</b>

Source: International Pepper Community (IPC)

### Global Scenario

According to International Pepper Community (IPC), world production in 2010 has declined by 0.71% Y/Y to 316,380 tons. Black pepper production was 251,980 tons while white was 64,400 tons. Domestic consumption in 2010 was estimated at 131,722 tons and export at 237,650 tons. The consumption of major producing nations is estimated at 92,022 tons for 2010, as against 89,152 tons of 2009. The global exportable surplus is estimated around 333,092 tons, as against 3,68,710 tons in 2009.

### Global Demand- Supply Trend

For 2011, IPC has projected world pepper production would be lower by 2% Y/Y at 309,952 tons. However, according to the latest update from trade sources, production is expected to be lower than the earlier projections. As of now, only Vietnam and India are having stocks, yet availability is tight in both of these countries. Brazil and Indonesian crop is expected to arrive during June-July. However, expectation of their crop is also lower due to unfavourable weather conditions.

## Indian Scenario

Pepper production in India has been stagnant at around 50,000 tonnes for the last three years. According to the International Pepper Community (IPC), pepper production for 2011 is expected to decline by 4% Y/Y, to 48,000 tons Y/Y. In 2010, pepper exports were estimated to be lower by 15% Y/ Y, to 18,050 tons. According to the Spices Board of India, pepper shipments from India during January- November 2010 were 14,600 tons which is around 88% of exports targeted by IPC.

**Table 1: Pepper Balance Sheet - India (in tons)**

	2009 (Actual)			2010 (Estimated)			2011 (Projection)		
	White	Black	Total	White	Black	Total	White	Black	Total
<b>Beginning stock</b>	546	10952	<b>11350</b>	50	11413	<b>11463</b>	0	17413	<b>17413</b>
<b>Production</b>	450	49550	<b>50000</b>	49550	18000	<b>50000</b>	500	47500	<b>48000</b>
<b>Import</b>	813	14419	<b>15232</b>	1250	16750	<b>18000</b>	500	12750	<b>13250</b>
<b>Domestic Consumption</b>	250	43750	<b>44000</b>	250	43750	<b>44000</b>	250	44750	<b>45000</b>
<b>Exports</b>	1509	19758	<b>21267</b>	1500	16550	<b>18050</b>	500	18500	<b>19000</b>
<b>Ending stocks</b>	50	11413	<b>11463</b>	0	17413	<b>17413</b>	250	14413	<b>14663</b>

Source: International Pepper Community

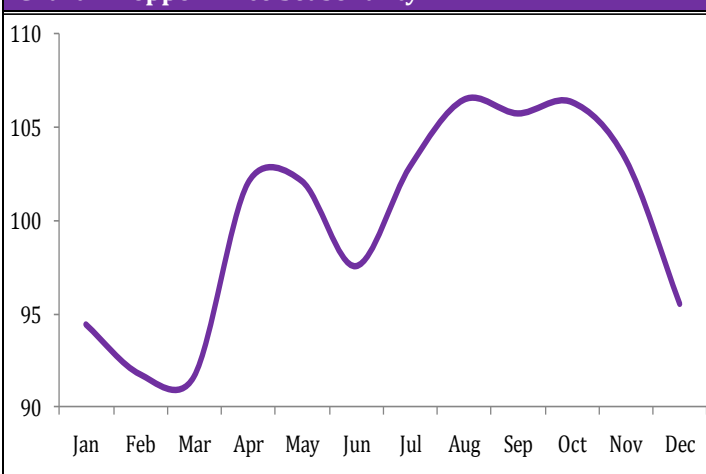
As per IPC projections, exports from India are likely to increase by 5.2 per cent to 19,000 tons Y/Y. Rising demand from USA and European countries may support the rise in exports. For year 2010-11 imports are projected to decline by 26.3% to 13,250 tons which is likely to support domestic market.

However, as per the latest update from trade sources, production is estimated even lower than 45,000 tons due to heavy crop damage during the maturity period of the crop.

## Pepper Prices Seasonal Index

Pepper prices seasonal index is prepared by considering data for the last 12 years spot prices. Clearly, as the figure indicates, July onwards pepper prices start moving higher due to off season for arrivals and prices reach their peak in August. After that prices take corrections during August-September as fresh arrivals starts in major exporting countries like Indonesia, Brazil, Malaysia etc. However, in October-November prices bounce back on winter season demand from US and EU countries. From December onwards fresh crop arrival starts in India which pressurize the prices. In Feb-March crop from major producer - Vietnam hits the market which further adds to the down side. Thus, the correction in prices continues till March starting from December.

**Chart-2 Pepper Price Seasonality**



Sources: Spices Board of India & KCTL Research

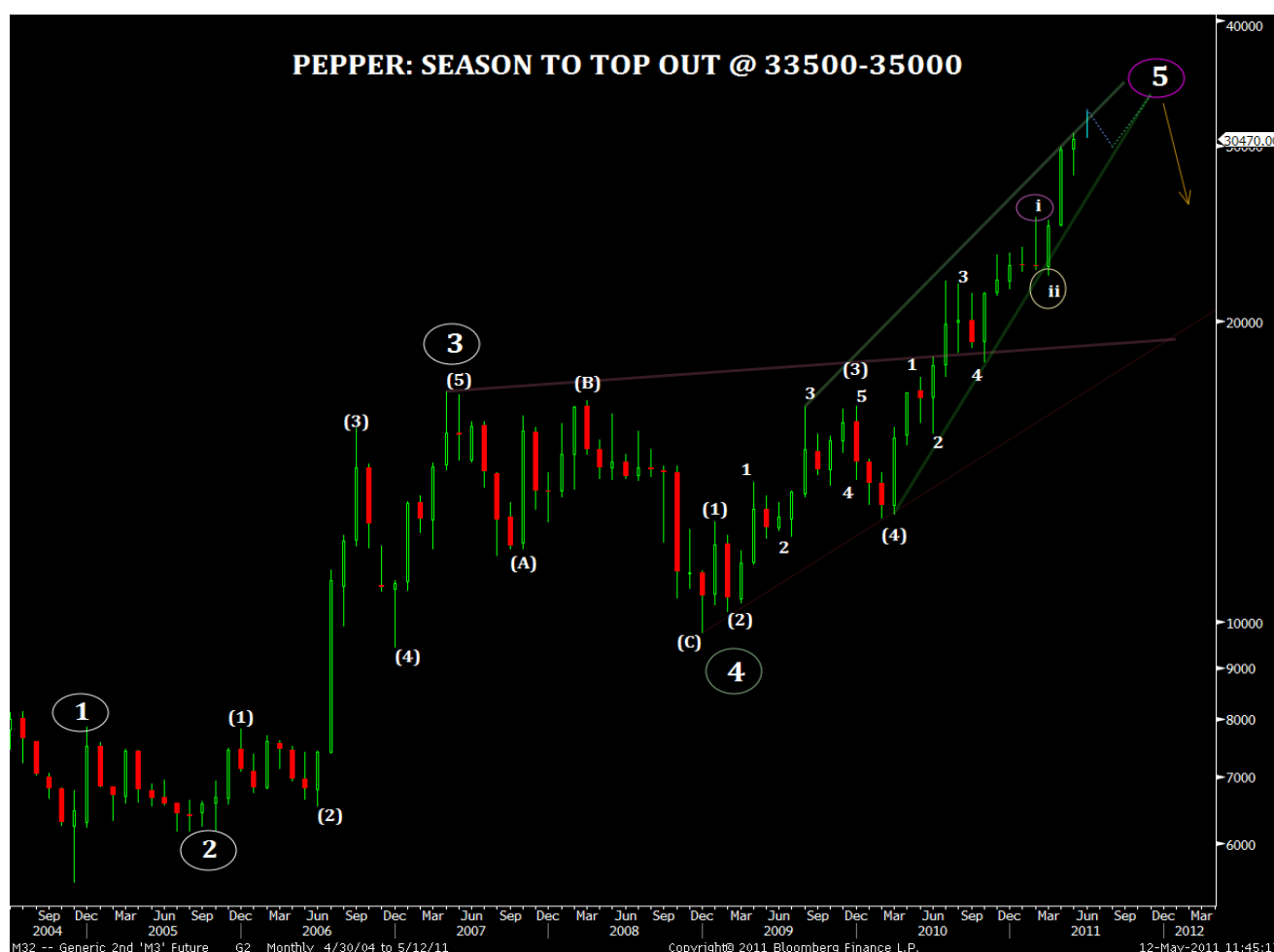
## Outlook

The Indian pepper prices are expected to continue the bull run in short term taking cues from prevailing tight supply situation. This year incessant rains had damaged the domestic crop which ultimately reflected in drastic fall in production. As of now, Vietnam and India are the only suppliers of pepper in the world. Vietnam has exported around 50% of their total pepper crop. Now, growers in Vietnam are holding back the crop in anticipation of further rise in prices which is supportive for India pepper prices. However, we expect prices might witness corrections in medium term as pepper crop from Indonesia and Brazil will hit the market in June-July. Thus, fresh arrivals from these two major producers might impact Indian pepper prices negatively. According to sources, production in these two countries is also expected to decline due to unfavorable weather conditions. Therefore, the downtrend may not last for a long time considering the overall tight supply situation in the world market. As

per the IPC (International Pepper Community) projection, overall world production is expected to be lower this year and supply crunch is likely to witness in long term. Therefore, overall trend for the year 2011 is expected to remain bullish for pepper prices.

## Technical Outlook

*Elliot wave analysis on Pepper: Proposing selling view for medium term*



*Those who appreciate Elliot wave analysis, this chart should look very lucrative for investing in pepper. However, we from KCTL research would like to define and explain it in a very easy way. In fact we would try to illustrate our analysis in such a manner that it should be easy take decision to take positions in pepper.*

### Recommendation:

As per our analysis we believe the ongoing rally on pepper is likely to end near Rs. 33,500-35,000 ranges. Short term investors still can take advantage of Rs. 2,000-3,000. However, those who wish to take positions for 3 to 4 months may look to take short on those levels for a possible target of Rs. 25K to 26K.

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