

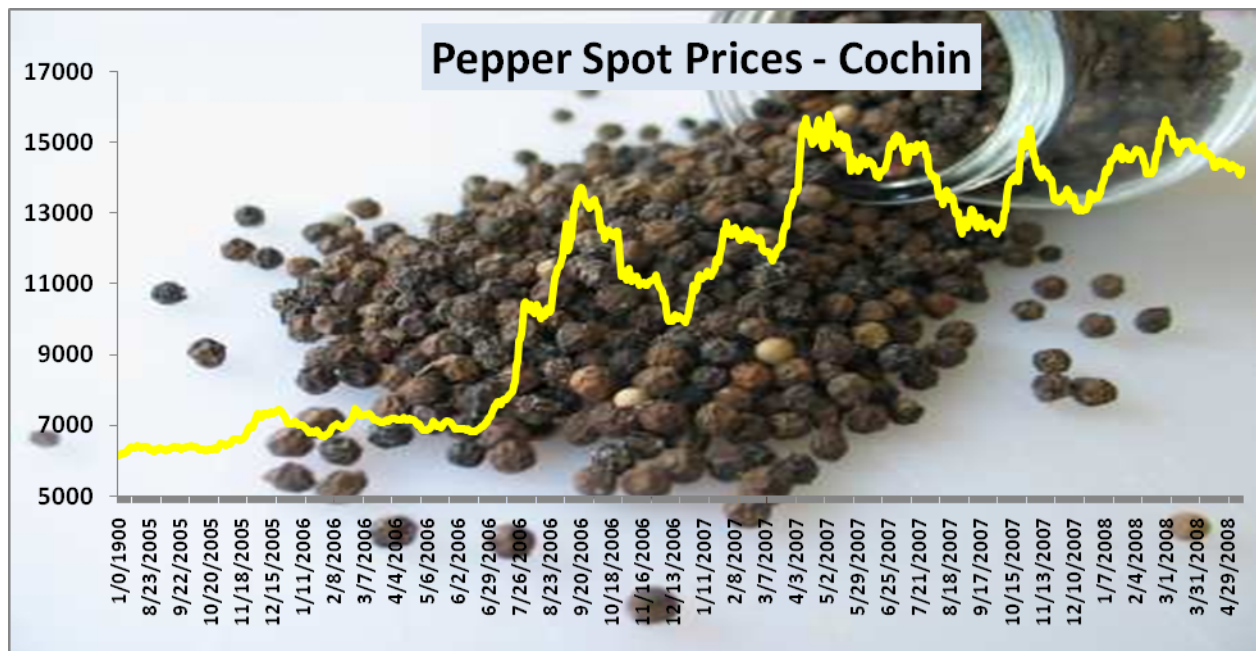
15 May 2008



# SEASONAL OUTLOOK REPORT

# PEPPER

The Bull Run in pepper has started in mid 2006 because of mismatch between supply and demand across the globe. Global pepper production has seen drastic fall on account of unfavourable weather condition, poor maintenance and exhausted vines. No major re-plantation and rejuvenation took place in major producing countries in last couple of years. In Indian, spot Pepper prices rallied from a mere Rs.6000 levels in 2006 and tested a historical high of 15776 levels in May 2007. The rally was supported by increased consumption demand from importing nations coupled with sharp fall in production. After testing these high levels, prices fell sharply towards 12000 levels as the buyers turned reluctant to buy pepper at higher levels. Importing countries stayed away from active buying at higher levels and waited for cooling off of prices.



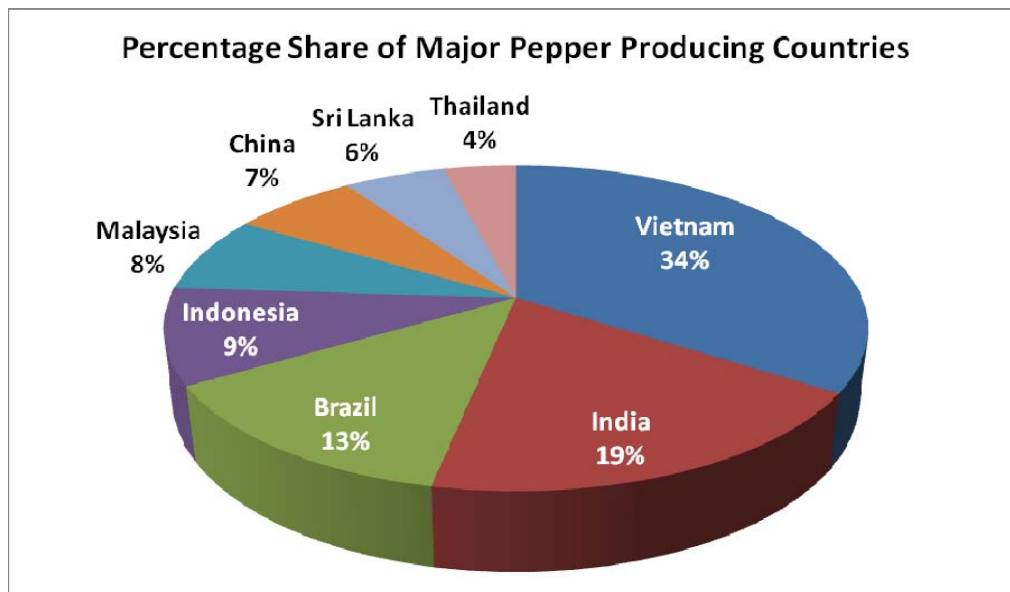
## Fundamental Factors

### Global Scenario

For 2007-08, International Pepper Community has projected world pepper production at 2.71 lakh tons, down by 6.6% from 2.89 lakh tons. Major decline is expected in Vietnam to the extent of 10-20% due to exhausted pepper vines. In Indian arena, unfavorable weather conditions and wide spread of disease in pepper plantations in Kerala region led to marginal fall in production. However, global consumption is growing at the rate of 3.46% per annum. US is the major importer of Pepper which contributes nearly 23% to the total world Imports with annual growth rate of nearly 4.6%.



From the above graph, it could be seen that global production is sliding continuously since 2003 from 3.55 lakh tons to 2.71 lakh tons in the current year because of age old plantation and poor management practices in all the major producing countries.



### Country Wise Profile

#### Vietnam

Vietnam is the World's largest producer and exporter of Pepper. Diversion of grower's attention from Pepper to other plantation crops like Coffee and Rubber led to improper management of Pepper crop in recent years. Along with poor crop management, disease outbreak also hindered the production prospect. IPC has projected Vietnam's production for 2007-08 at 90,000 tons down from 1,00,000 tons produced last year. Exportable quantity with Vietnam is around 83,000 tons.

Vietnam Pepper prices fell sharply in recent past from VND 60,000 a ton quoted in first week of March 2008 to VND 45,000 a ton on May 14<sup>th</sup>, declining by 25%. In Dollar terms, prices fell from \$3800 a ton to \$3000 a ton due to increased selling pressure coupled with sluggish demand.



### **India**

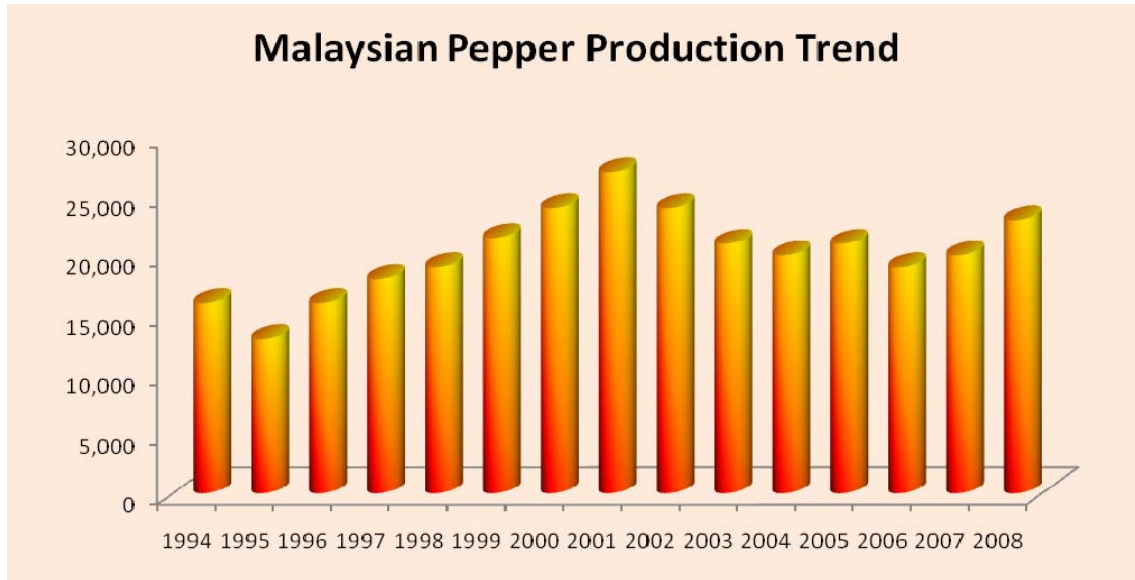
India holds the supreme position in the world Pepper market because of its celebrated varieties 'Malabar Garbled' and 'Tellicherry extra bold'. It holds second position in global production by contributing 19% to total production. The finest Indian pepper is grown in the monsoon forests of the Malabar Coast in Kerala. For 2007-08, India's production has been forecast at 50,000 tons compared to 55,000 tons produced last year due to poor maintenance of Pepper plantations and disease occurrence led to decline in production

### **Brazil**

Brazil is the third largest producer of pepper in the world after Vietnam and India contributing 13% to total world production. For 2007-08, Brazil's production has been projected at 35,000 tons and available exportable quantity is around 33,000 tons. Drastic fall in the global Pepper production and good demand in the market making the planters to hold their stocks by anticipating further uptrend in the prices in coming months.

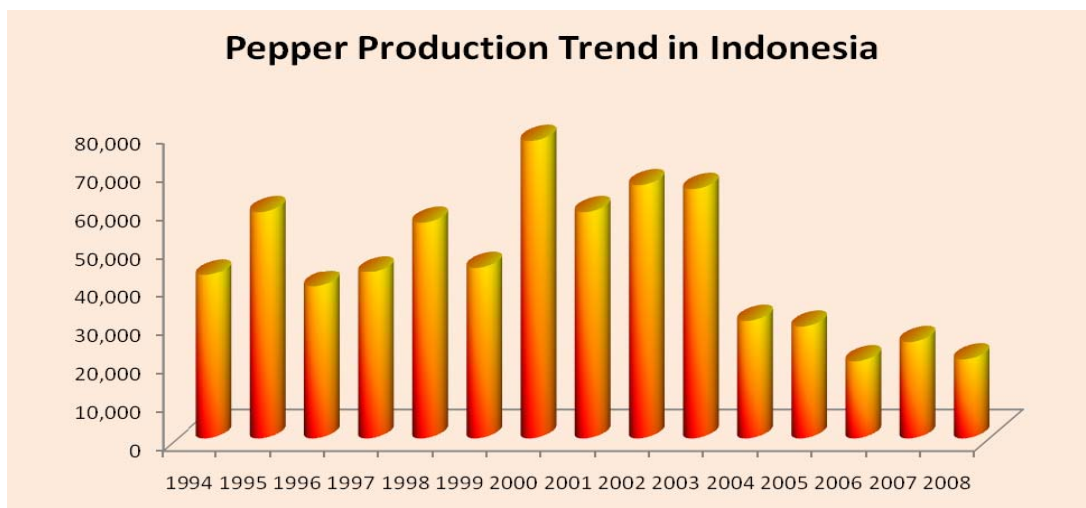
**Malaysia**

Malaysia’s production for 2007-08 is projected at 20,000 tons and available exportable quantity for the current year is around 19000 tons. Due to lower production and improved domestic demand Malaysia may end up with limited quantity in the market to offer.



**Indonesia**

Current year Pepper production in Indonesia is projected to be around 25,000 tons. Exportable quantity available with Indonesia is around 16,300 tons. Due to erratic rain in producing centers has affected the crop in Indonesia. Stocks are projected to be around 3000 to 4000 tons and only limited quantity is expected to carry forwarded for the next year.



Production in Indonesia has seen drastic fall in last couple of years from around 65,000 tons in 2003 to 25,000 tons in 2007 and expected to fall further next year too.

## Pepper Background

Pepper the “*King of Spices*” originated in the monsoon forests of Malabar Coast in southwest India. It is one of most popular and oldest spice in the world, its earliest usage about 4000 years ago. Domestically pepper is used for culinary usage and also as a preservative.

It is a perennial, climbing vine indigenous to the Malabar Coast of India. This pungent spice made from its berries is one of the earliest spices known and is probably the most widely used spice in the world today. It was mentioned as far back as 1000 BC in ancient Sanskrit literature. In early historic times, black pepper was widely cultivated in the tropics of Southeast Asia, where it became an important article of overland trade between India and Europe. It is marketed in four different varieties - white, green, red and black peppercorns. It became a medium of exchange, and tributes were levied in black pepper in ancient Greece and Rome. The name pepper comes from the Sanskrit word pippali meaning berry. The most popular varieties from India, Malabar Garbled and Tellicherry Black pepper, still dominates in production and consumption. The pepper plant requires a long rainy season, fairly high temperatures, and partial shade for the best growth. They begin bearing in 2 to 5 years and may produce for as long as 40 years.

## Seasonality

COUNTRY	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
VIETNAM												
INDIA												
BRAZIL												
INDONESIA												
MALAYSIA												
SRI LANKA												

In India harvesting of pepper starts from December end and extends till March beginning. However, harvesting period differs from other major competitors in the world. During May to September most of the countries completes harvesting.

## International Trade

Fall in production had its impact on international trade wherein pepper exports dropped sharply and it is expected that in the current year exports would be around 2.01 lakh tons compared to 2.45 lakh tons shipped last year. However, demand has not fallen but it has increased moderately.



Country	2006-07	2007-08	% Change
Vietnam	116670	83000	-28.86
Brazil	42194	36000	-14.68
India	26377	30000	13.74
Malaysia	16602	19000	14.44
Indonesia	20000	16300	-18.50
Sri Lanka	8190	8500	3.79
China	10000	3000	-70.00
Thailand	1400	1500	7.14

*Source: IPC*

Major drop in exports is expected in Vietnam whose shipments are likely to fall by 28.86% over previous year followed by Brazil down by 14.68%. However, India and Malaysia took an advantage by exporting more pepper compared to last year. Looking into drop in Vietnam output, US and European Union traders found India and Malaysia as an alternate source of supplies and imported huge volumes even at higher prices. Indian pepper gets premium price in international market because of its superior quality.

### **Price Outlook**

Pepper prices are expected to resume their Bull Run on account of emergence of buying interest especially from exporters following depreciation of Indian Rupee against the US Dollar, which increases the value of the quantity being exported. Indian Rupee has depreciated from Rs.39.60 to 13 month low of Rs.42.67, registering a growth of 7.75%. Apart from this, domestic supply situation is tight and NCDEX warehouses are having 6591 tons of Pepper. Harvesting in Vietnam will end in couple of weeks and afterwards there will not be major supplies in the global market and this will create supply crunch in global market.

**We are expecting prices are likely to touch 16000-17000 in the months of July and August.**

### **Trade Recommendation**

**Buy July contract in the range of 14500-14600 for a target of 16000 and then 16500 with stop loss below 13500**

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