

23 March 2009

TURMERIC SEASONAL REPORT

Market review

The year 2009 has proved to be a year for turmeric as prices rallied from the very first day of the year and has never looked back since. Turmeric futures gained as much as 50% in three months, crossing the previous year's high to make a new high since the commencement of futures. Lower output forecasts for 2008-09 and less carry-forwards from the previous season led to a huge rally in prices. Exports recorded the highest-ever levels of over 50,000 tonnes in 2008-09. In the futures market, the near-month April NCDEX contract crossed the Rs5,000-per-quintal mark, while in the Nizamabad spot market; prices touched Rs4600-4700 per quintal. The bull-run had started towards the end of 2007, recording a high of Rs5,000 levels in mid-2008. However, it declined thereafter to Rs3,200 levels towards the end of 2008. The new crop arrivals failed to pick up even in the peak season (Feb-Mar) as farmers held back their produce on anticipation of a further rise in prices in the long term.

About turmeric

Turmeric is an important commercial spice crop grown in India and is referred to as "Indian saffron". Indian turmeric is considered to be the best in the world due to presence of high curcumin content. Botanically, it is called *Curcuma longa* L. Turmeric belongs to family Zingiberaceae. The commercial part is rhizome or underground stem. The Indian vernacular names include pasupu, haldi, manjal, among others.

Diversified uses

Turmeric is used in diversified industries as a condiment, a flavoring and colouring agent, and as a curry powder, it is a principal ingredient in Indian cuisine. In addition, oleoresin extracted from turmeric is used in brine pickles, and to an extent, in mayonnaise, relish formulations, non-alcoholic beverages, gelatins, butter and cheese, etc. Moreover, the colour curcumin extracted from turmeric is used as a colorant.

Turmeric is also used as a dye in the textile industry, in cosmetics, preparation of medicinal oils, ointments and poultice. It is a stomachic, a carminative, a tonic, a blood purifier, and an antiseptic. The aqueous extracts have bio-pesticidal properties.

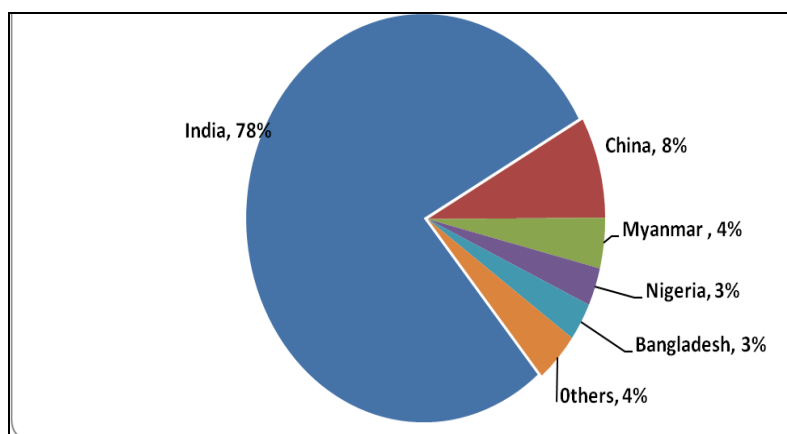
Seasonality in India

Turmeric is a seasonal and annual kharif crop. The crop duration is 7-9 months depending on the variety. In major producing states, sowing takes place in July and harvesting begins from December to February. The Feb-April period is peak arrival time for turmeric.

Global scenario

India is the largest producer, consumer and exporter of turmeric across the globe. The other major producers are China, Myanmar, Nigeria, Bangladesh, Pakistan, Sri Lanka, Taiwan, Burma and Indonesia. The world produces about 11-11.5 lakh tonnes of turmeric annually. India contributes about 80% of the world production and 60% to the total trade. The increasing demand for natural products as food additives makes turmeric an ideal produce for a food colorant. Additionally, anti-cancer and anti-viral properties of turmeric may also increase its demand from the pharma industry.

Figure 1: Global production of turmeric



Note: According to market sources

World trade in turmeric

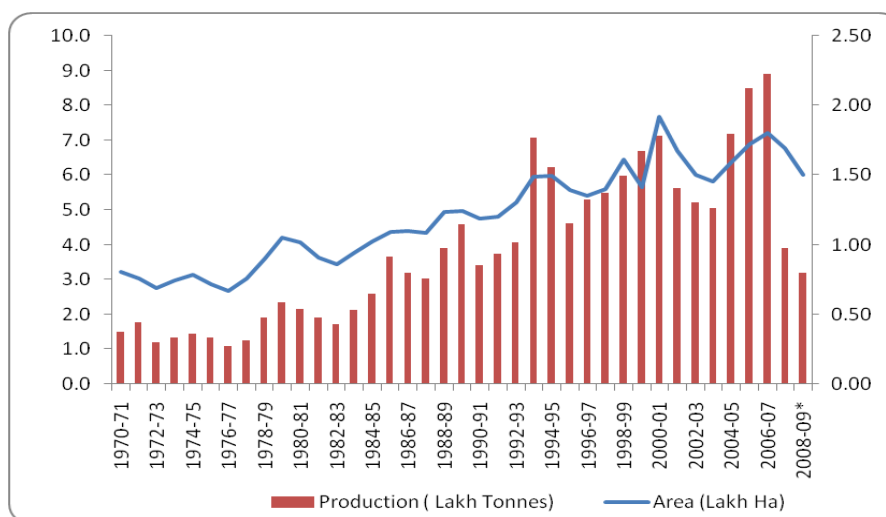
The United Arab Emirates (UAE) is the major importer of turmeric from India, accounting for 18% of the total exports, followed by the US with 8%. The other leading importers are Bangladesh, Japan, Sri Lanka, the UK, Malaysia, South Africa, the Netherlands, and Saudi Arabia. All these countries together constitute 75% of the world trade, and Asian countries practically supply to the entire world. The US imports 97% of its turmeric requirement from India and the remaining portion is imported from the Islands of the Pacific and Thailand. Other producing countries like China and Myanmar export most of its produce with less domestic consumption.

Indian scenario

Production of turmeric has been increasing over a period of time, recording the highest levels in 2006-07 with an output of 8.9 lakh tonnes. However, in the last two years, output has declined as farmers shifted to other profitable crops like cotton. Turmeric prices remained below Rs2,500 prior to 2007, while most of the commodities had rallied during that period. Farmers shifted to other commodities like chilli and cotton, especially in Andhra Pradesh, due to higher returns, thus affecting turmeric output in the last two years.

Turmeric is mainly cultivated in Andhra Pradesh, Maharashtra, Tamil Nadu, Orissa, West Bengal, Karnataka, and Kerala.

Figure 2: India—Production and area under cultivation

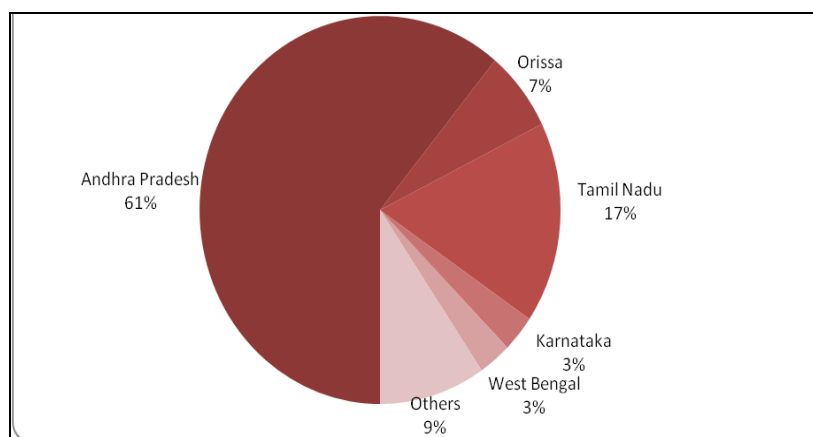


Source: Spices Board. Note: *2007-08 and 2008-09 are trade estimates.

Turmeric is grown in about 1.5-2.0 lakh hectares and it has gradually increased in the last three decades. Production has also improved during the period from 1.5 lakh tonnes in 1970-71 to a record output of 8.9 lakh tonnes in 2006-07. The average yield is about 3,800 kg per hectares. According to market sources, turmeric output is likely to fall to 3.2 lakh tonnes, or 18% percent down from last year.

Andhra Pradesh is called the “turmeric bowl of India”. In 2005-06, it had highest share of 40% of India’s overall area and was highest producer with share of 60% of total output. However, in recent years, it has lost to Tamil Nadu, which had a share of about 40% of the total output in the 2008-09 season, up from 17% in 2005-06.

Figure 3: India—Turmeric production in 2005-06



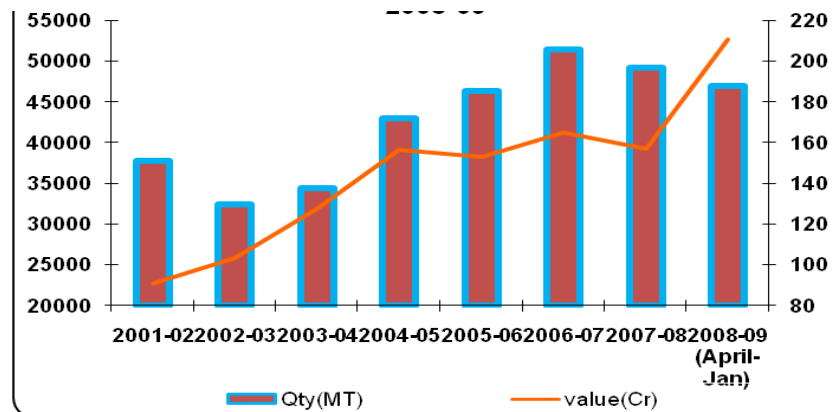
Source: Spices Board.

The total domestic consumption is expected to be around 6.8 lakh tonnes. India exports less than 10% of total output and is the largest consumer of turmeric in the world.

Exports

India is a major supplier of turmeric in the global market. Although other producing countries like China and Myanmar export most of their output, India continues to be the largest exporter due to higher production levels. Exports touched an all-time high of 51,500 tonnes during 2006-07, but declined marginally in 2007-08. According to recent reports, India has already exported 47,000 tonnes during April-January 2008-09, and it is expected to cross the previous-high levels.

Figure 4: Turmeric exports from 2001-02 to 2008-09



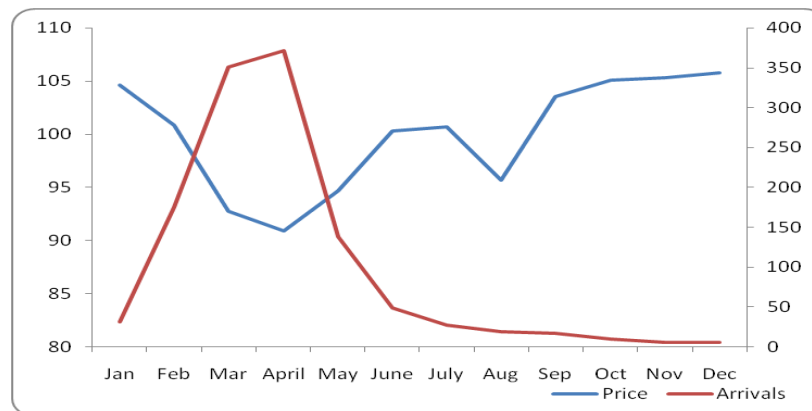
Source: Spices Board.

Arrivals and price analysis

Seasonality in arrivals and turmeric prices at Nizamabad (2003-2008)

Turmeric arrivals follow a seasonal pattern, achieving a peak during Feb-April and receding thereafter. It is a nine-month duration crop and is harvested in Jan-Feb. The new crop arrivals begin in February and remain high until April-end. The arrivals in the remaining months are mainly from stockists who normally buy during the peak arrivals season.

Figure 5: Seasonality in price and arrivals at Nizamabad



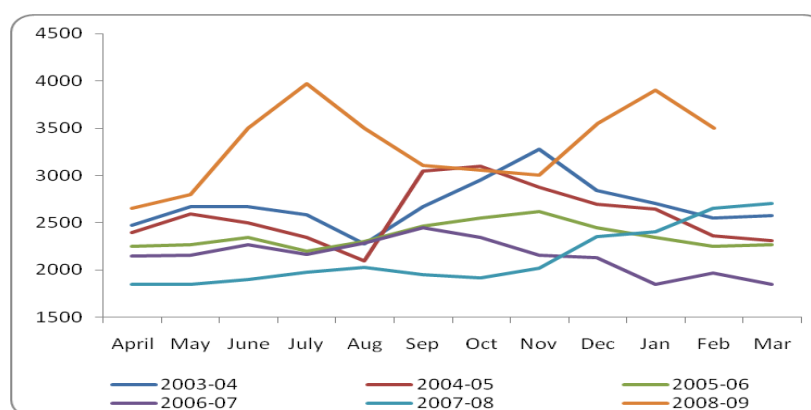
The lean season starts from May onwards and extends until the new crop arrivals in February. The arrivals have recorded more than 1.5-2.4 lakh quintals in April at Nizamabad for the last five years. Prices, too, have followed a seasonal pattern, but with an inverse relationship to arrivals. During the peak arrivals season, prices remain mostly under pressure

and start moving up from May onwards. Prices touch peak levels during October-December when the market is going through a lean phase.

Monthly average prices at Nizamabad

As shown in **Figure 6**, turmeric prices at Nizamabad began to move up in May 2008. The monthly average price in this market touched Rs3,970 per quintal in July 2008. Prices remained below Rs3,000 in the last five years, touching as low as Rs1,850 per quintal in April 2007. Although the arrival season is at its peak in the last two months, prices have started to move up, and for March 2009, it is likely to average above Rs4,000 per quintal.

Figure 6: Turmeric price movement—2003-04 to 2008-09



Source: APMC Nizamabad.

Turmeric balance sheet for 2008-09*

According to market sources, turmeric output is likely to decline by 25%, to 3.2 lakh tonnes (42-45 lakh bags with 75 kg per bag). The carry-forward stocks are estimated at about 6,600 tonnes. The total supply would be 3.26 lakh tonnes for 2009 against last year's supply of 3.95 lakh tonnes. The annual domestic demand is likely to be about 3.5 lakh tonnes and exports are expected to remain normal at around 45,000 tonnes.

Table 1: Supply-demand dynamics for 2008-09

Supply (Tonnes)		Demand (Tonnes)	
Production	3,20,000	Domestic demand	3,50,000
Carry forward	7,000	Exports	45,000
Total	3,27,000	Total	3,95,000
Shortage			68,400

Note: Estimates are based on market sources.

Crop situation in 2008-09

Due to shift in cultivation from turmeric to other crops like cotton and maize, the output has been badly affected in 2008-09. According to market sources, turmeric output may fall to 42-45 lakh bags (70 kg per bag) against 50-52 lakh bags in 2007-08. Carry-forward stocks are about 5 lakh bags compared to 10 lakh bags last year. Production estimates for different states are as follows: Tamil Nadu 17-18 LB, AP 16-17 LB, Maharashtra 5-6 LB and others 2-3 LB. Although, output is normal-to-above in Tamil Nadu, a sharp decline in Maharashtra and Andhra Pradesh has affected the overall output.

Price outlook

Currently, spot prices at the Nizamabad spot market is quoting at Rs4,500-4,600 per quintal and futures at NCDEX is trading at Rs5,100-5,200 per quintal.

- **Short-term (1 month) – Rs4,400-4,500 per quintal**
- **Long-term (6-8 months) – Rs6,000-6,500 per quintal**

Strategy: As prices have rallied for 3 consecutive months, correction from current levels can be seen in near term. Higher arrivals in April month and steady demand at higher prices may put some pressure on prices in short term. This correction towards Rs4500 is likely to give buying opportunity for long term players. The possible targets on higher side would be Rs6000-65000.

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