

25 March 2010

Sequel to: Pepper Seasonal Report

Demand surpassing supply

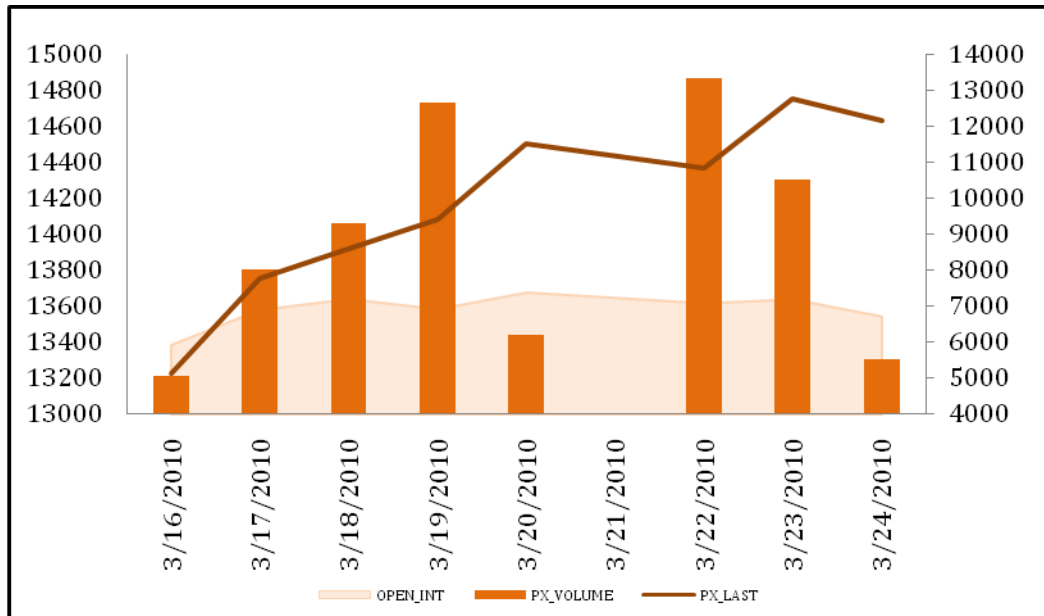
[As per expectations, Pepper prices are rising and have successfully achieved the first target of 15150 levels as on 25 March 2010. The rise in prices has been supported by the fundamental factor of tight supply situation in local and international markets. Lower production in top pepper producing countries is further supporting the price rise. Looking at the present scenario, futures prices are likely to rise further and hence the final expected target has been revised to 16,140 then 16,450 levels.]

Revised Recommendation-short to medium term: (April-June) 2010: Buy 1st lot at 14900-15000, 2nd lot at 14650-14750; T1- 16140, T2-16450, SL below 13850



Pepper prices have shown a rise as expected with intermittent correction due to profit taking. The rise in prices has been supported by the fundamental factors of tight supply situation in the local and international markets. Lower production expectation for top producing countries is further supporting the rise in prices.

Figure 1: NCDEX Pepper futures PVO analysis



Note: 21 March 2010 was Sunday, market remains closed

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			

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 have risen by \$50 per tonne and are quoting \$3,250-\$3,300 per tonne (FOB) while prices for Vietnam, Indonesia and Brazil have also gone up and are quoting at \$3,080 per tonne (FOB), \$3,300-3,350 per tonne (FOB Lampung), and \$3,000 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.

As per expectations, Pepper prices are rising and have successfully achieved the first target of 15150 levels as on 25 March 2010. The rise in prices has been supported by the fundamental factor of tight supply situation in local and international markets. Lower production in top pepper producing countries is further supporting the price rise. Looking at the present scenario, prices are likely to rise further and hence the final expected target has been revised to 16,000 levels.

Revised Recommendation-short to medium term: (April-June) 2010: Buy 1st lot at 14900-15000, 2nd lot at 14650-14750; T1- 16140, T2-16450, SL below 13850

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

To unsubscribe please mail us at commodity@karvy.com

Disclaimer

The report contains the opinions of the author that are not to be construed as investment advice. The author, directors and other employees of Karvy, and its affiliates, cannot be held responsible for the accuracy of the information presented herein or for the results of the positions taken based on the opinions expressed above. The above-mentioned opinions are based on the information which is believed to be accurate and no assurance can be given for the accuracy of this information. There is risk of loss in trading in derivatives. The author, directors and other employees of Karvy and its affiliates cannot be held responsible for any losses in trading.

Commodity derivatives trading involve substantial risk. The valuation of the underlying may fluctuate, and as a result, clients may lose their entire original investment. In no event should the content of this research report be construed as an express or an implied promise, guarantee or implication by, or from, Karvy Comtrade that you will profit or that losses can, or will be, limited in any manner whatsoever. Past results are no indication of future performance. The information provided in this report is intended solely for informative purposes and is obtained from sources believed to be reliable. Information is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted.

We do not offer any sort of portfolio advisory, portfolio management, or investment advisory services. The reports are only for information purposes and not to be construed as investment advice.

For a detailed disclaimer please go to following URLs:

<http://www.karvycomtrade.com/disclaimer.asp>

<http://www.karvycomtrade.com/riskDisclaimer.asp>