

# Pepper Market Update

March – April 2010



## Summary :

It is a general view that a bull run in black pepper may start in the coming months. The main reason to support our argument is a sharp drop in carry forward stocks of major pepper producing nations. Irrespective of the marginal rise in pepper production, pepper is set to catch up with other spices, which have been making headlines since the last few quarters. The global demand for black pepper is rising at 2% due to changing food habits in several South-east Asian countries.

On the supply side, stocks are depleting at an alarming pace. The long-term outlook of pepper remains very bright. Going ahead in 2010, we expect pepper prices to touch \$3550/MT.

## Black Pepper will literally be "King of Spices"

It all started with a drop in carry forward stocks followed by a drop in production and acute mismatch between demand and supply led to a bull run. In the past five years, the global carry forward stocks of black pepper have been declining. Any drop in production by key pepper producers could have a major impact on prices. Vietnam is the largest pepper producer in the world. Inventories have depleted sharply in the last two years. Black pepper will literally be the king of spices as a bull run in this commodity is expected to begin in the coming months. Erratic weather concerns may lead to a drop in production or a delay in harvesting this year could set the stage for a bull run in pepper this year.

Pepper production has also moved up from 90,000 tons to 1,00,000 tons. Of this the production of white pepper has risen by 10,000 tons. Overall the production of black pepper is still stagnant at 80,000 tons.

Vietnam's ending stock of pepper is the major reason for being bullish on the spice.

### Pepper Stock In Vietnam 2009

	Stock Carryover 2008	Production	Import	Domestic Consumption	Export
Black Pepper	18,000	80,000	10,000	3,000	99,000
White Pepper	2,000	20,000	0	500	21,000
Total	20,000	100,000	10,000	3,500	120,000

Source: peppervietnam.com



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Overall the carry forward stock of world's largest pepper producer was 20,000 tons at the start of 2009. Exports in 2009 were at a record high of 1,20,000 as Indian production was down in 2009 and lack of availability of ASTA grade pepper resulted in excellent exports. Going forward, in 2010 the carry forward stock of Vietnam is expected to be only 1,500 tons from 30,000 tons. This is the main reason why we believe this spice has the potential to shoot up as any delay in harvesting in Vietnam and a spurt in demand could trigger a sharp bull run in the spice. Vietnam is running out of pepper. Stocks have also depleted sharply making us believe that the bull run in spices is on the cards. Add to this, the production of pepper in Vietnam that is expected to decline by 10,000 tons in 2010 due to erratic weather conditions and this can further fuel bullish sentiments.

## Pepper Stock In Vietnam 2010

	Stock Carryover 2009	Production	Import	Domestic Consumption	Export
Black Pepper	1,000	70,000	10,000	3,500	75,000
White Pepper	500	20,000	0	500	20,000
Total	1,500	90,000	10,000	4,000	95,000

Source: peppervietnam.com

Drop in carry forward stock is not only the case with Vietnam but India too is facing the same problem. Indian pepper carry forward stocks have depleted considerably over last few years.

## Carry Forward Stocks Of Pepper In India (at the start of the year)

Year	Carry Forward Stocks (In Tonnes)
2007	37,225
2008	14,730
2009	9,830
2010*	9,500

Source: IPC and \* NB Research

Indian pepper stocks at the start of year 2007 were estimated around 37,225 tons due to low prices prevailing in the country and good exports since the last three years. The carry forward stocks have fallen to 9,500 tons from 37,225 tons.



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## Carry Forward Stocks Of Pepper In Brazil

Year	Carry Forward Stocks (In Tonnes)
2007	19,921
2008	11,984
2009	8,995

Source: IPC

In the last three years the carry forward stocks of pepper have also gone down to 8,995 tons from 19,921 tons in Brazil like other global pepper-producing countries.

## Carry Forward Stocks Of Pepper In Indonesia

Year	Carry Forward Stocks (In Tonnes)
2007	19,228
2008	26,228
2009	10,728

Source: IPC

Indonesia's carry forward stocks have also dropped from 26,228 tons to 10,728 tons over the last two years. This is indicative of the silence before the storm. The carry forward stocks of major pepper-producing countries like India, Vietnam, Brazil and Indonesia have been depleting at an alarming rate.

India is the only country where pepper is traded on the electronic exchange. Despite bullish scenario, prices are continuously under pressure. We have found some reasons as to why markets are under pressure despite bullish fundamentals.

Indian pepper exports during April-December '09 were 14,750 tons as compared to 19,450 tons during the same period in 2008, down by almost 24%. The availability of ASTA grade of pepper has been low due to a drop in production in Kerala and also due to low price tag in Vietnam.

Cash v/s Futures arbitrage tends to give attractive returns to investors. Hence, this community tends to short pepper futures against physical shorting and tends to get 12% to 18% per annum returns on the same depending on the spread. Selling pressure from this community tends to weigh on prices in the futures markets. The total stocks in NCDEX warehouse is 5,173 tons, out of which 2,524 tons of pepper will be expired material by March '10.

So selling pressure was moderate over the first quarter. And from the month of March, we can expect a bull run to begin in the king of spices.

India's pepper output is to be between 50,000 tons and 52,000 tons in 2010, slightly higher than last year. Even with Vietnam contribution to produce a huge crop of 90,000 tons, we feel that the drop in the carry forward stock will matter a lot in the global pepper mart. Any major export order from the US or Europe would result in a spike.

**Sources for this report :**  
**IPC, Pepper Vietnam, Stock Markets Review, Commodities online, ET Online**



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