

Spice Market Update

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June 2010

Sources for this report:

**IPC, Pepper Vietnam Commodities online,
NCDEX, VKL field study team.**

Pepper Market Update

Pepper Market Summary:

- ✧ Concerns about the world's financial markets and exchange rates are holding back activity
- ✧ A short supply in the world market is predicted for the current year.
- ✧ The currency fluctuations in India is also a major problem keeping Indian origin highly out priced in the global market.

- ✧ New crop in Indonesia are giving high expectations to all. Indonesian prices could hamper the current bull run in prices for black pepper this year.

Price Trend :

A minor correction is seen in June-July due to high expectations of Indonesian crop.

Recommendation:

Buy/contract best by end of June after looking at Indonesian offers.

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WHITE PEPPER

White pepper prices at most origins increased further. In Sarawak, local price also increased, but in dollar terms, prices fell down by 2 per cent. The volume of white pepper exported to European and U.S. markets increased significantly.

The volume of exported white pepper rose 126 percent from 2008 to 22,532 tons, or an increase of 12,556 tons. Ground black and white pepper volumes rose due to major contribution by VKL Vietnam.

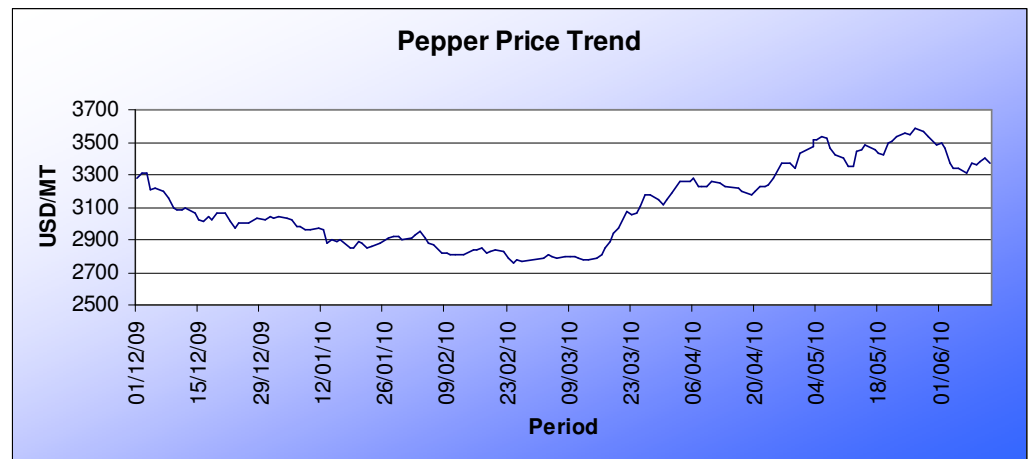
INTERNATIONAL:

Indian pepper has become competitive in the international market following sharp fall in the futures market with prices at \$3,750 a ton (c&f) which is at par with the Indonesian price. However, since the other origins are closely monitoring the futures market here, there is a possibility that farmers in Indonesia might reduce price to quote below the Indian MG1 pepper. Vietnam pepper Association (VPA) was quoted saying "pepper production had decreased by 10 per cent for the year and the main cultivation area, production estimation showed a fall of 30-40 per cent". The International Pepper Community (IPC) has reportedly projected the carry over stock of pepper to decline by 32 per cent this year. The current pricing strategy adopted by the major shippers from Indonesia confirms the possibility that the Bull Run in pepper may fall.

This aggressive pricing by Indonesian exporters has made buyers from the US temporarily withdrawn from the market. Indonesia has provided more than 50% of the requirements of American industry in the year 2009 and it has been a significant supplier till April 2010 this year and Americas most trusted source. Vietnam market is tough with the supplies holding back almost 60,000 MT of 2010 crop for better prices. Since Vietnam origin has fetched much better prices this year from middle of the crop this year farmers are not showing any urgency to sell but might succumb to pressures shortly according to various experts. Vietnam all speculators are strong and unless return form investment is more than carrying cost (interest more than 14%) they will not sell.

INDIA:

Indian production has not been growing with the rise in consumption and as a result, there is mis-match in demand and supply leading to increased imports for value-addition and re-export. The Indian variety was trading higher but there were no takers for spot. Besides domestic traders are currently facing with a huge cash shortage. The fluctuation in the Indian currency also is a major problem keeping India out priced in the global market. Till last month the spot vs futures prices have given return of more than 24% which has dropped now. We have to see how much delivery future buyers will take. Meanwhile the other pepper reports from Vietnam claim there is still around 60, 000 MT pepper lying in Vietnam but not with the farmers but with speculators who will throw this off one day. Currency fluctuations at most origins have had influenced the situation as well. Local prices at origins were reported to have increased.



Ginger



Increasing demand for raw ginger has pushed up its prices in the country while short supply from other origins raised the price of dry ginger in the world market. Drop in production in the country had pushed up its price and the present carry-over stocks are also said to be very thin, as per trading sources. The stocks held in the terminal markets are estimated at 3,000 bags while in the primary markets it might be 12,000 bags. All put together, including stocks held by growers/primary market dealers, total could come to 25,000 bags. Indian output this year is same as of the previous season Availability in the world market from other origins has also shrunk as many have given up its cultivation because of the uncertainty in prices, which used to remain not remunerative more often. As a result, farmers in major ginger growing nations in Nigeria and Ethiopia have reportedly dropped its cultivation due to, non-remunerative prices while China is also said to have reduced its cultivation.

Add to this production in other producing countries has been below normal. India is a major consumer of ginger as a vegetable. Almost 90 % of the production is consumed raw while the rest is processed as dry ginger. The demand for ginger is at a higher level now which has also led to a shortage of 25 % in availability of raw ginger till arrival of next crop.

Ginger Market Summary:

- ✦ carry-over stocks minimum
- ✦ Availability in world market from other origins has also shrunk
- ✦ Farmers given up its cultivation because of the uncertainty in prices

Price Trend :

Prices Steady, not expected to come down.

Recommendation:

Buy Spot

Turmeric Market Summary:

- ✦ Poor stocks
- ✦ Limited supply in market as farmers hold back produce on hopes of higher prices

Price Trend :

The price trend is bullish. However a very high increase in price from the current levels are not expected.

Minor price correction/fall is expected with the arrival of Indonesian crop in July.

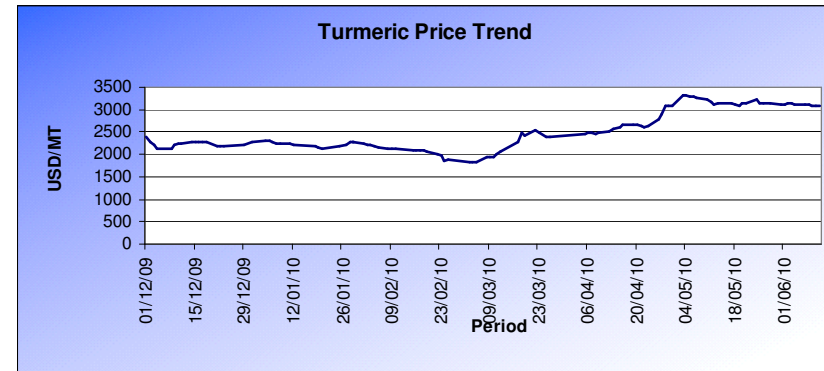
Recommendation:

Buy Spot

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Turmeric



India's turmeric futures rose more than 2 percent per quintal after speculators covered up their short positions amid poor supply at spot markets. Poor stocks and squeezed supply in the market as farmers held back their produce on hopes of higher prices. The price trend is bullish.

Good demand in the physical market also supported the upside in turmeric futures prices. Analysts attributed the recovery in turmeric prices at futures market to covering up of short positions and poor stocks at spot markets on limited supply.

A higher demand at prevailing lower stock levels also influenced the turmeric futures prices. Turmeric exports in February 2010 stood down 19 percent from a year ago, according to data from the Spices Board.

Chilly

Good demand and cold chain facilities developed by affluent farmers are likely to help stabilize the chilly market, which otherwise could ease because of strong arrivals. According to a Spices Board report, chilly production for 2010 is expected to go up by 10%-15% because of increase in acreage, low incidence of diseases and use of high-yielding hybrid varieties. **Production in the Guntur belt, the biggest chilly growing area in the country, is estimated to go up by 17-20%.** Consumption of chilly is increasing substantially with the branded powder sales growing at a compound annual growth rate of 11% according to the Spices Board report.

The growing trend of hot cuisine is expected to lead to an increase in chilly demand, and the country is uniquely positioned to exploit it. **India is a major producer and consumer of chilly in the world.** It produces around 1.2-1.3 million tons and the crop is sown in almost 700,000 hectares. Increased arrivals would lead to more exports **Exports are likely to increase as the Chinese crop is on the lower side,** Indian chilly exports fell in the first half of the current financial year with China displacing it in the Pakistan market.



Nutmeg and Mace



Prices of nutmeg and mace have soared to all-time high due to serious shortfall in production in the current season. The prices have almost doubled than that in the same period in 2009. **Due to erratic climatic conditions in the planted areas, production is at its lowest and according to growers total production may fall 50-60 per cent.** The average annual production of nutmeg is around 2,500 tons and is mainly produced in Kerala. Prices of best quality mace doubled from prices a year back.

Chilies Market Summary:

- Production in growing areas higher
- Chinese crop lower this year
- Exports from India to increase with strong arrivals in the market.

Price Trend :

Steady and reasonable levels

Recommendation:

Buy/Contract now

Nutmeg Market Summary:

- Shortfall in production in the current season.
- Erratic climatic conditions in the planted areas and total production may fall 50-60 per cent.
- Aflatoxin guaranteed crop limited availability.

Price Trend :

Nutmeg, mace prices at all-time highs. Prices steady at these levels.

Recommendation:

No reduction in price expected

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Coriander



India is the largest-producer and exporter of coriander in the global market(70%). The exports have increased significantly in the past few years due to strong demand from the overseas markets. The changing pattern of food consumption or consumption of more spicy foods, especially in developed countries and the large population of Indian origin in these countries has resulted in good export orders for Indian spice exporters. The major importers of coriander from India are Europe, the US, Singapore and the Gulf countries.

Coriander prices come under slight pressure, especially during peak arrivals, and mostly stabilize during the lean season.

Coriander Market Summary:

☺ Strong demand from the overseas markets.

☺ Arrivals begin to increase from February and peak arrivals last until June. These arrivals recede July onwards, and the lean season continues until the next arrival in February of the following year.

Price Trend :

Prices of coriander are seasonal, and has been gradually increasing in the last few years.

Recommendation:

Presently price is low and stable.
 Buy/contract Now.

Cumin Market Summary:

☹ Decline in supply and firmness in other spices made futures trade higher

☹ Demand is steady in the physical market

☹ Traders are buying on dips in anticipation of further rise in the prices

☹ Favourable weather at origins over next 2 months will guarantee huge crop

Price Trend :

Bearish market, Steady

Recommendation:

Buy Spot/ Contracts in August.

Cumin

As per the May 24 edition of "The Public Ledger", report confirms that if the weather conditions remain favourable over the next two months, there should be well enough stock to meet the world's total demand. The crops have been minimal past many times from Syria, Iran and Turkey. It is only due to the availability of Chinese cumin that the prices are low, else it could have touched peaks as high as \$3,500/MT.

India's cumin futures traded higher on low level buying supported by a decline in supply and firmness in other spices. Demand is steady in the physical market...traders are buying on dips in anticipation of further rise in the prices. Cumin exports in February 2010 dropped 17 percent to 2,500 tons on year as per the Spices Board.



Currency Outlook:



The US payroll data released last week has strengthened the Dollar. The Euro crisis is further helping upward movement of the Dollar. Last week Dollar closed at 1.22 to Euro, but this week opened at 1.19 levels indicating the rapid fall in Euro. The echo of UK issues is making the Pound Sterling also weak against the Dollar.

Rupee however is not weakening to the Dollar. Expectations are the Yuan revaluation which will make Rupee stronger against Dollar. Further appreciation of the Rupee will impact prices of major spices making them more expensive.

The final question on every one's mind:

Market analysts confirm that three months from now the Dollar to Euro ratio will be 1:1.



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Cassia

Cinnamon also known as cassia vera is a potential trade commodity. Cinnamon producing countries are mainly Indonesia and Vietnam.

The types of cinnamon found in international market are C. Burmanii, C. Zeilanicum and C. Cassia. In Indonesia C Burmanii is grown by farmers mainly in West Sumatra, North Sumatra and Jambi. West Java has just started cultivating the crop.

The part that has commercial value of cinnamon is the bark of the tree. The small branches and leaves also have commercial value. Both the bark and the leaves could be processed to produce essential oil used widely by cosmetic industry, pharmaceutical industry, food and beverage industry.

Price Trend: Steady and prices at lowest levels

Recommendation: Buy Spot as volatility not expected.



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Fenugreek

Fenugreek: Indian fenugreek market arrivals were at its peak during last fortnight. Reports from fenugreek tracts(Rajasthan, Madhya Pradesh and Gujarat) indicate that crop size is lower by 25-30%. Average fenugreek crop size ranges between 225 to 250,000 MT. It is estimated to be lesser than 175,000 MT. this year. Price is expected to remain firm due to this. Fenugreek prices remained steady over the past years on account of a steady crop.

Price Trend: Firm and Steady market.

No major change to happen during the year.

Recommendation: Buy Now/Contract spot