

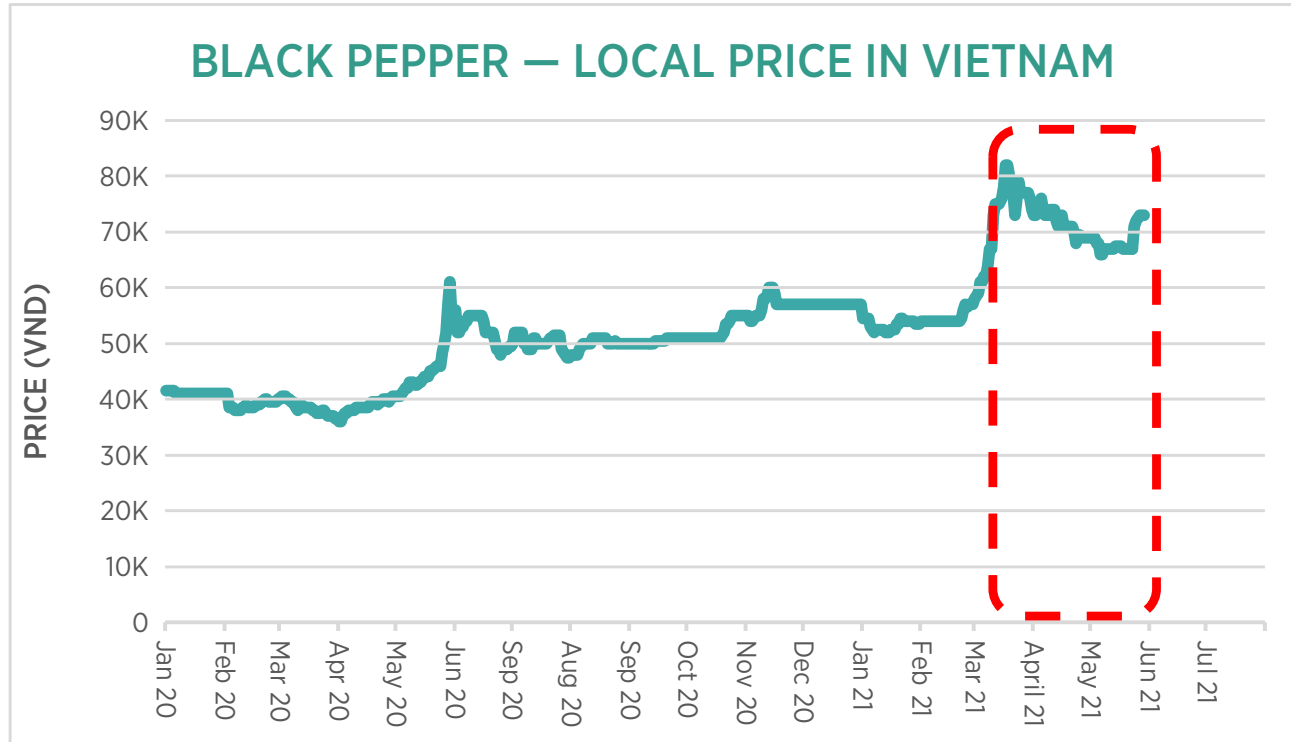
BLACK PEPPER REPORT

JUNE 2021

Current Market

- After remaining rather weak for a few weeks, pepper prices have again moved upwards.
- Prices in Vietnam started increasing as speculators and Chinese buyers became active. With harvesting over, limited arrivals have contributed to the sudden bullishness.
- Reports this week indicate the detection of a new coronavirus variant in Vietnam which might be responsible for a resurgence in new COVID cases. Vietnam had rather successfully battled the virus initially, recording just over 3100 confirmed cases and 35 deaths from the start of the pandemic till early May. However, in the past few weeks, the country had over 3500 new cases and 12 deaths, taking the total death toll to 47. The new variant could be responsible for the recent surge, which has spread to 30 of the country's 63 provinces and municipalities.
- In India, prices started moving up as material availability was affected by lockdowns in the growing areas. With the country seriously affected by a new wave of coronavirus infections, many parts of the country are facing complete or partial lockdowns. The Indian Rupee continues to recover after the sharp decline in April, gaining about 2.6% against the USD over the past month. However, the new wave in Covid-19 cases continues, posing a downside risk to India's economic outlook.
- Prices in Indonesia have also followed the trend in other countries, moving up over the past week. With Ramadan over, and many parts of the country facing Covid-19 restrictions, there has not been much eagerness to sell.

- The market was mostly quiet in Brazil with limited selling pressure. The Brazil Real has gained nearly 2% against the USD over the past month, and this has also provided support to export prices. This rally could continue on hopes of progress on reforms, and early signs that the pandemic's new wave might be starting to ease. Surging commodity prices have also resulted in a trade surplus situation.



Global Crop Conditions

INDIA: The pre-monsoon summer showers have extended beyond normal this year, bringing scattered rains to most parts of South India even during May. Apart from this, cyclone Tauktae, which formed during mid-May in the south-east Arabian Sea, brought heavy rains to the pepper growing areas of Kerala and southern Karnataka as it moved northwards along the western coastline of India. During end-May, most southern states, including Kerala, Karnataka and Tamil Nadu, faced heavy rains and strong winds under the influence of super cyclone Yaas, which formed over the southern Bay of Bengal and moved north-west along the eastern peninsular coast. The excess rainfall received this year could have an impact on flowering of pepper vines later this year. According to the Indian Meteorological Department (IMD),



normal rainfall is expected during the South-West monsoon, which is expected to set in over the sub-continent during the first half of June.

BRAZIL: Arrivals are slowing down and trading activity is limited. Many large farmers and traders reportedly still have good stocks remaining. Harvesting in the southern state of Bahia is expected to start later this month, and good production is expected. Central Brazil is facing one of the worst droughts in decades, triggered by the La Nina, affecting production of coffee, sugarcane, corn, oranges and many other crops, and has led more than 100 cities in Brazil to ration water. During the rainy season from November to March, rainfall was the lowest in 20 years. La Nina typically brings wetter conditions to the northern Amazon, but drier weather to the southern part of the continent. However, the pepper growing areas have not been affected by the dry conditions.

VIETNAM: Rainfall has been above normal this year, with many areas receiving unseasonal scattered rains during the past two months. The effect of these rains on the new crop flowering is not clear, with the possibility that the rains could lead to more vegetative growth, reducing spike formation. So far, farmers have sold only a portion of the material harvested this year to meet their immediate financial needs, and are holding on to material, expecting better returns later in the year.

INDONESIA: The peak of the La Nina coincided with the peak of the rainy season in Jan-Feb in Indonesia, and the simultaneous occurrence of these two has triggered torrential rains across the country. Most pepper growing areas have faced heavy rains and strong winds, and this is reported to have adversely affected the coming season's production

Market Scenario

BEARISH FACTORS:

- Repeated waves of the coronavirus pandemic continue to batter global economic activity, affecting demand in the major consuming countries including India.
- Farmers in Vietnam and India have sold only a portion of the material harvested this year. There are still sufficient quantities remaining in the major producing countries.



- The absence of large buying demand has seen buyers preferring to slow down and adopt a wait-and-watch approach, relegating demand to short-term coverage.
- Imports by the US during the past few months have been higher than usual, and this coverage could have an impact on short-term demand.

BULLISH FACTORS:

- Central Brazil is facing the worst drought in two decades, and this has affected many commodities including coffee, maize and sugarcane. With the situation not expected to improve anytime soon, hydro-electric power generation and irrigation activities could be affected. The high price of alternate crops, including coffee, which is grown alongside pepper in many areas, could increase the holding capacity of pepper farmers.
- Unusually heavy rainfall has been reported from many parts of Indonesia. There are reports that the recent heavy rains and winds could affect development of the new crop in many areas including Lampung and South Sumatra. Harvesting will start during the latter half of the year.
- Recovery in market activity could gradually lead to a revival in demand as coronavirus vaccines gradually become available globally.
- Farmers in Vietnam have been trying to hold back material after selling a limited quantity initially to meet immediate cash needs. Speculators are also becoming active, sensing an opportunity. At the same time, there will be good demand from buyers who have been waiting to cover from Vietnam. The recent third wave of coronavirus infections in Vietnam is having an impact on the market. The surge caused by the new variant could disrupt trade activities, affecting availability of material.
- Freight rates continue to be affected by uncertainties in the global freight situation. CNF prices from Asia could be affected due to increased pressure to move cargo out.



Price Forecast

SHORT TERM: Availability of material is gradually getting limited as farmers in Vietnam, India and Brazil try to hold back material, while speculators and buyers become active. This tightness in supply and demand could create some bullishness in the short term. At the same time, new arrivals from southern Brazil and Indonesia could have a stabilizing effect.

MEDIUM TERM: New arrivals from Indonesia and southern Brazil will hold the key to the direction of the market in the medium term. The selling behavior of farmers in Vietnam will also be crucial. With the possibility of an increase in prices, it is likely that farmers and speculators will try to hold on to material, thereby having a bullish impact.

LONG TERM: The demand side could be impacted by an increase in consumption, having a bullish effect on the market, as the global economy moves forward on the path to recovery from the impact of the pandemic. As both buyers and speculators become active, the supply side might struggle to meet the increase in demand in the long term..

SHORT TERM



MEDIUM TERM



LONG TERM



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Coverage Recommendation

Limited availability of material in Vietnam and other countries will continue to have a bullish effect on prices, though increased selling pressure initially could have some stability in the short term. With the downside risk appearing limited, it is advisable to cover during the peak arrival period for requirements during Q3, and partially through Q4 if conditions are attractive. Coverage can be extended further as material becomes available from other producing countries, especially Indonesia and Brazil, later in the year.

CURRENCY	SPOT	CHANGE		
		1 MONTH	1 YEAR	2 YEAR
USD/IDR	14306	-1.00%	-2.37%	0.14%
USD/INR	72.39	-2.32%	-4.14%	4.04%
USD/VND	23046	-0.04%	-1.01%	-1.57%
USD/MYR	4.13	0.73%	-5.06%	-1.43%
USD/CNH	6.37	-1.55%	-10.78%	-7.81%
USD/BRL	5.23	-2.06%	-1.88%	33.42%

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