

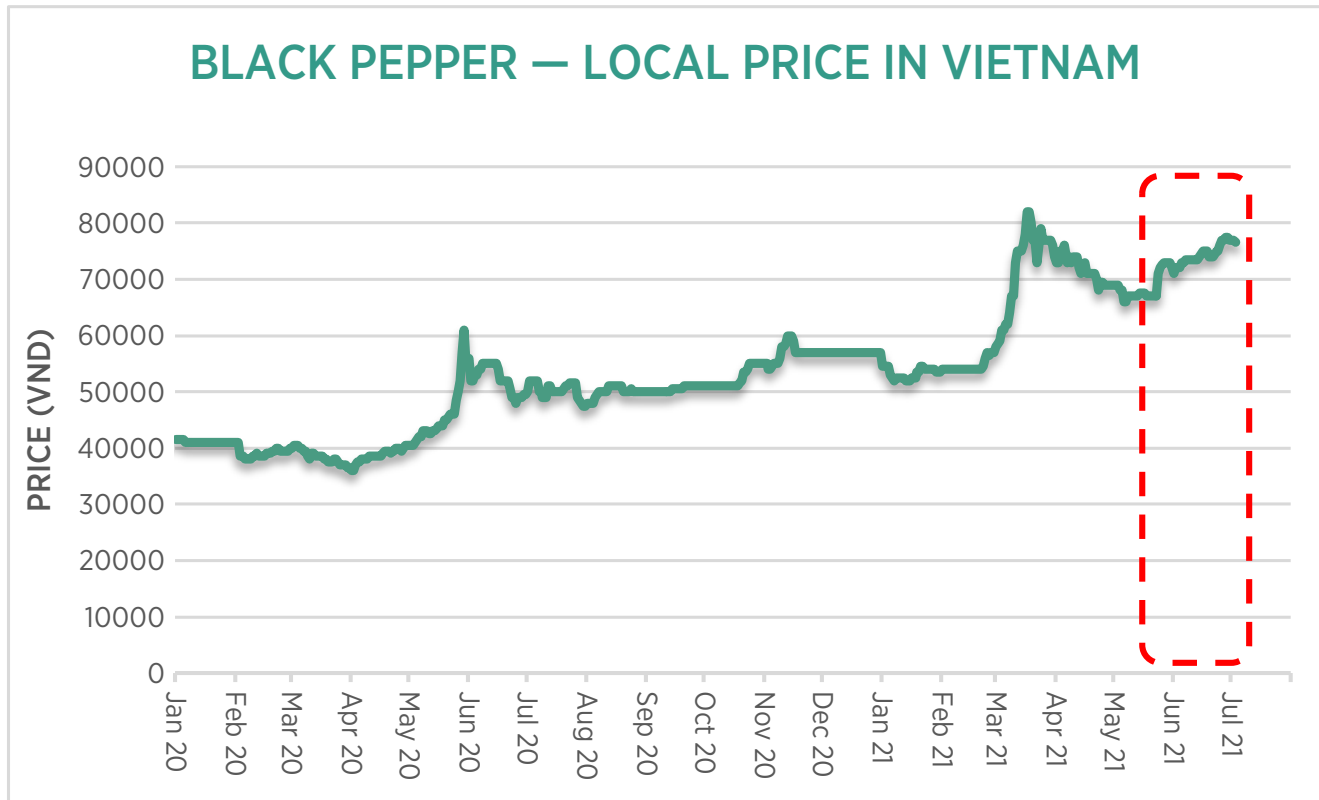
BLACK PEPPER REPORT

JULY 2021

Current Market

- Global prices continued to be mostly firm, with a general bullish undertone prevailing across the major origins.
- In Vietnam, demand from leading buyers served as the driving force behind the upward movement, as local prices continued to steadily nudge against the upper limits. Many of the major exporters are stepping in to cover, and farmers have been smart at seizing the opportunity, holding back material and waiting for prices to move up. After moving up quite strongly during mid-June, prices remained mostly steady during the past few days.
- Prices in Brazil were also firm. Though new arrivals are expected from southern Brazil later this month, strong demand has been instrumental in keeping prices up. The Brazil Real has gained nearly 14% against the USD during the last quarter, and this has also provided support to export prices. The USD/BRL exchange rate continues to build on the bearish momentum, touching levels not seen within the past one year.
- Prices in Indonesia have also followed the trend in other countries, remaining firm with limited trading activity and not much eagerness to sell since available material is limited. South-east Asia's biggest country is now battling a devastating surge of Covid-19 cases fueled by the emergence of the highly transmissible Delta variant.
- India was the only major origin that saw a slight softening of local prices during the past fortnight. With easing of lockdown restrictions, the supply side has improved, having a marginal impact on the market. During the past

quarter, with supply limited due to the Covid-19 related restrictions imposed across most south Indian states, local prices had breached the INR 400 per kg mark, a level last seen almost two years ago. Concerns that rising oil prices could send inflation surging have put pressure on the Indian Rupee, and the INR has weakened about 2% against the USD over the past month.



Global Crop Conditions

INDIA: The South-West monsoon set in over the Indian peninsula during early-June. While most pepper growing regions of south Karnataka received good rains during the past month, the monsoon has been weak in Kerala, with the state recording a 32% rainfall deficiency during the month. This year, the pre-monsoon summer showers which extended beyond normal, together with tropical cyclones in end-May, resulted in excess rainfall in the pepper growing regions. The excess rains in the pre-monsoon period could have an impact on flowering of pepper vines later in the year.

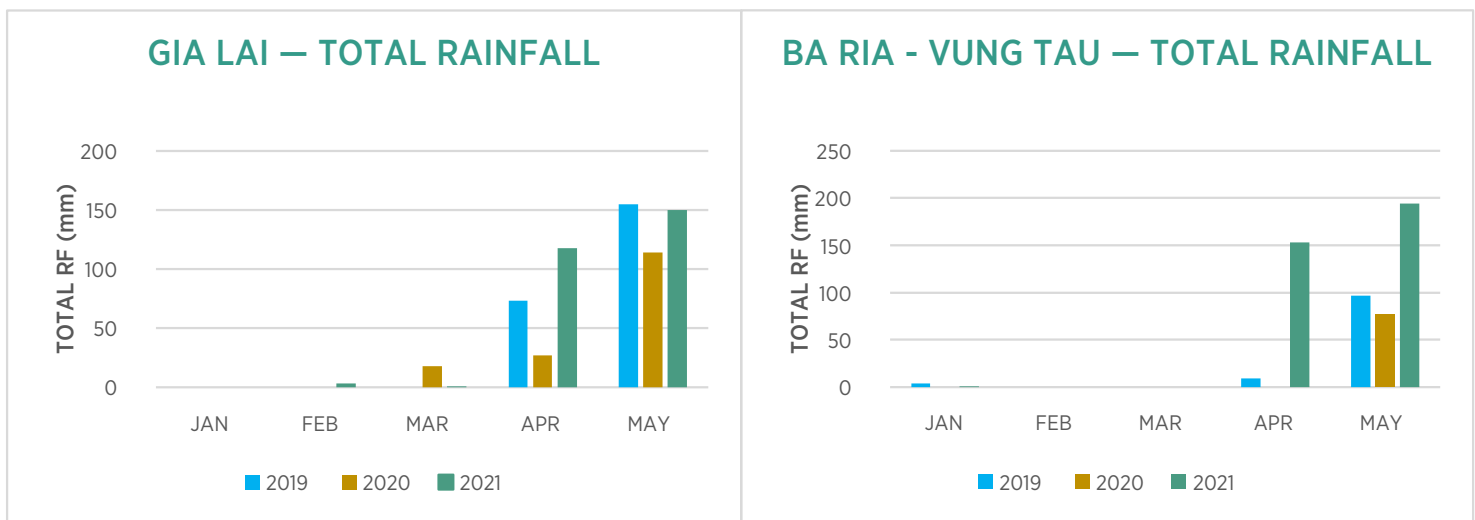
BRAZIL: New crop arrivals from the southern states of Bahia and Espirito Santo are expected within weeks, and good production is expected. Though drought



conditions have been prevailing in central Brazil, the pepper growing areas have not been affected much. La Nina typically brings wetter conditions to the northern Amazon, but drier weather to the southern part of the continent.

INDONESIA: Above-normal rains have been reported during the initial flowering and berry development stages. Torrential rains have been reported across the country due to the La Nina which coincided with the peak rainy season earlier in the year. Most pepper growing areas have faced heavy rains and strong winds. The altered rainfall pattern has affected flowering and berry development in pepper vines, and a 10% reduction in production is estimated this year. According to the Meteorology, Climatology and Geophysics Agency (BMKG), scattered showers are expected to continue over the coming weeks. Reports from the National Institute of Aeronautics and Space (LAPAN) Centre for Atmospheric Science and Technology claim that the formation of low-pressure whirlwinds or vortices in the southern part of the equator, located near the coast of Sumatra and Java islands, is responsible for the extended rain activity even during the normal dry season.

VIETNAM: Rainfall has been above normal this year, with many areas receiving unseasonal scattered rains during the past two months.



In the Central Highland province of Gia Lai, total rainfall in April and May was higher than last year's levels. According to data received from the meteorological station in Pleiku (Gia Lai), total rainfall was 118 mm in April 2021, compared to 27 mm in Apr 2020 and 73 mm in Apr 2019. Similarly, in the south eastern province of Ba Ria - Vung Tau, total rainfall in April and May increased significantly compared to that during the past two years. Total rainfall in Ba Ria - Vung Tau was 153 mm in

April 2021, while there was no rainfall in April 2020, and 9mm rainfall in April 2019. This increase in rainfall is also expected to have an effect on flowering and berry setting during the coming season.



Initial flowering in Ba Ria - Vung Tau (June 2021)

Market Scenario

BEARISH FACTORS:

- The major consuming countries continue to be battered by repeated waves of the coronavirus pandemic.
- There are still sufficient quantities remaining in the major producing countries. Farmers in Vietnam and India have sold only a portion of the material harvested this year.
- 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.
- New arrivals from Brazil and Indonesia are expected over the next two months. Increased availability of material could create some selling pressure.

BULLISH FACTORS:

- Major buyers are increasingly becoming active in Vietnam, gradually covering their requirements for the year. Sensing an opportunity, farmers are very cautious, selling only a limited quantity initially and holding back material, waiting for better prices. The third wave of coronavirus infections continues to disrupt normal life in the country, including trade activities.
- The worst drought in decades affecting Central Brazil has affected many soft commodities, pushing up prices. The high price of alternate crops, including coffee, which is grown alongside pepper in many areas, could increase the holding capacity of pepper farmers.
- Production in Indonesia has been affected by the unseasonal rains earlier in the year. With rains continuing in many areas, harvesting operations could also be affected. The soaring number of coronavirus cases in the country has also prompted strict restrictions on commercial activities in many parts of the country.
- Recovery in market activity could gradually lead to a revival in demand as coronavirus vaccines gradually become available globally.
- 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: Speculators and buyers are increasingly becoming active in Vietnam, while the availability of material is gradually getting limited as farmers in Vietnam, India and Brazil try to hold back material. This tightness in supply and demand could create some bullishness in the short term. Besides, bullish reports about the upcoming crop in Indonesia could also render support to the market.

MEDIUM TERM: New arrivals from Indonesia and southern Brazil will have some impact on 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. At the same time, good production is expected from northern Brazil during the latter half of the year, and this could have a stabilizing effect.

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



Continued on next page



Coverage Recommendation

Limited availability of material in Vietnam and other countries will continue to have a bullish fallout on prices, though selling pressure from Indonesia and Brazil will have some impact in the medium term. However, with speculators and traders likely to take advantage of the bullish disposition of the market, the downside plausibility appears shallow and it is advisable to have adequate coverage if conditions are attractive. Beyond this, it would be prudent to use any dips in the market to extend coverage as material becomes available from other producing countries later in the year.

CURRENCY	SPOT	CHANGE		
		1 MONTH	1 YEAR	2 YEAR
USD/IDR	14460	1.50%	-0.50%	0.64%
USD/INR	74.52	1.87%	-0.21%	8.87%
USD/VND	22928	-0.51%	-1.18%	-1.33%
USD/MYR	4.16	0.73%	-3.03%	-0.48%
USD/CNH	6.47	1.09%	-8.49%	-6.10%
USD/BRL	5.06	-0.20%	-4.71%	32.46%

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