



NEDSPICE

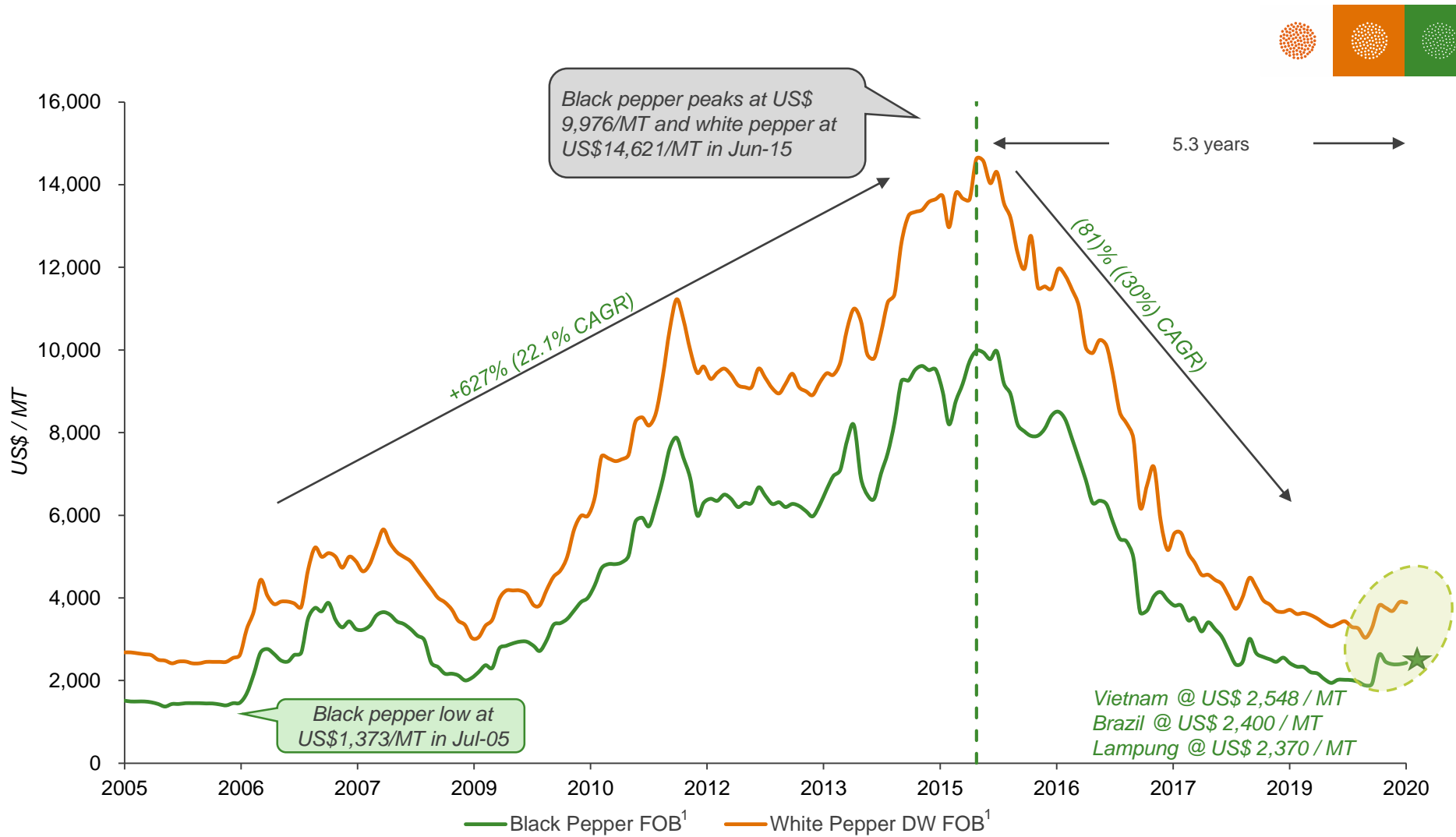
Pepper Crop Report 2021

China Spice Conference

1-3 November 2020

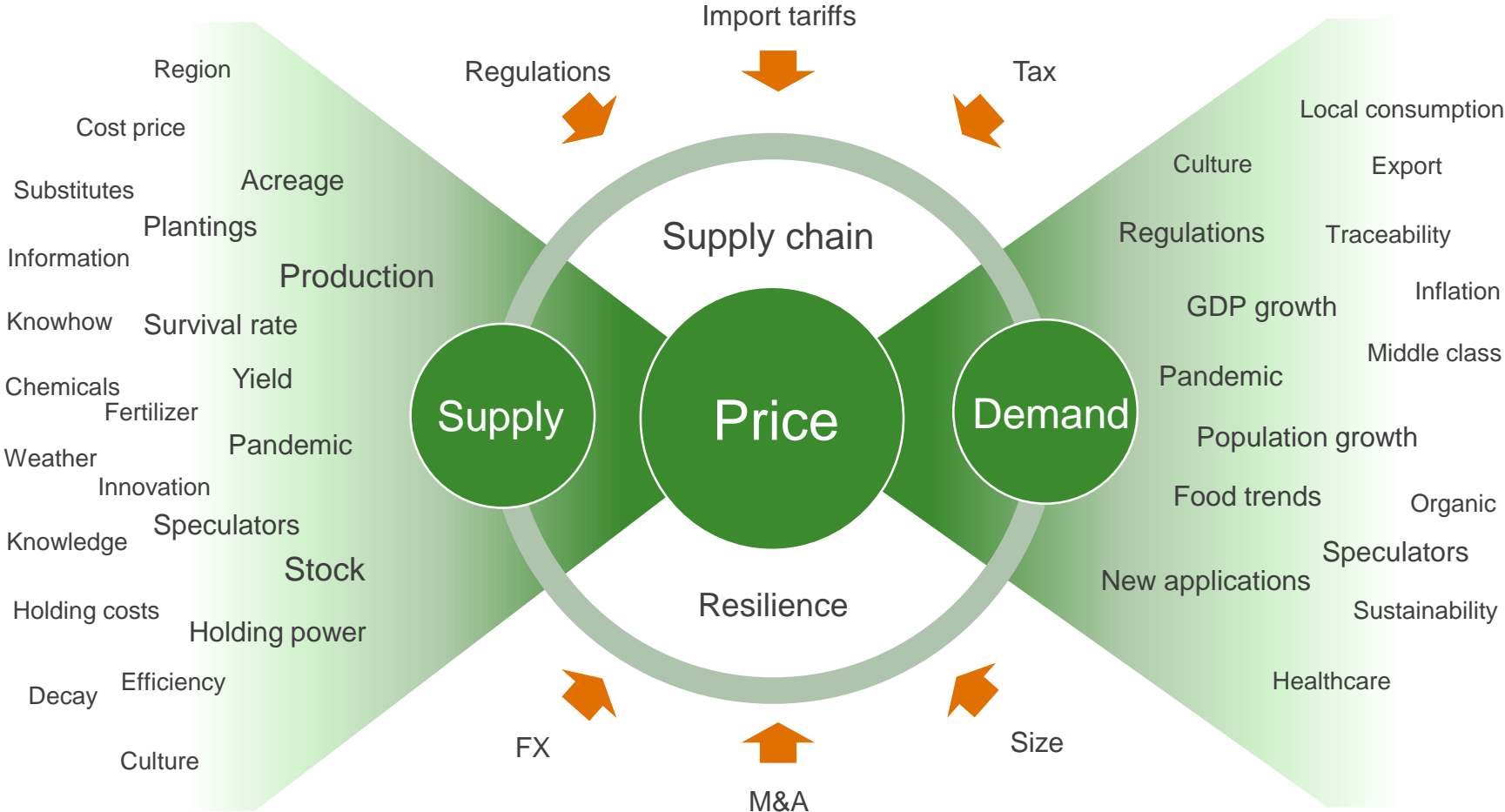
Xi'an, China

Are we at the start of a new cycle?



Note: Monthly price data as per 12-Oct-20.
 1) Average of ASTA quality Vietnam, Lampung and Brazil.
 Source: Nedspice research.

Fundamental market forces

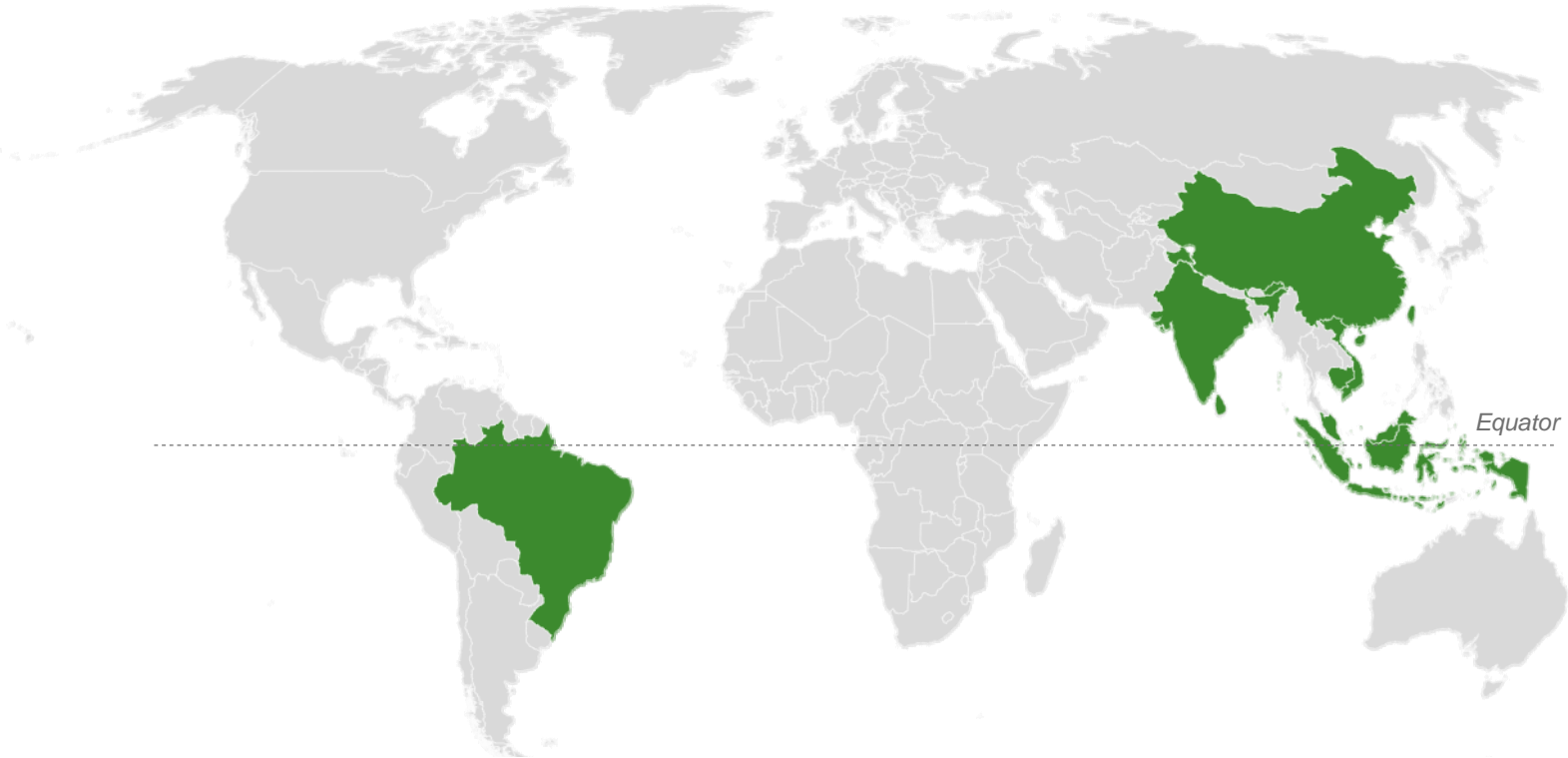


Source: Nedspice research.

Global production



Others
Sri Lanka
Malaysia
China
Cambodia
Indonesia
India
Brazil
Vietnam

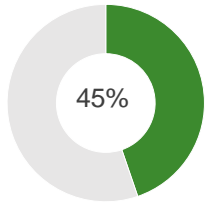


Note: Based on 2019 production estimates.
Source: Nedspice research.

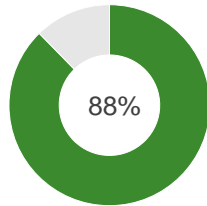
Vietnam



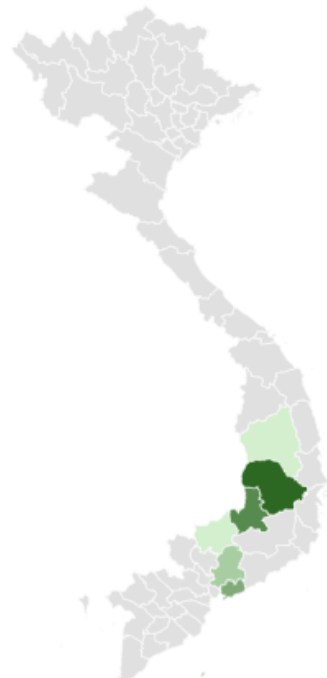
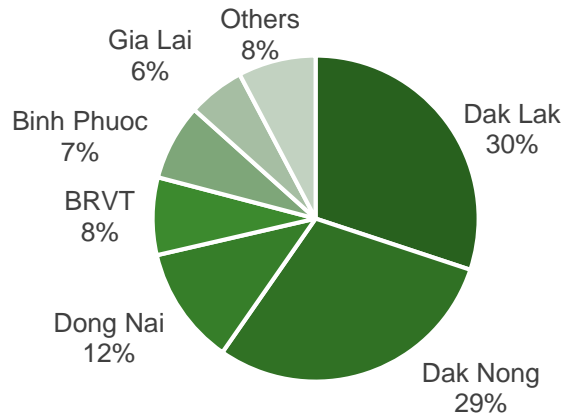
Vietnam vs RoW



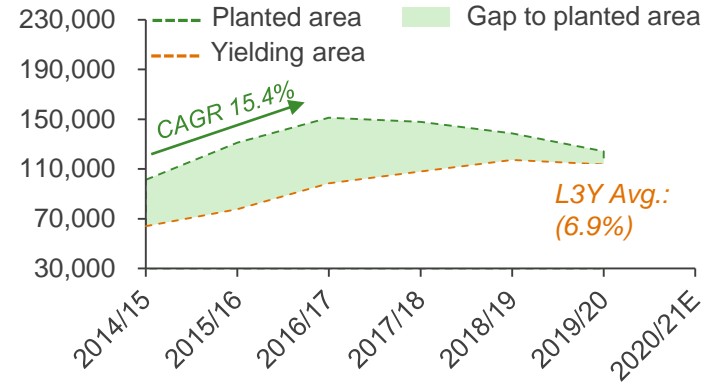
Black vs White



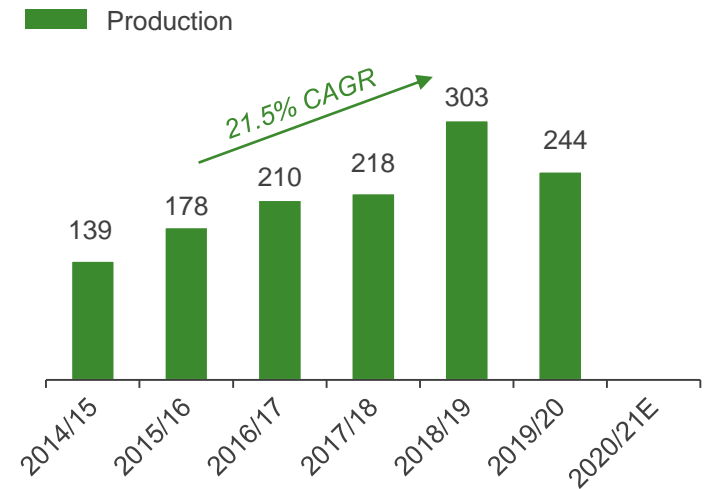
Production per key area



Change in planted area (Ha)

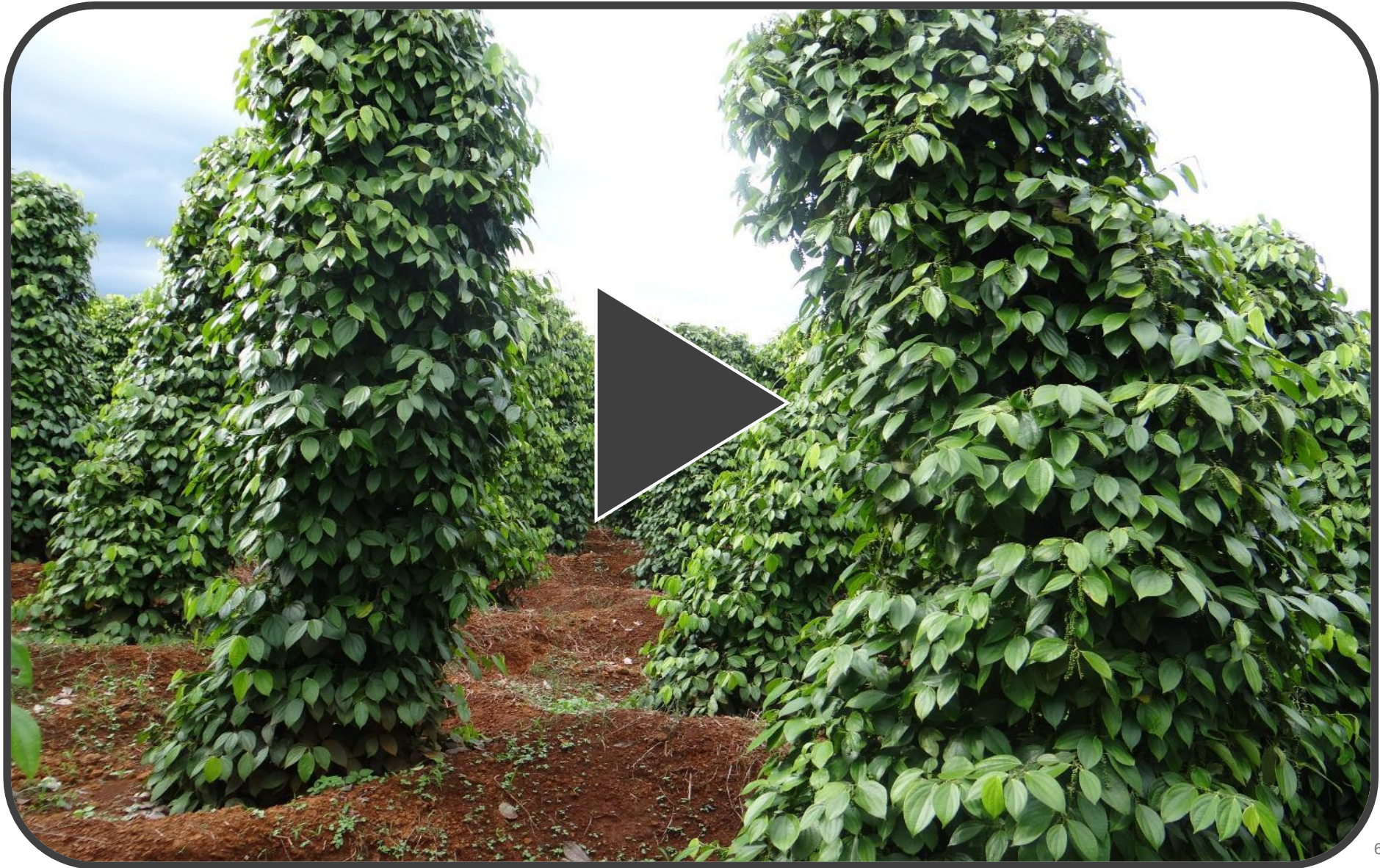
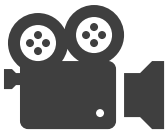


Production over time (KMT)



Note: Based on 2019/20 production estimates.
Source: Nedspice research.

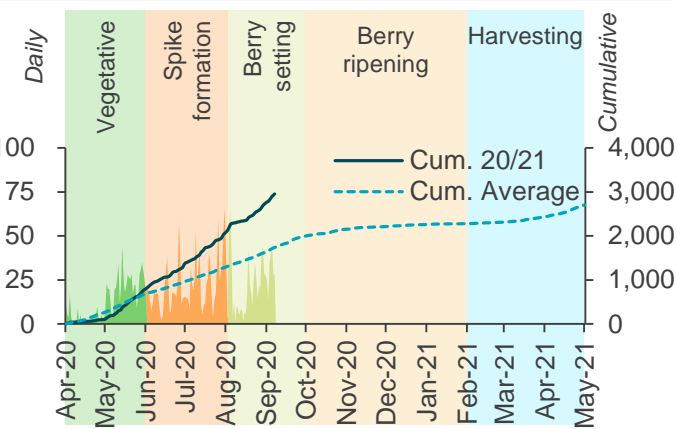
Vietnam – Crop video



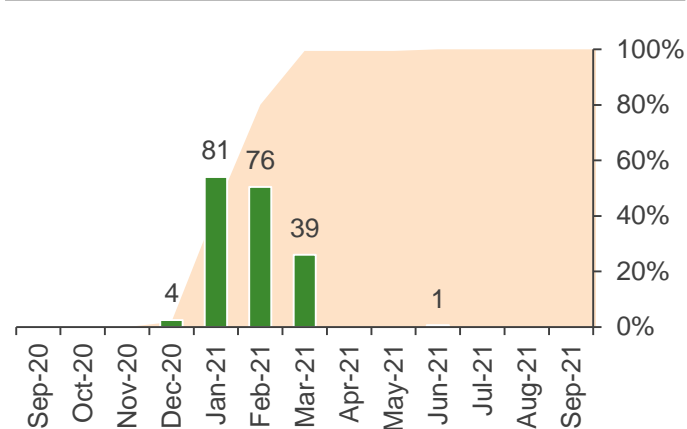
Vietnam production is estimated to drop by 18%, largely driven by the high death ratio this season



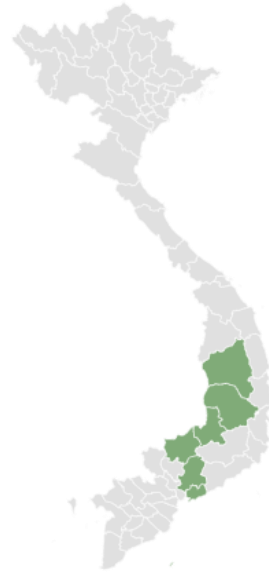
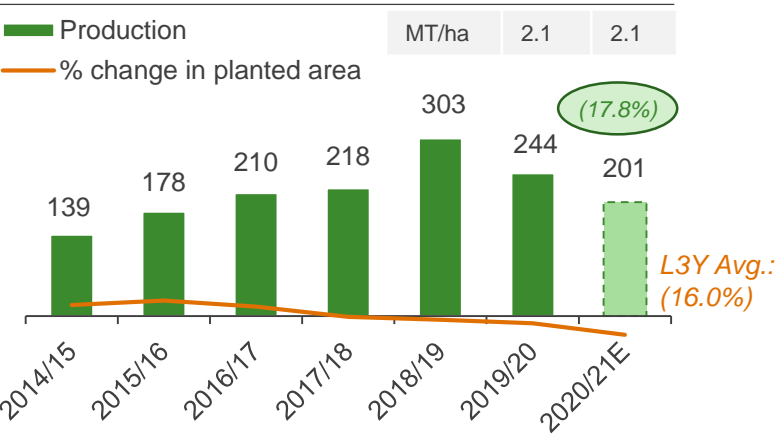
Rainfall distribution in Dak Nong (mm)



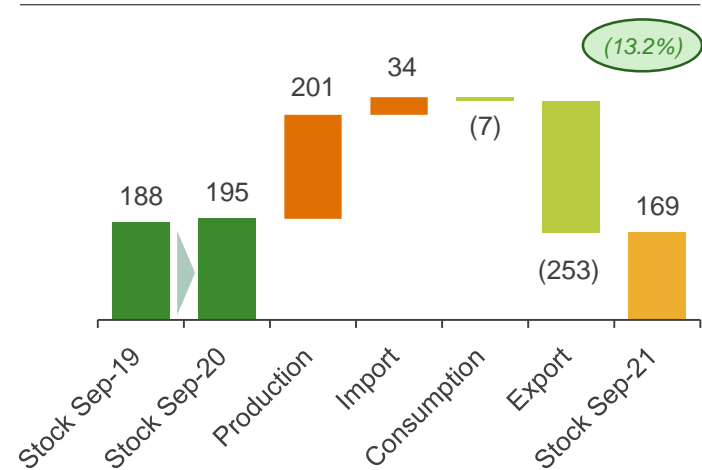
Next twelve months crop arrivals (KMT)



Production over time (KMT)



Next twelve months stock development¹ (KMT)

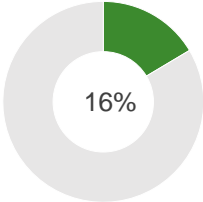


1) As per end of Sep-20. Export includes re-export volume.
Source: Nedspice research.

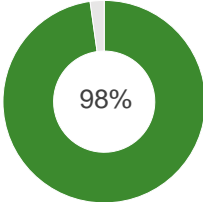
Brazil



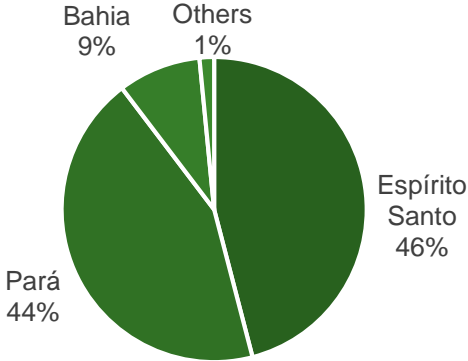
Brazil vs RoW



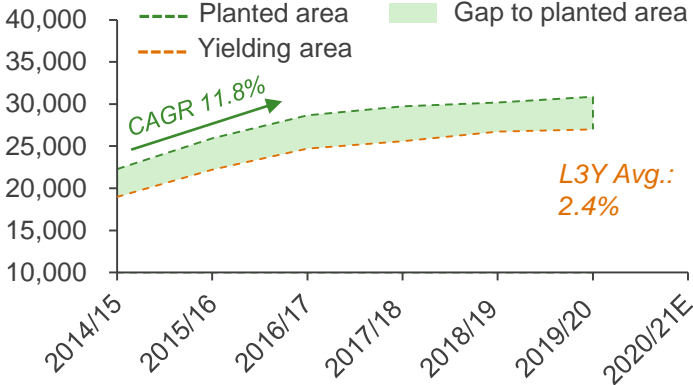
Black vs White



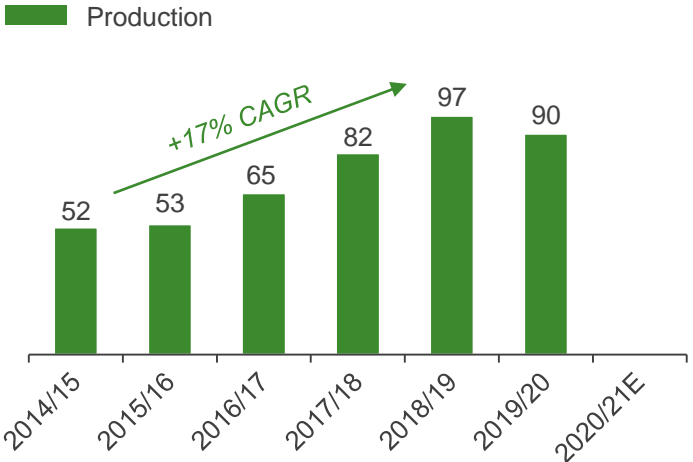
Production per key area



Change in planted area (Ha)



Production over time (KMT)



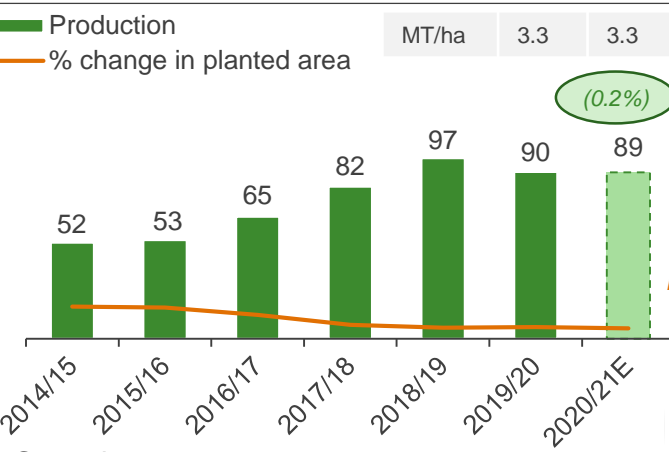
Note: Based on 2019/20 production estimates.

Source: Nedspice research.

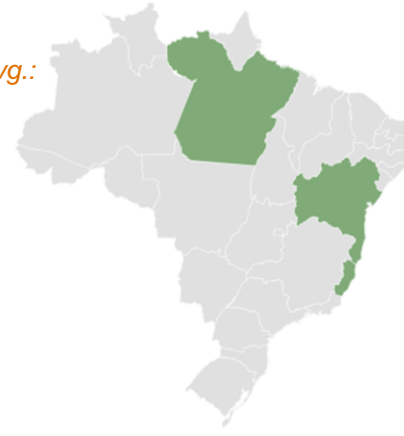
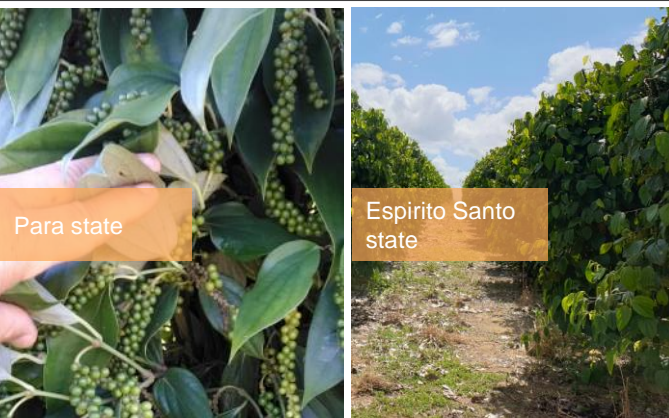
Brazil production is estimated to remain relatively stable



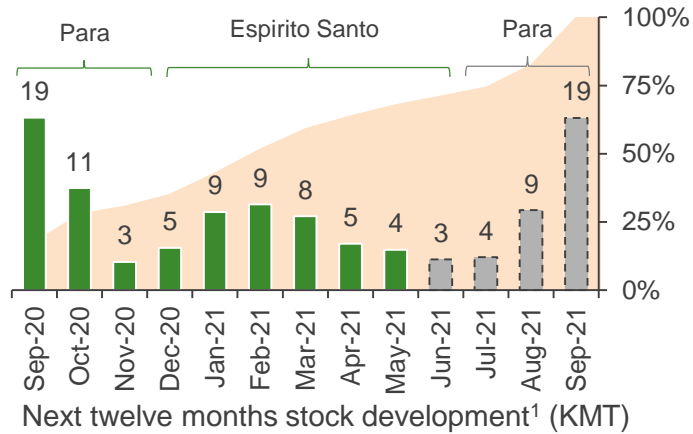
Production over time (KMT)



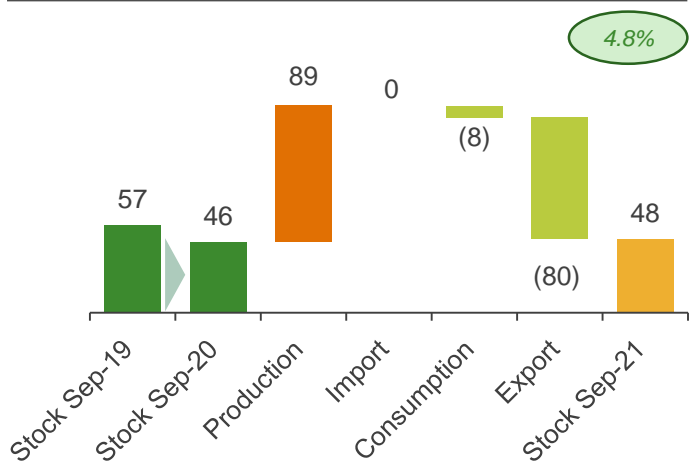
Crop pictures



Next twelve months crop arrivals (KMT)



Next twelve months stock development¹ (KMT)

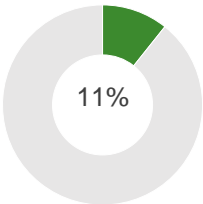


1) As per end of Sep-20. Export includes re-export volume.
Source: Nedspice research.

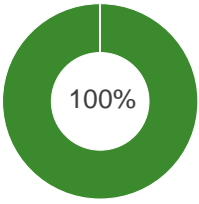
India



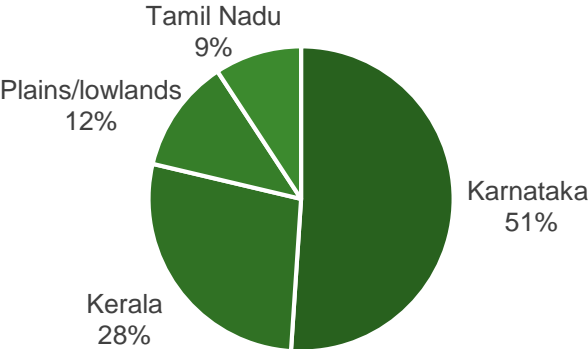
India vs RoW



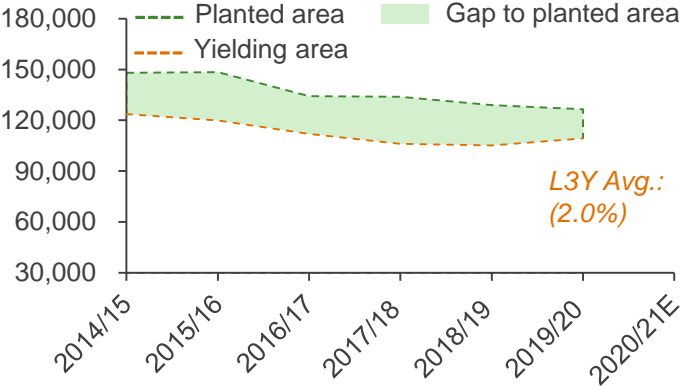
Black vs White



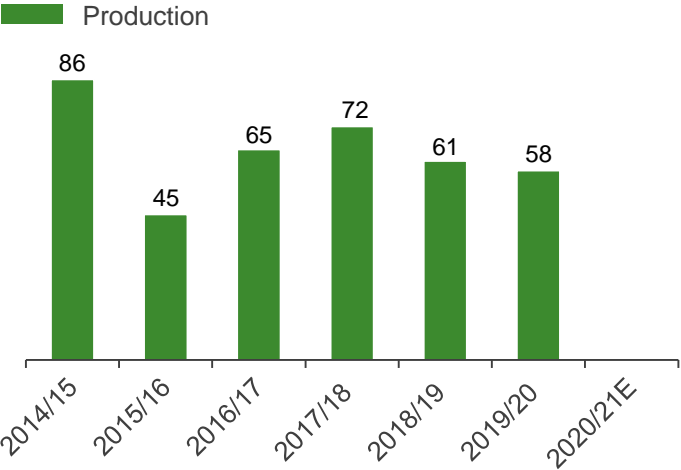
Production per key area



Change in planted area (Ha)



Production over time (KMT)



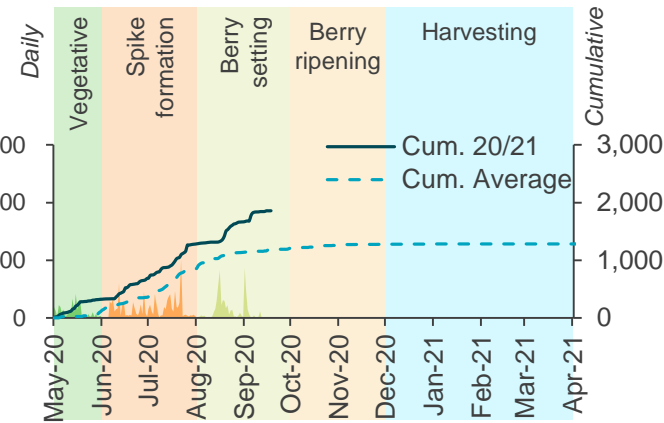
Note: Based on 2019/20 production estimates.

Source: Nedspice research.

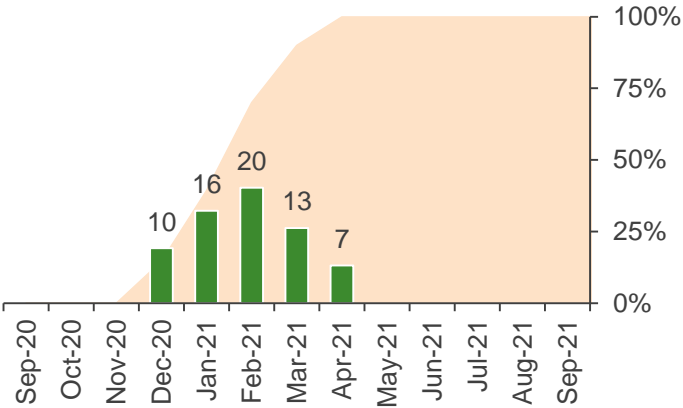
India is expected to have a good crop of c. 66KMT this season



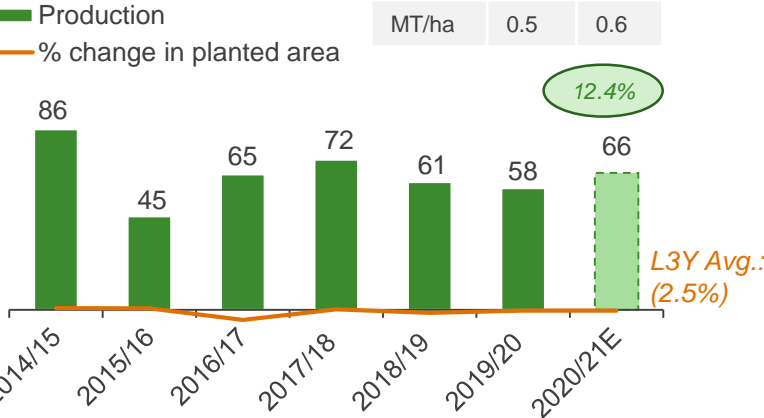
Rainfall distribution in Karnataka (mm)



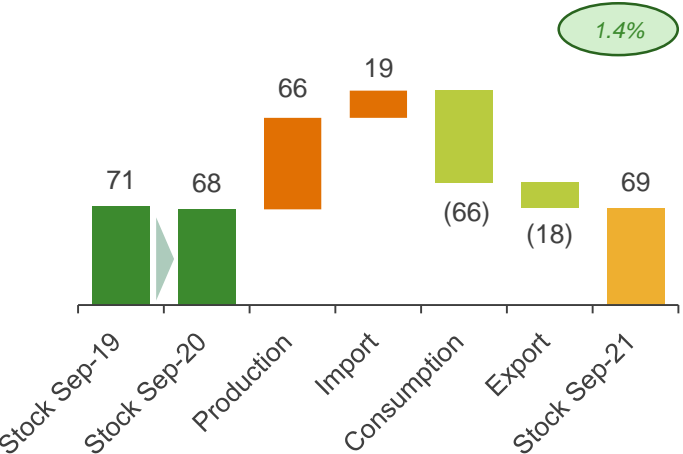
Next twelve months crop arrivals (KMT)



Production over time (KMT)



Next twelve months stock development¹ (KMT)

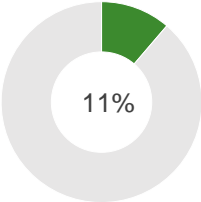


1) As per end of Sep-20. Export includes re-export volume.
Source: Nedspice research.

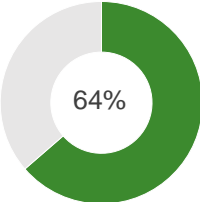
Indonesia



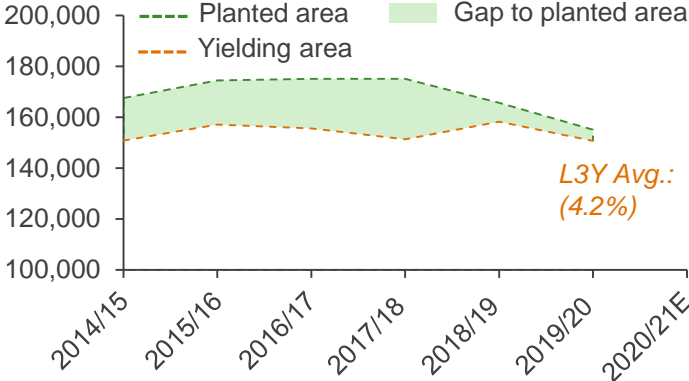
India vs RoW



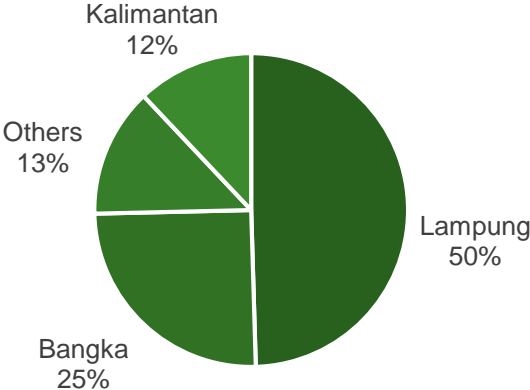
Black vs White



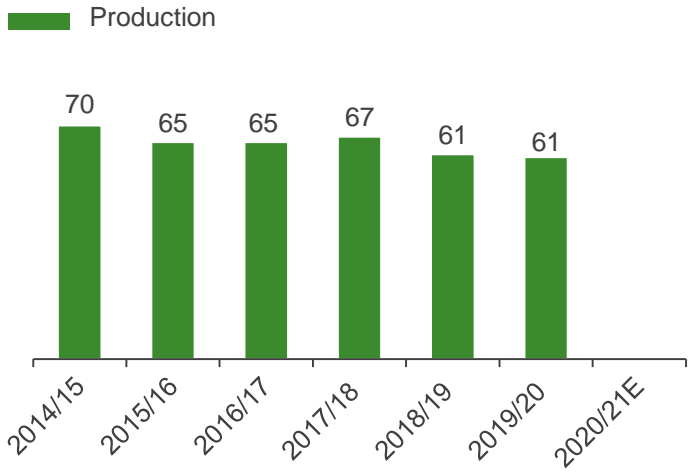
Change in planted area (Ha)



Production per key area



Production over time (KMT)



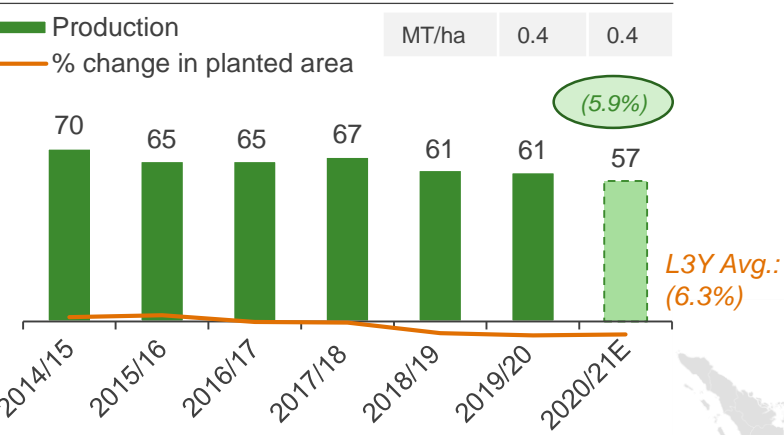
Note: Based on 2019/20 production estimates.

Source: Nedspice research.

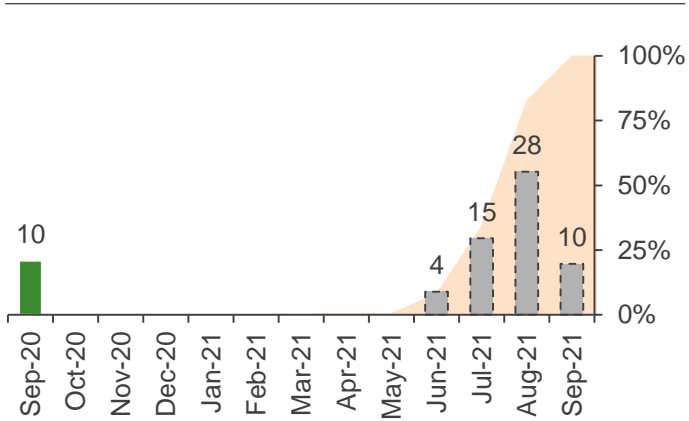
Indonesia's production is expected to decrease to c. 57 KMT though early to estimate



Production over time (KMT)



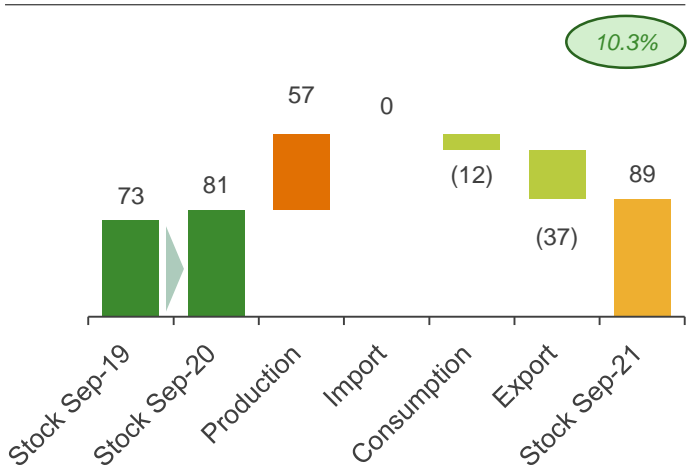
Next twelve months crop arrivals (KMT)



Crop pictures



Next twelve months stock development¹ (KMT)

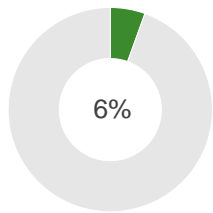


1) As per end of Sep-20. Export includes re-export volume.
Source: Nedspice research.

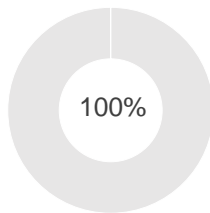
China



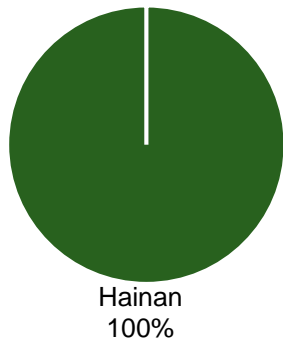
China vs RoW



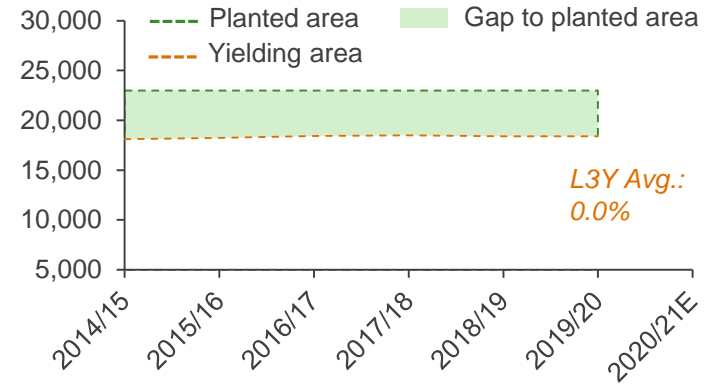
Black vs White



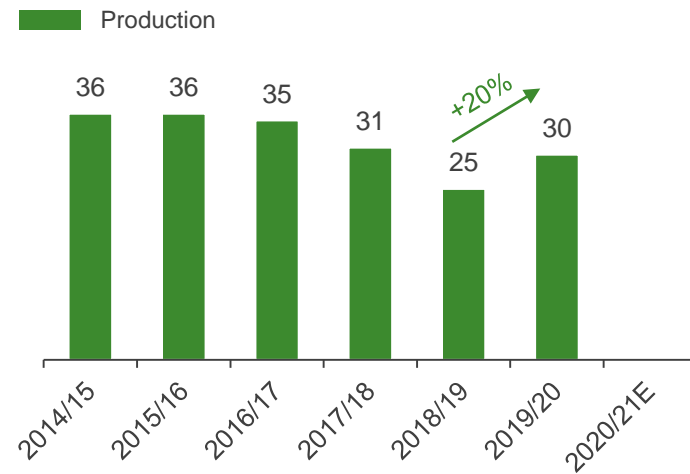
Production per key area



Change in planted area (Ha)



Production over time (KMT)

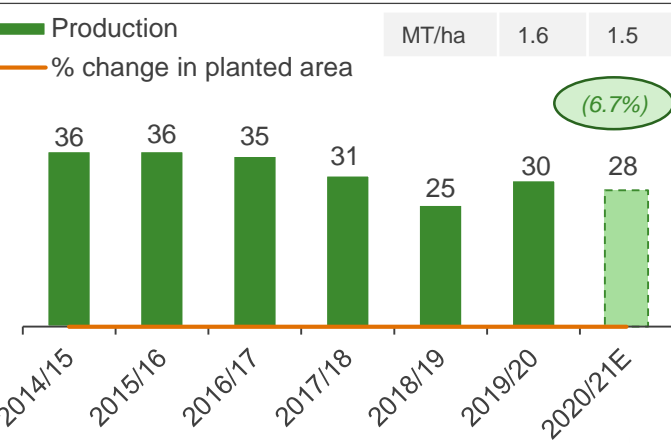


Note: Based on 2019/20 production estimates.
Source: Nedspice research.

China's crop is estimated to decrease to 28 KMT



Production over time (KMT)



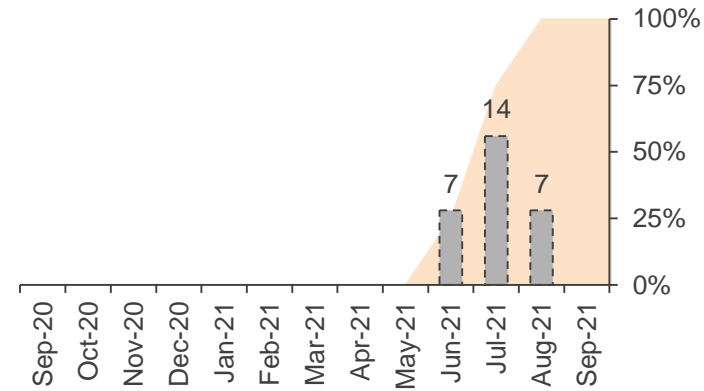
Crop pictures



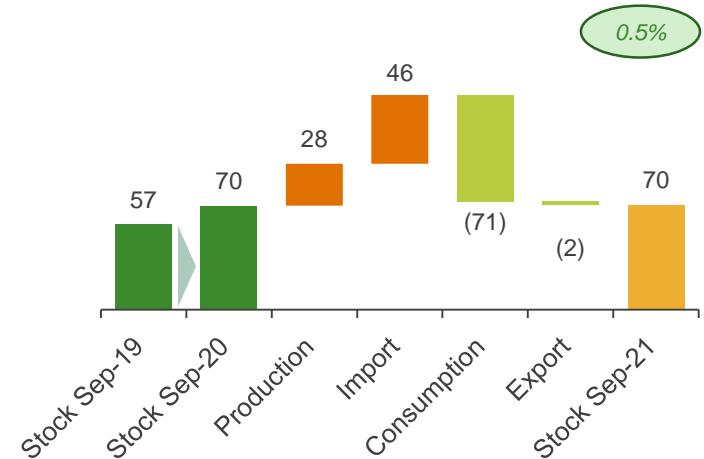
1) As per end of Sep-20. Export includes re-export volume.
Source: Nedspice research.



Next twelve months crop arrivals (KMT)



Next twelve months stock development¹ (KMT)



China pepper import from selected origins



2018: 49KMT

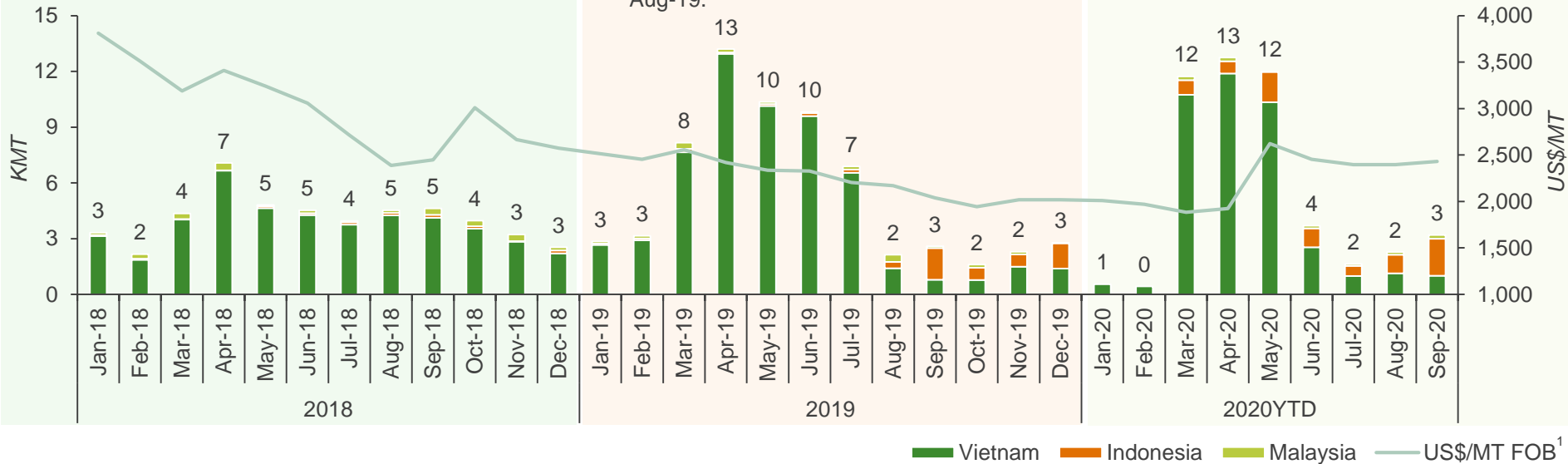
- Shipments were distributed around the year with a little more activity during Vietnam's crop harvest in April. c. 20% of total volume is white pepper.
- Some 12KMT of Indonesian pepper was re-exported, via Hai Phong port, Vietnam.
- Potentially some volumes are not visible in official statistics.

2019: 66KMT

- Buying activities increased during Vietnam's peak harvest and lasted until Jun/Jul, to fulfill domestic consumption and speculative demand.
- The border gate control between Vietnam and China has limited re-export volumes. Hence, buying activities of Indonesian pepper moved directly to the origin from Aug-19.

2020: 45KMT (YTD Sep)

- Shipments stopped during Jan - Feb-20, was improved after a lockdown to prevent the spread of Covid-19. Fortunately, more volumes were able to ship in the second quarter.
- Importing became less attractive when local Vietnamese prices started to increase from May.

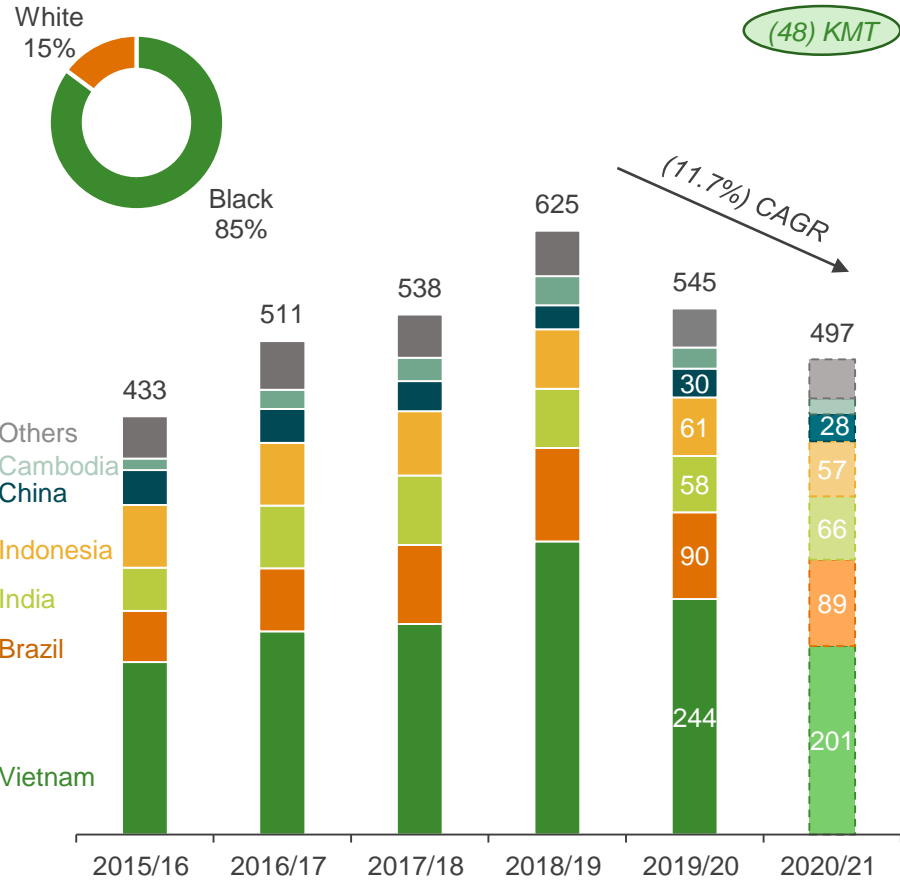


1) Average of ASTA quality Vietnam, Lampung and Brazil.
Source: Nedspice research.

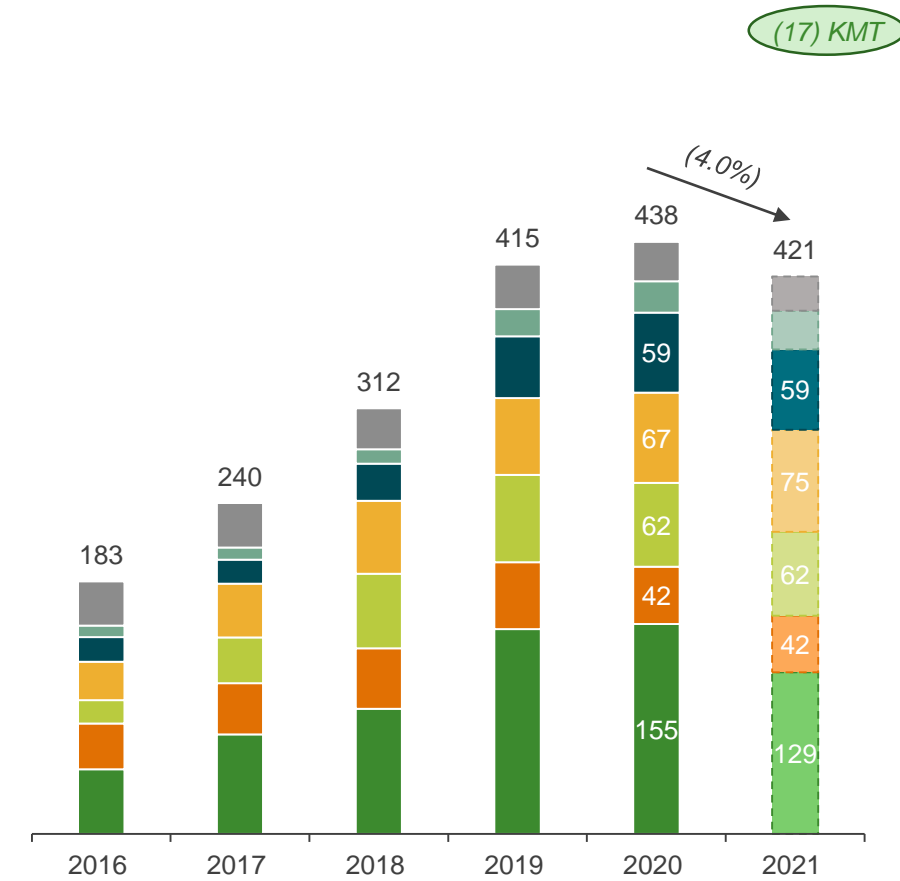
Total production is expected to decrease by 48KMT, to a total of 497KMT this season. However, the availability of material remains high



Global pepper production (KMT)



Stock development in origin (KMT)



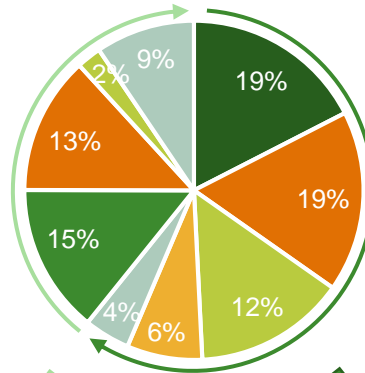
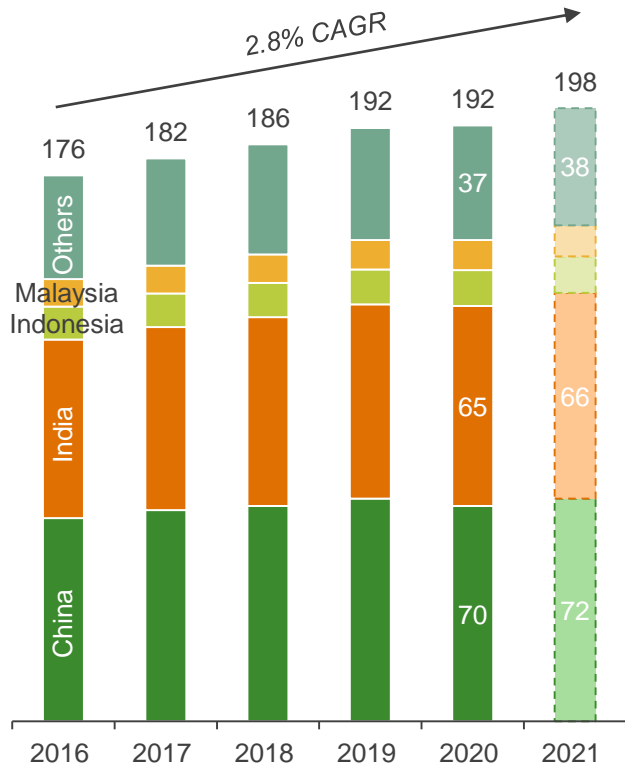
Source: Nedspice research.

With demand at c. 505KMT, we may finally see a small decrease in global stocks



Producing countries (KMT) – 40% total

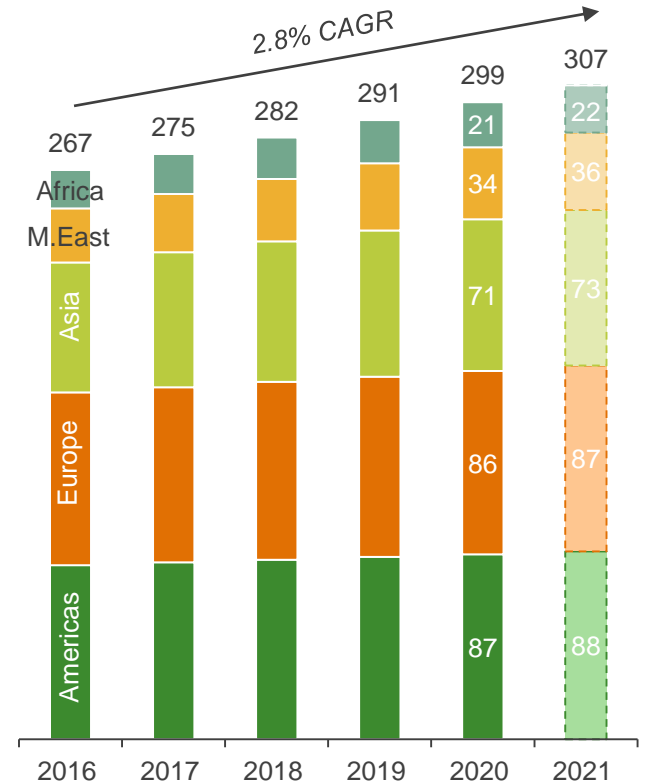
Consuming countries (KMT) – 60% total



Total demand
505 KMT

Total production
497 KMT

Annual demand growth
c. 2.8% p.a.
c. 14 KMT p.a.



Source: Nedspice research.

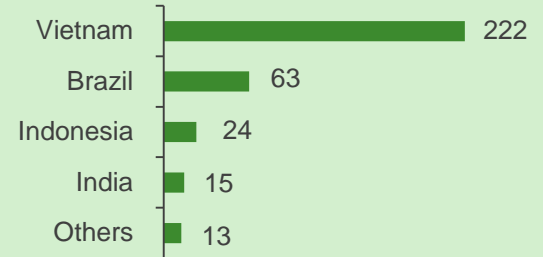
Covid-19 impact on pepper supply & demand



Did Covid-19 disrupt the supply chain?

The **impact has been limited** overall. There were delays, issues with harvesting, temporary lock-downs, etc. However, the **supply chain remained largely intact**. Especially, the major origin, Vietnam did very well. YTD **export volume is up to 222 KMT**.

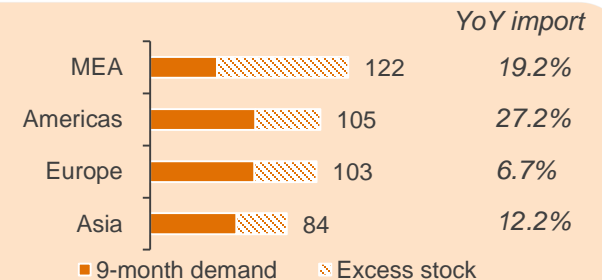
Export from origins
YTD (KMT)



What has been the impact on demand/shipments?

The uncertainty triggered **earlier shipments** to destination markets in anticipation of a possible full disruption which did not come. This caused **additional build up of stock in destination markets** which already increased buying over the last years.

Global stock vs
demand YTD (KMT)



What are the risks for the coming period?

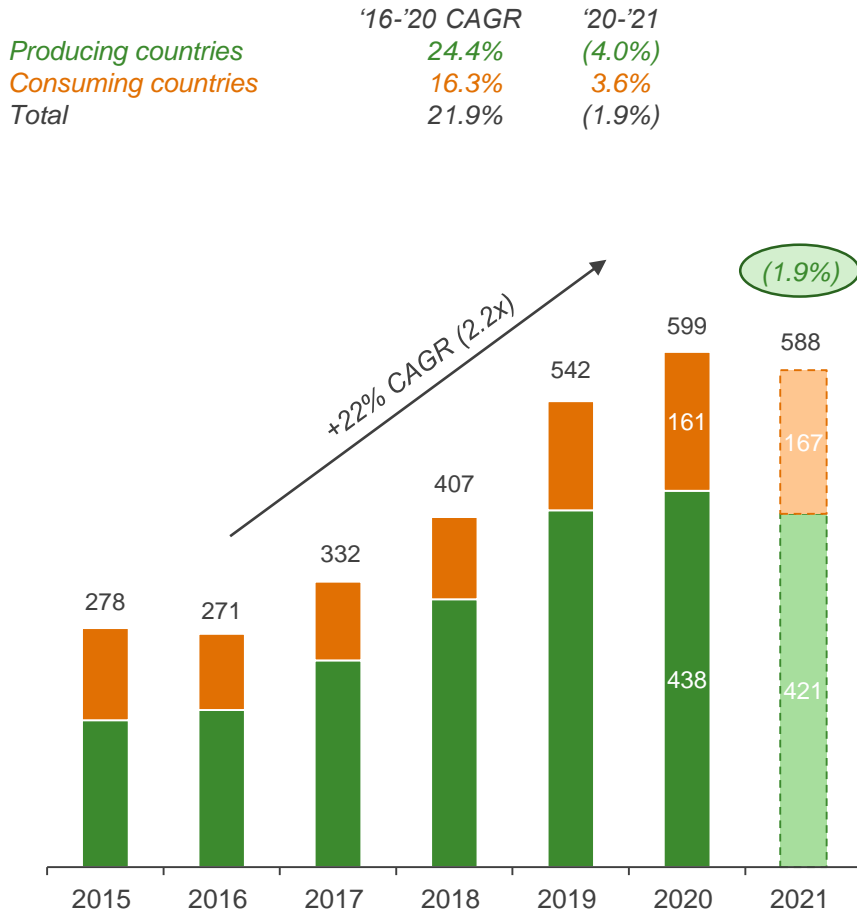
Many countries still do not have Covid fully under control, but we **do not anticipate more supply chain disruptions** than in the first wave. On the demand side **food service requirements are expected to remain lower**, however **food retail is likely to continue to fill the gap** in most markets. We do see a risk in a potential temporary **slowdown in demand** as destination markets seem to have covered for longer periods. This could lead to increased **price volatility**.

Source: Nedspice research.

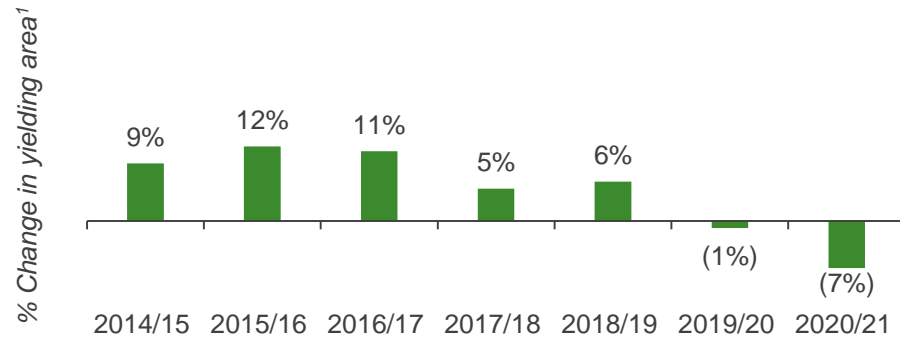
Global stock levels remain high, but are likely to start decreasing slowly



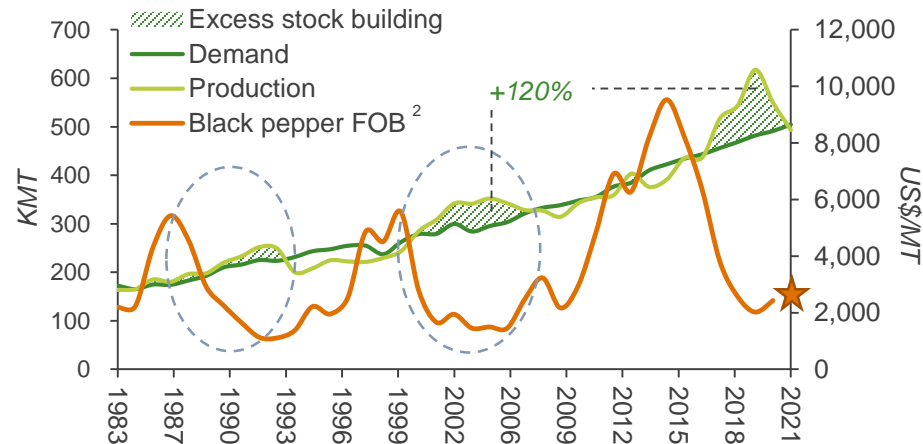
Global stock development (KMT)



Yielding area is unlikely to increase upcoming season

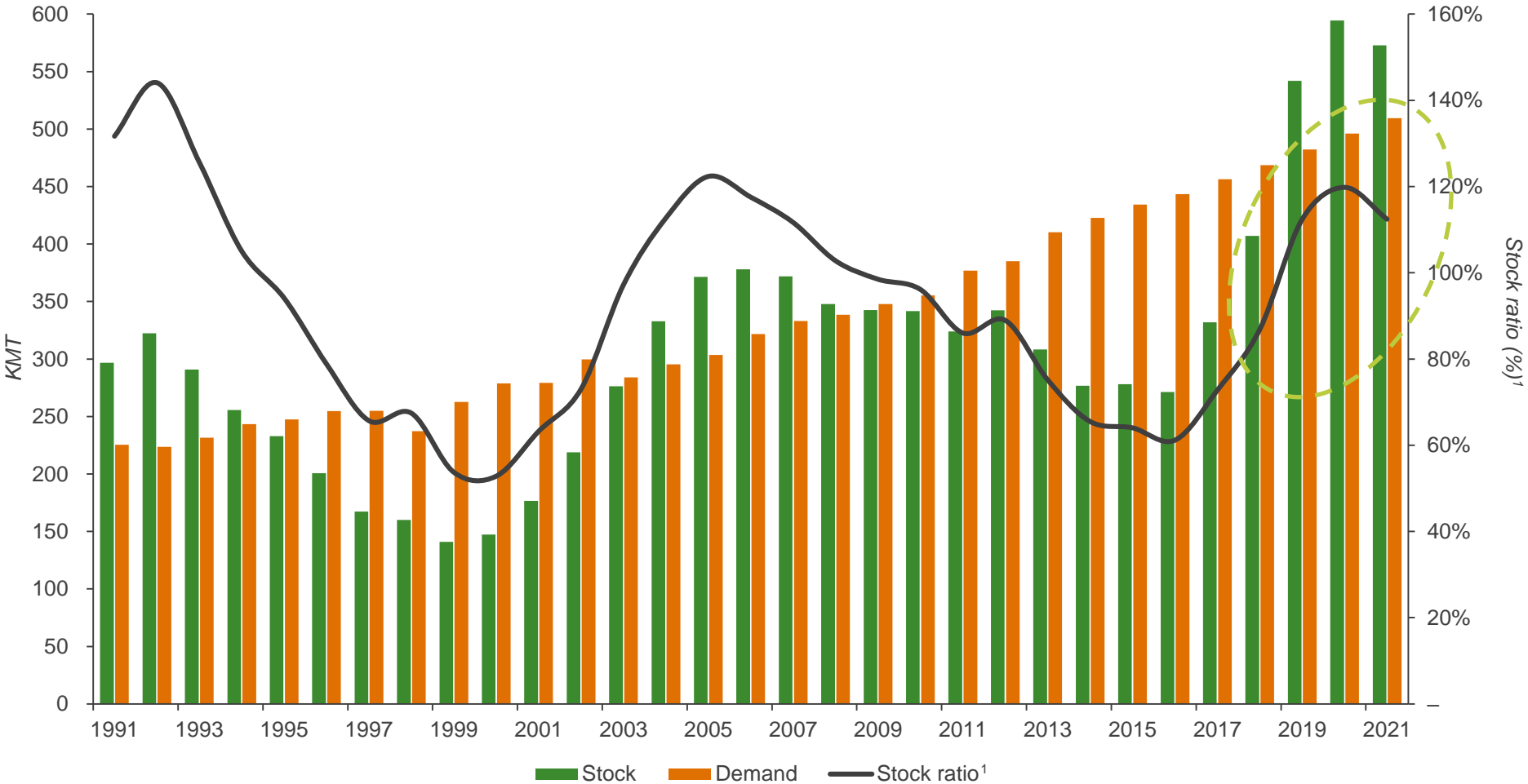


Historically there is a c. 3-6 years reversal period



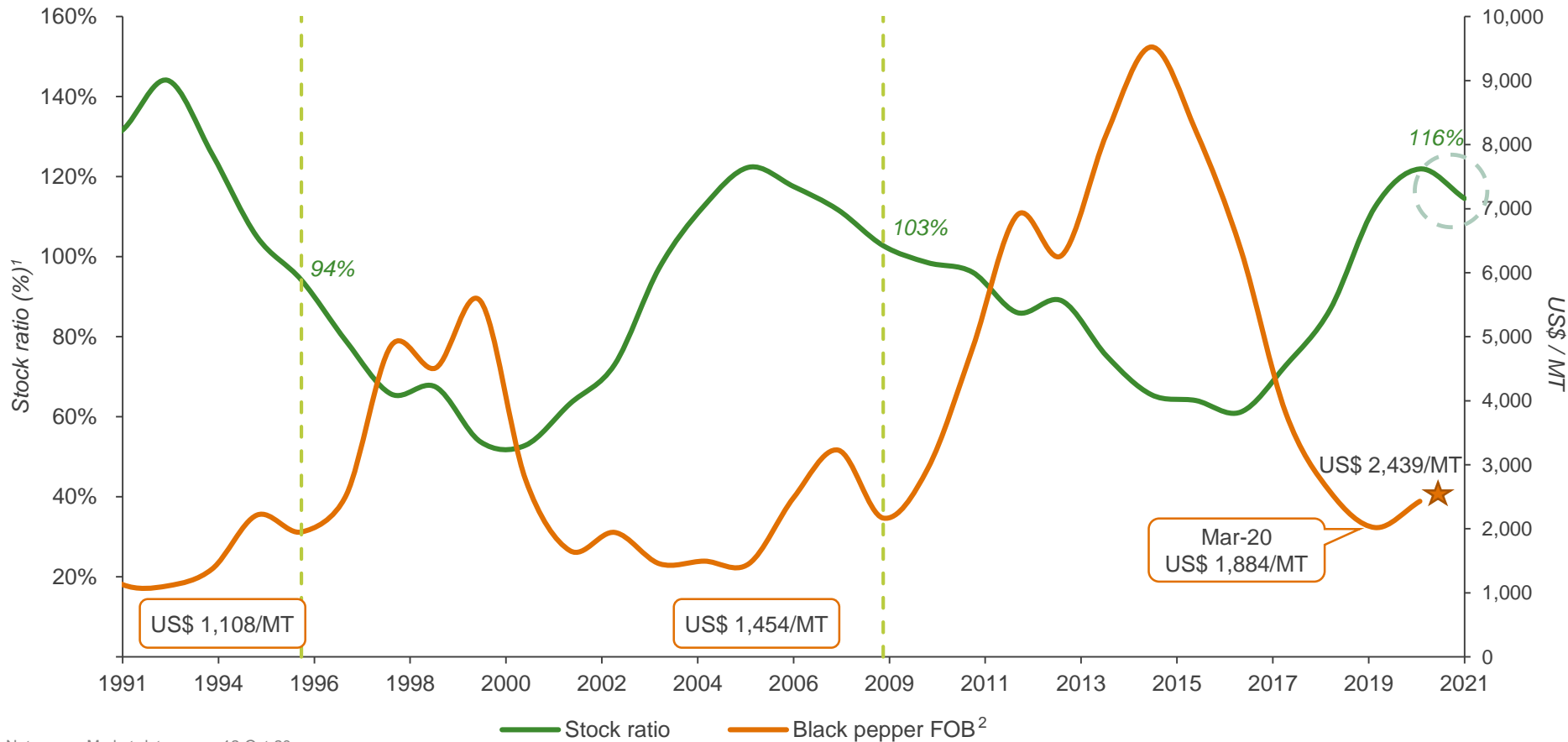
Note: Market data as per 12-Oct-20.
 1) Weighted average of estimated increase in Vietnam, Brazil, India, Indonesia, China, Cambodia and Sri Lanka planted areas. The production quantities of the previous year are used as weight.
 2) Average of Vietnam, Indonesia and Brazil ASTA quality.
 Source: Nedspice research.

Stock ratio is expected to reverse its direction, but remains at a high level



1) Defined as global stock position / global demand.
Source: Nedspice research.

Market fundamentals are pushing the price discovery process to find a new direction, are prices to increase now?



Note: Market data as per 12-Oct-20.
 1) Defined as global stock position / global demand.
 2) Average of Vietnam, Indonesia and Brazil ASTA quality.
 Source: Nedspice research.

Concluding summary



- Global production is expected to decrease by some 48KMT this season. Unfavorable weather and passive farming in Vietnam is balanced with good crops in other origins.
- Total production of c. 497KMT vs demand of c. 505KMT drives some decrease in global stocks. However, the impact remains small when considering the record global stock level of c. 588KMT.
- Supply is likely to line up with demand in the foreseeable future and market fundamentals are pushing the price discovery process to find a new direction.
- Considering all factors at play, it is likely that prices remain around their current level for some time, however it should be noted that the market is fragile and price volatility can be expected to increase.

Source: Nedspice research.