



Pepper



Key takeaways

- Brazilian crop is expected to be good and is starting to come to the market.
- Prices re-bounded somewhat over the July - August period due to short term speculation, but have gradually declined again during September. Overall downward trend is expected to last.
- The trigger for a sharper downward movement will likely be that Vietnamese farmers start to realize lower prices are unavoidable. Here, timing depends on financial strength of various local market participants.



Price outlook



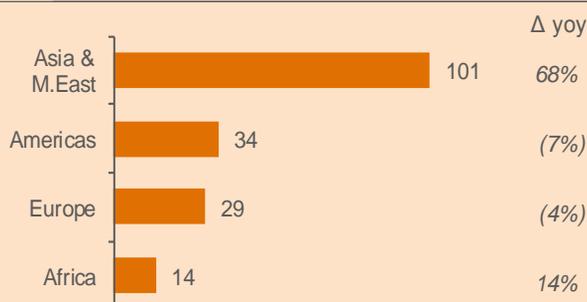
- Short term:
- Medium term:
- Long term:

Supply dynamics



- Although Vietnamese exports are up 13% YTD August, stock levels are still estimated around 69KMT. Also, about 30KMT of the YTD exports into Asia & M. East is expected to eventually be re-exported to the other consuming regions.
- Production in Indonesia is expected to be slightly up year-on-year (yoy), despite rumors that it would be 30-50% lower.
- Brazilian crop of ~65KMT (up ~20% yoy) is coming to the market, pricing is expected to be weak due selling pressure
- The crop yield in Vietnam is impacted by reduced berry setting due to excess rainfall over the last months. Despite this, the size of the upcoming harvest is still expected to be at least that of the last due to the contribution of new plantings.

Vietnamese exports (YTD August-17, KMT)



Price trends



- Prices for Vietnamese black pepper moved up ~10% in August, but have been gradually declining again over September.
- Brazil is offering new crop in Belem at a slight discount to comparable grade product from other origins, while speculation keeps the price of Lampung pepper above Vietnamese pepper.
- Indian market liquidity is still relatively low because farmers/speculators are holding on to their stock.
- Imports from other regions create a price cap for the Indian origin. As import duties were reduced from 78% last year to 52%, the price level of imported pepper is well below current Indian pepper price.

Black pepper prices – FOB (US\$/MT)

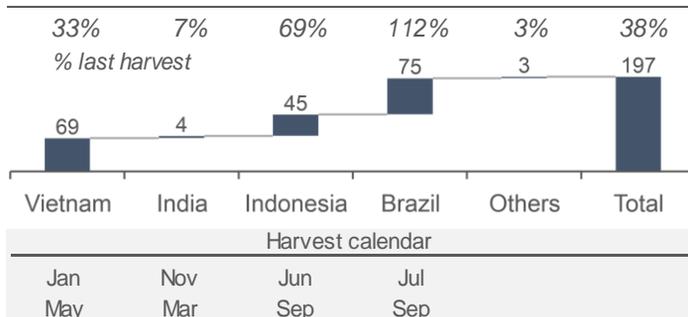


Key quality price levels¹



Quality	US\$/MT	Change (%)
BP Vietnam FAQ 550gl	4,200	(11.4%)
BP Brazil ASTA	3,600	(13.3%)
BP India FAQ 550gl FAQ	6,721	(13.8%)
BP Lampung FAQ 550gl	4,340	(15.6%)
WP China FAQ	7,800	-
WP Indonesia Muntok FAQ	5,920	(13.2%)
WP Vietnam DW	6,000	(9.1%)

Current origin stock estimate (KMT)²



NEDSPICE 1) FOB prices. Change shown versus last month. 2) Next three month moving forward position. Excludes imports. Source: Nedspice research, price data as per 27-Sep-17



Nutmeg and Mace



Key takeaways



Price outlook



- The market is expected to be stable in the short term as usual demand from China for Lunar new year is expected to absorb new crop in November/December.
- The availability of first grade nutmeg is less than last year, while availability of second grade product is more, due to excess rainfall. Speculation in first grade product supports the price.
- Overall, prices are likely to move up over the medium term. Though the longer term trend of increasing production is expected to persist.

Short term:

Medium term:

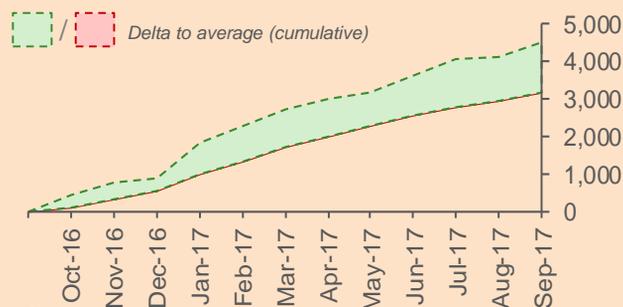
Long term:

Supply dynamics



- Indonesian production yield this year is ~10-20% lower than last year due to higher rainfall. However the production from newly planted trees is expected to compensate the lower yield.
- Percentage of first grade nutmeg is lower compared to last year's crop due to prolonged heavy rain.
- The EU health certificates procedure, required for import into the EU, decreased the border rejection rates. Overall lead times increased due to the new procedure though.
- Indian harvest period ended. Most of the volume is sitting with speculators. Nearly 90% of this volume is Sulphur fumigated, which is not compliant for the EU market.

Indonesian plantation rainfall pattern (mm)



Price trends



- The Chinese resumed buying ABCD quality nutmeg from Indonesia, after temporarily shifting their sourcing to India.
- Most Indian crop is held in stock by speculators. Indian traders start to buy second grade from Indonesia due to lower prices.
- Speculators holding stock of first grade nutmeg in Siau are driving the price upwards for the high quality market segment.
- Indonesian mace is supported by good demand from India for the oil extraction industry. Prices are expected to remain stable in the next months.
- Over the longer term, the continuous increase in production volume versus the marginal increase in demand will continue to put downward pressure on prices.

Indonesian Nutmeg and Mace prices – FOB (US\$/MT)

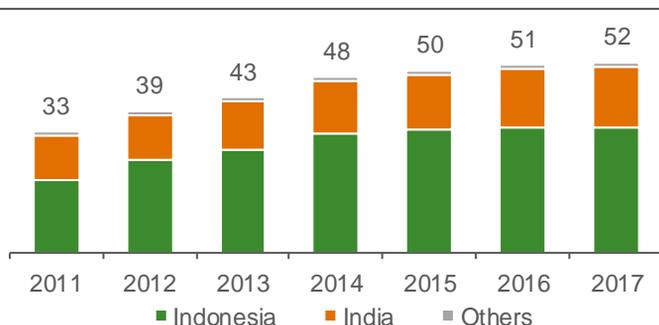


Key quality price levels²



Quality	US\$/MT	Change (%)
Nutmeg Indonesia SS ¹	7,350	(1.3%)
Nutmeg Indonesia ABCD	7,025	(5.5%)
Nutmeg Indonesia BWP	4,725	(8.5%)
Nutmeg India Whole	6,900	(3.6%)
Mace Indonesia Whole	12,200	(3.3%)
Mace Indonesia Broken	10,940	(0.7%)
Mace India Whole	12,400	(4.0%)

Production by origin (KMT)³



Various



Pimento



- New Mexican crop is delayed by about 1 month due to unfavorable weather, which led to ~15-20% lower production versus last year.
- Total Mexican new crop size is estimated to be ~6000MT.
- The recent earthquakes and hurricane impacted prices as buyers, in a hurry to cover their demand, drove up the market in fear of shortage.
- So far, no damage of pimento plantations have been reported though.
- It is noteworthy that the price gap between Honduras pimento and Mexican pimento has closed. The new Honduras crop is even being offered at a slight discount to Mexican pimento in the export market. Potential reasons for this are:
 - Honduras is projected to have a bumper crop of ~1200MT versus 350MT last year and an average crop of ~700MT. This is creating selling pressure for farmers and exporters.
 - Stronger Mexican peso made export prices in US\$ relatively higher.
- The other main origins are Jamaica with a 600-700MT crop size and Guatemala with a crop size of 200-300MT.
- The earthquakes and hurricane in Mexico made pimento supply temporarily tight. Due to competitive pressure from Honduras, the Mexican exporters remain under price pressure for the medium and long term though.



Cloves



- The harvest in Madagascar will start in September, with peak time in October. The weather conditions are not good for high quality cloves, but the crop size is expected to be larger for low quality grade. Downward price pressure is expected in the short term.
- The Comoros crop is estimated to be higher than last year. The government tries to protect farmers by putting a floor price in place. This has had limited effect so far since traders are not buying at these prices. Selling pressure for farmers remains.
- Brazilian crop will start in November. Usually, first offers for new crop will be available as of October. Last year, Brazil doubled its crop, but it's expected that production this year will be back to normal levels. The new crop forward offers are at a higher price of ~8,250 US\$/MT, while the old stock is being priced at ~8,000 US\$/MT. Farmers report that the crop is lower than last year, therefore they hold back and request higher prices.
- The new crop in Sri Lanka will arrive next year February to May. Their current stock is offered at a relatively high level of ~8,100 US\$/MT for first grade quality.
- Indonesian total volume of this year is rumored to be only ~20% of last year. However, the current stock levels resulting from the good crop last year are likely able to cover most of this year's demand.
- Overall, prices are likely to increase, especially when Indonesian crop turns out to be as low as rumored. However we do not expect as extreme price movements as in 2011.

