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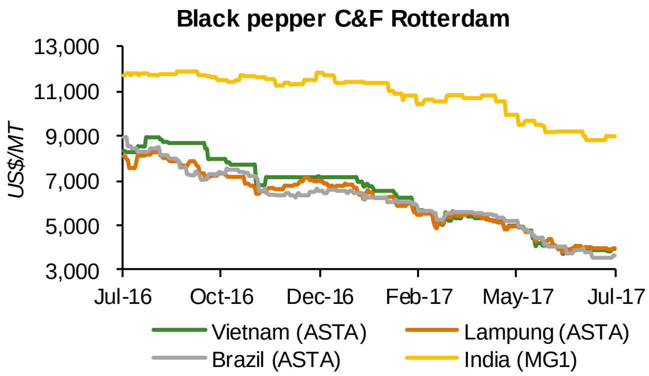
Market Update July 2017
Spices

Pepper

Global pepper prices continued their downward trend in June, dropping c. 7% in this month, and stabilised somewhat in July at US$4,000/MT for ASTA C&F Rotterdam, down 40% year to date. Although most market actors are now well aware that the strong increase in pepper cultivation over the last years has led to a global supply that substantially exceeds demand, slow supply from Vietnam is currently supporting price levels while prompt delivery demand is being fulfilled by crops from Brazil and Indonesia. All else equal, supply is expected to exceed demand in the medium term, and the question is how long Vietnam will hold off accepting lower prices.

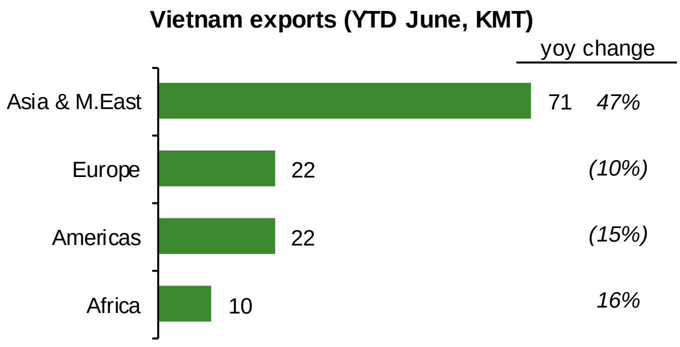


Vietnam

Vietnam exported c. 125KMT of pepper year to date (end of June), a year-on-year increase of 16%. Exports to the Americas and Europe dropped 10-15%, while exports to Asia, Middle East and Africa increased substantially. This trend is likely still to be partly quality driven.

Considering information on roll-over stock, imports and local consumption, current Vietnam stock is estimated to be c. 120KMT, assuming a 2017 crop of c. 210KMT. Despite this substantial stock level, indications of oversupply and other origins offering at lower levels, prices have stabilised somewhat in recent weeks at US$3,800/MT for FAQ 550gram/l. To explain this dynamic, it's important to understand forces that are driving the behaviour of all actors on the supply side who are waiting for prices to rebound, especially because the financial holding power at farmer, collector, small trader and exporter level can be very different.

It's expected that c. 60KMT is with farmers, of which c. 30% likely needs to sell by August, another c. 50% will be able to wait until the last quarter of 2017 and only c. 20% of farmers have the financial strength to wait longer. Collectors and small traders are estimated to sit on another c. 35KMT of remaining Vietnam stock. This group bought at US$4,000-5,000/MT and are feeling more pressure due to losses on their position and interest required for funding. The last c. 25KMT is expected to be with exporters, who are often experiencing lower outflow due to competitive pricing from Indonesia and Brazil.



All else equal, considering that production in other producing countries is expected to be ahead of last year, it's unlikely that Vietnam prices will show a strong rebound this year. In fact, a further decrease is probably more likely.

Indonesia

Despite the rumour of 2017 black pepper production to be 30-50% lower than last year due to prolonged rain during pollination, we believe total pepper crop to be similar. Although black pepper production is expected to be about 20% less than last year, white pepper is expected to exceed last year's production by about 20-25%. In total, Indonesian crop is estimated to be at c. 60-65 KMT this year.

In Indonesia, farmers tend to sell out their crop once it's harvested as they are generally not wealthy enough to hold on, while exporters are currently taking limited risk, being afraid that prices may drop further because of the substantial stock sitting in Vietnam.

Farmers still believe that pepper is a good product in terms of return on investment compared to others crops such as coffee, cocoa, rubber and palm, hence we expect farmers to replace dead vines with new pepper, however we do not expect a significant increase in planted area.

Cambodia
About 70% of the c. 25KMT Cambodian crop is estimated to have been sold. Most of this, c. 15KMT, was exported to Vietnam and c. 3KMT exported to Thailand. This leaves the country at a stock level of c. 6-8KMT. Different from Vietnamese farmers, almost all farmers in Cambodia borrow funds from a bank to expand their gardens, hence the Cambodian farmers usually sell their pepper relatively quickly after harvest to pay off debt.
The limited financial power, together with fear of a market dropping further, increased selling pressure and also triggered Vietnam prices to fall over the May–July period. Some farmers have claimed that current prices of US$4,000/MT for farmgate quality is below their breakeven point.
The pepper community urged the government and other institutions to coordinate efforts to promote Cambodian pepper in international markets, instead of relying largely on Vietnamese and Thai border trade.

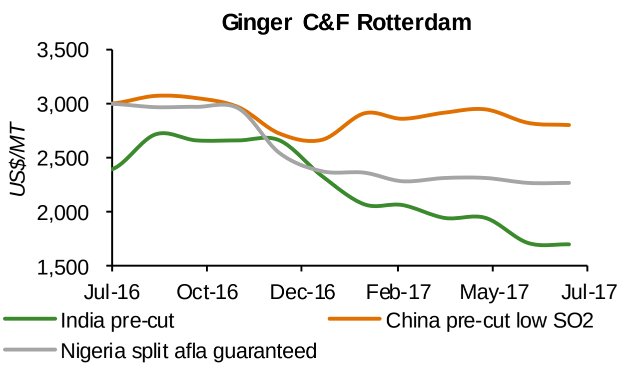
Brazil
Brazil plantings increased in recent years, partly due to farmers switching from coffee production to pepper production. Although this trend muted somewhat as pepper prices fell, the c. 3 year lag of pepper plants to produce and the solid yield expected this year are still to result in an estimated production of c. 65KMT, well above last year's production.
Brazil is offering the new crop in Belem/Vitoria for August/September/October shipment, at a discount to comparable grade product from other origins. Buying support from Europe and America is keeping the market stable for now.

India
Although the Indian pepper production of c. 65KMT was below last year's, it is enough to satisfy the domestic demand. Currently the market liquidity is low because farmers/speculators are holding on to their stock, expecting prices to go up. However, imports from Vietnam and Sri Lanka are setting a cap for Indian pepper prices, as the import duty was reduced to 52% from 78% last year, and at that level the Vietnamese pepper is still well below current Indian pepper prices.

China
White pepper crop is currently coming to the market for the period until September. Although the crop is estimated to be good, it will largely be used to fulfil domestic demand. Buying support from local speculators keeps prices stable to firm.

Ginger

China
Traders are holding tight and are still not willing to discount their stock. Most believe that the market will remain stable until the new crop.
The production areas are expected to be similar as that of last year as at current prices profits for farmers are still attractive.

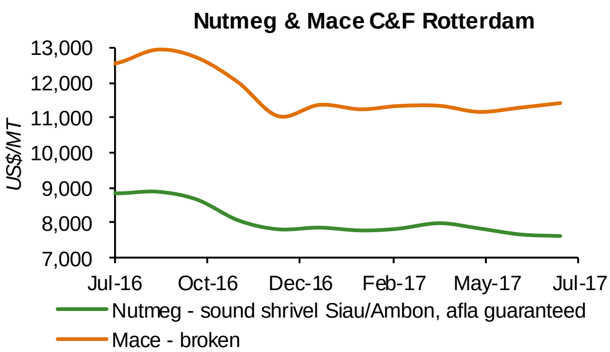


Nigeria
The market is stable. Ginger plantings finished in June, and rainfall pattern has been favourable for cultivation. The crop size is expected to be similar to last year.

India
The harvest finished in early June. The current low-price level of dried ginger does not encourage conversion, therefore speculators prefer to sell fresh ginger to the local vegetable market instead. Planted areas are projected to be c. 15% lower than last year because farmers have been switching to substitute crops at these price levels.

Nutmeg and Mace

Indonesia
Nutmeg: sentiment is mixed as speculators are trying to push up the price while buyers believe that supply is substantially higher than demand. Indonesian exporters are still stuck with the health certificate requirement when exporting to EU market. The harvest will start in August/September in Siau/Ambon. A good arrival from Indian crops is likely to create a weak market. With current low demand, prices are expected to be stable to weak.
Mace: Market is stable, with supply and demand in balance between the main producers. Current peak arrival of Indian mace can largely fulfill local demand, limiting required imports from Indonesia. On the other hand, the stock availability in Indonesia is relatively low because of strong demand in recent months, so current slow demand from India is unlikely to impact prices firmly. Also, Indonesia is expecting a good arrival in Sep/Oct.



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