



## **CURRENT MARKET**

- After months of stupor imposed by the COVID-19 pandemic, the market suddenly woke up to some action.
- As expected, demand from China, together with some speculative trading, pushed prices up by nearly 35% in Vietnam within a week. However, this week, with buyers pulling back, prices have started sliding down.
- Sensing an opportunity, both Brazil and Indonesia have also moved up offers, increasing by nearly 20% last month.
- Though there has been an increase in local prices in India also, lack of demand, both from buyers and traders, has prevented any significant increase.
- In Sri Lanka also, with new crop arrivals increasing, prices have slightly weakened over the past month.
- In most origin countries, market activity is picking up after the restrictions due to the COVID-19 pandemic. Though the pandemic continues to affect daily life in almost all pepper producing countries, trading activities have gradually gathered steam as speculators jumped in when prices were at very low levels.
- Strengthening of origin currencies against the USD during the past month has also contributed to the increase in offer prices.

*The monsoon trade winds have played a very important role in the spice trade since ancient times. During the time of Caesar Augustus (c. 30 BC), the empire sent a fleet of about 120 ships annually from Myos Hormos (a Red Sea port in ancient Egypt) to the Malabar coast of South India, taking advantage of the predictable monsoon winds for their voyage across the Arabian Sea, carrying back large quantities of pepper and other spices to Europe. The Romans paid in gold, and pepper was also called Black Gold.*

## CROP CONDITIONS

- The South-West monsoon arrived on the Indian coast this week, heralded by heavy rains in the southern states since the beginning of the week. According to forecasts, average rains are expected this year. With good summer showers also reported from most areas, conditions have been favourable so far for pepper farmers. The cyclone *Nisarga*, moving along the west coast of India this week, has not affected any of the pepper growing areas. It is likely to hit the Indian coastline on Wednesday.
- With favourable weather conditions prevailing, Sri Lanka is expecting an increase in pepper production this year. Harvesting has started in many areas.
- Warm dry conditions, normal for the post-harvest summer months, have been reported from the Central Highland provinces of Vietnam. The south-central regions have also reported high temperatures. Rains are expected to commence later this month.
- Weather conditions have been favourable in North Brazil. Though the reduction in fertilizer application during the past year will have an impact on output, good production is expected in Para. Harvesting will start within the next couple of months.
- Prolonged rains intermingled with dry spells have negatively affected production in some parts of Indonesia, especially some white pepper producing areas and parts of Tanggamus. However, most other areas have good production. The new crop is still in the developmental stage.

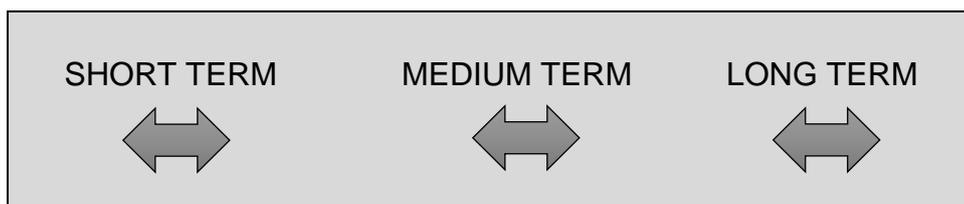
## MARKET SCENARIO

- Chinese buyers are becoming active after a prolonged break. As the market started moving upwards from attractively low levels during the initial phases of the COVID-19 outbreak, speculators have also jumped in, betting on a rapid ascent. All this is having a bullish effect on the market.
- Even while market fundamentals have remained mostly unchanged, the change in sentiments has prompted most producing countries, viz. Brazil, Indonesia and India, to push up their local prices. Some degree of stock-building by speculators is also adding to the bullishness.
- New arrivals from Sri Lanka, Brazil and Indonesia are expected within the next few months.
- Good stock levels still remain in producer countries, and this is expected to have a stabilizing effect on prices.
- At the same time, with the pandemic-related restrictions being gradually removed, global demand is expected to gradually recover. Exports from

Vietnam during January-April this year have been over 117,000 tons, compared to 110,000 tons during the corresponding period last year. The increase in demand, together with gradual depletion of stocks, could have a bullish effect later in the year.

## PRICE FORECAST

- **SHORT TERM:** As economic activity slowly recovers, demand is expected to gradually revive. Speculative activity is also expected to continue. This could aid price fluctuations in the short term.
- **MEDIUM TERM:** New arrivals from Sri Lanka, Indonesia and north Brazil will gradually increase within the next few months. Increased arrivals, together with stocks already remaining in producing countries, are expected to have a debilitating effect on the market.
- **LONG TERM:** Market movement in the long term will greatly depend on demand revival, as the global economy struggles to recover from the pandemic. Demand will slowly start gathering pace once the current crisis condition has been controlled and economic activity starts picking up. The supply-demand situation that evolves will have a major impact in deciding the direction of the market.



## COVERAGE RECOMMENDATION

- As prices continue to fluctuate, there will be opportunities to cover. Uncertainties on both the demand and supply sides are expected to keep the market very animated. Any price dips resulting from selling pressure due to increased stock levels in production areas can be taken as an opportunity to extend coverage for the rest of the year.



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