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## Fundamental Scenario

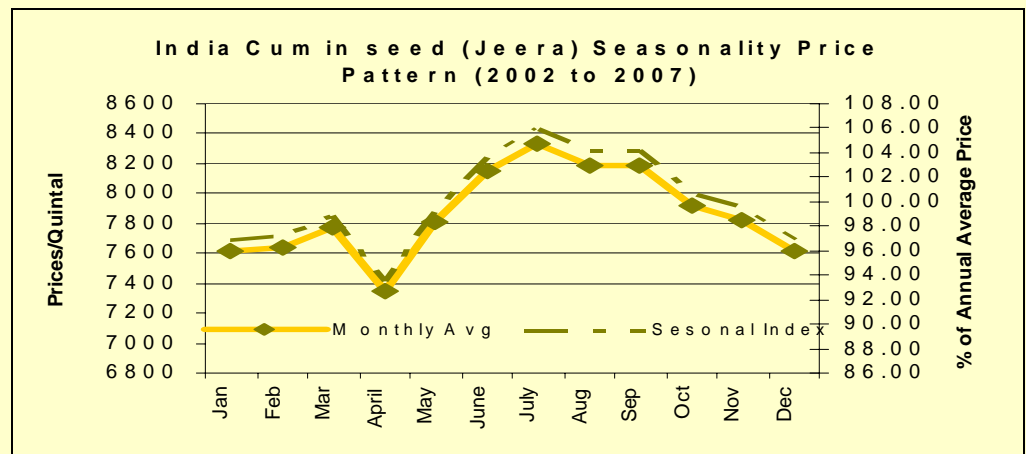
- It seems Spices complex have regained its flavor back during the current season. With all the counters buzzing and making new highs, so what has been underlying fundamentals?
- **Cumin Seed:** India's current year harvest is coming to end as a result of which arrivals have declined in the spot market from 18,000-20,000 bags to just 7,000-8,000 bags on daily basis. This would decline further to 3,000-4000 bags from next month. Production this year have been good as compared to previous year and has been very much in line of our expectation as mentioned in our quarterly update. Indian cumin seed production for the year was estimated to increase by 15% from 1.40 lakh tone to 1.60lakh tones due to more acreage pulled in looking at gains during the previous year. And farmers has very well benefited out of it as prices have increase drastically, from Rs.10,500/quintal on 1st Jan'08 to Rs.11,000/quintal at present, making high of Rs.11,255/quintal during mid Jan. Even though prices drifted to Rs.9,000/quintal levels during March-April'08 due to arrival pressure, but posted strong recovery on the back of strong overseas demand.
- Crop from Syria and Turkey will be entering the markets in mid July. In our quarterly update we had estimated Syrian cumin crop to be at 22,000-25,000 tones if weather conditions are conducive and we had forecasted that due to heat wave during April-May'08 crop could decline to 18,500-19,000 tones. And looking at recent developments we maintain our second estimates of Syria cumin production. Even in case of Turkey production is expected to be in line with our expectation of 7,000 tones.
- **In the Nutshell>>>** At present India is the sole supplier to the global markets until Syria & Turkey crop hits the market. As both the countries have emptied their tanks and are left with very low carryover stocks, for that reason we have seen good influx of overseas demand shifting to India especially from Singapore and Middle East. This is expected to continue until international crop hits the market. Furthermore, Indian Cumin prices have always topped out during the month of July as evident from the chart. So until then we expect bull rally to continue in cumin seed. On the back of above mentioned fundamentals prices for far month futures are expected to make new highs. **October futures contract could touch 13,500-14,200 levels until Syria and Turkey crop comes in.**

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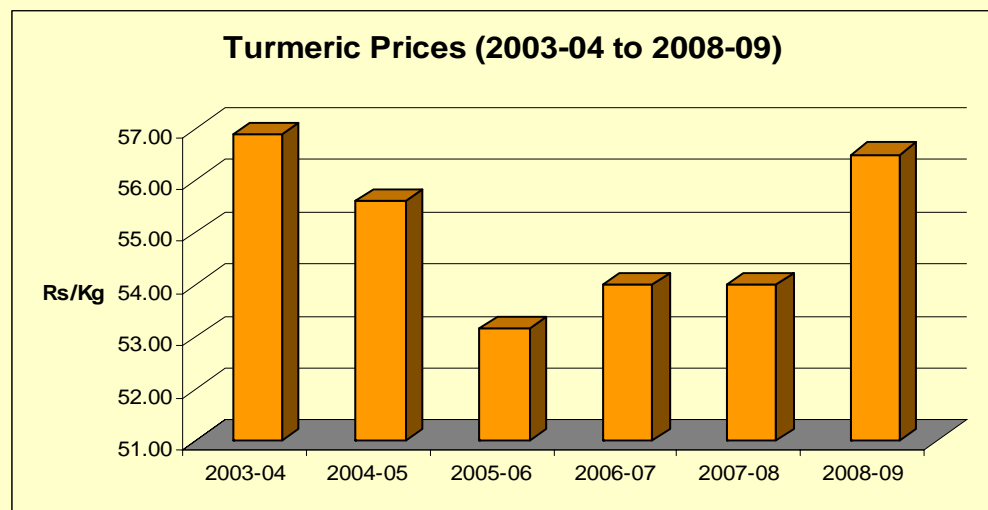
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- Chilli:** Due to prolonged summer holidays and recent indefinite strike chilli prices have been a sort of a laggard in whole spices complex as it has been lacking cues from the spot market. But this has not dampened the strong fundamentals underlying it.
- Before the closure of spot market India was the only source for international buyers as China and Pakistan major producing nation reported crop damage due to snowfall and rains respectively. Even they were reportedly buying from India to meet their local demand. As a result of which during the current financial year the export of chilli from India reached an all time high of 209000 tones valued Rs.1097.50 crores accounting for a share 47% in volume and 25% in value of the total export of spices and spice products from India. Against the last year's performance of 148500 tones valued Rs.807.75 crores, the increase is 41% in volume and 36% in value terms. But from the current scenario it seems that both the countries have not yet revived from it and still have to depend on India for their Chilli supply.
- Second chilli crop in China which normally hits the market in Sep-Oct was expected to be good enough to meet their domestic demand. But recent floods have dampened its prospects.*
- In the Nutshell>>>** India will continue to remain the sole chilli supplier to the global markets. *Spot markets is expected to open from 23rd June'08* during which we could see prices being pressurized due to rise in arrivals but later on it would again continue its up move. This will be supported by export demand. **August Chilli futures from present levels is expected to drift down towards Rs.5, 275-5,250 levels after which it should retrace back to Rs.5,500-6,000 levels.**

- **Turmeric:** Reduced acreage and unseasoned rains during the current year resulted in reduced output to 4.2 million bags of 70 kg each from 5.4 million bags a year ago. As a result of which even arrivals in Nizamabad spot market fell by 13.2 percent to 47,360 tonnes in first five months of 2008, compared to the same period last year. June is the last month of arrivals and after which stockiest will be the only source of supply.
- According to Tamilnadu Agricultural University's (TNAU) Domestic and Export Market Intelligence Cell (DEMIC) there is five-year price cycle of turmeric. Last year (2007) was the end of bear cycle and from the current year five year bullsih cycle will start. This is very much evident from the chart below and the reason for the same could be until 2007 prices of turmeric were very low and farmers offload its stocks fearing further price slump and to take up other crops.
- Turmeric prices have spiraled and have almost doubled as compared to previous year. In May 2007, the average spot price of turmeric in Nizamabad was around Rs.1,850/quintal per 100 kg. and at present average prices have been hovering at Rs.3,500/quinatl. This is primarily on the back of above mentioned reason and support from Markfed to farmers pertaining to procurement at Rs.3,000/quintal. Furthermore there were floods in Mayanmar which contributes 4% to global turmeric supply as a result of which there was good overseas demand in India during the start of the year.
- **In the Nutshell>>>** After June expiry Turmeric prices are expected to continue its up move. Reason being normally in the month of July-August there is good overseas demand especially from Middle East. These countries normally cover their positions before holy month of Ramadan. And this year Ramadan is expected to start from end September or early October. So before that good export demand is expected to come to India which will support turmeric prices. **August futures contract from current levels is expected to drift towards Rs.4,275 to Rs4,250 levels and buying from this levels is advisable for target of Rs.4,750/4,800 levels.**



- **Pepper:** India being the first to commence pepper harvest but this year it got delayed by almost a month due to unwanted rains. This created ripples in the global pepper market which was already reeling under supply crunch. As a result of which prices spiralled in domestic market by almost 9percent (.i.e.) from Rs.13,500 during December'07 to Rs.14,700 in March'08, with prices making high of Rs.15,400 during February'08 and at present quoting at Rs.14,500.
- Vietnam has entered last leg (June) of its pepper harvest which started after Tet holiday's (March). It is estimated to have harvested 90,000 tone till date which is almost 90percent of its total pepper crop.
- Due to lucrative Coffee prices Vietnamese farmers are yet to release its pepper stocks as their financial needs are taken care off and they are in no hurry to release them. Average export price for Vietnam's Robusta during (Oct/Apr) 2007-08 was \$1,965.43/MT (FOB), this is almost 42 percent higher as compared to same period during previous year. This was reflected in pepper export figures as well, up to April 2008, total export from Vietnam was 23,722 tones (21,350 tones of black and 2,372 tones of white pepper), down by 18.8% compared to same period last year. Reason being farmers wants to benefit out of price rise during later part of the year.
- Indonesia will be starting its pepper harvest from July onwards and generally it has been the case wherein international prices being suppressed its harvest sets in. But this year impact on prices is expected to be minimal as Indonesia pepper stocks are already exhausted. As it has already shipped out bulk of its stocks to US and even productivity is expected to be lower due to floods during the start of the year.
- Import to US from Indonesia during the period Jan-March'08 increased by 374percent as compared to same period during 2007 (.i.e.) from 1,590 tones to 7,534 tones. This is highest in last five years.
- **In the Nutshell>>>** Underlying bullishness still remain intact, but before that some sell off is expected until June expiry which would pull down prices to Rs.14,750 levels (September) after which hit should continue its up streak and going forward we expect September contract touching Rs.18,000 levels.
- ***Overall impact analysis country wise will be covered in Pepper Update which will be released shortly.***

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