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Chilli: Becoming hot again

Since March'09 Chilli futures have been on a continuous downtrend. Futures were more haywire in absence of benchmark prices due to closure of major market at Guntur in the month of June. Although prices witnessed some higher hiccups in the month of March on account of speculative buying. But, there onwards prices were largely sideways with a negative bias. Recently, prices are on an upswing supported by the reports of heavily deficient rains in the major growing areas, mainly Andhra Pradesh.

Interaction with the spice

Chilli is a kharif season crop. Total crop duration is 5 to 6 months depending upon variety, season, climate, fertility and water management. Dried ripe fruits are used as spice. Sowing of this spice starts in the month of June and extends till August. Harvesting is done as pickings and it becomes ready for picking one month after transplanting. But, harvesting period varies as per the purpose of use. In our country, automation of agriculture is still in nascent stage, so upon manual harvesting, the spice is dried in sun.

India is the major producer and consumer of chilli, contributing 36% to total global production. Production in the year 2008-09 has been down by 30 percent to 9.1 lakh tonnes.

In the country, Andhra Pradesh is the largest producing state accounting for 53% of the total production in the country, followed by Karnataka (9%), West Bengal (6%), Orissa (6%), Maharashtra (5%) and Madhya Pradesh (4%). The major chilli growing districts in Andhra Pradesh are Guntur, Warangal, Khammam, Krishna and Prakasham. Guntur is the biggest potential region, contributing 30% of the total production of Andhra Pradesh, with an annual turnover of around Rs 600 crore. The area and production of chilli in this area decides the price trend.

Exports

Chilli is the largest spice item exported from India in terms of volume and it also occupies second position in terms of value. During 2008-09, chilli accounts for 40% in volume and 20% in value terms of total export of spices from India. The mandatory quality testing of chilli and chilli products by the Board has made the Indian chilli more acceptable in the international markets and helped to achieve this higher level of export in chilli despite fears of downfall due to the global economic recession. During the year, India has exported 188,000 tonnes of Chilli and Chilli products valued Rs.1080.95 crores as against 209,000 tonnes valued Rs.1097.50 crores of last year. The traditional buyers of Indian chilli viz. Malaysia, Indonesia and Sri Lanka were active in the market. However, export to Bangladesh has reduced considerably during the year as compared to last year, which resulted in the overall decline in export of chilly. During the year our export to Malaysia was 40,615 MT followed by Sri Lanka (37790 MT), Pakistan (22375 MT), UAE (18,815 MT) and USA (15680 MT).

During April-June 2009, Chilli exports have been 2600 tonnes valued Rs 15971.25 lakhs, down by 48 percent and 34 percent in quantity and value terms respectively. The downfall in chilli exports has also been on account of decreased demand from the neighbor country – Pakistan in the current year. Pakistan is the third largest buyer of Indian Chilli after Malaysia and Srilanka. The reduced demand from this country has been on account of higher Indian prices and Good harvest in China, which is supposed to be exporting chilli to Pakistan. But, there is no confirmation in quantity terms as very difficult to get quantity information from Chinese suppliers.

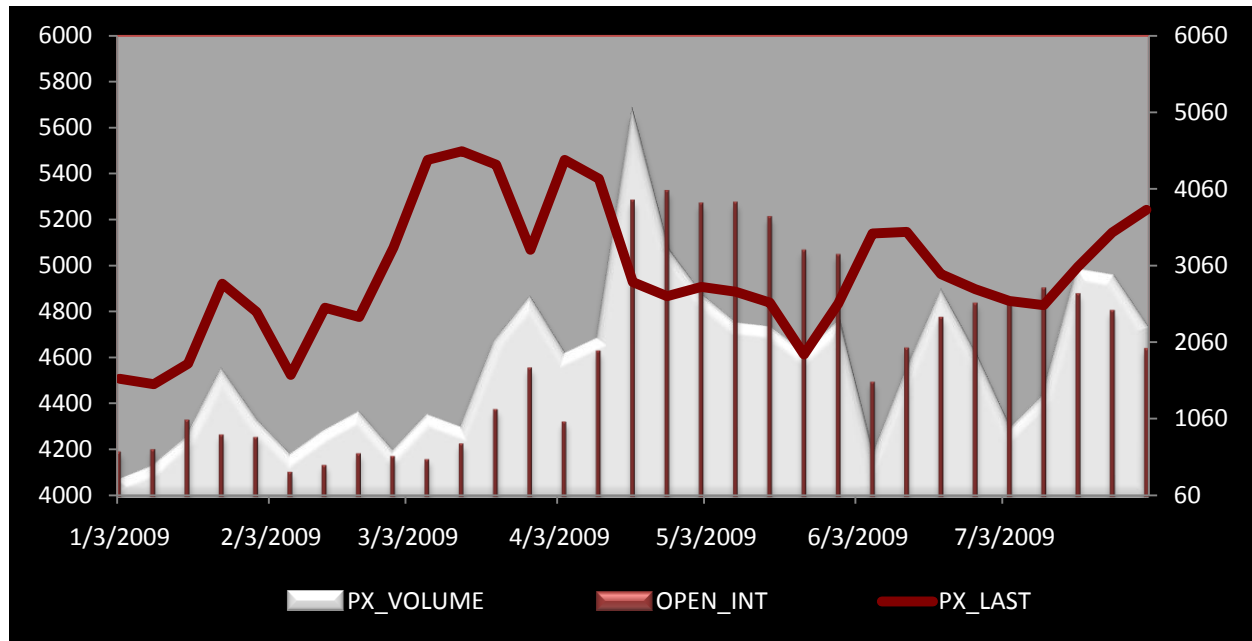
Futures dynamics

Futures were near 4507 levels in the beginning of year 2009 and remained largely on the lower side. It touched 5497 in the month of March'09. There onwards, the prices were largely subdued in the absence of benchmark prices and lack of domestic as well as export demand. Volumes have also gone down to abysmal levels in this hot spice due to lack of participation.






The same way, volumes started gaining momentum in the month of March and have undergone significant improvements recently due to active participation and availability of






benchmark trigger in the form of spot rates from Guntur market, fundamental factors of demand-supply and weather information.

Price, Volume and Open interest for NCDEX Chilli futures



Important factors

-  According to market sources, stocks available across the country are nearly 40 lakh bags which is sufficient to meet the demand expectation of about 30 lakh bags till the fresh arrival season in January - march 2010 (1 Bag is of 40 Kg)
-  According to latest report released from Andhra Pradesh Department of Agriculture on 19 August'09, Acreage under this spice has gone down significantly
-  As per normal sowing statistics the acreage should have been 0.62 lakh hectare but it is only 0.15 lakh hectare, even lower by last year sowing data of 0.59 lakh hectare as on date 19 August'08.
-  Only 24 percent of sowing for this season has been completed as on 19 August'09
-  Heavily deficient rains in the growing areas, have further aggrieved the apprehensions about yield levels

-  Monsoon is the most important factor to watch for now as chilli is a transplanted crop and requires proper soil moisture for germination
-  Drought like situation is prevailing in major growing areas, mainly Guntur, Warangal and Khammam areas in Andhra Pradesh. Rainfall has been deficient by 90 percent in these areas which has raised the concerns for lower output next year
-  Spot rate in the major market at Guntur is hovering around Rs 5450 to Rs 5500 per quintal
-  Emergence of export demand of nearly 200 tonnes per day from Bangladesh and Srilanka has been the major trigger for the upsurge in prices from now
-  Domestic demand is strengthening due to upcoming festival season across the country

Outlook

Given the current acreage and weather conditions, the output of chilli is likely to decline for second consecutive year. The prices of chilli may continue its bull-run in coming months and can touch Rs 6700-7000 in next few months (until December- January). Meanwhile, any changes in weather conditions can change course of direction in the prices.

Technical Analysis

The most active Chilli future prices were seen trading higher by increasing as much as 30.00% till Friday closing from a recent low of 4312 (December 2008). Market is likely to extend its gains further in the near term. In monthly chart the formation of "***Symmetrical triangle***" rendering higher prices and market have breached the trend line resistance (5500), closing above the same signaling elevated prices in the vicinity term. The next immediate resistance is at 5918 levels (Swing high made in July 2006) on breach of the same likely to extend its gains further high in the short term. The supports are at 5350 then 4800 levels. Likewise, on the higher side resistance is at 6500 then 6900 levels. Moreover, the formation of "***Symmetrical triangle***" is rendering the possible target prices of 9000-

9200 levels in the vicinity term. However, market is witnessing a strong support at 5100 levels sustain above the same confirms uptrend.



In weekly chart the RSI (14) is trading at 0.61 levels and expecting a lower correction before resumption of its uptrend. The RSI has given trend line breakout and expecting to take the support once again before resuming its bullish trend. Overall trend is looking bullish supported by prices trading above Short (10, 20) and Medium (50) period EMA.

KCTL stance:

We expect Chilli future prices to trade higher and recommend buying in the near term.

Supports: 5300, 4800 Resistances: 6400, 7000

| Chilli Investment Strategy | | | | | |
|-----------------------------------|-------|--------|-----------|--------|--------|
| LOTS | RATES | TARGET | STOP LOSS | PROFIT | LOSS |
| 1ST | 5800 | 7100 | 5050 | 65000 | -37500 |
| 2ND | 5400 | 7100 | 5050 | 85000 | -17500 |
| 3RD | 5200 | 7100 | 5050 | 95000 | -7500 |
| Avg. Rate | 5467 | 7100 | 5050 | 245000 | -62500 |

Note: The investment strategy is given based on Technical analysis of price chart and also supported by Fundamental view. Investors may take positions based on their risk appetite.

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