

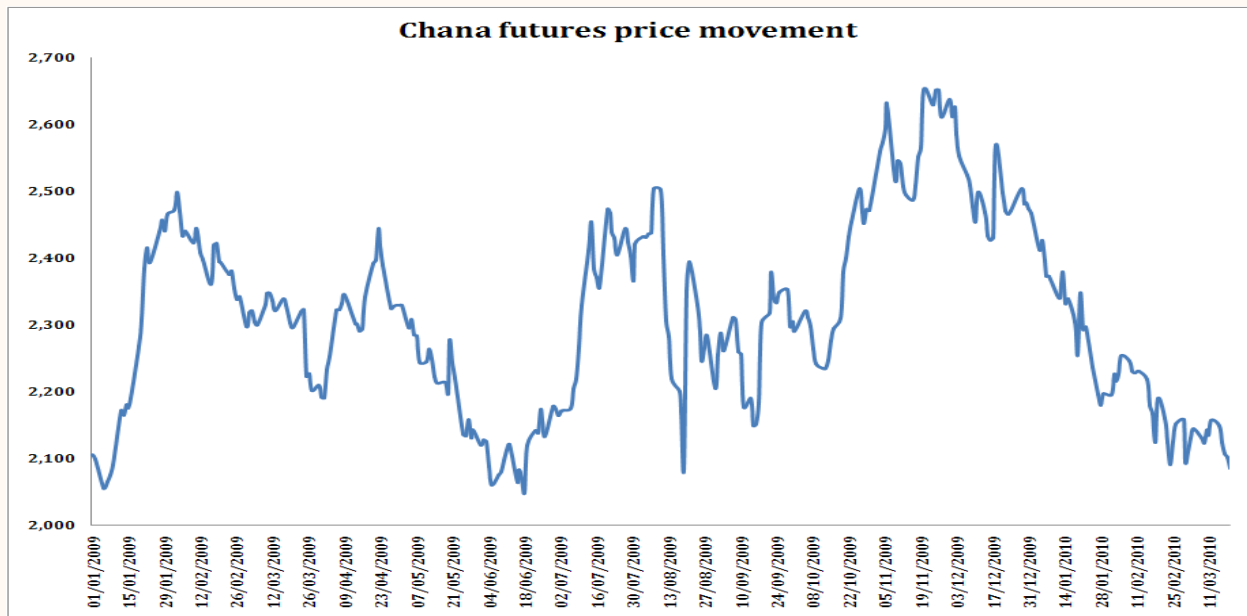
19 March 2010

# Chana Seasonal Report



### Price action

In the beginning of 2009, chana futures prices witnessed a moderate rally from around Rs.2050 per quintal level to Rs.2400 per quintal because of strong demand for the produce in the local market despite higher production estimates. For 2008-09, chana production for India was estimated at 6.1 million tonnes against 5.75 million tonnes produced previous year. The price rally in other commodities also supported the rise in chana prices. But, the rally was not sustained as the market participants were fear about strong government intervention. Market participants were also skeptical about re-ban of the commodity.



Source: Reuters

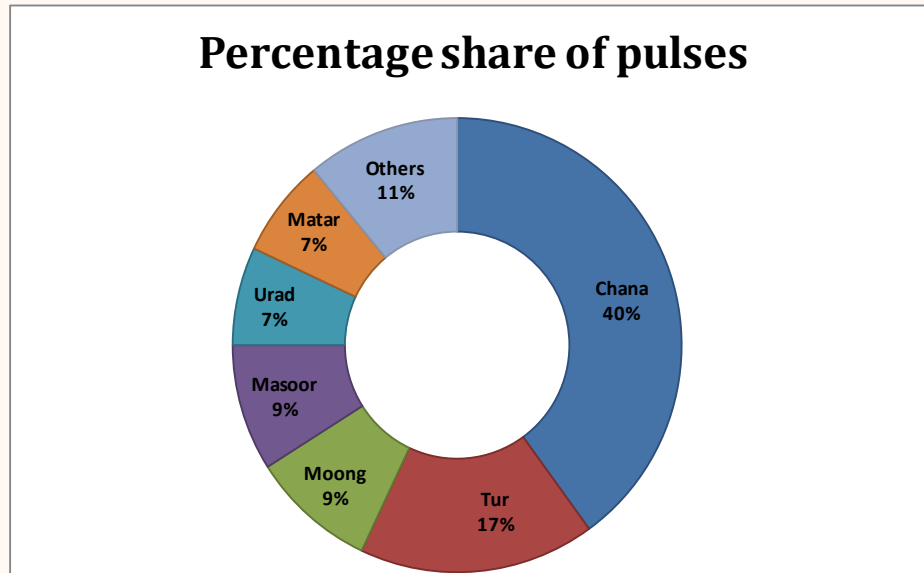
Towards end of the year, chana prices once again showcased a strong rally on account of fresh buying from the traders and investors on speculation that dry weather condition would affect the sowing of chana in Rabi 2009-10 season. During October and November, dry weather condition in Rajasthan kept the sowing activity in lull. Moreover, delay in cane crushing in Uttar Pradesh due to cane pricing war also led to slower pace of sowing activity. But, later the conditions improved and chana acreage picked up its pace.

Since the beginning of 2010, chana futures prices were on a bearish trend due to emergence of selling pressure on anticipation of rise in output in Rabi 2009-10 following higher acreage. The futures declined from around Rs.2600 per quintal to Rs.2100 per quintal. According data available from the Ministry of Agriculture, the area brought under chana cultivation in Rabi 2009 was 8.76 million hectares against 8.56 lakh hectares. The production has been estimated at 6.4 million tonnes against 6.1 lakh tonnes produced last year.

### Introduction

Chana or chickpea is an important pulse crop of India and is a rich source of protein and used as edible seed and also for making flour. It is highly nutritious and ranks third amongst important legumes after dry bean and peas. Two types of chana like desi and kabuli are being cultivated across

the globe. Among the total chana production in the world, desi type contributes to 80% while rest is of kabuli type. India is the largest producer of chana contributing around 70% to the total global production. Desi chana is mainly grown in India and they are brown split peas and are relatively small in size with a relatively thick seed coat while kabuli chana are creamy whitish in colour and bigger in size compare to desi chana with thin seed coat.



*Source: Agriculture Department*

#### Seasonality

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
India												
Turkey												
Pakistan												
Australia												
Canada												

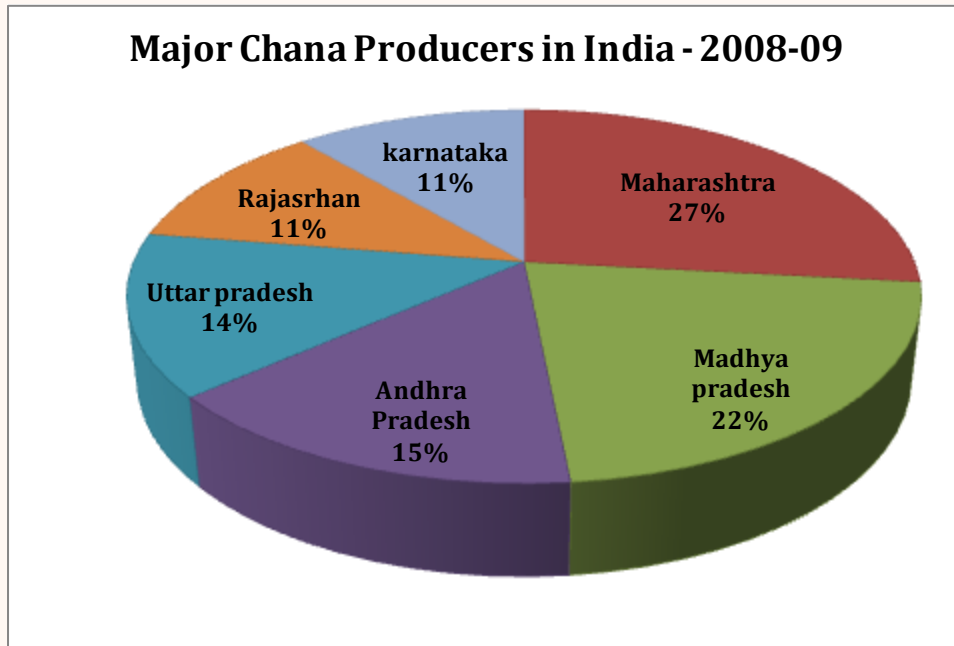
Sowing
  Growth
  Harvesting

Chickpea is grown as winter crop in many countries like India, South and Central America and Middle East. In Australia and Canada, it is sown during April to June and harvesting is done during November-December. In India, chana is grown in the Rabi season and its sowing takes place during October-December. The maturity period for desi chana is 95-105 days and for kabuli chana it ranges from 100-110 days. The harvesting is done during the months of February-April when the leaves start drying and shedding. It is not a major crop in the southern states, except Andhra Pradesh and northern Karnataka.

#### Indian Scenario

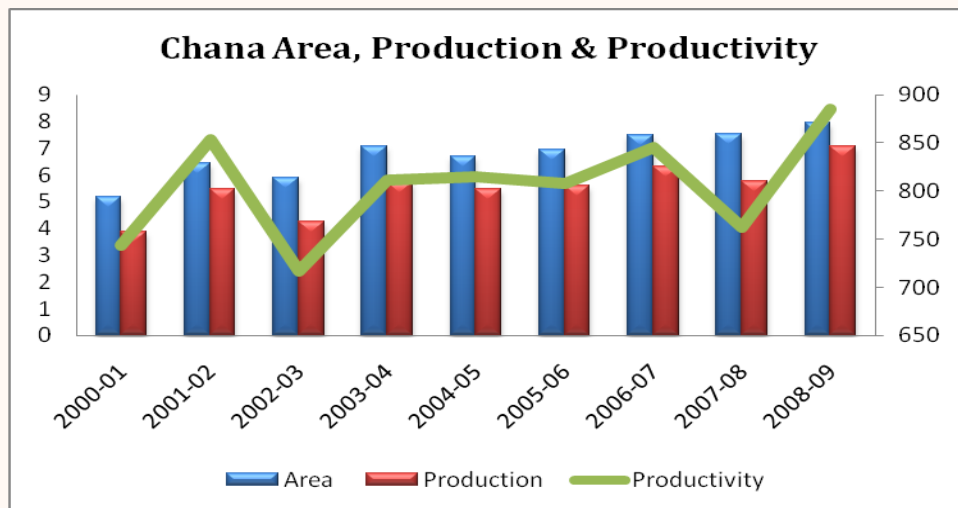
Chana is the most important pulse crop grown in India accounting for 40% of the total pulses crop. This makes India the leading chickpea producing country in the world. In India, it is mainly used to produce 'dal' and besan (ground flour). But, in the recent past, the importance for pulses has declined due to high diversification of food habits into vegetables and ready to eat foods. It is

largely cultivated in northern and central parts of India, where it is used in diet as “dal” along with other cereals



*Source: Ministry of agriculture*

India is the largest producer, consumer and importer of pulses. Although pulses are traditionally called as poor man’s protein, off-late, they have become a rich man’s food because of sharp rise in prices. The pulses industry is passing through a difficult phase, as it is affected by low supply, high prices and government intervention. India annually produces around 14 million tonnes of pulses, out of which, 60% is produced in kharif season and the remaining 40% is produced in rabi season. The major pulses grown are chana, tur, urad, moong and masur. Among them, chana and tur constitute 60% of the total output. Since last ten years, the output of pulses has averaged at 13.3 million tonnes while the record output was reported in 2003-04 at 14.91 million tonnes. Any marginal rise in total output is contributed by rabi pulse like chana. Pulses production has grown at a CAGR of 0.9% over last five decades with the production never crossing 15 million tonnes.

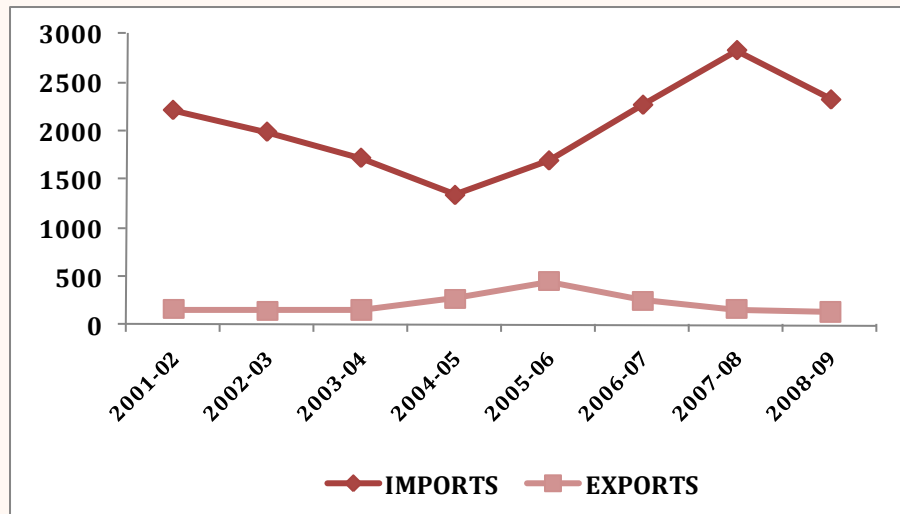


*Source: Ministry of agriculture*

Unit: Area -Million hectare, Production: Million tone, Productivity-Kgs

The production of chana has remained almost same for the last 10 years due to stagnant area and yield on account of shift in cultivation from pulses to cereals and vegetables. The average area, production and yield were 6.5 million hectares, 5.2 million tones, and 0.79 tonnes respectively with no major technological breakthrough to bring in new and high yielding varieties.

### International trade



Source: Ministry of agriculture

Unit: '000 tonnes

India banned export of pulses in June 2006 after prices shown indications of rally following fall in output in 2004 and 2005. However, export of kabuli chana was allowed since consumption of this variety of chana is less in domestic market. Prior to the export ban, India was exporting around 1.5-2.0 lakh tonnes of pulses annually and exports were mostly confined to kabuli variety to middle-eastern countries.

### Arrival period

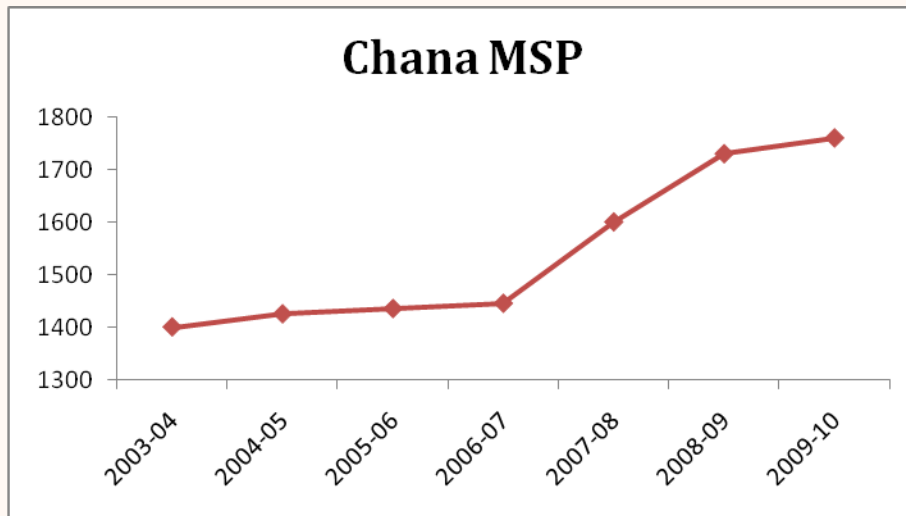
Arrivals differ from region to region according to sowing pattern. After harvesting, it takes 2-3 weeks for processing and for arrivals to happen. Peak arrivals can be seen during February-April across the country. Usually the arrivals start declining from May onwards and we see lean arrivals during July- September. During November-December, there would be marginal up move in arrivals as the stockiest dump all their stocks into the market due to fetch better prices during sowing season. They liquidate their stocks during this period as new arrivals the following year are preferred over old stocks

### Indian Chana market

Chana market is spread across the country with major markets located in central and northern India. The major trading centers are Delhi, Indore, Jaipur, Latur, Mumbai, Gulbarga etc. Since the market is spread across the country and numerous factors from across the country will play a role in deciding the prices of Chana. The major price influencing factors include rainfall pattern and moisture content in the soil, post monsoon weather factors like cold and hot waves, area sown and

the total output in the country, arrival pattern in major markets, government policies, imports, MSP etc.

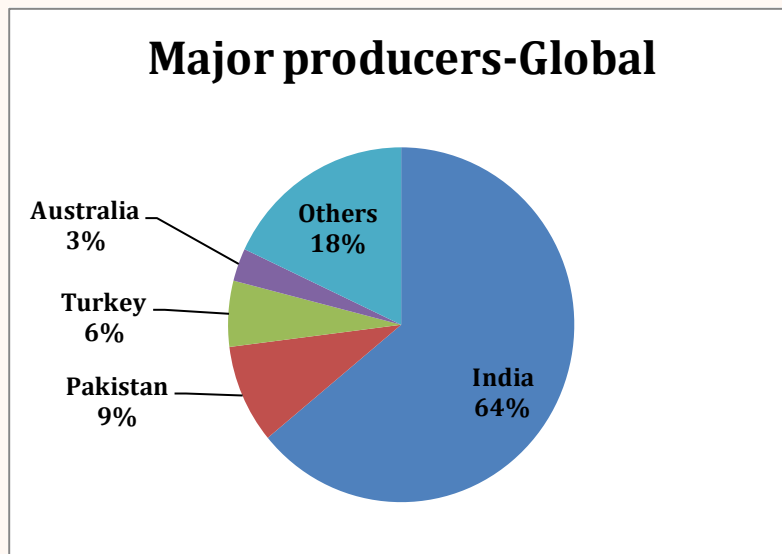
**Minimum support price**



Source: Ministry of agriculture

The MSP for Chana has risen by 29% for last 3 years. It has risen from RS 1400 per quintal in the year 2003-04 to whopping Rs 1800 per quintal during current year. Though the government announced MSP at the start of the season to encourage farmers to bring more area under cultivation, but, the recent rise in MSP is more for political reasons to woo farmers for votes during elections.

**World Scenario**



Source: Agriculture department

The world chana production has remained stagnant over the last decade between 8 to 9 million tonnes, while the area under cultivation is hovering around 10 to 12 million hectares. India is the world's largest producer, consumer and importer of pulses and accounts for 27% of the global

pulses production. The other major producing countries are Pakistan, Australia, Turkey, Iran and Myanmar.

More than 90% of chana is consumed by the countries producing it. During last couple of years, world chana production has marginally increased due to increase in production in India and Australia. India contributes around 64% to the global chana output. This crop is mainly grown in developing countries and enjoys 95% share in the world production. Canada and Turkey produces more of Kabuli Chana, while Asian countries grow more of desi type.

### **Current scenario**

**Export ban and Zero import duty:** The ban on export of pulses was imposed in June 2006 to curtail rising prices resulting from the fall in output in two consecutive years of 2004 and 2005. The ban has been extended annually since last three years and is currently applicable until March 2010. Moreover, imports of pulses are allowed with zero import duty since 2007 in a bid to reduce the price of imported produce. However, exporting countries are taking advantage of the shortage of produce in India and government's policies and are increasing the prices every year.

**Ban on futures trade in pulses:** The Forward Markets Commission (FMC) has imposed a ban on futures trade in urad and tur in March 2007 after allegations that a future trading is responsible for the rise in prices. Chana futures were banned in May 2008 following allegations of futures market is the reason for rally in the prices. However, even after ban on futures prices of most of the pulses continued their rally showing it was because of supply demand mismatch. With the lapse of ban on four commodities, Chana was re-introduced in December 2009. Although the bull-run in urad, chana and tur started in 2006 after the fall in output in two consecutive years, the rally in urad and chana came to halt in 2007. However, the rally in tur continued to Rs5,850 in 2009. Despite a ban on futures trading, prices of all pulses remained at higher levels displaying the ineffectiveness of the government's intervention.

**Stock limit on hoarding of pulses:** The government has authorized states to impose limits on hoarding of stock in various commodities including pulses in September 2006. Major states like, Maharashtra, Madhya Pradesh, Karnataka, Delhi and Andhra Pradesh have imposed limits on stock holding by traders, mills, importers etc. The limit varies from 50 to 500 tonnes based on the kind of trader like retailer, wholesalers varying from place to place.

**Subsidy on imports:** The government is providing 15% subsidy on import of pulses to state-owned agencies like STC, PEC, NAFED, MMTTC etc., These agencies are the largest importers and constitutes more than 50% of total imports. Due to this subsidy, private importers have been affected badly and many of them have been driven out of the market.

### **Price Outlook**

Chana futures are expected to trade on a negative note in near term on account of higher estimated production, higher acreage, and ample carry over stock and arrival pressure coupled with slack demand in the domestic market. Moreover, the fear of government intervention in the form of stock

limits, raids on hoarders, extending duty free import of Chana is likely to keep the prices under pressure. The central government is worried about rising food inflation in which, Chana dal is also a main contributor and called for immediate action to curb the price rise. It asked the state governments to take necessary steps in this regard. Responding to this, most of the state governments are likely to take possible steps.

#### Factors to watch out for

- ❖ **Bearish in short term:** Arrival pressure coupled with slack demand in the domestic market (40 to 50 tonnes/ day at present)
- ❖ **Acreage for current Rabi season:** 8.92 million hectares, compared with 8.34 million hectares last year (farm ministry)
- ❖ **Production of winter-sown pulses:** Estimated at 10.53 million tonnes in 2009/10 against 9.88 million tonnes produced last year
- ❖ **Estimated output :** 5.64 million tonnes over 5.61 million tonnes during last year
- ❖ **Seasonality Pattern:** Declining arrivals from June onwards

#### Technical analysis



#### Outlook

**SHORT TERM:** Currently market is trading around 2200 and the ongoing correction may prolong till 2000 levels. Short term traders may take short positions for till 2000-2050 levels.

**LONG TERM:** Since the prices are nearing to its oversold phase a buying reversal may witness. For long term traders we recommend buying around 2000 for a possible target of 2300 then 2400 with strict stop loss below 1750 levels.

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