

July 23, 2010

Chana: On the Bull Run

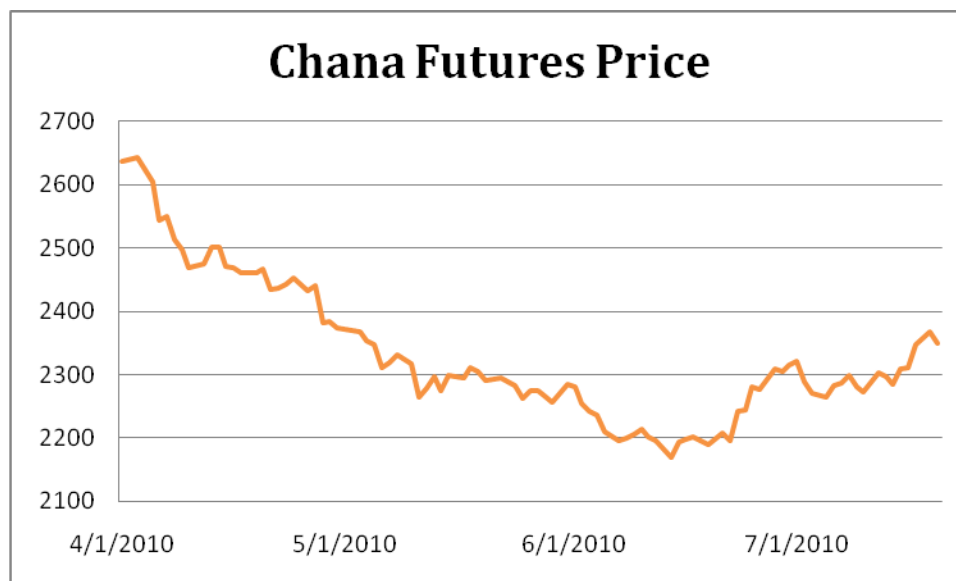
Strategy: **BUY**

CMP: AUG: 2405; SEP: 2468

Recommendations: Chana- August- NCDEX:

Buy in the range of Rs. 2370 – 2355 for the target of Rs. 2480 and then Rs. 2530 with stop loss of Rs. 2308.

- The Chana prices witnessed a gradual fall in the month of April in both spot and futures market. Peak arrival season and anticipation of more production kept the prices under pressure. The spot price in Delhi Lawrence Road mandi fell to Rs.2250 per quintal from Rs.2500 per quintal during April month
- The physical demand during that period was subdued and increasing inflow of fresh arrivals from major producing regions kept the market on a negative note. Higher production projection prompted the traders and mills to stay away from active buying
- Talks of lifting of stock limit by the Rajasthan government also resulted into subdued trading activity during April month. As per expectation, the Rajasthan government raised stock on Chana from 100 tons to 300 tons in second week of April. But, this move failed to support the prices as the arrivals were on full-fledge



- The bearish trend extended in May month also where prices fell further to Rs.2150 per quintal on rising supply in the spot market. The fall was extended till mid-June on anticipation of higher acreage under kharif pulses
- Forecast of normal monsoon and dramatic hike in Minimum Support Price (MSP) of pulses acted as a barrier to the market

- Lull in monsoon activity during second fortnight of June raised the concern over sowing progress. Sharp fall in the Chana prices in spot and futures market acted as a best buying opportunity from traders as well as investors
- Limited supply of the produce and stockiest buying in the spot market supported the rise in the prices. During first month of current Kharif season, the pulses acreage was lagging behind that of the last year

Kharif pulses sowing

	Arhar	Moong	Urad	Total Pulses
25-Jun-09	1.036	1.745	0.341	3.64
25-Jun-10	0.672	1.387	0.367	2.945
% Change	-35.14%	-20.52%	7.62%	-19.09%
02-Jul-09	1.464	2.407	0.504	5.185
02-Jul-10	1.453	2.253	0.646	5.146
% Change	-0.75%	-6.40%	28.17%	-0.75%
12-Jul-09	2.511	3.372	1.325	8.405
12-Jul-10	2.853	2.797	1.444	8.221
% Change	13.62%	-17.05%	8.98%	-2.19%
16-Jul-09	16.848	9.441	7.625	38.227
16-Jul-10	20.809	11.972	8.701	45.055
% Change	23.51%	26.81%	14.11%	17.86%

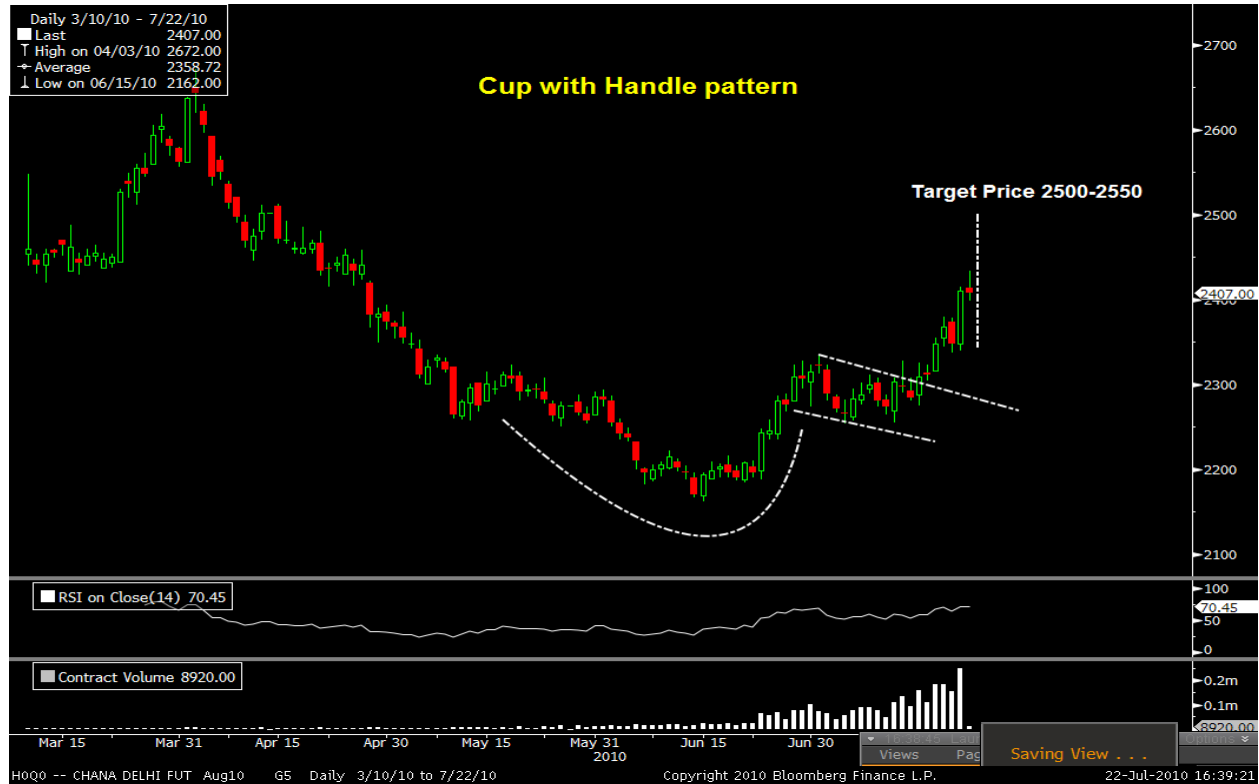
To control the rising food grain prices, the central government hiked the MSP of pulses between 10-30% compared to last year. This step was taken to attract farmers to grow more pulses and reduce India's dependency on imports. But, uncertainty of rains in central India, where the pulses are grown largely may affect pulses acreage. Government officials are estimating pulses supply-demand mismatch during next season to be at 6 million tonnes. Supply shortage of Chana in Canada and strong demand in international market might result into rise in Chana prices.

Outlook

- The Chana futures are projected to trade on a higher note in long term on strong buying interest from traders and stockiest.
- Ease in arrival pressure in spot market and strong retail demand for Chana and besan ahead of festival season is likely to push up the prices.
- There is strong demand from dal miller, retailers and exporters for Chana. Rising price of other pulses like Urad and Tur is likely to support Chana prices. Looking into demand and uncertainty of kharif pulses, we may expect that Chana will touch Rs.2600 pre quintal in medium term.
- Kharif pulses sowing lagging behind that of last year due to poor monsoon across major growing areas. At the beginning of the monsoon season, it was expected that there will be shift in acreage to pulses from oilseeds.
- It was expected that higher price of pulses compared to other crops and sharp hike in MSP might attract farmers to grow more pulses, but, the weather condition was not favorable.

- This resulted into lower acreage. However, sowing picked up in second week of July and surpassed last year's figure

Technical Analysis



In NCDEX Chana daily chart **Cup & Handle Bottom** chart pattern is observed. The pattern is considered as bullish trend reversal pattern. Although, the pattern has given breakout above the neckline (Rs. 2335) yet an upside potential is expected in the prices. We are expecting a mild correction before assuming its uptrend. The key support levels to watch are Rs. 2370 and Rs. 2350.

We recommend buying in NCDEX Chana August contract in the range of Rs. 2370 - 2355 for the target of Rs. 2480 and then Rs. 2530 with stop loss of Rs. 2308.



Term	Trend
Short	Bullish
Medium	Bullish
Long	Bullish

In weekly chart of NCDEX Chana a double bottom chart pattern with two distinct lows is spotted. A double bottom chart pattern is considered to be a trend reversal pattern. RSI is trading at 0.71 levels with positive divergence as the prices are at their lower lows and RSI is at higher lows. Volume levels increasing at break out point again giving bullish indication in the prices.

Recommendation:

Buy NCDEX Chana in the range of Rs. 2350 – 2370 Targeting Rs.2530 – 2600 with the Stop loss of Rs.2280. The support levels are at Rs.2280 – 2220.

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