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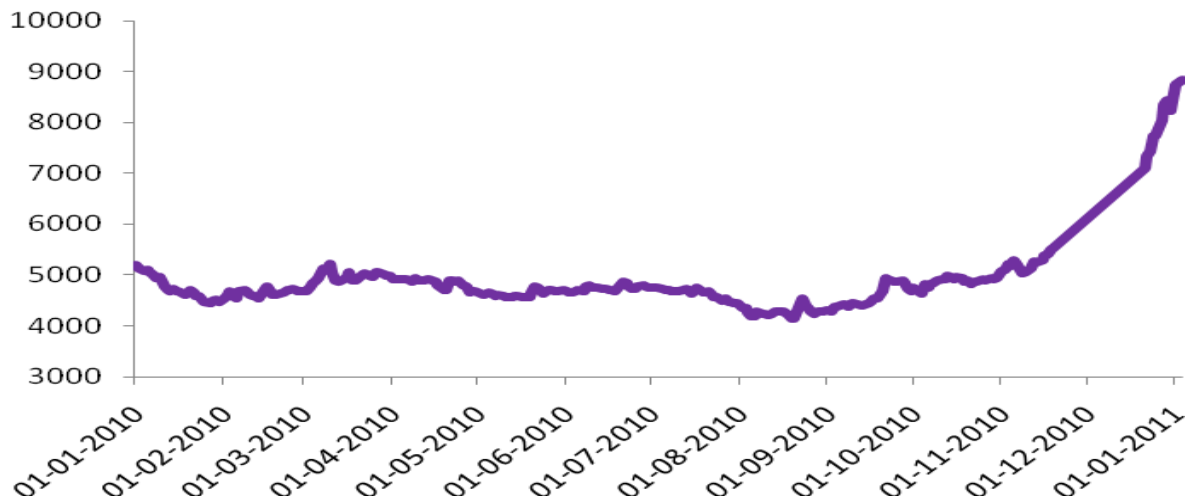
Chilli Short Term Outlook- Bullish

Review

The Chilli futures on Indian exchanges witnessed an uptrend during first 3-month of CY2010 on good demand in the domestic market. However, starting from March prices showed a declining trend on commencement of fresh harvesting season in India. The chilli production in India for 2009-10 was projected higher on higher acreage. According to Spices Board data, chilli exports in FY 2009-10 were 2,04,000 tonnes against 1,88,000 exported in 2008-09. Though exports were higher vis-à-vis previous year, prices were under pressure because of huge stock and higher production forecast.

The chilli futures prices were in a consolidation during April to June in absence of fresh triggers in the market. On one hand, higher stock in the physical market tried to keep the prices under pressure. Prices started showing a downtrend since last week of July on reports of favourable monsoon for chilli sowing and prices touched year's lower levels during September. However, during October prices shoot up and started moving higher because late withdrawal of monsoon and unseasonal rains badly affected the crop in fields. Good exports during this period ahead of festive season demand further add to the upside. On news of lower production expectations and lower carry over stocks pushed the prices and futures hit fresh high of 9000 in 2011 starting only.

Chilli Futures prices Movement During 2010



Sources: Bloomberg & KCTL Research

Balance sheet (in lakh tons)

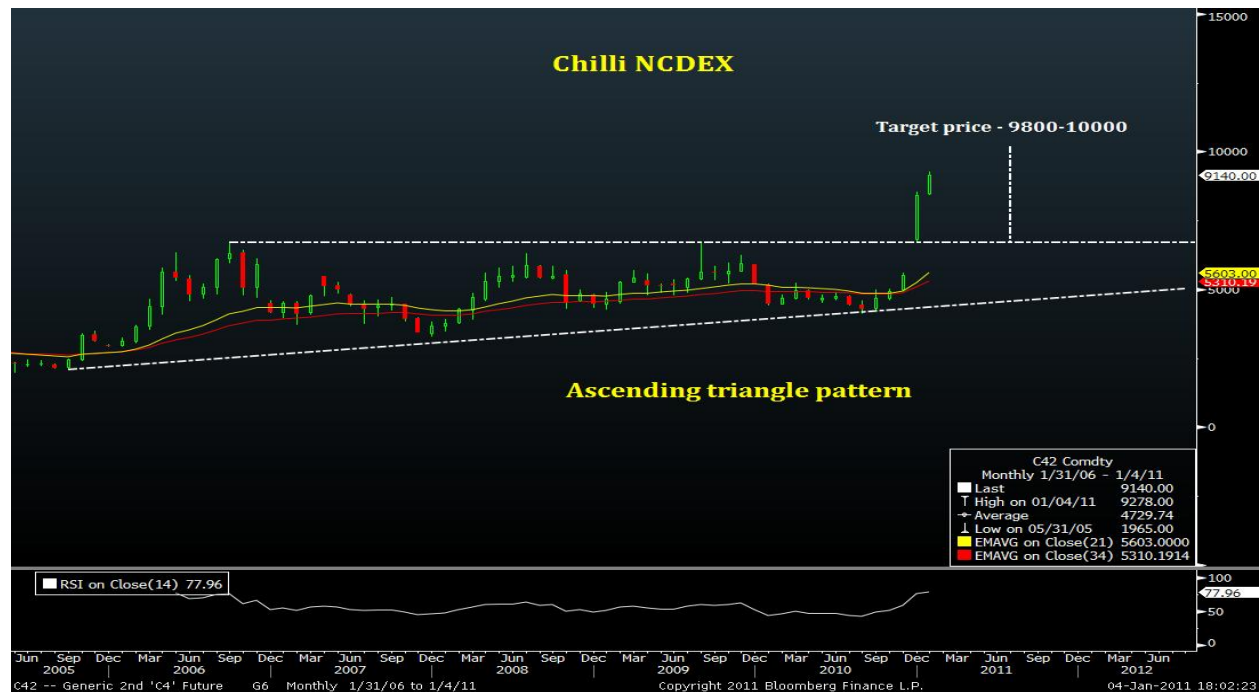
	2007-08	2008-09	2009-10
Beginning Stock	1.31	2.61	3.68
Production	13.25	12.95	13.2
Consumption	9.11	10	11.5
Export	2.09	1.88	2.04
Ending Stocks	2.61	3.68	3.34

Sources: Spices Board Of India & KCTL Research

Outlook

The Chilli futures are expected to trade higher in coming days on account of strong buying interest amid lower stocks available in the domestic market. Due to the unfavorable weather conditions during October- November chilli crop got damaged around 60% in major growing region of Andhra Pradesh. As per trade sources, chilli production in 2011 is expected to be around 80-90 Lakh bags against 1.5 crore bags, last year. Stocks available at spot market are also on the lower side only. According to traders total stocks available at spot market of Guntur are around 70,000 tons while monthly average consumption is approximately 30,000 tons which may not be sufficient to meet the demand till next crop hit the market. Chilli crop from Madhya Pradesh is also estimated to be down by 30-35% from last year. The fresh crop is expected to hit the market from Feb-March onwards. Thus, all above stated factors are supporting the bullish trend in chilli and we can see new highs in chilli in coming days. However, small correction on profit booking and at the time of fresh crop arrival can not be overruled at higher levels.

Technical



Chilli Feb NCDEX

A chilli future price witnessed an uptrend for the past five months by gaining as much as 112% and currently is at 9140 levels. The main reason behind the rally is the formation of **“Ascending triangle”** pattern. Market has breached the neckline resistance near 6700 levels and achieved 70% target price within a period of 40-45days. Market still has the potential to move higher and the upside levels would be till 9800 -10000 levels.

As per the Fibonacci projection currently market is finding a crucial support at 9066 levels (150% projection). Sustained trade above the same leads the prices to gain till 9624 (161.8%) and 10315 (176.4%).

Indicator analysis RSI (14) monthly is at 0.77 levels and is expected to see a correction in near term. On the lower side key support level is at 8500 then 7800 levels. Sustain above these levels would limit the downside fall.

Overall, analysis suggests the trend is still bullish and market has the potential to move higher for short to medium term. Upside potential would be till 9800-10000.

Recommendation: Chilli Feb NCDEX: Buy at 8500-8700 TP 9700 then 10000 SL 7900

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