



Chilli Seasonal Report

KCTL expects chilli prices to remain bearish in near term. Prevailing bearish fundamentals of reduced demand amid stable arrivals are likely to pressurize the prices. Stokiest are not interested in bulk buying as quality of arrivals are now declining which is not considered in exports. Spot market of Guntur is also going to close from May 15 – June 05 for one month might further add bearishness at the futures. In absence of fresh market cues chilli prices are expected to remain sluggish.

Technical Recommendations

Sell in the range 9900-10050 with Target Prices of 9000/8600 and stop Loss at 10550

Or

Sell below 9300 with Target Prices 8600 / 8400 and stop Loss at 9900

Market Recap

The Chilli futures on Indian exchanges witnessed a rising trend during first 2-month of CY2011 due to delay in fresh crop arrivals in India. Since the beginning of the year 2011, prices remained bullish and witnessed a two fold increase than 2010. Heavy rains during crop maturity and harvesting time damaged the crop significantly. The chilli production in India for 2010-11 was projected higher on higher acreage. However, due to unseasonal rains around 40-50% of crop got damaged in major growing regions of Andhra Pradesh. According to trade sources, chilli production in current year is estimated to be lowest in last 3-4 years. Thus, on lower production estimates and lower carryover stocks prices at NCDEX futures surged to the all time high level and crossed 10,000 levels at futures during February.

Chilli Price Movement at NCDEX Platform (2011)



Sources: Bloomberg & KCTL Research

However, from end of February prices started declining due to fresh crop arrivals. The crop was also not of premium quality due to crop damage. China- second largest producer of chilli also has normal crop this year which had negative impact on Indian chilli prices till mid of March. However, prices again resumed the uptrend on good demand from stokist due to lower domestic production. Export demand from Bangladesh, Malaysia also added to the upside and futures hit a new record of 10,970 levels at futures. Spot prices also went up to Rs. 9800-10000 per quintal amid strong demand. However, after making a new high market started falling again due to reduced buying interest by stokist amid declining quality of arrivals.

Chilli Crop Seasonality

Chilli sowing in India starts in the month of July and continues till August-September. It is a 3-3.5 months crop and hence harvesting of fresh crop starts during December and ends during March. Chilli crop in India is harvested in 3-4 pickings of 20-25 days interval. Significant arrivals start from January and continue till March.

Chilli Crop Seasonality

| COUNTRY | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| INDIA | | | | | | | | | | | | |
| CHINA | | | | | | | | | | | | |
| SPAIN | | | | | | | | | | | | |
| MEXICO | | | | | | | | | | | | |
| PAKISTAN | | | | | | | | | | | | |



Sowing



Harvesting

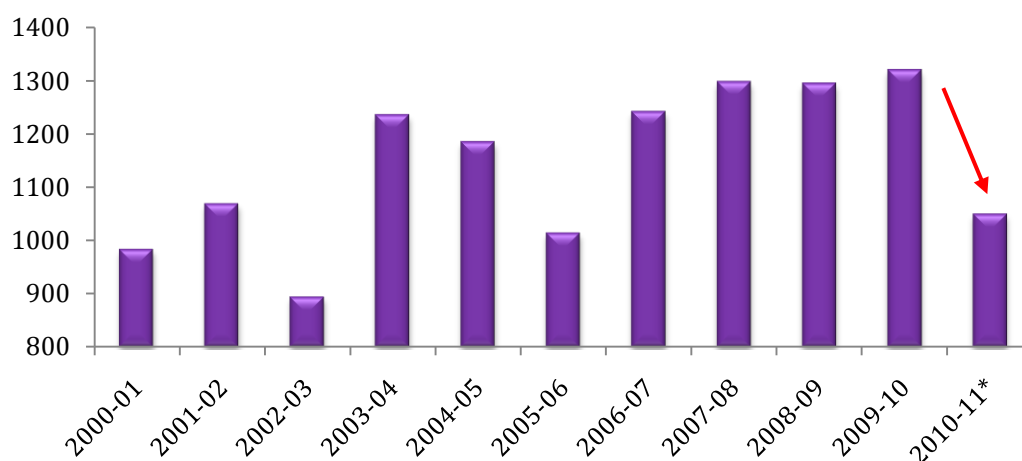
The other major producing countries are China, Pakistan and Mexico etc. In Spain and Pakistan it is sown during February to April - May and Harvesting started from July till October- November. In China and Mexico crop is sown in the month of June- September and crop comes to market by the month of November till February- March. Thus, sowing cycle starts from Pakistan and Spain followed by China, Mexico and India.

Indian Scenario

India is the largest producer and contributes 25% to total world production. It is also largest consumer and exporter of Chilli. Chilli is the most common spice cultivated in the country. India has produced about 13.2 million tons of Chilli during 2009-10 up by 2% Y/Y. After India, china is the major producer of Chilli in the world. During 2010, Chinese chilli production declined sharply because of unfavorable weather condition which became an advantage for Indian chilli exporters. This year chilli exports from India reached record high levels.

As per trade sources, chilli production for year 2010-11, is estimated down by 20-25% to around 9.95-10.5 lakh tons as 30-40% crop has been damaged due to unseasonal rains during November- December in major growing regions. This year production in 2011 is likely to be the lowest in last 3-4years.

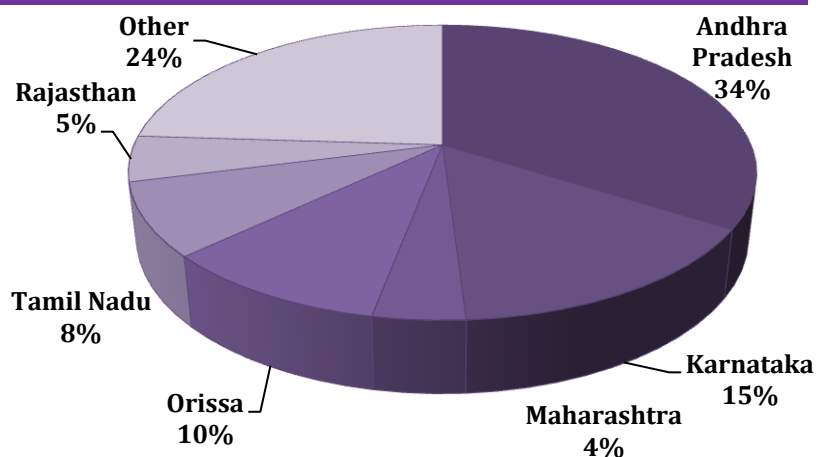
Chilli Production Trend in India (Lakh Tons)



Sources: Spices Board of India & KCTL Research

In India, Chillies are grown in almost all the states across the length and breadth of the country. Andhra Pradesh is the largest producer of Chilli in India - contributes about 30% to the total area under Chilli, followed by Karnataka (20%), Maharashtra (1%), Orissa (9%), Tamil Nadu (8%) and other states contributing 18 % to the total area under Chilli.

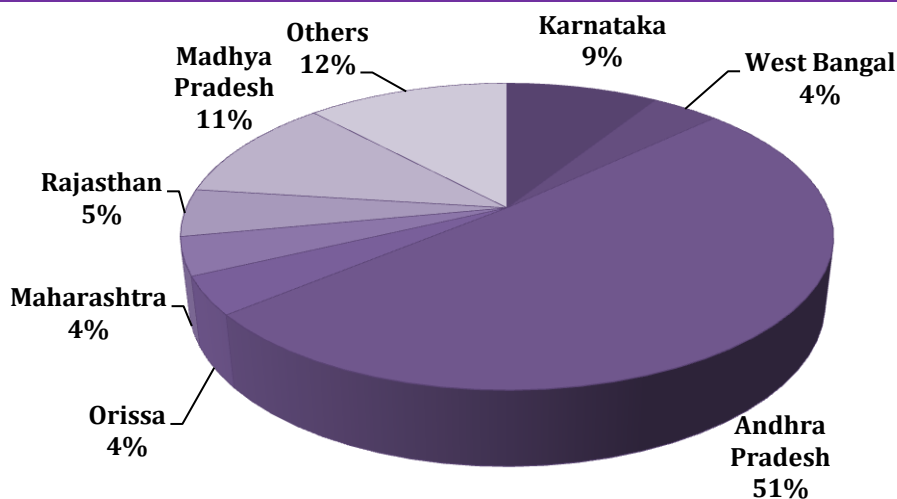
Contribution of States in area under Chilli



Sources: Spices Board of India & KCTL Research

The production of Chilli in India is dominated by Andhra Pradesh which bestows 51% to the total production. Madhya Pradesh has now come out as a second largest producer of chilli with a contribution of 11% in total production. Karnataka contributes 9% followed by Orissa (4%), Maharashtra (4%), Rajasthan (5%), Tamil Nadu, Uttar Pradesh and others.

Contribution of States in Chilli production



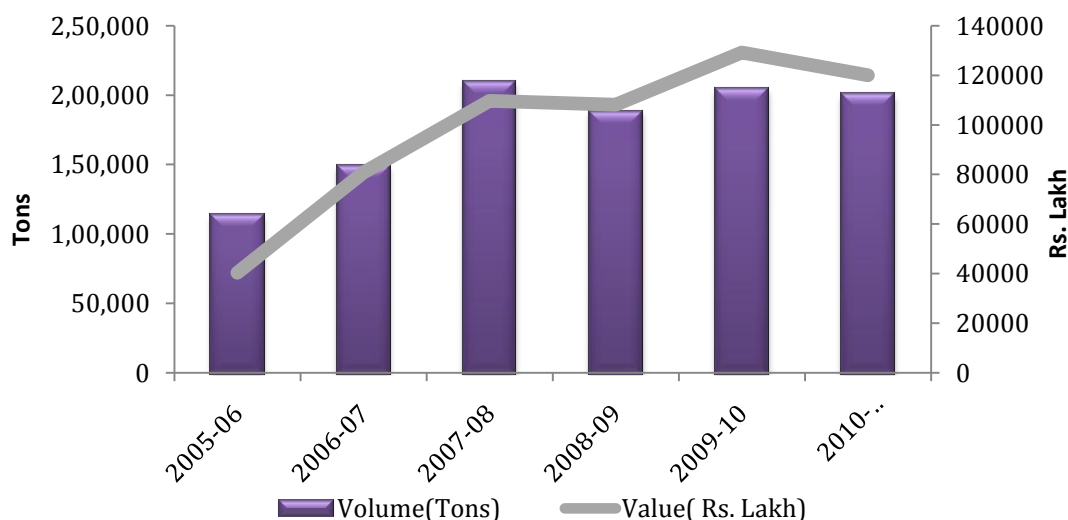
Sources: Spices Board of India & KCTL Research

Andhra Pradesh is the major Chilli producing state in India; the major chilly growing districts in Andhra Pradesh are Guntur, Warangal, Khammam, Krishna and Prakasham. Guntur is the biggest Chilli market in Asia contributing 30-50% to the total production of Andhra Pradesh. Area and Production of Chilli in this area decides the prices. Old stocks in Guntur is estimated to be around 16-18 lakh bags which is lower and declined production in major producing states due to uneven and heavy rainfall may create the supply shortage in the market.

Chilli Export - Import

India's Chilli exports are drastically increasing and Indian chillies are mostly exported to Sri Lanka, USA, Nepal, Mexico, Malaysia and Bangladesh. Among these countries, Malaysia, Sri Lanka and Bangladesh are the major importers of Indian Chillies.

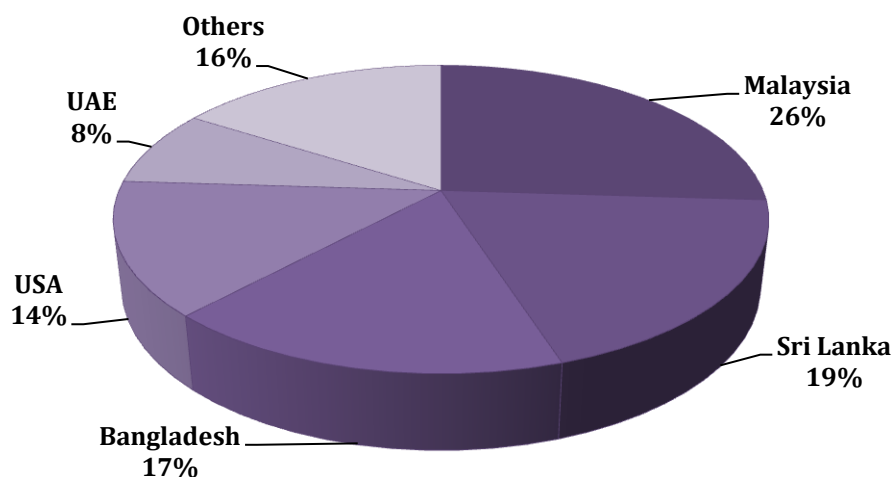
Chilli Export - Import Trend



Sources: Spices Board of India & KCTL Research

The total export of Chilli from India during 2005-06 was 1,13,174 tons valued Rs.40300.51 lakh which has stood up to 2,04,000 tones valued Rs.129172.8 lakh during 2009-10. Over the years exports were increasing at the faster rate. It is estimated that during 2010-11 about 2,00,000 tons of Chillies with the value of Rs.1,20,000 lakh can be exported from India. Malaysia is now the largest importer of Chillies from India which contributes 26% to the total exports from India. Srilanka stands second with 19% followed by Bangladesh (17%), USA (14%) and others (16%).

Major Export destinations for Indian Chilli



Sources: Spices Board of India & KCTL Research

Chilly is the major spice contributing 40-42% by volume and 20-22% by value of total spices exported from India. The exports of Indian Chillies have grown significantly in the recent years. Yet only 10-15% of total domestic production is meant for exports with domestic consumption of more than 85-90% of domestic production.

The surge in the production of chilli crop last year and a consequent availability of large exportable surplus in the country when the crop in other major producing countries declined has resulted in a boom in the chilli exports touching an all-time high of an estimated 2.04 lakh tons valued at over Rs.129172.8 lakh in 2009-10. India started exporting Chilli in 1960-61 with 8,364 tons. After 1970-1980's India's export performance was excellent, higher international and domestic demand can further push the exports.

India exports Chilli in the different processed forms like Chilli powder, dried chillies, pickled chillies etc and it is mainly exported to Malaysia, Sri Lanka, Bangladesh, the Middle East and the Far East.

World Chilli Trade Scenario

India is the major exporter in the world market and the total export of chillies from India is on an average only 10-15% of total production. Huge fluctuations in Indian exports are mainly due to increased domestic demand and uneven production interrupted by weather vagaries. India exports chillies to maximum countries in the world in which Malaysia and Sri Lanka are the major importer by contributing 26% and 24% respectively to the total Indian exports. Proximity and old relationships were the important reasons for dominance of Indian chillies in Srilanka.

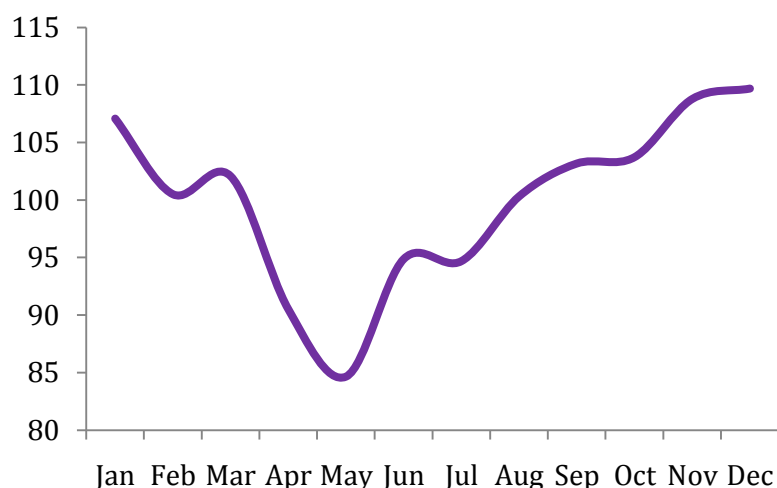
China has emerged as the major exporter in the world market and as a serious competitor in the International market for India. China is penetrating in to all the major markets like European countries and USA. As USA and EU countries have made their import norms very stringent it might impact Indian exports. China will have major advantage of these norms because they produce chilli as per the specifications given from USA. Where as the countries like United States of America, the United Kingdom, Germany and Sweden large quantities of Chilli are used in the manufacture of oleoresins and extracts. Apart from India major producers and exporters of chillies are China, Pakistan, Mexico and Turkey. Imported chillies in western countries are consumed in the food processing industry for its colour and pungency.

Although China had good production this season prices are equaling the Indian Chilli prices but lower pungency level of Chinese chilli crop might support demand for Indian chilli. India has encouraging demand from Srilanka and other countries mainly because of aroma of Indian Chillies.

Chilli Prices Seasonal Index

The Chilli Seasonality Index is prepared by considering data for the last 10 years. Clearly, as the figure indicates, starting from January prices correct till May due to peak arrival season. However, from June onwards prices starts moving upward on good export demand and arrivals season also come to an end by this time. After June prices took small corrections when sowing for next crop starts but over good demand ahead of festive season keep the prices up.

Chilli Price Seasonality



Sources: Bloomberg & KCTL Research

Chilli Demand –Supply Scenario 2011

Chilli production in last few years is hovering in the range of 12-13.25 Lakh tons while in 2011 production is expected to decline sharply due to huge damage to the standing crop. As per trade sources, this year production is expected to be around 10.5 lakh tons down by 20% Y/Y. As per projections for 2011 chilli balance sheet is showing a decline in ending stocks to 1.06 Lakh tons which are likely to support prices in long term.

Table 1: Chilli Balance Sheet - India (in Lakh tons)

| | 2007-08 | 2008-09 | 2009-10 | 2010-11* |
|-----------------------------|---------|---------|---------|----------|
| Beginning stock | 2.15 | 3.53 | 4.65 | 4.31 |
| Production | 12.97 | 13 | 13.2 | 10.5 |
| Import | 0 | 0 | 0 | 0 |
| Domestic Consumption | 9.5 | 10 | 11.5 | 11.75 |
| Exports | 2.09 | 1.88 | 2.04 | 2 |
| Ending stocks | 3.53 | 4.65 | 4.31 | 1.06 |

Source: Trade sources & Spices Board of India

Fundamental Outlook

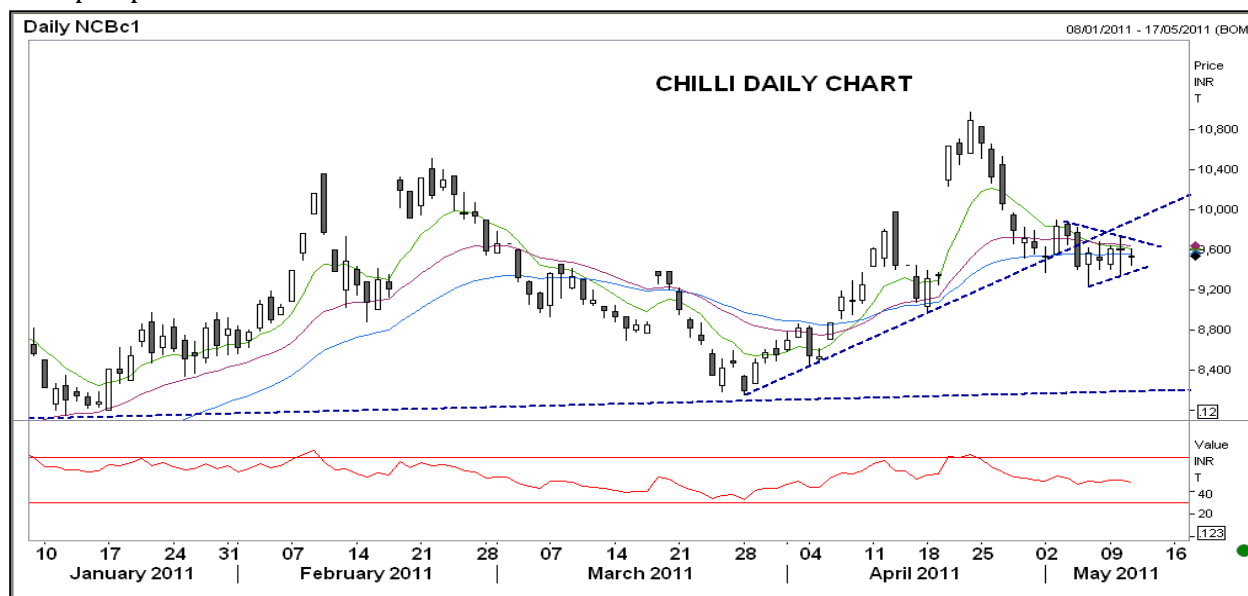
After analysing all above stated factors, we expect chilli prices to remain bearish in near term. Prevailing bearish fundamentals of reduced demand amid stable arrivals are likely to pressurize the prices. Stokiest are not interested in bulk buying as quality of arrivals are now declining which is not considered in exports. Spot market of Guntur is also going to close from May 15 – June 05 for one month might further add bearishness at the futures. In absence of fresh market cues chilli prices are expected to remain sluggish. As per trade sources, now farmers are directly selling goods to cold storages and according to latest update around 30-35 lakh bags have been stored in cold storages in Guntur. Traders are expecting if stocks goes beyond 50 lakh bags (each bag=40Kg.) then it will impact the prices negatively as traders will dump their stocks at the spot market after reopening of the market.

However, from June onwards prices may resume positive trend on revival in demand ahead of wedding season and festive season. Overall production has also declined this year which might support the prices in medium term. Rising domestic demand and export demand from Malaysia, Sri Lanka etc. is likely to support the prices. However, chilli prices for long term largely depends on next crop sowing and production situation, monsoon rains and export demand prevailing at the time.

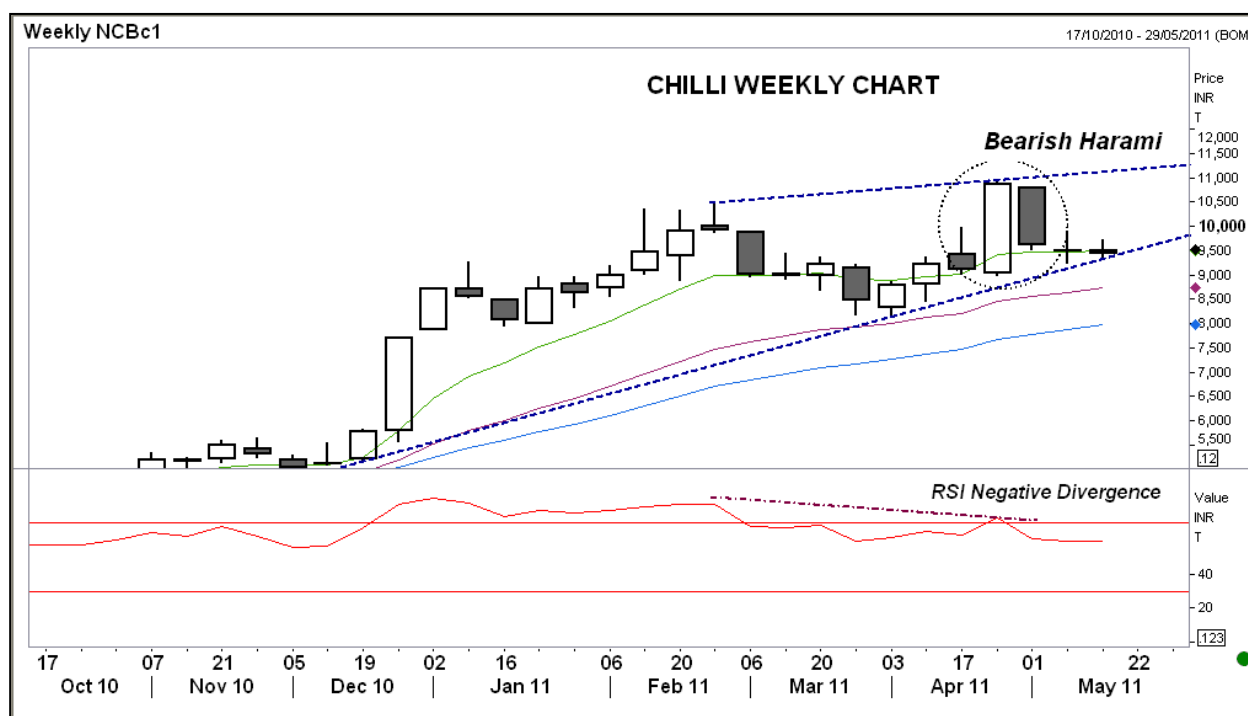
Technical Outlook

Chilli prices have been trading in the range of 9400-9700 from last few days. It is currently trading at 9536 as on 11th May 2011.

In daily chart prices are consolidating and hovering around the short and medium term Exponential Moving Averages (EMA 8, EMA 21 and EMA 34), indicating a mode of indecision in the market. Recently a cross over is witnessed between the short and medium term moving average indicating down side potential for commodity. Also market is trading below the short term trend line drawn by joining 3 well defined troughs of 8154-8470-8990 indicating that weakness may persist in the trend. Crucial resistance as per the trend line is seen at 9900-10000 levels. And support is seen at 8500-8400 which is a support level of the long term trend line drawn by joining 2 well defined peaks of 5918-6898. This may push prices to move down side for medium to long term perspective.



Doji candle stick formation for last week is suggesting that indecision may prevail in the market. Prices are taking support at 9330 of the trend line (drawn by joining 2 well defined troughs of 5150 and 8154) and also the support of short term EMA -8 which is signaling that if market breaches and sustains below the given support level of 9330 then only it may remain lower or else it may bounce back from current levels also. However, if we analyze a long term trend a bearish harami candle sticks are patterned in the weekly chart which suggest trend reversal. The technical indicator RSI (14) is trading at 0.60 and is in negative divergence with prices indicating bearishness in the market.



Recommendations

Sell in the range 9900-10050 TP 9000/8600 SL 10550

Or

Sell below 9300 TP 8600 / 8400 SL 9900