

CHANA: Pulse to slow a tad...



“Festive season that has begun from this month would be major factor to watch out for as it might be one of the demand driving factors...”

Recommendations:

Chana August NCDEX: Sell at 3120-3130 TP 3000 / 2950 SL above 3190

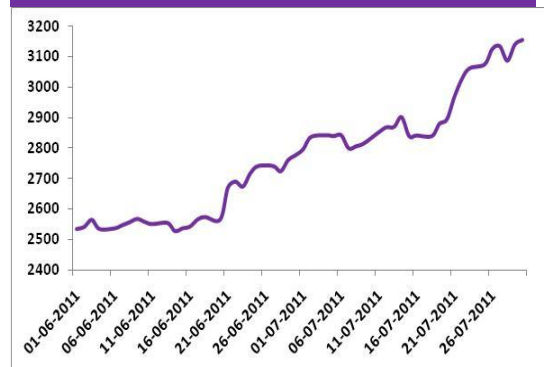
Chana September NCDEX: Sell at 3200-3220 TP 3100/3050 SL 3288

Chana October NCDEX: Buy at 3100/3120 TP 3320 SL 2980

Price movement:

Chana futures have shown a significant rise since last two months. The prices have gained by 23.86 per cent since June. Factors like gradual rise in demand across the physical markets, weak production prospects in Canada, Kharif sowing scenario altogether has influenced the price movement during last month. Chana prices have touched their lifetime high when it traded at 3169 levels on 30th July, 2011. Therefore, changing fundamentals have reflected over the market sentiments which have been supportive for the uptrend.

Figure 1: Price Movement: June- July, 2011



source: KCTL Research and Bloomberg

Review:

Market sentiments:

Demand from retailers across the physical markets has led to gradual rise in prices during last two months. Traders' anticipation about rise in demand for festive season to begin from August supported the uptrend. The spot prices in benchmark Delhi physical market have gained from Rs.2470 to Rs.3000 per quintal. The effect of Kharif pulse sowing has also affected the market sentiments. Ongoing demand, Kharif pulse sowing prospects and Canadian pulse scenario had an impact over Indian market sentiments.

Kharif pulses sowing progress:

Sowing progress of Kharif pulses in Karnataka has been weak as the acreage sown under Kharif pulses in Karnataka has declined by 54.23 per cent to 2.92 lakh ha against 6.38 lakh ha. Kharif pulses sowing have picked up pace due to revival of monsoon in Maharashtra and Madhya Pradesh regions as around 80 per cent of sowing have been completed in these major pulse producer states. As per the Rajasthan Agriculture Department, acreage under Kharif pulses as on 29th July, 2011 in Rajasthan has declined to 19.15 lakh ha against 20.60 lakh ha during last year same period. However, this sowing progress is likely to improve with the forecasts of revival of monsoon in north-west regions of India.

Global concerns:

Canadian scenario: Canadian pulse production prospects have been influencing the Indian market sentiments. Around 50 per cent of recently sown pulses in Canada had been behind normal development due to excessive rains. This affected the sowing prospects in Canada (Manitoba and Saskatchewan) as the farmers avoided further sowing for pulses due to unsupportive weather conditions. This has led to projections about the decline in total production of total pulses and special crops to decline by around 28 per cent to 40 million tons. Lower carry forward stocks coupled with poor production prospects in Canada have led to the projections regarding fall in total supply by 26 per cent to 5 million tons. Therefore, exports from Canada are likely to tighten by 28 per cent to 3.5 million tons.

Australian pulse prospects: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARE) report which was released during mid-June has stated that production and exports in Australia is likely to increase by 2 per cent (3.85 lakh tonnes and 3.2 lakh tonnes respectively). However, the increase is not that significant therefore its impact was minimal over the Indian market sentiments.

The projections about decline in total pulses production in the major pulse producers in the world (US, Canada, etc.) as the production is expected to decline by around 17 per cent to 1.2 million tonnes. If such condition develops it might lead to global supply crunch which might have an impact over Indian market sentiments.

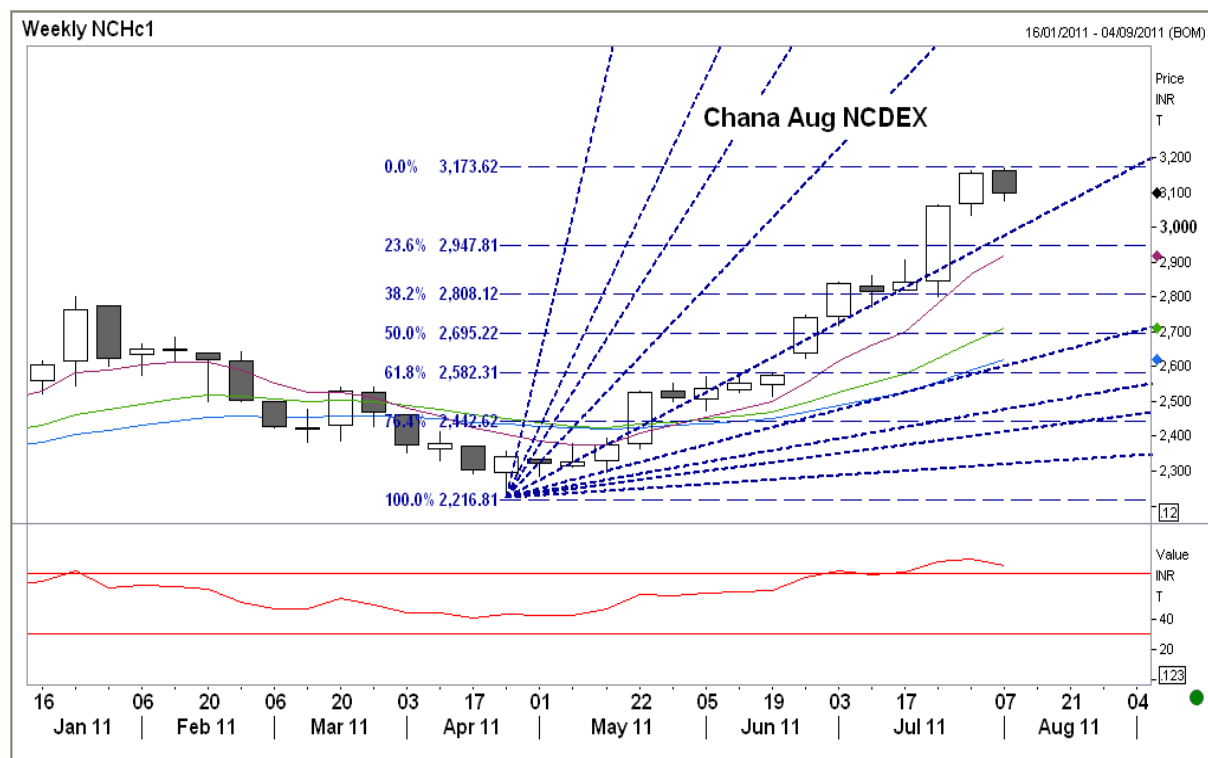
Outlook:

Festive season that has begun from this month would be major factor to watch out for as it might be one of the demand driving factors. The demand for the commodity is likely to be successive as the festivals are earlier this year comparative to previous year. Thus, stockiest demand might show a gradual rise during festive season. According to trade sources, the carry forward stocks are lower for this crop year which is likely to support the prices to gains.

According to recent monsoon forecasts from Indian Meteorological Department (IMD) the monsoon is likely to be below normal during August-September which might hinder further sowing prospects of Kharif pulses. Therefore, considering the entire pulses complex the factor that might have a positive impact over market sentiments will be the overall lower acreage projections of Kharif pulses. The overall sowing prospects of pulses are weak as the total area sown under pulses as on 29th July has been 7.39 million ha which has been down by 10 per cent in comparison to last year same period. However, by this time over 80 per cent of Kharif pulse sowing has been completed in the major pulse producing states (Maharashtra, Madhya Pradesh and Rajasthan). Therefore, the impact of entire pulse complex is likely to be positive over market sentiments.

However, the overall trend for chana is bullish but the prices are likely to witness pressure as the major impact of the factors like demand, production prospects in Canada, Kharif sowing progress have already been reflected over the price movement. Therefore, we expect that prices might decline till the emergence of fresh demand across the physical markets which might create fresh buying opportunity in the near term.

Technical Analysis:



Chana futures prices are trading at elevated levels (Recent high of Rs.3169). It is continuously following an uptrend from 2198 levels.

In weekly chart prices have extended above **the 45 degree line as per the Gann fan** principle. This is suggesting that the **rally in chana prices is overdone** and we might expect a short term correction from here. Even if we look at the **moving average principle**, we observe that market is sustaining far above the short and medium term moving averages which is signaling the possibility of correction at any point of time. The expected support level in the near term is 3000 which is the 45 degree Gann line support. Next support level is seen at 2942 which is 23.6 per cent retracement on the recent rally from 2198 to 3169 as per **Fibonacci principle**. **The momentum indicator RSI (14)** is trading at 0.74 and is descending after a high of 0.79 indicating the prices are in overbought zone. We may expect slight correction from current levels. However, the long term trend is still bullish and the expected correction in the chana prices might not last long.

Considering above analysis, we expect a short term correction in the chana prices and recommend going short with strict stop loss.

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