



CURRENT MARKET

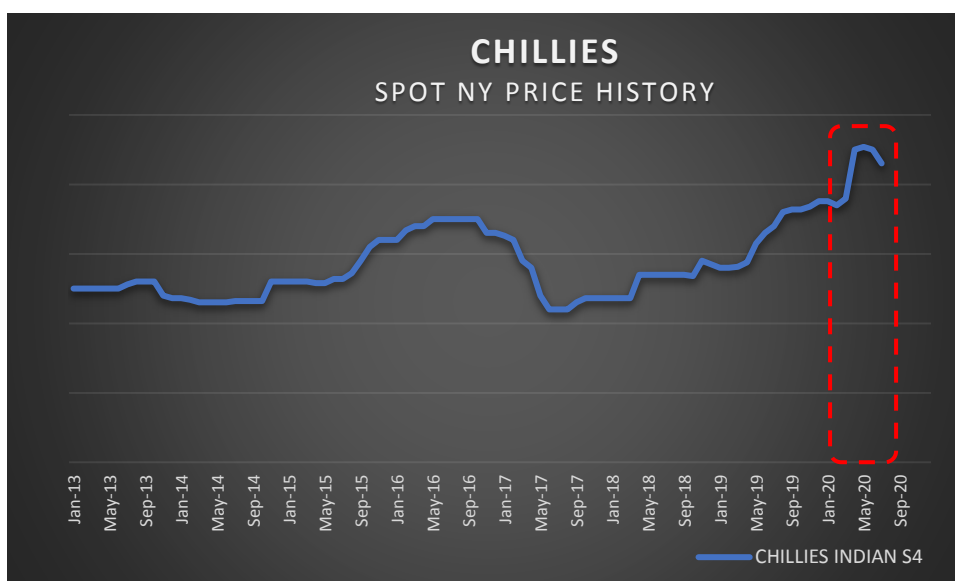
Uncertainties arising from the COVID-19 outbreak continue to affect markets. Supply chains across the world still face challenges as the pandemic continues to hamper normal economic activity.

Effects on the chilli markets continue. The price of good quality material, having higher pungency and better colour, has been firm over the past month. However, reduced demand has resulted in a fall in price of lower quality material.

Currently, there are only very low stock levels remaining in China, mostly from the 2019 harvest. Chinese buyers have slowly started purchasing from India, having a bullish effect on prices, especially for high heat material.

In India, most primary trading markets remain closed with the COVID crisis affecting the major chilli producing states. At the same time, weak demand from bulk buyers has led to weakening of prices, especially for lower quality material.

Sambal is an Indonesian chilli paste, made from a mixture of a variety of chilli peppers, including Cayenne pepper and green chilli pepper. It is native to Indonesian cuisines, and is very popular in Malaysia, Brunei, Singapore, Sri Lanka and Thailand. It is made using a mixture of a number of chilli peppers along with secondary ingredients like garlic, ginger, shallots, spring onions, palm sugar and lime juice. In the Indonesian archipelago, there are over two hundred varieties of sambal, with the intensity ranging from mild to very hot.



CROP CONDITIONS

CHINA:

Current season planting started on time and is complete now. Chilli and paprika planting started in April, not affected much by the lockdown. It is estimated that there is a slight increase in acreage.

At the same time, planting of bell peppers, which started in end-March, is slowly getting over. Though planting was on time, it is estimated that there is a decline in acreage of about 10% compared to last year.

INDIA:

Harvesting is over in all the growing areas. Harvesting was severely affected by the nationwide lockdown. Farming and trading activities have been directly affected. With migrant workers returning to their home states, shortage of labour has hampered harvesting. Farmers had moved their harvested material to cold storages since all the major wholesale markets were closed during the peak harvest period. Shortage of labour, as well as untimely rains during the harvesting period, has affected the drying operations, and some of the material that has gone into cold storages might not have been dried properly, limiting availability of premium grades.

During the current season, production is estimated to have increased by about 10% in the South Indian states of Andhra Pradesh and Telangana due to favourable growing conditions during the crop season. At the same time, there has been a decline in the state of Karnataka due to excess rainfall earlier in the

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season. Overall, production is estimated to be higher by about 20% compared to last year.

The high levels of reverse migration this year due to the COVID-19 lockdown led to doubling in sowing area of many autumn crops due to a massive increase in rural labour and an above-average monsoon. Increased availability of rural labour is having a positive effect on agricultural production in India. As per official estimates, the area under cotton cultivation has reached 7.16 million hectares this year, an increase of about 3.25 million hectares over normal. It remains to be seen whether this increase in acreage under cotton cultivation will have any impact on chilli sowing, since both crops are grown in almost the same areas.

Almost all the chilli growing areas have received good monsoon rains this year. The state of Andhra Pradesh has received about 34% surplus rainfall; out of 13 districts in the state, 11 have recorded surplus rainfall. Telangana has recorded 35% excess rainfall in June. Heavy rains and thunderstorms have been reported from coastal Karnataka also. The southwest monsoon reached Madhya Pradesh earlier than normal, and the state has received about 88% excess rainfall during June. New season sowing will start this month, and a clearer picture regarding the acreage sown will be available by August.

USA:

Harvesting of the paprika and chilli crop is scheduled to start by end-September and will continue throughout the rest of the year. Reports indicate that crop growth has been quite good so far, though some sporadic pest incidence has been reported. Weather conditions during the next two months will be very important with regard to production.

MARKET SCENARIO

Trading activities have been hampered by the COVID pandemic during the past few months. Market operations have been affected by closure of markets along with restrictions on movement of people and material. With both labour and transportation in short supply due to the lockdown, farmers have been forced to pay more for both, pushing up cost of production. Unable to sell their material, farmers have hastily moved the harvested produce to cold storages, affecting the quality of material, leading to increased production of low grade material. Current stock levels are estimated to be much higher than normal, with not much sales happening during the harvest period. With good quality material expected to be in short supply, prices could move higher. Usually, prices start moving up during the second half of the year, with material available only from

cold storages. Chinese demand is picking up slowly, especially for high heat varieties, pushing up prices for premium material. Moving forward, demand revival will play a crucial role in deciding the direction of the market.

PRICE FORECAST

Availability of left over material is limited in the Chinese market. In India also, the quantity of good quality material is limited, keeping prices firm. Demand for high pungency varieties, especially from China and Bangladesh, has kept prices firm. The general decline in quality of material this year is expected to translate into good prices for premium quality material. The direction of the market will also be influenced by monsoon rainfall patterns and new crop acreage in India.

COVERAGE RECOMMENDATION

Depending on how demand picks up, prices could move up. The shortage of good quality material could have a bullish effect. Forward coverage is advisable, considering that the current bullish movement is expected to persist.



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