



CHILLIES REPORT – MARCH 2020

CURRENT MARKET:

The novel coronavirus outbreak continues to have its impact on the chillies market. Demand from China, one of the major buyers, remains muted. Though there has been some Chinese buying on a small scale, this did not have much impact on the market.

Factories in China remain affected as strict regulations continue to take a toll on almost all business activities. Both import and export of red pepper have been far below normal this year. Chinese buying normally becomes active from early-February. However, this year, as the market returned after the Chinese New Year holidays, the coronavirus disaster broke out and buyers kept away.

In spite of weakened demand from China, prices in India have remained mostly steady, buoyed by good domestic demand. Besides, other Asian countries, viz. Sri Lanka, Bangladesh, etc. continue to be active, providing some support. The tight stock situation has also helped in keeping prices firm.

CROP CONDITIONS:

INDIA:

Harvesting progresses in the South Indian states of Andhra Pradesh and Telangana. In these states, production is expected to increase by about 10% since growing conditions have been favorable. Moderate rains have been received over parts of Telangana and north coastal Andhra Pradesh during the past week. Light rains or thundershowers are expected to continue, with increased cloud cover reported over the region, the result of a cyclonic circulation on the eastern seaboard. These rains, together with the resultant drop in temperatures, have affected the drying activities. In some areas, the harvested material, which was being dried in the open fields, has been affected by the rains.

Primary market arrivals have picked up steadily and peak arrivals are expected towards the latter half of March. In many areas, the new arrivals are of poor quality and have higher moisture content.

In the state of Karnataka, with excess rainfall affecting the crop earlier in the season, a decline in output is expected. Replanting has been undertaken in many parts of North Karnataka, delaying arrivals by a month due to late sowing. Arrivals normally dry up by mid-March, but are expected to continue till May this year.



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CHINA:

The area under cultivation of both bell pepper and paprika had increased this year. However, with productivity affected by adverse weather conditions earlier in the year, production is almost the same as last year. With processing operations mostly restricted, prices have remained mostly stable. Export activities have been far below normal.

MARKET SCENARIO:

With the increase in acreage expected to make up for the shortfall due to decline in yield, production in India this season is expected to increase to approximately 1.4 million tons, an increase of nearly 20% compared to last season. However, good demand has resulted in a decline in stock levels of over 80%. This has limited the total available supply quantity, resulting in prices remaining quite high, in spite of the overall good production this season.

Local stock levels remain very low, with local demand for new material remaining strong. Strong domestic demand has contributed to keeping prices firm.

Even though availability is expected to gradually improve as new material becomes available, prices are expected to remain firm due to strong demand.

Considering the high demand for chilli extract in China, it is likely that Chinese demand could pick up once the virus outbreak is contained.

PRICE FORECAST:

Prices are expected to remain steady with available stocks remaining limited. Though new arrivals continue, domestic and export demand is expected to keep a tight leash on inventory levels. With the supply-demand situation remaining tightly balanced, the market can be expected to remain range-bound. As farmers start contracting IPM material, some correction can be expected, stretched out over a protracted cycle due to the extended harvesting period this year.



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COVERAGE RECOMMENDATION:

As arrivals pick up, selling pressure will slowly build up. This can be expected to lead to some softening of prices in the short to medium term. As new arrivals continue, any weakening of prices can be seen as an opportunity for forward coverage.

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