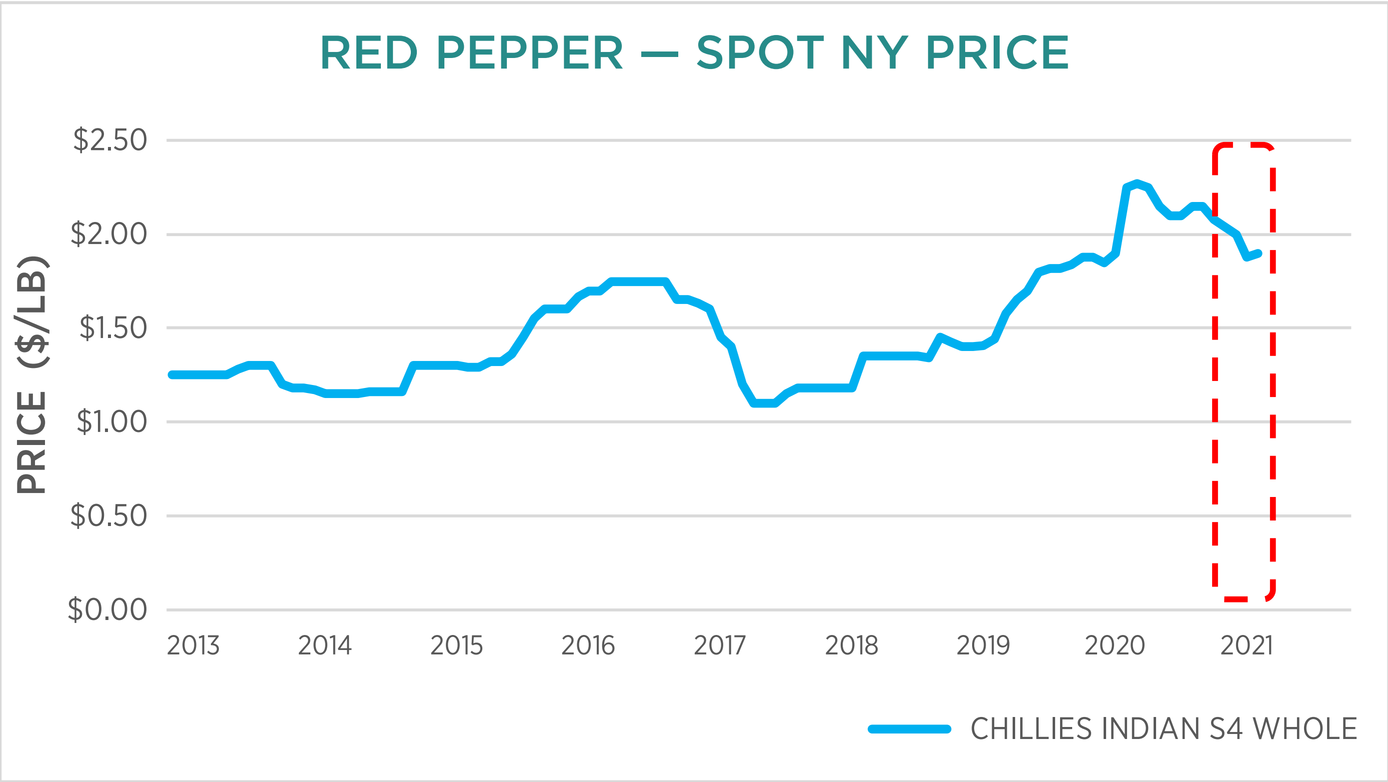
RED PEPPER REPORT APRIL 2021

Current Market

INDIA: Market arrivals continue to be almost 20% higher compared to last year. This is partly due to high stock levels still remaining, significantly higher than normal levels. However, good quality grade material is limited due to untimely rainfall received during the past few months.

The rising number of COVID-19 cases and domestic economic issues have placed the Indian Rupee under pressure, dragging the INR to a 10-month low against the USD, aiding competitiveness of exports.



CHINA: The red chili market in China has been fairly stable from November till now. New crop arrivals are slowing down after the Chinese New Year. There has been a slight increase in price of higher quality material after the New Year, since higher quality EU compliant material has been already bought up and is limited in quantity, while the lower grades still remain in the market. It is also likely that the lockdown and subsequent restrictions imposed in India could have resulted in some demand shifting to China.

Crop Conditions

CHINA: Last year, there had been a slight increase in acreage of hot chilies. Heavy rainfall in August-September affected yields, though weather conditions had been quite favorable during the sowing and transplanting stages, and final production has been estimated to have remained mostly unchanged from the previous season. Harvesting is complete in all areas.

INDIA: Harvesting has reached its peak in almost all regions.

In the northern state of Madhya Pradesh, which produces about 5% of India's total output, there was an increase in acreage of about 30%. However, unseasonal heavy rainfall, together with attractive prices for green chilies during the initial picking stages which limited the availability of red pepper, has resulted in a 20% reduction in production in the state compared to the previous year.

Further south, in the state of Karnataka which produces about 20% of India's total output, harvesting started in Nov – Dec and is now about 80-90% complete. Acreage has increased by over 30%, and production is expected to increase by about 20% this year. However, quality has been affected by unseasonal rains in Sept-Oct last year, as well as in February this year.

In the major red pepper growing states of Andhra Pradesh and Telangana which together contribute about 60-70% of India's total output, crop sowing was delayed due to untimely rains, and repeated sowings were needed in some areas. However, adequate water availability has created favorable conditions. There has been an increase in acreage of about 15-20% due to better prices compared to alternate crops like cotton and pulses, and total production is estimated to have increased by about 15%. In these states, harvesting has reached the last picking stage in many areas. Unseasonal rains in mid-February have affected the quality of material which is being harvested, and the higher moisture levels due to the unexpected rains could also result in Aflatoxin issues.

Further south, in the state of Tamil Nadu, the crop is in the developing stage, with planting delayed in some areas.

Overall production in India is estimated to increase by about 10% this year, and availability is also expected to be high due to the high carry-forward stocks currently remaining.

Under the influence of trough and cyclonic circulations over the south peninsula, scattered to fairly widespread rainfall and thunderstorms have been reported during the past week in the coastal regions of South-west peninsular India, including the states of Karnataka, Telangana and Tamil Nadu. These rains could affect farm operations, including harvesting & drying activities.

Market Scenario

Current market arrivals are higher than normal. With India facing a second wave of coronavirus infections, farmers are eager to sell off material before further restrictions are placed. Besides, stock levels in cold storages are running at record-high levels.

At the same time, there is a shortage of high-quality material having good color, as well as IPM material, and this has provided some stability to the market. Rainfall during the harvesting period in February has affected drying process, leading to deterioration of quality. The high moisture levels due to the rains could also lead to Aflatoxin issues. While supply is low for higher grade material, there is good demand.

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Price Forecast

INDIA: Considering the large stock levels remaining in cold storages, as well as increased new crop arrivals in the growing areas, there could be some selling pressure for normal grades. However, availability of higher grades as well as IPM quality material is expected to remain limited, keeping prices firm for such categories as demand picks up. Besides, global freight uncertainties could continue to plague the transportation industry.

With COVID-19 cases rapidly rising in India during the past few weeks, more restrictions are being imposed to control the spread of the pandemic. While these measures are not likely to affect farm operations, there could be some impact on market activities, transportation and processing operations.

CHINA: Prices have remained mostly stable during the past month. There are sufficient stocks currently available to meet demand. The direction of the market will depend to some extent on the new season acreage. Sowing and transplantation activities will start during the coming months.

Coverage Recommendation

There could be increased selling pressure for lower grades as arrivals increase in India. With increased production anticipated, conditions conducive for forward coverage can be expected. However, due to limited supply and high demand, prices are expected to be bullish for higher quality material.

It is advisable to cover for long-term requirements if prices are attractive.

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