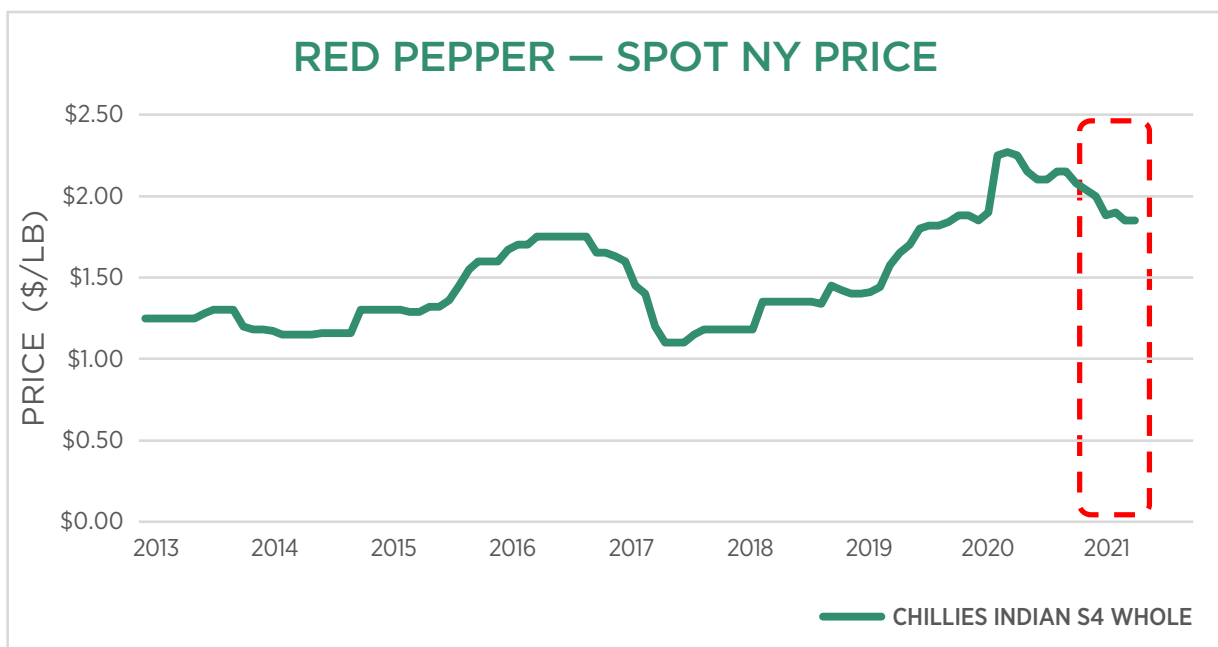


RED PEPPER REPORT

JUNE 2021

Current Market

INDIA: Market activity has been sluggish, bogged down by the summer break and also by restrictions imposed due to the surge in Covid-19 cases, which has severely affected all the red pepper growing states. Operations in the major trading yards are restarting this week after a short break. Trading in the primary markets had been suspended during the past month due to the customary annual summer break. Besides, market activity has been affected by the surge in Covid-19 cases recently. Partial lockdowns and other restrictions in the growing regions of peninsular India have affected trading activities and movement of material. After gaining against the USD during the latter half of May, the Indian Rupee fluctuated within a narrow band during the past fortnight. General commercial activities are expected to slowly pick up as the regional lock-downs and other restrictions are gradually removed.



CHINA: The red chili market has been quite stable since the beginning of the year. Crop arrivals have been slow. Prices of higher-grade material has moved up slightly during the past months since availability of good quality EU compliant material is limited.

Crop Conditions

CHINA: New season planting has started in some areas. Initial reports indicate the crop acreage could be smaller compared to 2020 due to competition from other crops as well as availability of adequate carry-over stocks. As new season planting starts, weather conditions during the coming weeks will be important.

INDIA:

Harvesting is over in all regions. Overall production is estimated to have increased by about 10% this year. Besides, with high carry-forwards stock levels currently remaining, there is good material availability.

However, the peninsular states of Andhra Pradesh, Telangana and Karnataka received unseasonal rains in February 2021, which had affected yields and also reduced the crop quality, raising the possibility of aflatoxin issues.

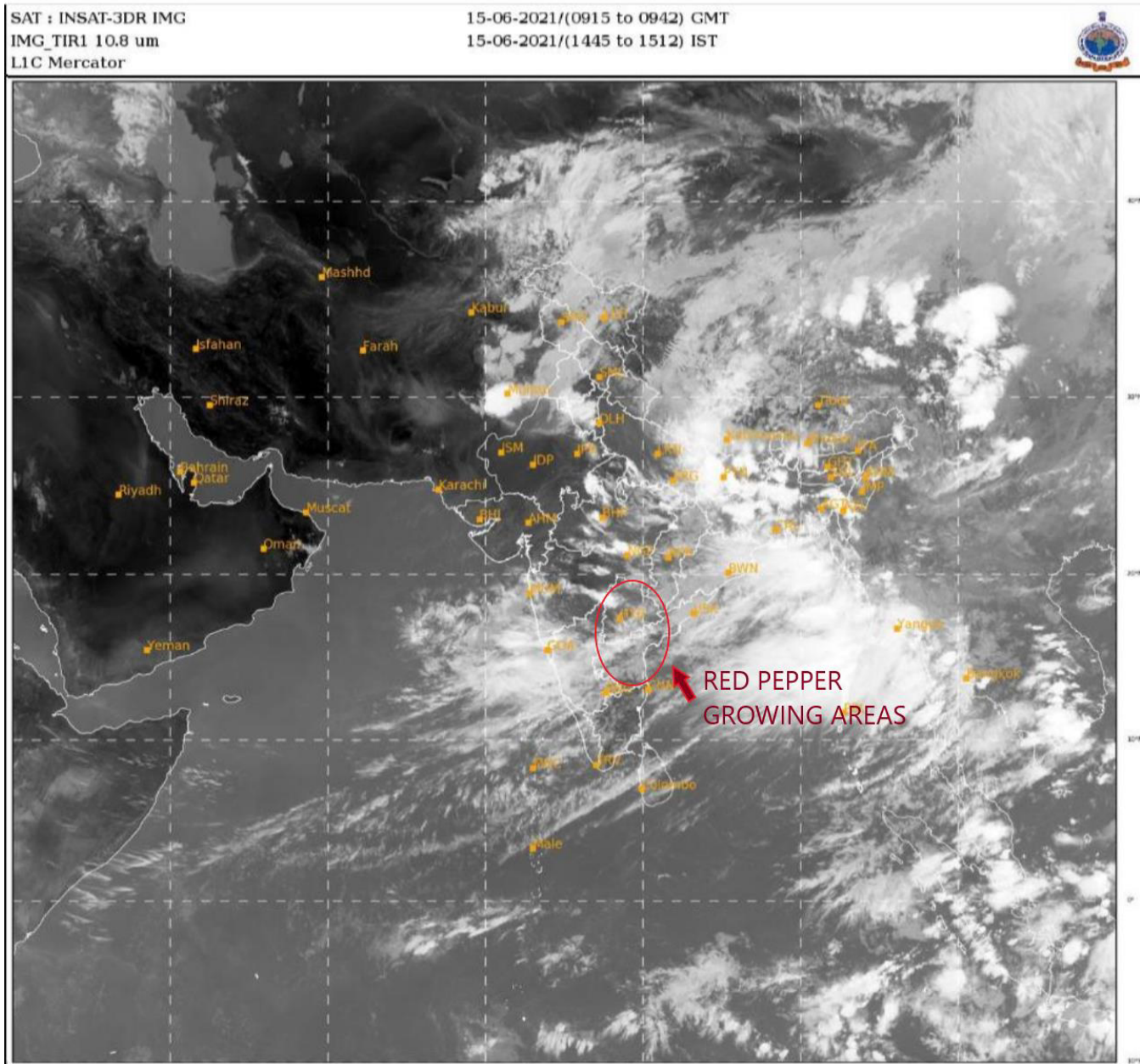
The state-wide lockdowns imposed during the past month have resulted in a drop in domestic demand, and farmers have been trying to move their stocks to cold storages. Many of the cold storages are slowly getting filled. Current stock levels in the cold storages are estimated to be about 10% higher than the quantity last year. With migrant laborers moving back to their home states due to the pandemic surge, there have been a minor shortage of labor for farm operations as well as in the trading centers.

The south-west monsoon has arrived over the Indian peninsular earlier this month and has been advancing rapidly, reaching the northwestern parts of the country this week, two weeks ahead of the normal onset. Most of the red pepper growing areas in south peninsular India have received widespread rainfall during the past fortnight.

During the past 24 hours, compared to a normal of 73.5mm, south peninsular India has received a total of 96.4mm rainfall, an increase of 31% from the long-period average.



New season sowing will start after the peak rains are over. Farmers have started procuring seeds for the next crop season.



Market Scenario

With a decline in demand due to the lockdown, stock levels in cold storages are higher than last year's levels. Harvesting is complete and new material arrivals are dwindling. Market prices are gradually strengthening as arrivals are mostly from cold storages.

There is a shortage of high-quality material having good color, as well as IPM material, and this has also contributed to the upward price movement. 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.

Price Forecast

INDIA: With harvesting over, new arrivals are diminishing rapidly. Warehousing costs will add to the price of material from cold storages. 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. Domestic demand is expected to recover once lockdown restrictions are removed, having a bullish effect on prices.

CHINA: There are sufficient stocks currently available to meet demand. The direction of the market will depend to some extent on the new season acreage. New season planting is slowly starting in some areas. Acreage could decline due to the large carry-over stocks remaining from 2020. At the same time, existing stocks have been moved to cold storages for the summer months. Cold storage costs are expected to have a bullish effect on prices. Recent reports indicate that a Delta variant coronavirus outbreak in southern China affecting the ports of Shenzhen and Guangzhou threatens to disrupt port services and delay deliveries, threatening to drive up costs.

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Coverage Recommendation

Increased selling pressure is expected for lower grades during the coming weeks. Conditions conducive for forward coverage can be expected as farmers try to sell off their material before farm operations start for the next season. However, due to limited supply and high demand during the post-lockdown period, 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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