IN THE MARKET

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India Attracting Attention Again

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Two notable developments in India over the last two months have generated heightened interest among pulse market participants around the world. One relates to the June 2 announcement of the reduction in import duty on lentils from 30% to 10% (for all non-U.S. origins) valid until August 31. The other is the decision to continue distribution of one kilogram per month of chickpeas to about 190 million vulnerable families, free of cost, until November.

The duty reduction on lentils did surprise many as the country had harvested an estimated 1.4 million (M) tonnes in March/April, but the government had its own logic. Even as farm-gate rates of major pulses (pigeon peas, chickpeas) continued to rule below the government specified Minimum Support Price (MSP), lentils defied the downward pressure to trade at 5,400 rupees (R) per 100 kilograms (kg) trading lot, some 12% higher than the MSP of 4,800 R/100 kg.

Concerned over inflation risk as a result of supply chain dislocation during April/May, following a national lockdown since March 25, the government has singled out lentils for a lenient import tax treatment for a limited period of three months. Firm lentil price also casts a shadow on the crop estimate itself.

Even before the duty reduction, lentils were arriving in India albeit in smaller quantities. Lower duty has provided a shot in the arm – an estimated 300,000 tonnes of lentils from various origins (mainly Canada) have been contracted for and over half the quantity has already landed.

Despite augmented supplies through imports, lentil prices in the domestic market continue to stay above the MSP. Will the government end the duty concession on August 31 or will it extend? That's the big question now. My belief is the government will take a call in the last week of August and evaluate depending on domestic prices, volume of import, and progress of monsoon.

Chickpea is another candidate waiting in the wings to enter the Indian stage. Currently, domestic chickpea rates are a fifth below the MSP of 4,850 R/100 kg. The National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) is holding chickpea stocks of well over 2 M tonnes of which close to 1M tonnes will be used for distribution of free ration until November. This is likely to lighten the inventory pressure.

Tanzania (East Africa) produces small quantities of chickpea. The crop is currently under harvest. India is likely to import about 50,000 tonnes Tanzanian chickpeas. There will be no import duty as import from least developed countries is exempt from customs duty in India (otherwise 60%).

Additionally, the country's festival season will begin in August and run to October when food consumption usually spikes. Despite the likelihood of low key festivities this year, there will be some improvement in pulse consumption demand, especially of chickpea flour.

Like lentils, there is no quantitative control on chickpea import, only an import duty of 60%. There will be parity for chickpea supply to India if export rates drop to around $400 per tonne, or India's import duty is reduced, or a combination of both. Australia is a potential supplier. We need to wait and watch.

Outlook

India has transitioned from the 2019/20 rabi crop harvest (mainly chickpeas and lentils) to the 2020/21 kharif planting season in which the main pulse crops are tur/arhar (pigeon pea), urad (black matpe), and moong (green gram).

As of July 24 (the latest date for which seeding data are available at the time of writing) the area coverage was 9.9 M hectares (24 M acres), as compared with 7.7 M hectares (19 M acres) this time last year. The unusually fast pace of seeding this season has surprised many in the trade, but it need not, with a closer look.

A combination of circumstances has contributed to a significantly faster progress of planting this season. In May cyclone Amphan in the east coast and in early June cyclone Nisarga in the west coast delivered soil moisture. The India Meteorological Department forecast a normal southwest monsoon this year. The onset was on target (June 1). Satisfactory progress of rains throughout June enthused growers who otherwise were idling because of the COVID-19 pandemic, national lockdown, and generally low-key economic activity.

Planting of kharif season crops started well in time and progressed rapidly. Not only pulses but the planting of other crops like oilseeds, cotton, maize, and rice has also overtaken last year's levels. Last year's seeding was delayed by 15-20 days as the monsoon was stalled until almost the last week of June. This year the planted acreage appears to be pacing well ahead of last year. However, the eventual planted area for pulses, in my opinion, will be in the vicinity of 13 M hectares (32 M acres) which is the last five-year average.

Unlike previous years, the Indian government has not set a separate production target for the 2020/21 kharif season pulses. There is reason to believe the target for this year is unchanged from the previous year, and that will be 26.3 M tonnes, comprising 10.1 M tonnes for kharif and 16.2 M tonnes for rabi season.

Currently, and subject to normal weather, India is well set to harvest about 8.5 M tonnes of kharif season pulses, a small increase over 8 M tonnes seen in each of the last two kharif seasons.

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