

Tightening Supplies Push Indian Pulse Prices Higher

By G. Chandrashekhar

The big story about the Indian pulse market so far in 2021 is that after languishing for well over three years, pulse prices in the domestic market have begun to move up, and in most cases are now well above the government mandated minimum support price (MSP).

For 2020/21, while MSP for pigeon pea is 60,000 rupees per tonne (approximately 820 USD/tonne), the open market rates are at least 10% above the MSP. Urad (with a MSP of 60,000 rupees/tonne) prices are higher than the MSP by 10-12% while moong (72,000 rupees/tonne) rates display wide variation depending on crop quality.

For domestic growers this is a welcome price performance. It is the result of lower-than-anticipated harvest size, gradually improving demand (after the COVID-19 pandemic caused demand destruction in 2020), and millers and traders emboldened to build inventory in anticipation of even higher prices.

The 2020/21 kharif (planting in June/July and harvest in September/October) crop size has now been scaled down by the government to 8.4 million (M) tonnes from 9.3 M tonnes estimated earlier in the wake of crop damage due to weather aberrations. Tur/arhar (pigeon pea), urad (black matpe), and moong (green gram) are the major kharif season pulse crops.

For the ongoing rabi season harvest, the government's crop estimate is 16 M tonnes (last year 15 M tonnes) comprising mainly 11.6 M tonnes of chickpeas and 1.35 M tonnes of lentils. A smaller second crop of urad (680,000 tonnes) and moong (600,000 tonnes) is also harvested in rabi season.

So, the revised kharif output of 8.4 M tonnes plus rabi harvest of 16 M tonnes takes the 2020/21 total to 24.4 M tonnes. It is less than the annual production target of 25.6 M tonnes set by the government.

Like last year, this year too, I suspect the Indian chickpea crop size is overestimated by at least 1 M tonnes. I would place the actual crop size between 10 M and 10.5 M tonnes. Yet, it is still a sizeable crop, placing a lid on chickpea prices at least for the time being. Currently, Desi chickpea is ruling 5-8% lower than the MSP of 51,000 rupees/tonne (700 USD/tonne).

It is clear, the Indian pulse market is currently witnessing tightening supplies, notwithstanding the harvest. If demand continues to improve as widely expected, the impact on domestic prices and by implication on food inflation, it may force the policymakers to review the trade and tariff policy.

For the global pulse trade, predictions are ominous. Last May, following the national lockdown and retail price rise, the government reduced the customs duty on lentils (from 30% down to 10%) and as a result close to 1 M tonnes of lentils flowed into the Indian market. While this season's MSP for lentil is 51,000 rupees/tonne (700 USD/tonne), current market rates are decidedly higher but only marginally.

The big question is: Where will pulse prices be 3-4 months from now when festival demand starts to kick in? If the prices continue to show a rising trend, there is a possibility the Indian government will review the rates of customs duty. In India, inflation expectations are running high with elevated global rates of crude oil and vegetable oil, both of which India imports in massive quantities.

In the 2021/22 Union Budget unveiled on February 1, the Indian government has rationalized and standardized the rates of customs duty on several imported commodities including pulses. All pulses currently attract a uniform rate of 10% basic customs duty (BCD). However, a new levy, called Agriculture Infrastructure Development (AID) Cess, has been introduced. The amount of Cess is such that the total duty payable by importers remains unchanged.

For Desi chickpeas it is 10% BCD plus 50% AID Cess. On lentils it is 10% BCD plus 20% AID Cess. It is only a change of nomenclature and the net effect remains the same.

The government has announced the import quota for the 2021/22 financial year for urad (400,000 tonnes), moong (150,000 tonnes), and tur/arhar (400,000 tonnes). While millers (actual users) alone were allowed to import until last year, this year millers and traders are allowed to import. Quota will be allocated equally to predetermined numbers of applicants through an algorithm based lottery system, the government notification says. Inclusion of traders has generated resentment among millers.

Developments in the second quarter of 2021 (April-June) will reveal the direction the Indian pulse market would take for the rest of the year. Domestic price behaviour, demand revival, currency movement, and forecast of the southwest monsoon are factors to be watched.

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