

# *The Significance of Dry Pepper Futures to China's Pepper Industry*

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**Abstract:** In recent years, many new futures varieties have been launched in China's futures market, such as apples, dates and pigs. Recently, the CSRC and relevant departments of the stock exchange jointly planned and launched a new futures variety -- dry pepper futures, which will be listed and traded in Dalian Futures Exchange in 2022. The listing of dried pepper futures has a very important pilot and demonstration significance for China's pepper industry and even the national agriculture. It is not only conducive to traditional agriculture to avoid the price volatility risk brought by market supply and demand through futures trading, but also to realize better circulation through standardized delivery, thus promoting the development of the entire agricultural economy. In this paper, through the investigation of guizhou local dry pepper planting and trading status quo, comparative study of the international pepper futures market status quo, the contract design and delivery standards of dry pepper futures put forward suggestions, and expounded the relevant influence and significance, pointed out the futures companies and business department development opportunities and countermeasures.

**Keywords:** Dry pepper futures, New varieties of futures, Industrial development

## **1. Background of China's futures market**

In the past 10 years, China's futures market has witnessed rapid development, with new futures varieties emerging endlessly, the market scale setting new highs and the operation quality continuously improving. Existing at present in China, Dalian Commodity Exchange, Shanghai futures exchange Zhengzhou Commodity Exchange, China financial futures exchange, futures exchange in Guangzhou and Shanghai international energy trading center, a total of six exchange futures products include the commodity futures and financial futures and options, futures and options, 72 species of 150 national futures companies, Total market capital is 1.2 trillion yuan. Futures markets are increasingly serving the real economy in both breadth and depth.

The continuous development of the futures industry needs the corresponding futures market derivatives to hedge the price risk [1]. As the main trading object of futures market, the variety of futures contracts and their combination with industries are of great significance to the development of related industries. With the innovation and development of China's futures market, more and more new industrial varieties related to national economy and people's livelihood have been launched, such as apple futures, pig futures and peanut futures. As a futures variety closely related to the pepper industry, the dried pepper futures have entered the substantive preparatory stage and will be listed on

the futures exchange in the short term in the future, which will effectively promote the development of the dried pepper industry and the implementation and development of China's beautiful rural revitalization strategy.

## **2. Status and demand analysis of China's dry pepper industry**

### **2.1. Status and industry chain of Chinese pepper industry**

China is the world's largest pepper producer and consumer, with more than 30 million mu of production area and 40 million tons of pepper production, accounting for about 40% of the world's pepper sown area [2]. At present, it has formed six major regions and eight distribution centers. In terms of the distribution of growing areas, there are 28 major pepper growing provinces, 16 key pepper growing areas, and 8 provinces, including Guizhou, Jiangxi and Hunan, with a growing area of more than 1 million mu.

The middle and upper industrial chain of pepper mainly includes pepper planting, pepper processing, pepper storage and transportation, packaging and other links [3]. The downstream demand is divided into three levels: first, it is directly processed into pepper powder, pepper segments, etc., which are sold to the catering industry and consumers or used as auxiliary materials for mustard processing; Second, chili condiments, food processing, chili sauce, oil chili, bean sauce, etc. Three is used as chemical raw materials or chemical supplies, such as extraction of capsaicin, capsaicin and so on.

China's downstream demand for pepper is increasing year by year. There are two reasons: first, the widespread spread of spicy food customs, especially the popularity of Sichuan, Hunan, Guizhou and other spicy cuisine, leads to the domestic demand for pepper and its processed products will maintain a growing momentum; Second, with the further exploration of pepper's medical, health, beauty and other functions, people's demand for deep-processed pepper products continues to grow.

### **2.2. Dry pepper futures contract and delivery standard**

Dry pepper futures are to dry pepper as the subject of the futures contract. Up to now, the research team of Dalian Commodity Exchange has got a basic understanding of the status quo and delivery demand of the dry pepper industry through in-depth research on the main producing areas, leading enterprises and large markets of the pepper in China.

From the delivery varieties, the quality of dry pepper is numerous, according to the pepper type can be divided into small pepper, large pepper, line pepper three series. And pepper is mainly used for the whole pepper trade, the ordinary people are most familiar with, can also be used to cut silk pieces, grinding and other primary processing, the most suitable for inclusion in the current delivery range.

In addition, from the point of view of delivery standards, the current market water content of less than 20% of the dry pepper is more common, but futures delivery grade requires water content  $\leq 14\%$ .

Due to the unbalanced development of the dried pepper industry, the price of dried pepper fluctuates violently.

## **3. Comparative analysis of dried pepper market at home and abroad**

Asia is the main producer of dried pepper in the world, accounting for 72.45% of the area and 68.18% of the output in the world respectively [4]. India is the largest producer of dry pepper in the world, accounting for 43.86% of its area and 35.45% of its output. China is the world's second largest producer of dry pepper, but its area and output only account for 2.58% and 7.83% of the world's total.

India, China, Spain and Mexico are the main dry pepper exporters in the world, accounting for 80.73% of the world's exports. India is the world's largest exporter of dried chillies, accounting for 43% of world exports annually, while China is the second largest, accounting for 25.47% of world exports [5]. The United States is the world's largest importer of dried chilies, accounting for 17.62 percent of world imports.

Although China's output and export of dried pepper are lower than India's, the output and demand of the whole pepper are the largest in the world, indicating that China is a big pepper consumer in the world [6]. As a small variety of pepper, dried pepper is easy to be stored, transported and delivered, and the standard is relatively stable. If dried pepper is selected as a listed futures variety, it will effectively promote the development of China's pepper industry, improve the development quality and international competitiveness of China's pepper industry.

#### **4. Significance of dry pepper futures listing to dry pepper industry and futures market**

Dry chili futures listed on China's dry chili pepper and even the whole industry has the special significance, on the one hand, can promote the development of the futures market, on the other hand for farmers and merchants to provide a method that can avoid price risk, thereby increasing the stability of the pepper industry in, thus to promote agricultural and consumer markets [7]. In addition, as a new variety of agricultural futures, its launch is also conducive to the implementation of the national rural revitalization plan, from the policy sense is a practice example of innovation system, can be promoted to more agricultural products industry, has a demonstration significance.

#### **5. Opportunities and countermeasures of dry pepper futures**

Behind every new species represents a rapid development of industry and tens of thousands of practitioners, including a large number of listed companies and enterprises, manufacturers, suppliers and end customers, new varieties, to participate in the variety of spot trading unit with delivery platform and hedging tools, interested in the variety of the traders have the investment target. All these can greatly increase the total amount of business of futures companies and business departments [8]. By digging industrial logic in advance, enhancing the ability to analyze industrial development and grasp opportunities, and enhancing the professionalism of serving customers, we can quickly establish the leading position and competitiveness in the industry, so as to achieve transcendence.

At the same time, for some futures companies with the advantage of agricultural products investment and research, the establishment of investment and research team and research depth of dry pepper futures will continue to improve the company's investment and research strength in the whole industry, so as to enhance the industry competitiveness of the whole company.

#### **6. Conclusion**

Dry pepper futures are a new futures variety launched by China to support the development of agricultural industry, which provides a powerful financial hedging tool for the pepper industry and will effectively promote the development of the pepper industry. Futures companies should seize the opportunity to improve their investment and research strength and service ability, so as to obtain the dividends of the development of the futures market.

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