PULSE MARKET REPORT

July 2017

SASKATCHEWAN pulse Growers

PEA AND LENTIL MARKETS ON THE UPSWING

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This article is being written in late June during the last few weeks of the 2016/17 crop year, and just before the Statistics Canada (StatCan) crop planting estimates for 2017/18 get published.

Peas

The markets for current crop peas have become quiet. Old crop volumes are winding down, buyers have made their first tranche of new crop purchases weeks ago, and are not likely to re-enter the Canadian market for a while. In addition, other origins in Europe/Eastern Europe are close to harvest and are more active in offering new crop product into the Indian subcontinent. This means that, unless major weather issues develop in Canada, there will not be a lot new pricing opportunities over the summer.

Nonetheless, we have had a very successful 2016/17 marketing year for peas, which should be remembered for record exports and usage. For example, year-to-date bulk pea shipments as of June 11 (latest data) reached 3.24 million (M) tonnes. This is 974,100 tonnes and a full 43% ahead of last year's bulk pea exports. Year-to-date (April) StatCan export shipments (including container exports) reached 3.5 M tonnes, and are 1.2 M tonnes or 53% ahead of last year's export shipments. This is a phenomenal increase over past exports by all measures.

Importantly, pea exports to every single significant destination are up over the previous record year, signifying that the increases are not solely based on pulse production shortfalls on the Indian subcontinent, but represent a more wide-ranging shift in demand for peas. We think this is based on the relatively low price of peas combined with a noteworthy versatility of use. Peas can be used for food (split, whole, milled) and feed (pork feed, pet food, and aquaculture feed), and for fractioning into protein, starch, and fibre. The latter uses are gaining increased attention by the food industries in several countries (China, India, Europe, and North America), and will involve increasing volumes of peas, because peas are also inexpensive relative to other pulses, wheat, and other protein sources. Mercantile Consulting Venture has been using a 3.8 M tonne pea export number since last fall, but we now think that Canada will export a record 4 M tonnes of peas this year.

The success of the 2016/17 marketing campaign for peas is significant to the new crop year in that it also reduces the carry-in of peas to manageable levels. Remember, we started the 2016/17 crop year with a big 5 M tonne pea supply, and we think that ending stocks will be at roughly 250,000 tonnes, a small 5% stock-use ratio.

For 2017/18, we calculate a smaller 4.4 M tonne supply (reduction in acres by 4% and small carry-in, while StatCan is using 5.9% less acres). Depending on weather and pulse acres on the Indian subcontinent, exports could drop to 3.2

2016/17: Year-To-Date Pea Exports by Importing Country (in Tonnes)

Country	Total YTD (April '17)	Last YTD (April)	% of Last Year
World	3,479,633	2,269,407	1.53
India	1,710,033	1,044,516	1.64
China	888,525	668,878	1.33
Bangladesh	417,314	250,473	1.67
Cuba	81,000	65,110	1.24
France	43,032	205	209.91
United States	90,142	76,196	1.18
Mynamar	33,078	17,913	1.85
Colombia	23,569	16,814	1.40
Algeria	6,472	3,302	1.96
United Arab Emirates	28,452	14,599	1.95
Philippines	22,430	18,564	1.21
Others	135,586	92,837	

Source: Mercantile Consulting Venture Inc. based on StatCan data

2016/17: Year-To-Date Lentil Exports by Importing Country (in Tonnes)

Country	Total YTD (April '17)	Last YTD (April)	% of Last Year
World	2,118,415	1,966,090	1.08
India	721,822	793,544	0.91
Turkey	344,404	385,794	0.89
Bangladesh	138,398	67,600	2.05
Egypt	67,145	49,840	1.35
Sri Lanka	77,146	80,935	0.95
United Arab Emirates	165,400	158,045	1.05
Pakistan	139,278	67,600	2.06
Spain	44,341	37,490	1.18
Italy	19,904	17,846	1.12
Algeria	56,007	67,151	0.83
Mexico	27,073	11,834	2.29
Morocco	28,202	7,532	3.74
Colombia	40,990	38,167	1.07
Other	248,305	182,712	1.36

Source: Mercantile Consulting Venture Inc. based on StatCan data

M tonnes next crop year. But even given the lower exports, 2017/18 ending stocks would still be around a decent 355,000 tonnes (a 9% stock-use ratio). Unless yields turn out exceptionally high, next year's peas do not look oversupplied to us.

Lentils

Demand for lentils has been subdued recently, and the spread between old crop and new crop values is narrowing. That is not unusual for this time of year. Many green lentil buyers topped off their supplies in late spring and are now waiting for fresh new crop product, and interest for red lentils is limited during Ramadan. The recent strength of the Canadian dollar is also exerting pressure on prices.

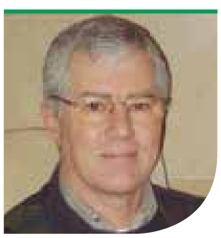
While new sales have slowed, execution of old sales has continued. Exporters loaded another 5,800 tonnes of bulk lentils in Vancouver during week 45 (latest data), bringing year-to-date bulk lentil shipments to 799,400 tonnes. This is 30% (or 184,000 tonnes) ahead of last year's bulk exports. Bulk and container exports combined for 2016/17 to the end of April stand at 2.1 M tonnes, up 8% from last year-to-date. While the 2016/17 lentil exports are on record pace, they are not quite as impressive as those for peas. This is because two major buyers, India and Algeria, are 9% and 17% behind last year's pace, respectively. India had an unusually large pigeon pea crop last year (approximately 4.5 M tonnes versus 2.5 M tonnes the year prior), and Algeria simply seems to be buying fewer lentils (Canada holds 95-98% market share in the Algerian market). While lentils are used for food and blending, their use is not quite as versatile as that for peas, partly because they are a pricier pulse, harder to use in substitutions.

Mercantile is using 2.4 M tonnes of exports for Canada this crop year, which should bring the supply down from 3.5 M tonnes at the start of the crop year to 450,000 tonnes ending stocks by the end of July, a 15% stock-use ratio. Most of the carry-out is of inferior quality, with limited use for next year's export markets.

We think this year Canadian lentil acres dropped by approximately 18% (StatCan is using 25%), and we calculate a 2017/18 supply of 3.55 M tonnes. We expect exports to drop somewhat next year to around 2.2 M tonnes if pulse seeding and crops turn out well on the Indian subcontinent. This means that next year's ending stocks could increase to 650,000 tonnes in our scenario (including last year's low quality stocks). Should the acreage be as small as the StatCan forecast, then ending stocks will be significantly smaller at 250,000 tonnes.

Marlene Boersch is an operating partner in Mercantile Consulting Venture Inc. More information can be found at www.mercantileventure.com.

CHANGES IN INTERNATIONAL DEMAND CREATE OPPORTUNITIES FOR GROWERS



Brian Clancey
STAT Publishing Ltd.

The slower start to seeding this year's crops has left markets wondering about Canada's ability to meet opening season export commitments. If the past decade has taught us anything, it is that weather conditions when crops are maturing and during harvest are more critical.

Initial seeding progress this year is similar to 2013 and 2014. In 2013, over half the pea and lentil crops were in the bin by the end of August. The following year only a quarter of the lentils and less than half the peas were in the bin.

Long-range weather forecasts suggest this season could finish with drier conditions than it began. Should that be the case, this year's harvest could also be at least half complete by the end of August.

Such progress makes a critical difference to Canada's ability to meet opening season sales commitments. During the past five years, farmers have been able to sell an average of 23% of all lentils harvested and 28% of the pea crop during August and September.

Opening season demand for lentils ranged from a high of 26% in 2015, to just 17% in 2012. The best year for peas was also 2015, when 33% of the crop was sold by the end of September, while 2012 was the slowest start, with 22% of the crop sold while the harvest was still underway.

Off-farm movement of peas tends to drop significantly after September before picking up again between February and April. Demand for both red and green lentils is usually best between September and November. Afterward, it tends to be steady through June, with farmers delivering around 7% of all the lentils they will sell each month.

One thing that can change demand during the marketing year are problems with India's pulse crops. If production of tur or pigeon pea is down, exports of green lentils tend to get a boost during the fall shipping period. If there are problems with Desi chickpeas and red lentil crops grown during the winter or rabi season, demand can get a boost in the spring and again in the fall shipping period.

Canadian Field Pea (Green and Yellow) Percent Sold By Farmers By Month

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
August	13%	13%	7%	13%	17%	11%	14%	19%	18%	16%	15%
September	15%	10%	7%	12%	14%	11%	13%	13%	15%	13%	13%
October	17%	4%	10%	7%	9%	6%	8%	7%	7%	6%	7%
November	10%	6%	7%	8%	10%	6%	6%	9%	7%	8%	7%
December	8%	8%	9%	8%	5%	7%	6%	5%	6%	6%	6%
January	10%	6%	6%	10%	4%	6%	7%	6%	6%	7%	6%
February	7%	11%	8%	7%	7%	13%	7%	6%	8%	12%	9%
March	7%	11%	6%	11%	8%	10%	4%	6%	8%	12%	8%
April	6%	10%	11%	8%	6%	13%	6%	9%	6%	10%	9%
May	3%	11%	8%	6%	6%	9%	12%	6%	6%	6%	8%
June	2%	6%	11%	5%	5%	4%	9%	5%	4%	2%	5%
July	3%	4%	11%	5%	9%	3%	8%	7%	9%	2%	6%

Last summer's kharif crop set production records, which dampened demand for green lentils last fall. This year's rabi crop will also set production records, which could result in reduced imports this fall.

However, because prices paid to farmers have fallen below the country's minimum support price, land in pulses is expected to drop this summer and again in the winter. The combined harvest from this summer's kharif crop and next winter's rabi crop could drop from 22.4 to 19.4 million (M) tonnes.

But, India's pulse supply should be looked at on a calendar year basis instead of by marketing year. Domestic supplies of pulses plunged from 19 to 16.7 M tonnes in 2015. They jumped to 19.1 M in 2016, and should total 19.5 M this year, despite an expected collapse in summer or kharif season pulse production. The impact of the expected drops in pulse output will be felt more in 2018, when India's domestic supply of pulses could drop to 18.3 M tonnes.

Canadian chickpeas may also benefit from the potential decline in rabi season pulse production because of a possible decrease in competition for available demand during the first quarter of 2018. Kabuli-type chickpeas are the only pulse that can be freely exported from India. During the last five years, exports averaged 207,000 tonnes per year, ranging between a low of 121,000 last year, to a high of 372,000 tonnes in 2013.

Canada grows mainly 8mm, 9mm, and smaller calibre Kabuli-type chickpeas, and India is one of several countries which compete for export sales. However, like Russia, the origin is not considered a reliable shipper if prices move above the original sales contracts. The result is that prices may need to be lower than those which can be obtained by exporters in Canada and the United States (U.S.).

For Canada, the U.S. is the most important chickpea competitor on North American domestic and international markets. While Canadian production could increase from 85,000 to 114,000 tonnes this year, output in the U.S. could leap from 247,000 to 356,000 tonnes.

Domestic demand for chickpeas has been trending upward because of increasing consumption of hummus. Even so, the volume of chickpeas available for export should be up significantly over last year.

Canadian Red Lentil Percent Sold By Farmers By Month

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
August	9%	10%	7%	5%	9%	13%	10%	6%	14%	11%	11%
September	13%	21%	18%	10%	8%	8%	12%	15%	25%	17%	15%
October	10%	15%	18%	16%	10%	5%	9%	14%	18%	15%	12%
November	8%	9%	14%	12%	5%	2%	6%	14%	12%	13%	9%
December	9%	8%	10%	7%	2%	3%	8%	8%	8%	9%	7%
January	6%	9%	10%	11%	9%	8%	5%	9%	4%	4%	6%
February	8%	8%	7%	9%	7%	9%	6%	7%	3%	6%	6%
March	6%	6%	6%	6%	9%	15%	6%	5%	4%	3%	7%
April	8%	5%	4%	4%	8%	11%	15%	10%	3%	7%	9%
May	8%	3%	2%	3%	11%	7%	8%	6%	5%	7%	7%
June	7%	4%	1%	7%	7%	13%	8%	4%	3%	6%	7%
July	8%	2%	1%	9%	14%	6%	7%	3%	1%	2%	4%

Canadian Green Lentil Percent Sold By Farmers By Month

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
August	12%	7%	4%	5%	10%	7%	6%	10%	8%	5%	7%
September	10%	9%	10%	10%	13%	8%	7%	10%	13%	13%	10%
October	10%	9%	12%	11%	14%	8%	9%	8%	14%	16%	11%
November	8%	8%	13%	10%	12%	8%	9%	7%	15%	17%	11%
December	7%	6%	12%	8%	8%	8%	8%	7%	12%	11%	9%
January	6%	8%	11%	9%	5%	7%	7%	7%	8%	7%	7%
February	7%	12%	10%	11%	6%	8%	7%	8%	7%	5%	7%
March	7%	10%	8%	9%	7%	8%	9%	9%	6%	4%	7%
April	9%	11%	8%	7%	6%	10%	9%	11%	5%	7%	8%
May	7%	9%	6%	7%	6%	10%	9%	10%	6%	7%	8%
June	8%	5%	4%	7%	6%	10%	10%	6%	5%	6%	7%
July	7%	4%	4%	6%	7%	7%	10%	6%	2%	2%	5%

Source: Calculations are based on Statistics Canada trade data using formulas developed by STAT Communications Ltd.

The impact that will have on price is being moderated by bullish market fundamentals for large calibre chickpeas. Mexico did not grow enough to meet North American domestic and export demand, with the result prices have risen to levels which ration demand. This has driven some demand into smaller calibre chickpeas, with prices pulled upward.

Growers outside North America are responding to improvements in prices for Kabuli-type chickpeas. Output in Argentina will increase, but that country's exporters have not been chasing buyers, though they have been steadily selling new crop product for shipment after November.

Canadian chickpea growers could face an interesting market situation. World prices should remain firm in the face of fundamental shortages of large calibre product. This should support prices for smaller calibre Kabuli chickpeas. But, with other origins filling in new crop demand and some buyers hoping next spring's harvest in Mexico brings price relief, it could be more important to take advantage of chances to sell than to hope prices find a new, higher plateau.

By the same token, end users may be frustrated by bullish sentiment extending from processors to growers. Most do not believe supplies will increase enough to force prices significantly lower until at least next spring's harvest in Mexico.

All things being equal, green lentil movement could be helped this year by the expected drop in kharif or summer pulse output. This is because the main pulse grown in the summer is tur or pigeon pea and some millers substitute green lentils when domestic supplies are tight and prices are competitive with other pigeon pea exporters.

By contrast, demand for yellow peas and red lentils is expected to decline this fall because of record Desi chickpea and red lentil harvests. However, if farmers reduce pulse area during the coming rabi planting season, demand from India should improve after February, and again during the fall of 2018.

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Faba Bean Feed Benchmark Bi-Weekly Report - June 18 to 22, 2017

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN$/T	CDN$/T	CDN$/T
Faba Bean Feed Benchmark Price	**$314.12**	**$298.92**	**$281.67**
COMPETING FEED INGREDIENTS			
Feed Barley	$160.00	$160.00	$175.00
Mid Protein Wheat	$195.00	$200.00	$220.00
Low Protein Wheat	$190.00	$195.00	$210.00
Wheat DDGS	$215.00	$215.00	$235.00
Corn	$220.00	$202.00	$175.00
Corn DDGS	$225.00	$199.00	$172.00
Canola Meal	$345.00	$345.00	$353.00
Soybean Meal (46%)	$495.00	$461.00	$427.00
Canola Oil	$1,120.00	$1,120.00	$1,120.00

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - June 18 to 22, 2017

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN$/T	CDN$/T	CDN$/T
Feed Pea Benchmark Price	**$307.58**	**$291.26**	**$260.57**
COMPETING FEED INGREDIENTS			
Feed Barley	$160.00	$160.00	$175.00
Mid Protein Wheat	$195.00	$200.00	$220.00
Low Protein Wheat	$190.00	$195.00	$210.00
Wheat DDGS	$215.00	$215.00	$235.00
Corn	$220.00	$202.00	$175.00
Corn DDGS	$225.00	$199.00	$172.00
Canola Meal	$345.00	$345.00	$353.00
Soybean Meal (46%)	$495.00	$461.00	$427.00
Canola Oil	$1,120.00	$1,120.00	$1,120.00

All prices are in Canadian dollars per tonne.

The feed pea and faba bean benchmark is intended to be used as a pricing reference. This benchmark provides a consistent and unbiased estimate of the feeding value of peas and faba beans in the three regions shown. Feed peas and faba beans will trade at various differentials to the benchmark based on local supply/demand, quality differences and other contract terms.

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