

AUSTRALIAN PULSE MARKET REPORT DECEMBER 2017



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Pulse crops around Australia have endured variable weather conditions, none of which have supported the production levels forecast in September. It has been a very frustrating time for all participants in the supply chain. The

underlying issue was lack of rain.

Desi Chickpeas

Exports of Desi chickpeas came in just under 2.27 million (M) tonnes, which exceeded most trader's expectations. Of this massive tonnage 63% was shipped to India and just under 20% to Pakistan. Indian imports were 209% of 2015/16 tonnage and Pakistan just under 270% of the previous year.

Pulse Australia's October forecast was more optimistic than many in the trade as the lack of rain continued in many areas. Harvest started in early October in Central Queensland (CQ), but yields were down from initial estimates of 28 bushels per acre. As harvest progressed, yields dropped and rain prior to the end of harvest caused further quality issues due to mould damage. Harvest is still happening in New South Wales (NSW), but yields are significantly down there as well.

With all the production uncertainties, the market was equally as fickle. A major decrease in the Toro price lead to further instability and softening of pulse prices in India. In the last two weeks, the Indian Government has created uncertainty by imposing a 50% duty on pea imports effective from November 11. At the time of writing Desi chickpeas were offered as low as 675 USD cost and freight (CFR) to Indian main port. The traders surveyed came up with a final production number between 700,000 to 850,000 tonnes. The late rain has created several issues like mould, dirt as plants were knocked down, and more damaged grain due to less bulk at harvest.

Lentils

Exports for 2016/17 came in at 859,000 tonnes. Ongoing quality issues with the Canadian crop certainly aided the Australian sales campaign into a number of markets like Bangladesh, Egypt, India, Pakistan, Sri Lanka, Turkey, and the United Arab Emirates, all recording massive increases in imports from Australia over the year. Unfortunately, lentil prices steadily declined during the same period with defaults being an ongoing problem for exporters.

The lentil crop in South Australia (SA) had picked up with some later rain, while in Victoria the scene looked set for a very good crop. However, in the Mallee area, frosts caused a loss of yield

Australian Pulse Production & Exports Summary - December 2017

	Desi Chickpeas	Faba Beans	Dun Field Peas	Red & Green Lentils
Production Estimate October 2017	1,181,900	304,900	276,900	539,400
Australian Bureau of Agricultural and Resource Economics and Sciences Production Estimate - June 2017	1,416,000	368,000	256,000	525,000
Survey of Traders Estimates, December				
Production 2017/18 (in tonnes)	700-850,000	350,000	250-300,000	500-550,000

Export Data

November 2013 to October 2014	646,834	360,280	161,707	306,713
November 2014 to October 2015	678,606	301,011	161,151	211,608
November 2015 to October 2016	1,145,140	263,349	129,831	193,151
October 2016 to September 2017	2,269,864	414,692	253,035	858,954

Source: Bureau of Statistics, Pulse Australia Note: Area in hectares, production and exports in tonnes

due to immature seeds freezing and dropping off. The net effect will be a lower yield but quality will be fine. On November 4 there was a significant frost event which affected many lentil crops in the Wimmera region. Just over a week later heavy rain fell on much of the same area causing further damage, quality issues, and yield loss. The full impact of these adverse weather events will not really be known until harvest, which should start in two to three weeks. The same frost in the Wimmera area caused much damage to the Kabuli chickpea crops.

Lentil production for the current year is now estimated between 500,000-550,000 tonnes, but there will be quality issues for much of the Victorian crop.

Faba Beans

Planted area in 2017 was estimated at 30% less than in 2016, driven by the low prices. Yield in the SA crops will be lower than normal, due to a lack of moisture. The crops in Victoria, like all the pulses, were looking excellent until rain and frost occurred. In NSW the situation was much worse again, due to inadequate moisture. Normally the export program to Egypt kicks off with NSW faba beans shipped from late October onwards, but this year it just did not happen. While the estimated production is 300,000-350,000 tonnes, this may well prove to be optimistic.

Faba exports this last year were a record 415,000 tonnes, with Egypt taking almost 70%. It may well be that Australia will run out of faba beans prior to harvest in 2018

Field Peas

Exports of field peas were significantly higher than in previous years. While India accounted for just over 50%, it was very interesting to note that exports to China were just over 21,000 tonnes. Estimated production is 250,000-300,000 tonnes which again may be a tad high. Pea prices

of late have been hit more than other pulses, due to the Indian Government import duty

To conclude, while a normal finish would have delivered higher production numbers, the lack of rain followed by rain at harvest will result in lower production and quality issues still to be quantified once harvest is complete.

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LESSONS I HAVE LEARNED



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"No one ever went broke by taking a profit."

- Jesse Livermore (American investor: 1877 - 1940)

On November 8, 2017 India announced that all pea imports would be subject to a 50% tariff. The tariff

went into effect immediately and any shipments that had not cleared customs, were loading in their country of origin, or on the water sailing to India would all be affected. The impact was immediate in Western Canada with yellow pea prices free-falling until they had reached the highest weekly drop in cash prices ever recorded. Farmers that still had uncommitted yellow peas for sale watched their gross revenue on a 40 bushel per acre crop fall from \$320.00 an acre

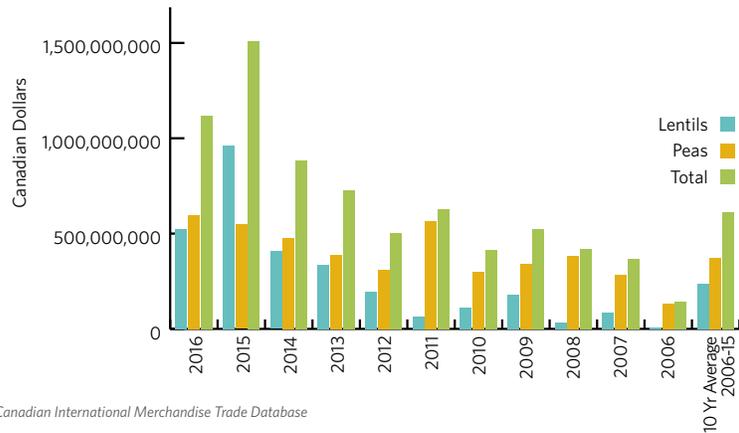
on Friday, to \$236.00 by the following Friday. Some of the importers I have spoken to have no plans to import any pulses until this matter is resolved, or the price of pulses at the wholesale level rises to make a trade worthwhile. Most exporters were trying to divert pea cargoes that had not cleared to other destinations. Importers in other countries were willing buyers - at a discount equal to the tariff imposed by India. Farmers, who had product left to sell, were chasing a market that did not exist for the better part of a week, and the market is still not normal in the third week of November. While some companies posted a price for yellow peas, it was an indication only with no contracts being issued.

On November 16, the Indian government removed all curbs to export pulses. The Indian Pulses and Grains Association believes that this measure will improve the prices paid to Indian farmers, and possibly expand the area now growing pulses in their country. It is estimated that up to 500,000 tonnes of pulses in Government storage could be exported or re-exported to other countries. At face value, this is not nearly as negative for prices as the November 8 measure. In fact, the removal will allow for a more rapid stock decrease had there been no changes. Back-to-back pulse production of 22 million (M) tonnes in India will change trade flows and seeding expectations in North America, Australia, and the Black Sea regions. India has been a very important pea market for Canada, however, I expect pea trade to drop to 2007 through 2010 levels.

As a farmer, Livermore's quote at the start of this post should ring true if you still have peas left in the bin. A grow-and-hold mentality worked well for the past nearly seven years, then it changed. India has been working on self-sufficiency in pulses for as long as I can remember. Two record crops in a row do not equate to self-sufficiency but it does serve as a stark reminder that trade can and does change rapidly. Market complacency is one of those life lessons that you should only have to learn once.

October and November have transformed into a statistical wasteland for Canadian pulse production estimates. There has been nothing new released since September 19. In the past, reliable production data was available in August and September, with the final production

CANADA: Fiscal Year Dollar Value (Pea and Lentil Exports to India, 2006 - 2016)



Source: Canadian International Merchandise Trade Database

estimates released in December. I say reliable because they had some farm and farmer input. The September estimates (released in October) have now become model-based (weather and Normalized Difference Vegetative Index - NDVI). There have been rumblings in Ottawa this fall that the entire production estimates may be moved to a model-based formula as farmer pushback on phones and the inaccuracies of data received, have prompted the department to look at alternatives. Until then, December 6, 2017 is when the final 2017/18 crop year estimate will be released, final with these footnotes: the estimate may be changed anytime within a two year period and, in a census reporting year as this one is, data can be altered in the previous five years. Traders are expecting more peas and lentils as farmer reported yields eclipsed both the July and September Statistics Canada releases. Pay close attention to the final release and any revisions made in the previous five years. This is not a year where an extra 100,000 tonnes won't make a difference.

A La Niña event is officially here. I print that with some trepidation because the last three El Niño or La Niña events have been a bust. In early October, Drew Lerner from World Weather Inc. reported that the La Niña of 2017 will have more staying power than the last La Niña event that unfolded in 2016. Because there is longer available data for wheat yields than pulses in Western Canada, a comparison of wheat yields

in El Niño versus La Niña years should have everyone fearing a La Niña episode over an El Niño event. Last year's crops will be remembered for surviving on subsoil moisture. For 70% of Saskatchewan, that reserve is now gone and the latest drought maps from Agriculture Canada have areas that are drier than 1988, 1995, and 2002. Pay close attention to the drought maps released each Monday from now until seeding. There are already farmers who are modifying seeding plans to adapt to the changing conditions.

As this is my last contribution in 2017, I'd like to wish everyone a Merry Christmas and a prosperous New Year. For farmers, may your rainfall be just right, for the trade, may your vessels arrive and depart on time, and for everyone, health and happiness in 2018.

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