

## ANTICIPATING PEA AND LENTIL SEEDING INTENTIONS FOR 2018



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Over the winter of 2018, the Canadian pulse markets continue to be primarily defined by the consequences of the sharp turn towards protectionist policies in India. After imposing quotas on tur,

moong, and urad in August 2017, the Government of India imposed a 50% duty on peas in November, and a 30% duty on lentils and chickpeas in December. The latter duty has since been raised to 40%, and further surcharges have been raised from 3 to 10%.

India had taken 49% of all Canadian peas and 37% of all Canadian lentils exported from Canada in the last crop year, so the effects of the tariffs have been profound. To date, 2017/18 pea exports to India (to the end of December 2017) are down by 628,000 tonnes relative to last crop year, and currently represent a mere 20% of total pea exports. Year-to-date 2017/2018 lentil exports to India are down by 368,000 tonnes relative to last crop year, and today represent 19% of total lentil exports. Most of the pulse shipments that reached India were shipped before the tariff imposition, and since then pulse imports by India have fallen to a trickle.

From India's point of view, the primary goal of the whole exercise was to increase domestic pulse prices so that the government did not have to engage in subsidy payments to Indian pulse growers. Domestic prices have indeed gone up because of the much-reduced competition by imported pulses, but not nearly as much as anticipated. This is raising questions about the effectiveness of the quota and tariff interventions, but there are no signs of a change in direction. To the contrary, tariffs on sugar have been further increased to 100% and there is talk about additional increases in vegetable oil tariffs. Pulses could be next. This means that the tariff and quota regime is likely to stay until India runs into production problems (it currently is dry), or until consumers in India rebel against higher than necessary

pulse prices.

Before we blame the weaker pulse markets solely on India, let's remember the increased production in peas, lentils, and chickpeas by Eastern European nations, and their aggressive stand in the export markets this past fall. For example, Eastern Europeans increased their pea shipments into India by approximately 550,000 tonnes, and kept undercutting Canadian offers by \$25-45 per tonne. Similarly, Russian large green lentils were offered competitively into Algeria and other destinations. This development was simply the outcome of several years of strong pulse prices and markets that alternative producers to Canada found attractive as well. Some of this competition will be reduced by the lower prices today. For example, decent values and excellent movement of wheat in Russia is making pea production relatively less attractive. We will see Russian pea production fall this year.

This is the backdrop to today's situation. The important question to ask now is where we expect markets to go over the summer and into the new crop year. Beginning with peas, the starting point is the realization that Canada will achieve about 2.55 million (M) tonnes of pea exports (down from 3.95 M tonnes last crop year), and consequently carry out about 915,000 tonnes of peas this ongoing crop year. This is taking into account increased exports into China. We are not pessimistic about pea values. The main reason for the optimism is that general feed values continue to put a floor below pea prices (around \$6.50 to 6.75 per

bushel), so that with decent yields in areas of Saskatchewan and Alberta, pea production still generates revenues. The very strong soybean meal markets, caused by production problems in Argentina, will make peas even more attractive to that sector.

Indeed, domestic usage of peas in Canada is up, and in the export markets we are watching out for potential interest by China from the feed sector. Peas are easy to use in hog formulations, and the protein cost of peas has become relatively cheaper compared to soybean protein over the winter months. Around Christmas, pea protein was valued at about 33% of soybean protein, while today it is just below 30%. Pea starch has also become relatively less expensive. Even a small shift by China towards feed usage of peas could change the pea balance sheet materially, and the incentive to do so has been growing. Similarly, the same calculation holds true for the emerging fractioning industry and the pet food ingredient market.

Another key input into the 2018/2019 pea balance sheet will be the number of pea acres Canadian farmers decide to seed this year. Mercantile expects to see no more than a 15% drop in pea acres (to 3.5 M acres), while others (Agriculture and Agri-Food Canada) are projecting a larger 21.5 to 26% drop. This would translate to 3.2 to 3 M acres, down from 4.1 M acres in 2017.

We think an easy decision tool for farmers to use on peas this year is to key in feed values for peas to see if they work against

### Pea Protein vs. Soybean Protein Value

Source: Mercantile Consulting Venture Inc.

|                     | Yellow Peas | Soybeans |
|---------------------|-------------|----------|
| CDN \$/bu           | \$7.00      | \$12.95  |
| US \$/bu            | \$5.54      | \$10.26  |
| US \$/lb            | \$0.092     | \$0.171  |
| Protein Content (%) | 23.2        | 42       |
| US\$/lb for Protein | \$0.021     | \$0.072  |
|                     | 29.8%       |          |
| Foreign Exchange    | 0.792       |          |

**Soybean Meal May 2018** Source: Mercantile Consulting Venture Inc.



their expected yields. Our bias is that peas may well find good supportive demand next fall. And a bigger emphasis on container shipments will help out smooth out the market - there will be less of a problem with large, unsold bulk cargoes in various ports.

The lentil market is more difficult because it is lacking the support of the feed markets. Again, total exports this year will fall to about 1.55 M tonnes from 2.5 M tonnes last year. This will cause ending stocks to rise to approximately 810,000 tonnes this ongoing crop year. But the brunt of the problem is with red lentils. Bulk lentil export numbers

are down by 450,000 tonnes to date, and there virtually is no prospect to be able to catch up on last year's volume without the ability to ship to India. Meanwhile, green lentil markets are more or less continuing with its usual container shipment volume. Only green lentil destinations show increases in exports over last year's tonnages.

For 2018 lentil acres, we do not expect total green lentil acres to fall, while other analysts seem to be projecting a 20% drop in green lentil acres. We disagree because some red lentil growers will be switching (back) into large green lentils, dry conditions in southern

Saskatchewan generally favour lentils, and because new crop green lentils work financially at current new crop values. This year, few alternative crops work as well. We also note that the lentil acreage in the United States is set to fall, likely significantly. This will reduce competition to Canadian green lentils. Red lentil acreage, however, should fall by 20 to 25% because of their reduction in value. In the markets, red lentils will likely face another tough year, with little upside.

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## WORLD KABULI CHICKPEA SITUATION



**Brian Clancey**  
STAT Publishing Ltd.

Market conditions for Kabuli chickpeas are changing faster than the prices you are seeing from processors.

The world has just gone through two years where production was below usage. This

is reflected in something that can be hard to understand -- negative residual stocks for both the 2016 and 2017 calendar years.

What is easy to understand is the reaction of markets. Once the world realized Mexico

was facing a crop failure in 2016, prices starting moving upward. That continued all the way through January of 2017, with grower bids in Canada setting new record highs.

Expecting production to recover in Mexico, the price you could get for Kabuli chickpeas dropped by almost 40% from a peak of \$1,543 per tonne for 9mm Kabuli chickpeas, to \$882 by the middle of March. That low coincided with the start of new crop shipments from Mexico.

Last year's Mexican harvest jumped from 91,400 tonnes in 2016 to 157,000. But it was still more than 30,000 tonnes below average. Grower bids quickly rallied in March last year. It was not just an effort to attract a last minute increase in acreage. Anyone with

chickpeas to sell also realized buyers would not have an easy time covering their needs.

Seeded area in both Canada and the United States (U.S.) jumped, but the drought in the U.S. meant that production did not rise as fast. Canada's harvest jumped 20,000 tonnes to 104,000, while the U.S. crop was up 65,000 tonnes at almost 316,000.

These increases did not cure the world's shortage. By the end of December, Canada had exported 62% of all the chickpeas it grew last year, while the United States had exported almost a third.

The lower percentage for the U.S. is not scary when you remember that the amount of chickpeas being used by North American

## World Kabuli Chickpea Situation

Source: Source: STAT Publishing Ltd.

|                 | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Area (hectares) | 2,095,000 | 2,394,000 | 2,260,000 | 2,263,000 | 2,576,000 | 2,509,000 |
| Yield (kg/ha)   | 1,217     | 1,031     | 948       | 993       | 1,056     | 1,118     |
| Production      | 2,550,000 | 2,469,000 | 2,143,000 | 2,247,000 | 2,721,000 | 2,804,000 |
| Carry-In        | (101,000) | 129,000   | 239,000   | 5,000     | (193,000) | (36,000)  |
| Supply          | 2,449,000 | 2,598,000 | 2,382,000 | 2,252,000 | 2,528,000 | 2,768,000 |
| Trade           | 963,000   | 1,009,000 | 1,038,000 | 1,045,000 | 1,177,000 | 1,186,000 |
| Inferred Use    | 2,320,000 | 2,359,000 | 2,377,000 | 2,445,000 | 2,564,000 | 2,588,000 |
| Residual Supply | 129,000   | 239,000   | 5,000     | (193,000) | (36,000)  | 180,000   |
| Residual Ratio  | 5.6%      | 10.1%     | 0.2%      | -7.9%     | -1.4%     | 7.0%      |

Estimates by STATPUB.COM based data from the FAO, USDA, Statistics Canada, ABARES, and other entities.

NOTE: Estimates are based on calendar years. Production, residuals, and usage are in tonnes.

food manufacturers is trending higher. A third of the U.S. crop could end up in that market.

There has been a significant increase in value-added processing of pulses in Canada, with most of the growth to create ingredients used by food manufacturers. Canada does manufacture retail food products, but as a major raw ingredient supplier, it has seen steady growth in sales to hummus manufacturers in the U.S. Exports to the U.S. average 9,326 tonnes between the 2006/2007 and 2011/2012 marketing years. The last two seasons, shipments averaged 45,000 tonnes.

This combination of small crops and growing consumption left the world with a negative residual supply of 193,000 tonnes in 2016 and 36,000 last year. However, the world

is expected to have a residual surplus of at least 180,000 tonnes this year. More if farmers in Canada and the U.S. are more strongly influenced by strong demand and high returns from last fall, than by this year's falling prices.

What has changed is that India started dropping asking prices as soon as it realized production in Mexico would increase. Kabuli chickpea production in India is expected to total at least 515,000 tonnes, compared to 496,000 last year. More importantly, a larger share could find its way into export markets.

Despite some weather scares during the growing season, Mexico expects production to leap from 157,000 to 301,000 tonnes. Both countries will have been shipping new crop Kabuli chickpeas for a few weeks by the time we start planting ours.

The upheaval we have seen in prices and production the last couple of years suggest we could see a few more years where prices and production swing sharply.

Global Kabuli chickpea consumption is clearly trending upward, but it can be argued that production has been so close to demand over the years that farmers and markets are having trouble adjusting.

Supply and demand forecasts paint one picture. Thinking about the world situation for the calendar year helps you see if that picture is more about tomorrow than today.

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## Faba Bean and Feed Pea Faba Bean Feed Benchmark Bi-Weekly Report - February 9 to 13, 2018

|                                       | CENTRAL ALBERTA | CENTRAL SASK. | SOUTH. MANITOBA |
|---------------------------------------|-----------------|---------------|-----------------|
|                                       | CDN\$/T         | CDN\$/T       | CDN\$/T         |
| <b>Faba Bean Feed Benchmark Price</b> | \$297.01        | \$343.04      | \$291.06        |
| <b>Feed Pea Benchmark Price</b>       | \$292.60        | \$330.35      | \$279.44        |
| <b>COMPETING FEED INGREDIENTS</b>     |                 |               |                 |
| Feed Barley                           | \$212.00        | \$196.00      | \$205.00        |
| Mid Protein Wheat                     | \$212.00        | \$207.00      | \$220.00        |
| Low Protein Wheat                     | \$210.00        | \$200.00      | \$215.00        |
| Wheat DDGS                            | \$245.00        | \$245.00      | \$265.00        |
| Corn                                  | \$230.00        | \$205.00      | \$175.00        |
| Corn DDGS                             | \$290.00        | \$245.00      | \$224.00        |
| Canola Meal                           | \$320.00        | \$371.00      | \$336.00        |
| Soybean Meal (46%)                    | \$520.00        | \$496.00      | \$463.00        |
| Canola Oil                            | \$1,200.00      | \$1,200.00    | \$1,200.00      |

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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