

PEA AND LENTIL MARKET SITUATION



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Seeding is complete and rain across most of Saskatchewan and Alberta has helped to alleviate dry topsoil moisture conditions. Germination is patchy in some regions due to dry conditions, but the recent rain has helped.

In Saskatchewan, 78% of peas are in good to excellent condition, 20% in fair to poor condition, and 2% in very poor condition. Lentils are faring slightly worse with 74% of Saskatchewan lentils in good to excellent condition, 26% in fair to poor condition, and 0% in very poor condition. In Alberta, 80% of peas are currently in good to excellent condition, and 66% of lentils in the same condition.

We travelled through southern Alberta and Saskatchewan in mid-June, and think this assessment is about right. We did see some pea crops with tremendous potential along the way. Overall, there is a very good probability for solid Alberta and Saskatchewan pulse crops in 2018.

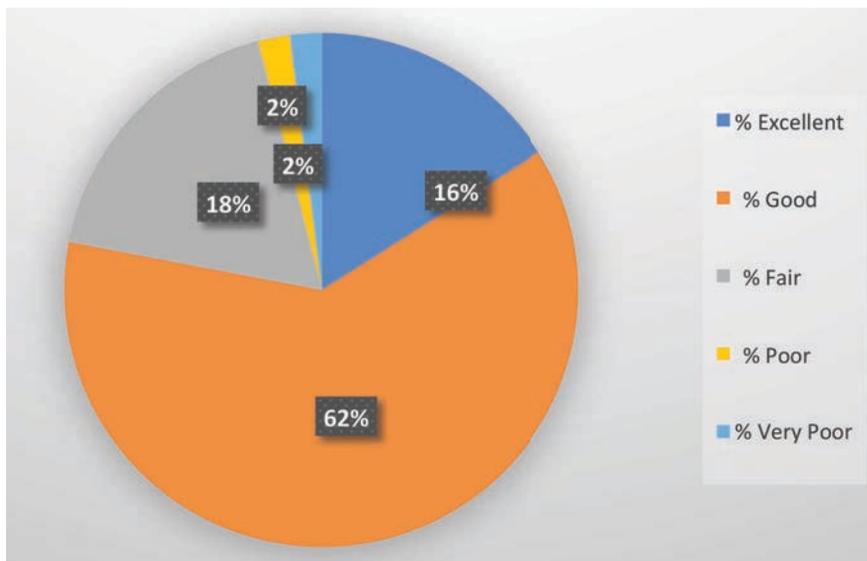
Source: Mercantile Consulting Venture Inc.

Peas

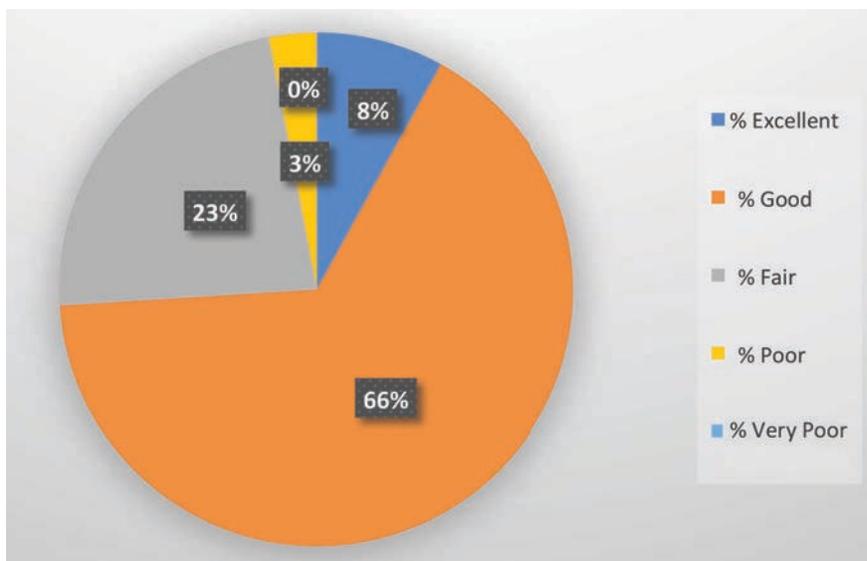
The good start to the crop is also what our domestic and overseas buyers are seeing. A lot of acres went into peas in Canada in spite of the tariff problems with India, nearly 3.9 million (M) acres, and with decent germination behind us, there is no reason for buyers to worry about supplies forward. In addition, buyers are well aware that Canadian pea carry-in stocks will be ample (around 900,000 tonnes). With good supplies almost assured, the buyers' mentality is that there is no urgency to forward buy pulses to secure supplies ahead of harvest. This is why pea markets are unusually quiet right now, and it also will affect the speed of off-the-combine and fall shipments, as forward sales are smaller than in recent years.

When considering export potential by destination, it is important to realize that current year-to-date bulk pea exports are at only 55% of last year's tonnage (down 1.5 M tonnes as of shipping week 45). This is mostly due to much smaller shipments into India and Bangladesh. We have shipped about 290,000 tonnes of peas into India

Pea Condition Rating Saskatchewan (June 11) - Source: Mercantile Consulting Venture Inc.



Lentil Condition Rating Saskatchewan (June 11) - Source: Mercantile Consulting Venture Inc.



year-to-date (YTD) versus 1.93 M tonnes last crop YTD, and around 140,000 tonnes into Bangladesh versus 417,000 tonnes last YTD. The reduction in purchases from one year to the next was just too big and too sudden to absorb without problems. Realistically, we do not expect the Indian import barriers to change this summer, in spite of the rising costs of the Indian protectionist measures to the Indian consumer.

Although local Indian prices for peas have risen \$200 per tonne over and above landed world market values, as pea supplies have become tight in India without import supplies

coming in, we do not see enough consumer pressure to force politicians to ease their protectionist policies. With a general election likely in India this fall, the Modi government is not expected to make major adjustments to their current policies.

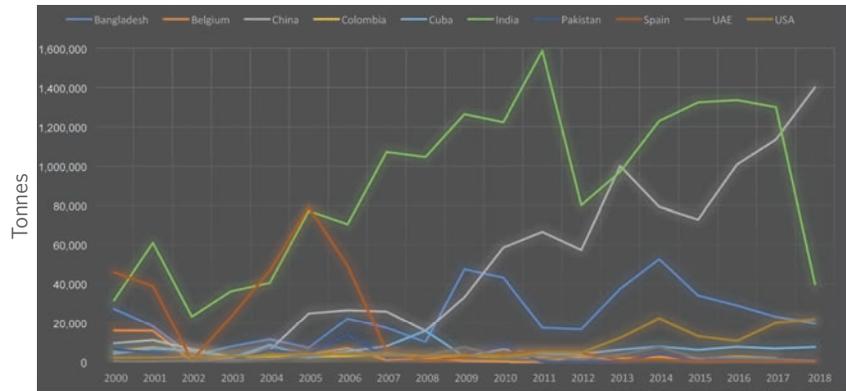
China has been Canada's single best buyer of peas this crop year. Mercantile Consulting Venture Inc. calculates that Canada is close to reaching the 1.4 M tonnes of Canadian pea exports we expected for China for the 2017/18 crop year. Unfortunately, the strong buying posture shown by China a month ago has slowed, due to uncertainty about the outcome

of ongoing United States (U.S.)-China trade debates. Canadian traders have become worried about the lack of additional forward buying. We think the actions by the U.S. on June 19 announcing another 10% tariff on \$200 billion (B) worth of Chinese imports, 'if Beijing proceeds to impose import tariffs on \$50 B of U.S. imports, will likely help to put Chinese pea purchases back onto the agenda. The much lower Canadian dollar (\$0.752) on June 20 will help with sales as well. Aside from the trade dispute, peas are still well priced to compete with other feed grains and with soybean protein values. Potentially higher wheat values will also be supportive to peas.

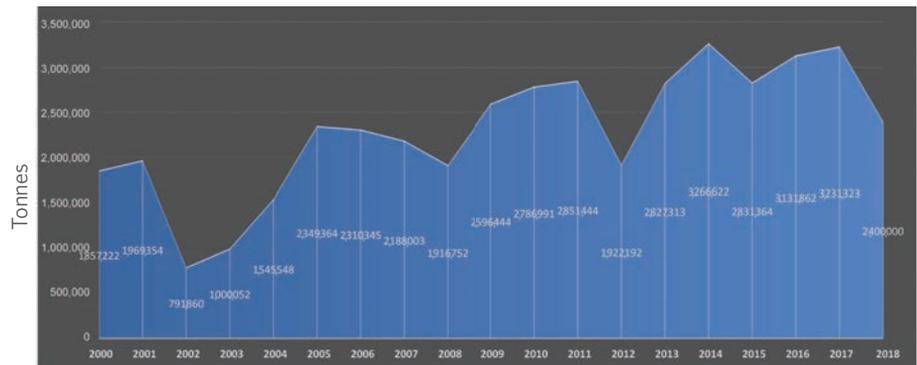
For the new crop year, Mercantile continues to expect very subdued shipping into the Indian subcontinent (around 500,000 tonnes to India and Bangladesh), unless major problems with this year's monsoon develop. We also anticipate that crop-year Canadian pea shipments to China for both starch and feed use will again increase, especially if the escalating tariff threats on U.S. soybeans get implemented by China. In fact, China clearly has the potential to substitute imports by the Indian subcontinent. The U.S. market also has grown by 160,000 tonnes over last year, using Canadian peas both for splitting and in the pet food markets. The latter use especially stands to increase again next year as U.S. pea supply could fall by approximately 10% to 900,000 tonnes, due to lower 2017/18 ending stocks. Still, if China is not as aggressive over the next crop year as expected, then (given a decent crop) we may be looking at Canadian ending stocks in excess of 1 M tonnes.

And lest we forget, we not only experienced a significant change in demand and trading attitude by some of our single most important buyers (India and Bangladesh) this crop year, we are also experiencing increased competition by Black Sea suppliers, who have managed to displace some of our traditional demand for peas. Regarding the next crop year, there was a recent report (mid-June) from the Black Sea projecting combined 2018/19 pea production in Russia and the Ukraine at 3.6 M tonnes. This number seems high - we think acres seeded to peas are somewhat lower than last year due to good wheat export movement and prices, especially in Russia with their low ruble. We also know from the wheat markets that conditions in some areas of Russia have been difficult for seeding (very wet and cold), while southern Russia is dry. This should have a negative effect on seeded acreage and early crop development. Still, Eastern European peas will be offering in the markets to aggressively compete against Canadian peas, especially for late summer/early fall shipment.

Canadian Pea Exports by Destination, 2000-2018- Source: Mercantile Consulting Venture Inc.



Canadian Pea Exports - World, 2000-2018- Source: Mercantile Consulting Venture Inc.



Lentils

Lentil markets have been largely unchanged over the past while, except that new crop bids for large green lentils weakened with improved crop conditions in parts of Saskatchewan and in Alberta, due to the larger than expected seeded acreage to lentils. These developments again mean that buyers are now less concerned about green lentil supplies for the new crop year. Over the summer prices for green lentils will track the outlook for the Canadian and U.S. lentil crops. U.S. lentil acres are down in 2018, but given average yields, production and supply will be up by about 70,000 and 100,000 tonnes, respectively.

The red lentil market will need renewed demand from the Indian subcontinent to revive. We do note that the third advance production estimate table on Indian pulse crops moved red lentils into a separate category, and the data implies an almost 25% (over 290,000 tonne) increase in Indian lentil production for 2018. If correct, this is negative for potential Canadian red lentil exports to India. Total Canadian lentil exports to India for the ongoing crop year only amount to 300,000 tonnes, which could be mostly displaced by bigger domestic Indian red lentil production. On the other hand, pigeon pea production is shown to be down by 14% (a big decrease of 690,000 tonnes),

which will be helpful to improve green lentil export chances to India, and will likely support red lentils as well.

However, even given a lentil export assumption of 2 M tonnes for the 2018/19 crop year (in comparison, we expect to export only about 1.55 M tonnes during 2017/18), against a presumed production of nearly 2.4 M tonnes, 2018/19 lentil ending stocks would still amount to 875,000 tonnes, most of them red lentils.

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