

# Pulse Market Report

February 2015  
Mid-Month Report

The Pulse Market Report is a monthly newsletter featuring market analysis and commentary aimed at helping Saskatchewan pulse producers make the best decisions for their crop production and marketing.

## February Pulses: Learn from the Past – Protect Your Future



Larry Weber  
Weber Commodities

**Facts are stubborn, but statistics are more pliable.**

Mark Twain, American Author (1835 – 1910)

Long before Aaron Levenstein's famous quote, *Statistics are like bikinis, what they reveal is suggestive,*

*what they conceal is vital*, Mark Twain had the statistical paradigm figured out and summed it up best in the above quote. For the statistically enabled, the dearth of information in January came to a close with Statistics Canada's (StatsCan) release of the December 31 Stocks in Store report on February 5, and the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) Winter Crop Production released on February 10. How commercial interests and farmers portray these new statistics will set the tone for market prices from now until the end of the crop year. Because of budgetary constraints at StatsCan, chickpeas and other smaller specialty crops have been dropped from the radar in Ottawa. Therefore, the focus will be on peas and lentils in this mid-month brief.

One of the most asked questions since January has been: "Where is the top of the lentil and pea market, and when should I sell?" My standard answer lately has been: "When you start to lose sleep over it and are profitable, it is time to sell." For arguments sake, I have included the 2008 price charts for red and large green lentils, and yellow and green peas. One thing the December

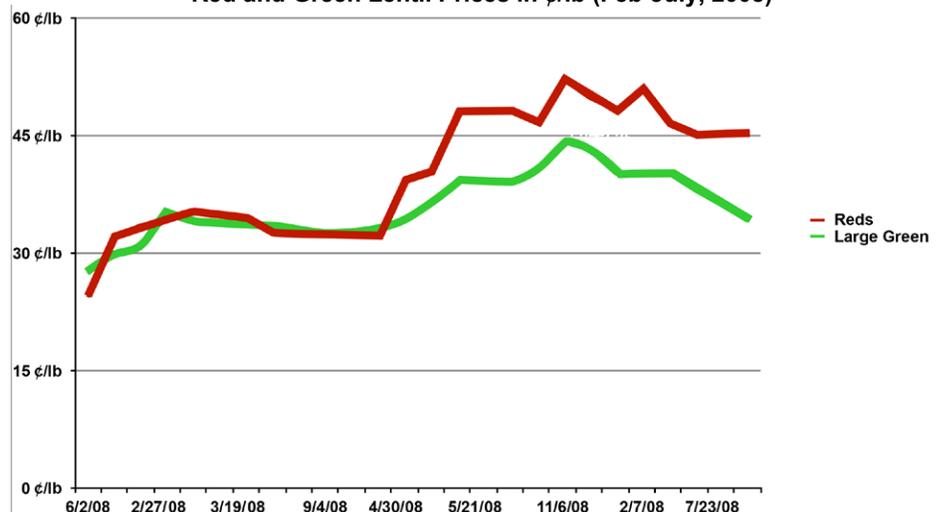
Stocks in Store report did was confirm what everyone knew in November; stocks would have to be rationed until the end of the crop year. Farmers have an uncanny knack of remembering the highs of the market, and forgetting the lows. It is that singular ability that makes it much easier to fill the drills in the spring and start fresh.

The last time the lentil and pea markets had similar ending stocks was 2008. In February 2008, red lentils started the month at 24.45¢/lb and by the first week in March had climbed to 35¢/lb. They peaked in the middle of June at 52.25¢/lb and ended the crop year at 45.25¢/lb. From April 30 to May 21, red lentils jumped 16¢/lb. For the record, I am using the Saskatchewan Ministry of Agriculture's data. My data tracks the daily highs, while their data is a weekly combination of multiple points in Saskatchewan. Large green lentils

started the month at 27.45¢/lb, climbed to 35¢/lb during the first week of March but witnessed a slower climb than red lentils, to peak at 44.25¢/lb during June, and finish the crop year at 34.2¢/lb. During the second week of February 2015 red lentils have traded at 37¢/lb while green lentils have traded as high as 44¢/lb.

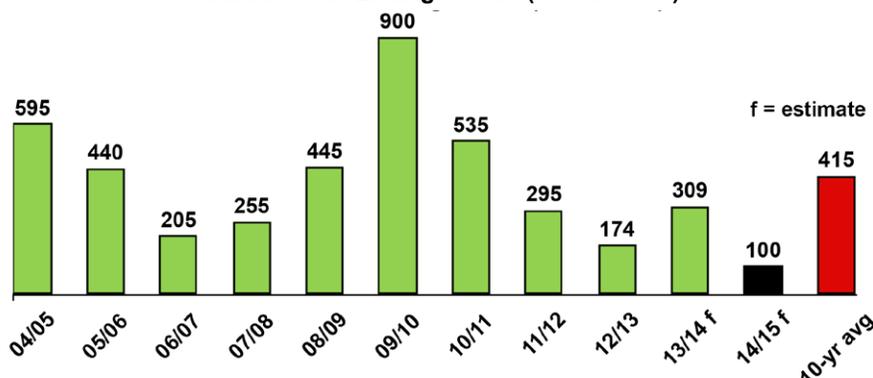
The yellow pea escalation in 2008 was much more sophisticated than the jerk and pull witnessed in the lentil market. They started February at \$9.73 a bushel (bu), peaked during the second week of March at \$11.38/bu, and ended the crop year at \$8.85/bu. Green peas started February at \$9.88/bu, climbed to \$11.65/bu in March, and finished at \$9.92/bu during the last week of the crop year. There is much less euphoria in the overall marketplace in 2015 than there was in 2008, and that is the biggest red flag to those that think we

Red and Green Lentil Prices in ¢/lb (Feb-July, 2008)



Source: Saskatchewan Agriculture

Canada - Peas Ending Stocks ('000 Tonnes)



Source: Agriculture Canada and Weber Commodities

have the ability to reach 2008 levels like the prophetic seven year itch. The other prevailing factor is the rationalization that has occurred in the pulse market. The companies left today have better cash flow and deeper pockets than what was seen in the 2008 through 2010 period. While there is no doubt that rationing has to occur, the next four to six weeks will set the stage on how dramatic it has to be.

The December 31 Stocks in Store report indicated that there were 696,000 tonnes less peas in 2015 than the five-year average, and 622,000 tonnes fewer lentils in store than the five-year average. To achieve Agriculture Canada's (Ag Canada) suggested carry-out at July 31, 1.5 million (M) tonnes of peas need to be utilized through exports or domestic use, or 208,000 tonnes in the remaining seven months – a reduction from the monthly average of 33%. From August through December, the average monthly usage has been 311,200 tonnes. Yellow

peas have appreciated 17% in price since January 5, indicating that more rationing is likely in the coming months. Green peas have stagnated in price and it is reflective of better supply this year than the past three years. The five-year average usage for peas from January to July is 1.4 M tonnes, and if we attain that level, there will exportable peas in July.

151,000 tonnes has disappeared from the supply. Lentils need the same percentage reduction as peas – 33%. Red lentils have appreciated in price 27% since January 5 – large green lentils have appreciated 8.5%. The five-year average exports for lentils from January to July is 788,452 tonnes and if this average is maintained, the lentil cupboards will be bare in June, with no exportable supplies left. This would explain the rapid price appreciation since January 1, however, it remains to be seen how fast the exports will have slowed.

ABARES February Crop Production Report will give the bears in the pulse market something to talk about for a little while and could hold prices back in Western Canada once the report is fully disseminated. Production for the five competing pulse products in Western Canada was raised 13.4% from the December estimate, with the largest jump in their lentil category at 27% over December, 32,000 tonnes over last year's

December 31 Stocks in Store ('000 Tonnes)

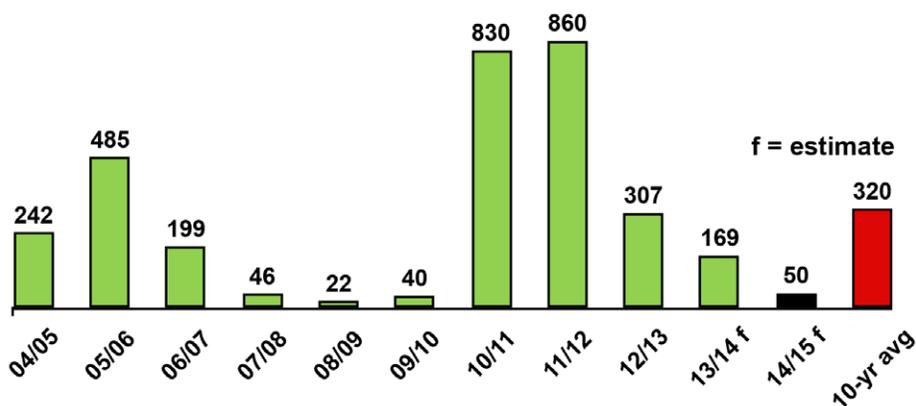
	Stocks at Dec. 31	Est. Carry-out at July 31	Balance to move to July 31	
			Total	Per Month
Dry peas	1,556	100	1,456	208
Lentils	766	50	705	100.7

Source: StatsCan

For lentils to realize Ag Canada's suggested carry-out of 50,000 tonnes on July 31, 705,000 tonnes needs to be moved through exports or utilized domestically in the next seven months. During the first five months of the crop year, an average of

production, and 54,000 tonnes over their December estimate. Overall their 2014/15 pulse production will be down from last year but the sudden increase from their last estimate could cause some pause in the market for a few weeks.

Canada - Lentil Ending Stocks ('000 Tonnes)



Source: Agriculture Canada and Weber Commodities

While any increase in Australian production may cause a sigh of relief in India – the sigh may be short-lived as rabi seeding was still running 9.3% behind last year's pace as of February 6. Reports during the first week in February suggest that chickpea prices are likely to rise 10% during the next two months on the lower seeded acreage, unseasonal rain in major growing areas, and untimely frost events in northern portions of Uttar Pradesh. New crop harvesting in India that will occur in March could be the next setback for pea and lentil prices in Western Canada. If the production and yields are less than expected, it will mitigate some of the price erosion, however, the world knows that they will

have to import more supply this year, and with Ramadan festivities set to begin in the middle of June, the timeline for imports from Canada is growing shorter every day.

I have not witnessed uncertainty in seeding plans across Western Canada since 2002, which was the last major drought we faced. In February of that year, we were already in a drought and did not realize it. The escalation of old crop prices has dragged new crop pea and lentil prices higher so far in 2015. Profit and the retention of your family's equity should be more important than hitting a home run for lentil and pea prices, for both old crop and new crop. While I have answered most of the 2008 questions in this post, be reminded that this is 2015 – not 2008, and the outside influence of currency wars and austerity programs could weigh on the market in any given moment. While it is important to

study the past and to plan for the future, it is equally important to protect that future as well.

Larry Weber operates Weber Commodities Ltd. More information can be found at [www.webercommodities.com](http://www.webercommodities.com)

Summer Crop Plantings and Production, Australia						
Year	New South Wales		Queensland		Australia	
	'000 ha	kt	'000 ha	kt	'000 ha	kt
2004/05	524	2,020	812	1,842	1,343	3,878
2005/06	776	2,791	645	1,516	1,433	4,352
2006/07	338	1,037	545	1,099	918	2,166
2007/08	398	1,668	791	2,877	1,199	4,567
2008/09	402	1,430	746	2,350	1,156	3,794
2009/10	381	1,405	514	1,342	903	2,764
2010/11	713	2,514	790	1,901	1,514	4,446
2011/12	769	3,101	792	2,394	1,578	5,546
2012/13	702	3,222	687	2,260	1,405	5,536
2013/14 s	539	2,150	572	1,491	1,123	3,682
2014/15 f	453	1,954	584	1,666	1,049	3,653
% change 2013/14 to 2014/15	-16	-9	2	12	-7	-1

f = ABARES forecast. s = ABARES estimate.  
Source: Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES)

## What are the marketing opportunities for pulse crops across Saskatchewan



**Marlene Boersch**  
Mercantile Consulting  
Venture Inc.

We have reached the halfway point of the 2014/15 crop year and this is a good point to review what marketing opportunities are left for 2014 crop pulses and what developments are emerging for 2015

peas and lentils.

A quick review of the main 2014 crop fundamentals to recap the backdrop to our trading activity shows that Canadian pea production was about 13% lower than last year's production, and total supply was 9.4% lower than last year. Mercantile Consulting Venture calculates that production of peas for the world's major producers was down by approximately 3.3%. For lentils, Canadian numbers were even tighter. Lentil production was down

approximately 15% from the previous year, and supply 19% per Statistics Canada (StatsCan) and 14% lower based on our Mercantile statistics. We estimate that world lentil production was up by about 4% (or 130,000 tonnes), though the year-end inventory number was quite low.

Against this background, and aided by the Canadian rail legislation that required railroads to spot about 11,000 railcars each week into the end of November, Canada reached year-to-date record exports for both lentils and peas. As a consequence, we now have a tight 2014 crop inventory situation and attractive prices for both the remaining 2014 crop supply and for 2015 crop production contracts.

**Peas** – Major influences on the pea market to date.

- Lower Canadian and world production in 2014
- Record Canadian exports in 2014

- January forward inventory is lower than in previous years
- Weakening Canadian dollar
- Pea acreage outlook for 2015 implies significantly higher seeded acres

Canadian Grain Commission Grain Handling Summary Bulk PEAS Week 26 (up to Feb. 1/15) ('000 Tonnes)				
	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 26	28.2	39.7	40.3	4.9
Week ago	53.4	32.7	19	6.3
YTD	1,814.4	1,444	1,445.5	188.1
Last YTD	1,314.7	925.1	964.5	64.1
YTD less Last YTD	504.7	518.9	481	124
YTD over Last YTD	138%	156%	150%	293%

Source: Mercantile Consulting Venture based on weekly Canadian Grain Commission Handling Data

Monthly PEA Exports (Tonnes)								
Rank	Country	Aug. '14	Sept. '14	Oct. '14	Nov. '14	Dec.'14	Total YTD	Last YTD
<b>Total</b>	<b>World</b>	<b>240,023</b>	<b>721,296</b>	<b>308,715</b>	<b>197,367</b>	<b>289,684</b>	<b>1,757,085</b>	<b>1,271,185</b>
1	India	93,342	296,336	172,662	79,162	81,269	722,771	
2	China	46,535	123,133	37,370	89,637	103,069	399,745	
3	Bangladesh	56,500	246,341	5,716	472	55,070	364,099	
4	United States	18,540	31,911	11,510	7,015	6,974	75,951	
5	United Arab E	472	1,407	3,942	1,916	12,880	20,617	
6	Pakistan	1,717	218	1,325	1,113	14,408	18,780	
7	Colombia	1,781	5,222	4,542	2,935	1,386	15,865	
8	Spain	10,303	600	1,411	1,134	1,218	14,665	
9	Venezuela	1,111	3,690	649	518	299	6,267	
10	Taiwan	1,351	788	937	1,047	987	5,101	
11	Peru	260	1,253	776	1,212	1,530	5,031	
12	Algeria	312	1,568	1,531	493	1,032	4,939	
13	Nepal	138	326	1,158	679	1,856	4,158	
14	Philippines	759	530	766	1,006	841	3,902	
15	Yemen	539	394	266	708	1,032	2,939	
16	Egypt	0	399	1,039	330	1,146	2,914	
17	Italy	26	588	1,192	313	99	2,218	
18	Mexico	0	395	765	820	200	2,181	
19	Japan	528	105	338	599	412	1,982	
20	Morocco	20	259	287	384	367	1,317	
21	Thailand	194	260	172	413	200	1,240	
22	Ethiopia	0	0	0	1,000	0	1,000	
23	Brazil	128	50	363	295	158	994	
24	Israel	22	279	50	376	128	954	
25	Denmark	0	253	0	549	0	802	
	Other	5,444	4,899	59,945	3,244	3,123	76,656	

Source: Mercantile Consulting Venture basis data derived from StatsCan

**Export demand** – Bulk pea exports (mostly yellow peas) have been excellent and continue to run at 150% of last year's pace of bulk exports. As of week 26 there are still 274,000 tonnes of bulk peas in the handling pipeline, and we expect export loadings to continue strongly for the next couple of weeks. We do note that railcar supply has fallen off sharply since November, so overall export shipments from Canada have started to fall off the earlier pace significantly.

The December 2014 final StatsCan pea export numbers (these include container shipments of about 60,000 tonnes per month to various destinations) show that Canada reached 1.8 million (M) tonnes of peas exported by Dec. 31/14. This is 38% higher than last year at this time.

By far the three biggest destinations are India (723,000 tonnes), China (400,000 tonnes), and Bangladesh (364,000 tonnes) in year-to-date sales. Collectively the top three take a full 85% of all pea exports. For the month of December, China was the biggest importer (103,000 tonnes for the month), followed by India (81,000 tonnes), and Bangladesh (55,000 tonnes). There is no doubt in our mind that stocks will become very tight from May forward and that ending stocks will be very low.

**Inventory levels** – Mercantile Consulting Venture does not put too much weight on StatsCan stock numbers for small crops, but taken at face value their Dec. 31 stock report indicates that total pea inventories

(at 1.56 M tonnes) are at their lowest level since 2007. They show that there are less than 2 M tonnes left to cover domestic seed and export demand for the seven month period of January through July. The recent strength in price does support the inventory numbers. Again, everything points to ending stocks being quite tight.

**Pea acreage outlook for 2015** – The discussion on new crop pea acreage expansion ranges anywhere from 4% to 20%, but Mercantile Consulting Venture is still using 10-13% at this time. The AAFC supply number for 2015 shows an increase of 3.9%, while Mercantile Consulting Venture anticipates an increase in Canadian supply of 5% for the coming crop year. AAFC anticipates next year's carry-out at 350,000 tonnes, and we anticipate a 445,000 tonne carry-out for next year. However, with major crop values under pressure, pulse crops are looking more and more attractive in several pulse producing countries. This is the one caution for pea values moving forward - higher seeded acreage numbers will eventually take over the discussion of tight inventories and buyers will hold on for cheaper new crop purchases.

Supported by ongoing demand, decreasing supplies (especially for yellow peas), and a very weak Canadian dollar (due to very low crude oil prices), both old crop and new crop pea prices have moved firmer. Exporters are now readily buying current crop yellow peas at up to \$8.50/bushel (bu) delivered to the elevator for February/March/April 2015 delivery. These certainly are good prices, but we still expect to see \$9.00/bu this crop year and are promoting to sell peas on a scale up as we move towards spring.

In most other origins pea acres have to compete with winter crop yields, so increasing pea acres is much harder for them. It is one of the reasons that Canadian peas are very dominant in the markets and other origins need to set their prices around Canada. It would be nice if we would exploit that market strength in the export market. The Canadian dollar has been a big factor to domestic pea prices since the New Year.

**Lentils** – The current influences on the lentil market are similar to those in the pea market.

- Much lower Canadian, and only slightly higher world lentil production in 2014
- Very good export sales levels
- Resulting tightening stocks (very low unsold inventories) and generally bullish fundamental numbers
- Continued good demand, especially by India
- Supportive currency developments. The weak Canadian dollar is helping domestic prices
- Lentil acreage outlook for 2015

The export statistics show that India and Turkey are the lead importers at 340,000 tonnes and 230,000 tonnes year-to-date respectively, followed by the United Arab Emirates with 87,000 tonnes. Other important importers are Egypt (50,000 tonnes), Sri Lanka (40,000 tonnes), Algeria (33,000 tonnes), Colombia (27,000 tonnes), Bangladesh (23,000 tonnes), Mexico (21,000 tonnes), and Spain rounding out the top 10 at 19,000 tonnes.

**Tightening stocks** – The export numbers show that Canada has been depleting lentil supplies at a record pace. According to the StatsCan stock report, lentil stocks as of December 31 totalled just 755,000 tonnes, the lowest level since 2008, and down 48% from last year. Given continued

shipments, this means that lentil stocks will fall to levels that will require demand rationing via price.

**Continued good demand** – Pulse seeding in India did catch up somewhat during the final stages of seeding, but pulse acreage is still 11.7% behind last year's acreage, never mind the bigger intentions for this year. India's 2014/15 pulse import needs are currently estimated at 4 M tonnes (up from 3.7 M tonnes in 2013/14). We think this may be too low, as the combined shortfall of rabi and kharif crops could easily amount to 2.8 M tonnes. We expect that this development will create good current crop and new crop fall demand for Canadian lentils.

Canadian Grain Commission Grain Handling Summary Bulk LENTILS Week 26 (up to Feb. 1/15) ('000 Tonnes)				
	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 26	5.0	8.7	0.1	0.1
Week ago	7.6	1.0	0.1	0.1
YTD	514.4	342.6	330.6	330.6
Last YTD	338.8	354.9	176.4	176.4
YTD less Last YTD	175.6	-12.3	154.2	154.2
YTD over Last YTD	152%	97%	187%	187%

Source: Mercantile Consulting Venture based on weekly Canadian Grain Commission Handling Data

Here is a closer look at each of these factors.

**Export demand** – Bulk export sales remain unusually high and are still at an amazing 187% of last year's bulk export pace. The most recent StatsCan export data (including container exports) cover the crop year to December 31, 2014. According to these numbers, total lentil exports are 45% ahead of last year's pace. The deep demand for Canadian lentils was a result of smaller crops than expected in India (all pulses) and in Australia. This has primarily affected red lentils, though India has also taken lower grade green lentils. A relatively small lentil crop in the United States has been important to green lentil prices. Let us also not forget that Syria has dropped out of the export market and is now an importer of pulses.

Monthly LENTIL Exports (Tonnes)								
Rank	Country	Aug. '14	Sept. '14	Oct. '14	Nov. '14	Dec. '14	Total YTD	Last YTD
Total	World	137,404	159,479	302,923	228,144	212,559	1,040,509	718,643
1	India	40,165	43,433	112,482	81,550	61,876	339,506	
2	Turkey	20,058	25,296	84,112	47,310	53,324	230,101	
3	United Arab E	11,910	15,244	20,812	18,653	20,384	87,003	
4	Egypt	4,455	2,968	24,744	7,426	10,070	49,663	
5	Sri Lanka	5,747	7,117	9,743	8,393	8,667	39,668	
6	Pakistan	5,559	4,743	4,546	11,039	7,691	33,578	
7	Algeria	4,770	6,613	6,895	7,050	7,393	32,721	
8	Colombia	5,035	7,983	5,550	4,263	4,643	27,475	
9	Bangladesh	1,449	10,915	1,799	3,179	5,220	22,562	
10	Mexico	4,297	4,331	3,662	5,185	3,577	21,052	
11	Spain	4,219	2,706	2,069	4,724	4,977	18,696	
12	Italy	2,189	2,332	4,457	4,925	1,720	15,623	
13	United States	5,326	2,204	1,944	3,009	2,834	15,317	
14	Peru	2,390	2,534	2,895	2,816	1,140	11,774	
15	Chile	2,926	1,503	869	1,013	1,337	7,649	
16	Ecuador	1,802	1,620	1,189	1,593	780	6,984	
17	Brazil	2,642	2,420	483	712	251	6,509	
18	France	1,380	1,480	1,062	1,418	688	6,028	
19	Saudi Arabia	552	1,021	1,025	1,061	1,595	5,254	
20	Germany	1,016	1,233	1,023	900	819	4,991	
21	Greece	837	489	1,102	1,014	1,262	4,712	
22	Israel	136	670	802	1,586	655	3,849	
23	South Africa	225	490	373	1,150	1,195	3,433	
24	Morocco	500	157	745	906	353	2,660	
25	Sudan	0	0	0	925	799	1,724	
	Other	7,817	9,968	8,539	6,345	9,309	41,978	

Source: Mercantile Consulting Venture basis data derived from StatsCan

## Pulse Plantings In India

As of Feb. 6, 2015 - Crop	Area Sown in '000 hectare 2014	Area Sown '000 hectare 2013	% this year over last year
Wheat	30,635	31,532	97.2%
Oilseeds	8,014	9,007	89.0%
Pulses	14,292	16,190	88.3%

Source: Government of India

**Supportive currency developments –**

The CAD is currently trading at 0.7976 to the US dollar, which roughly is at the six-year low. During the month of January 2015, the Canadian dollar dropped by seven cents, which is unprecedented for a one-month period. Changes of this magnitude have an effect on market prices and result in improved grower bids for both old crop and new crop product.

**Lentil acreage outlook for 2015 –**

AAFC projected an 11.1% increase in lentil acreage for 2015 in late January, which is just below the 13% increase that Mercantile Consulting Venture has projected at this early stage. The AAFC 2015 supply number shows at 2.2 M tonnes, which is 92,000 tonnes smaller

than our number. Note that carry-out stocks increase in both scenarios from this year by 125-288,000 tonnes. These are not dangerously high increases given the 2 M tonnes plus annual Canadian production numbers for lentils now. However, should Canadian farmers manage to get higher than average yields in 2015, then the carry-out projection will obviously increase accordingly. For example, all else equal, an increase in the Mercantile Consulting Venture yield by 108 pounds per acre (lbs/ac) to 1,500 lbs/ac would increase the carry-out by another 171,000 tonnes. Given 3.6 M acres seeded to lentils, each 100 lbs/ac increase in yield will result in another 158,000 tonnes of lentils.

Lentil prices are supported by continued good demand, a weak Canadian dollar (driven by very low crude oil prices), and declining world stocks. Red lentils have been additionally supported by the recognition that all pre-Ramadan shipments will have to be supplied out of current crop stocks. Red lentils have appreciated to \$38 per hundredweight (cwt), which is a very good value. Large green lentils still fetch up to \$39/cwt and small green lentils \$30/cwt. With tight stocks for the remainder of the year, the current crop market will stay firm until the first new crop lentils arrive. Turkey will be the first sizeable new crop supplier starting in June.

For new crops, production contracts with an Act of God clause should show a positive return per acres. They likely rank highest among the various commodities. Given our assumptions, it is not a bad idea to fix some percentage at current CT levels.

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