SASKATCHEWAN pulse Growers

AS PRICES REACH RECORD LEVELS . . . STRINGENT GOVERNMENT ACTION UNNERVES PULSE TRADE IN INDIA

G. Chandrashekhar
Policy analyst and commodity commentor

The pulse market in India has turned really hot. Following two back-to-back seasons of unsatisfactory harvests (rabi 2014/15 and kharif 2015/16), tightening supplies have propelled prices to high levels not affordable for a vast majority of the vegetarian population dependent on pulses for their protein needs.

India's pulse production declined from 19.25 million (M) tonnes in 2013/14 crop year to 17.2 M tonnes in 2014/15. For the current 2015/16 year, the production target is 20 M tonnes, but considering inadequate soil moisture conditions, the target is likely to remain elusive.

The adverse effects of El Niño conditions (hot and dry weather with inadequate precipitation) during the July to September months were evident in the harvest of kharif crops. Despite a 10% increase in acreage, output has remained virtually unchanged from last year and has fallen far short of the season's target.

Imports continue unabated. From April to September 2015, pulse arrivals from abroad were an estimated 2.2 M tonnes, with yellow pea accounting for over half the aggregate volume of imports. It is estimated that an additional 2.5 M tonnes may be in the pipeline for arrival over the next four months from origins such as Canada, the United States, Australia, Myanmar, and Africa.

In the futures market, chickpea prices reached record levels of 5,000 rupees per 100 kilograms (about $800 per tonne). At the retail end, pigeon pea (tur/arhar) dal was available at 200 rupees per kilogram.

Pulse Production Trend Season-wise (Million Tonnes)

YEAR	2014/15			2015/16		
	Kharif	Rabi	Total	Kharif	Rabi	Total
Target	6.50	12.50	19	7	13	20
Harvest	5.63	11.57	17.20	5.56	-	-

Source: Government of India, Department of Agriculture, Cooperation & Farmers Welfare

The political repercussions were palpable and, not unexpectedly, the government reacted strongly. On October 18, it tightened the screws on the pulse trade by imposing stringent stock limits. Those covered included importers, exporters, food processors, and supermarkets in addition to traders. Suspicion of large-scale speculative inventory building (hoarding) by some operators formed the basis of the storage restriction and raids on traders to unearth stocks.

Without doubt, these developments are unfortunate. Importers are most upset because the average parcel size of each consignee is usually well beyond the stipulated stock limit, and therefore is subject to penalty. Government intervention once again highlights how vulnerable the Indian food sector is to price shocks. Given the fact that large arrivals are impending, there is now expectation that prices may begin to soften as supply tightness eases in the coming weeks.

The government has announced creation of a buffer stock of 50,000 tonnes of pulses sourced from domestic crops and imports. Some state agencies have also been importing modest quantities, especially pigeon pea, to augment supplies. But these measures are unlikely to change the market fundamentals - the widening demand/supply mismatch.

Looking ahead, planting for the rabi season is set to begin by early November. Chickpea is the largest pulse crop (accounting for 40-50% of annual output) planted in the rabi season. The production target for chickpea is 9.5 M tonnes, but the sub-soil moisture conditions are less than satisfactory. Winter rains, should they materialize, will help. At the same time, given that market prices of pulses are high, there is hope and expectation that growers would plant a larger area. By mid-December, a reasonable idea of rabi pulse crop planting will be available.

Another risk factor is weather. Over the last two years, the Indian rabi harvest was affected by unseasonal rains and hailstorms. Will it be a repeat in 2016 or normal? Time will tell.

On current reckoning, pulse imports into India during the 2015/16 financial year (April to March) is likely to reach the 5 M tonne mark. In 2014/15, imports were 4.6 M tonnes.

Given the shortage and prevailing high price, it appears most likely that the exemption from customs duty (valid until December 31, 2015) will be extended.

G. Chandrashekhar is a policy analyst and commodity commentator and can be reached at gchandrashekhar@gmail.com.

Saskatchewan pulse Growers

IS CRUDE OIL BEHIND THE STRONG PULSE PRICES?

Chuck Penner
LeftField Commodity Research

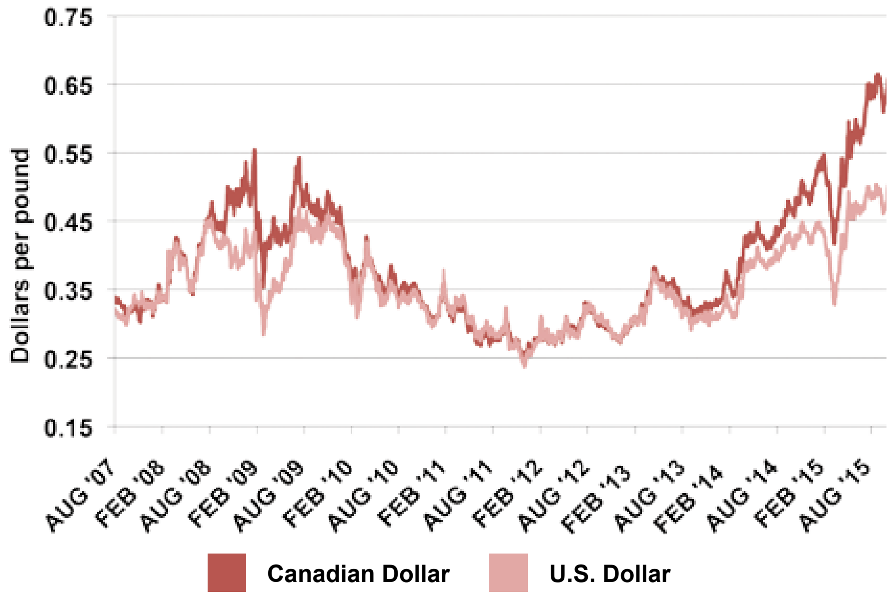
While weather-related crop problems in Canada and India have grabbed a lot of attention in pulse markets, there is another factor that has helped put smiles on Canadian farmers faces. Although it is not that new, the low Canadian dollar has been having a very large impact on domestic prices of Canadian export crops. For the past two years, the Canadian dollar has weakened against the United States (U.S.) dollar and lower crude oil prices are a large part of the loonie's decline.

Fewer people are aware that the Canadian dollar has also weakened against the Indian rupee, where we sell a large chunk of our pulses. The chart shows that compared to late 2013 when the loonie started to lose ground against the U.S. greenback, Indian buyers need 15 fewer rupees to buy a Canadian dollar. Meanwhile the U.S. dollar/rupee exchange rate has not moved nearly as much.

So if low crude oil prices make the Canadian dollar weaker, what does that mean for Canadian pulse prices? Essentially, it means Canadian pulses become a lot more affordable for Indian buyers. Or to put it another way, even if pulse prices in U.S. dollars stay flat, Canadian farmers get paid more in Canadian dollars.

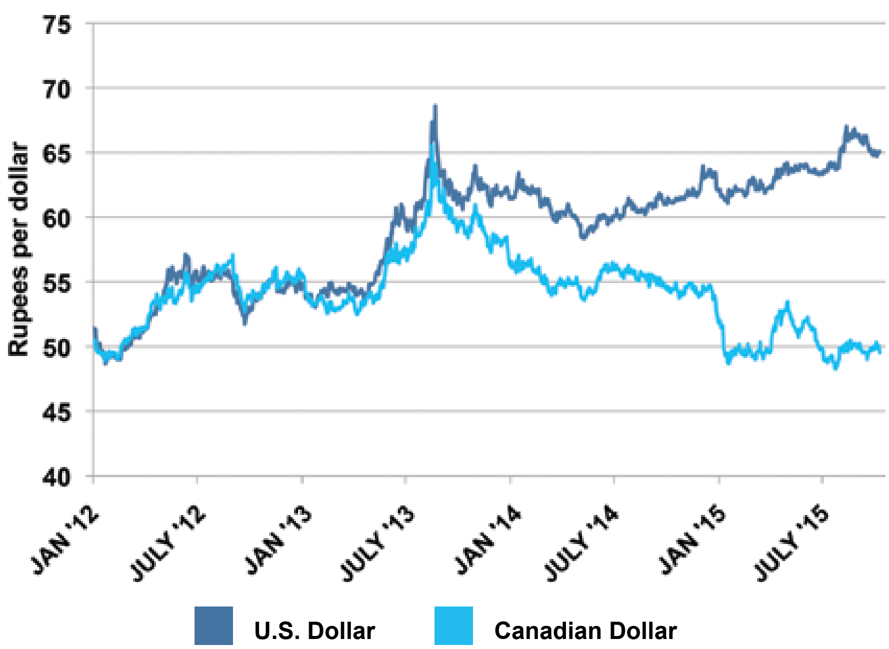
Looking at the price chart for red lentils, we can see that during periods of a weaker Canadian dollar, a differential opens up between the Indian price in Canadian dollars and U.S. dollars. That happened back in 2008 when the loonie was nearly this weak, but it pales in comparison to the current environment. The red lentil price at Indore, in north-central India is around 49¢ per pound (lb) in U.S. dollars but is 63¢/lb

Red Lentil Spot Price - India



Source: NCDEX & LeftField Commodity Research

Indian Rupees per Canadian & U.S. Dollar



Source: LeftField Commodity Research

denominated in Canadian dollars. In other words, at this inland location, the weaker Canadian dollar accounts for 14¢ of the current price.

The other thing to note in the chart is that even in U.S. dollars, lentil prices in India are at record highs. There is no doubt that global supplies are tight and Indian buyers are scrambling to buy supplies. Market prices would be strong regardless of the performance of the Canadian dollar.

It is a similar situation for yellow peas that also move into India. In Mumbai, yellow pea prices are $350 in U.S. dollars and $460 measured in Canadian dollars, a spread of $110 per tonne or $3.00 per bushel. Yellow pea prices in India are not at record levels, but supplies are tight and are keeping prices supported.

Keep in mind that the weaker Canadian dollar isn't all sunshine and roses for Canadian products. Things like ocean freight are priced in U.S. dollars, so those have gotten relatively more expensive for Canadian shippers, adding to the costs of moving pulses overseas.

Looking ahead to 2016 and beyond, oil prices could do any number of things. All commodity prices are cyclical, and oil wells could be shut down in response to the low price environment. The result would be a gradual strengthening of oil prices. That said, predicting when that will happen is a losing game. Very smart people regularly make predictions about oil prices and currencies and as often as not, they're wrong. But our view is that oil prices will recover at some point and when that does happen, the Canadian dollar will strengthen, causing pulse prices here to soften. In the midst of all that, regular fundamental factors such as supply and demand will have their own say for the market's direction.

Chuck Penner operates LeftField Commodity Research out of Winnipeg, MB. He can be reached at info@leftfieldcr.com.

PULSE MARKET REPORT

November 2015

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Faba Bean Feed Benchmark Bi-Weekly Report - October 20 to 24, 2015

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN$/MT	CDN$/MT	CDN$/MT
Faba Bean Feed Benchmark Price	**$317.77**	**$316.69**	**$287.13**
COMPETITING FEED INGREDIENTS			
Feed Barley	$210.00	$195.00	$198.00
Mid Protein Wheat	$215.00	$215.00	$202.00
Low Protein Wheat	$215.00	$215.00	$202.00
Wheat DDGS	$245.00	$225.00	$258.00
Corn	$258.00	$220.00	$198.00
Corn DDGS	$260.00	$210.00	$200.00
Canola Meal	$305.00	$290.00	$300.00
Soybean Meal (46%)	$515.00	$495.00	$450.00
Canola Oil	$950.00	$950.00	$1,000.00

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - October 20 to 24, 2015

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN$/MT	CDN$/MT	CDN$/MT
Feed Pea Benchmark Price	**$295.31**	**$280.13**	**$252.06**
COMPETITING FEED INGREDIENTS			
Feed Barley	$210.00	$195.00	$198.00
Mid Protein Wheat	$215.00	$215.00	$202.00
Low Protein Wheat	$215.00	$215.00	$202.00
Wheat DDGS	$245.00	$225.00	$258.00
Corn	$258.00	$220.00	$198.00
Corn DDGS	$260.00	$210.00	$200.00
Canola Meal	$305.00	$290.00	$300.00
Soybean Meal (46%)	$515.00	$495.00	$450.00
Canola Oil	$950.00	$950.00	$1,000.00

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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