

REACHING PULSE GOALS EARLY



Brian Clancey
Stat Publishing

In 2011, the Saskatchewan Pulse Growers (SPG) set two seemingly impossible goals for pulses, planting nine million acres and producing and marketing seven million tonnes by 2025. Growers could plough

through the area target this year and exporters will take their best shot at meeting the sales target.

Based on current market conditions, farmers are expected to seed record areas of lentils, peas, and faba beans, possibly plant more dry edible beans, but seed fewer chickpeas. Gains in lentils and field peas are expected to be mimicked in the United States and Europe for an overall increase in world plantings.

Farmers across the northern hemisphere are simply responding to the fact that demand and prices for pulses are better than for grains and oilseeds. One way to see the difference between the pulses, grains, and oilseeds is to compare the gross income potential of the crops so far this season with their recent averages.

Lentils are putting in the best performance. Yellow peas are also performing better. But not by as big a margin as lentils. On the other hand, the income potential of green peas and chickpeas has fallen below what farmers expect to see relative to wheat, durum, barley, and canola.

As it stands today, growers should seed at least 4.46 million (M) acres of lentils. Many market participants believe if grower bids remain at current levels, plantings will push past 5 M acres.

This has changed the topic of the new crop lentil debate from area to yields. Many market participants argue that this year's expansion cannot happen unless there is an influx of new growers, seeding lentils on lentils, and using marginal land. This has markets convinced yields will not reach their full potential. The recent five-year average yield for lentils is 1,464 pounds per acre (lbs/ac), which is 140 lbs higher last years crop average.

It is too early to assert that yields will be

Supply and Demand Estimate for Lentils in 2015/16

	Large Green	Medium Green	Small Green	Extra Small Red	Small Red	All Red	Other	All
Area (acres)	750,000	38,000	260,000	145,000	2,745,000	2,890,000	12,000	3,950,000
Yield (lbs/acre)	1,279	1,218	1,306	1,308	1,344	1,342	735	1,324
Production	435,000	21,000	154,000	86,000	1,672,900	1,758,900	4,000	2,372,900
Carry-In	134,000	8,000	40,000	19,000	162,000	181,000	2,000	365,000
Supply	569,000	29,000	194,000	105,000	1,834,900	1,939,900	6,000	2,737,900
Exports	437,300	22,100	148,800	81,000	1,410,600	1,491,600	4,100	144,500
Seed	34,600	1,500	8,300	3,600	96,100	99,700	400	144,500
Feed, Waste, & Other	34,100	1,400	11,900	6,400	110,200	116,600	500	164,400
Total Usage	506,000	25,000	169,000	91,000	1,616,900	1,707,900	5,000	2,412,900
Ending Stocks	63,000	4,000	25,000	14,000	218,000	232,000	1,000	325,000
Stocks/Use	12%	16%	15%	15%	13%	14%	20%	13%

*All quantities in tonnes Source: STAT Communications Ltd.

Supply and Demand Estimate for Lentils in 2016/17

	Large Green	Medium Green	Small Green	Extra Small Red	Small Red	All Red	Other	All
Area (acres)	847,000	48,000	365,000	159,000	3,026,000	3,185,000	15,000	4,460,000
Yield (lbs/acre)	1,385	1,424	1,395	1,456	1,496	1,494	1,176	1,464
Production	532,000	31,000	231,000	105,000	2,054,000	2,159,000	8,000	2,961,000
Carry-In	63,000	4,000	25,000	14,000	218,000	232,000	1,000	325,000
Supply	595,000	35,000	256,000	119,000	2,272,000	2,391,000	9,000	3,286,000
Exports	420,100	24,800	180,700	84,000	1,604,100	1,688,100	6,400	2,320,100
Seed	36,100	1,700	6,200	4,700	59,000	63,700	300	108,000
Feed, Waste, & Other	42,800	2,500	19,100	9,300	167,900	177,200	1,300	243,000
Total Usage	499,000	29,000	206,000	98,000	1,831,000	1,929,000	8,000	2,671,000
Ending Stocks	96,000	6,000	50,000	21,000	441,000	462,000	1,000	615,000
Stocks/Use	19%	21%	24%	21%	24%	24%	13%	23%

*All quantities in tonnes Source: STAT Communications Ltd.

anything other than average. The current El Niño weather event is expected to remain in place through the spring. Forecasters believe it will be immediately followed by La Niña. Such major and rapid changes in major weather events makes it more difficult to say what kind of weather this will bring to the Prairies during

seeding and the harvest period.

Of greater significance to markets is the fact that La Niña is normally associated with above average monsoon rains in India. The country has suffered two below average monsoons in a row, which has resulted in unusually strong demand for red lentils,

field peas, and Desi chickpeas. If this year's monsoon is average or better, acres in kharif season pulses and yields would be expected to rise. Similarly, acres in rabi season crops would probably increase in 2017.

Demand through the balance of the year will be affected by last year's monsoon failure and this winter's smaller-than-hoped rabi season pulse area. The implication is the 2016/17 marketing campaign could get off to a strong start, with significant volumes of pulses moving to the Indian subcontinent from harvest through November. If India's pulse production rebounds in 2016/17, import demand would likely slow after the first quarter of 2017.

Pea acres are also expected to top 4 M. It would not be surprising to see 4.2 M acres sown in Canada this year, though markets think the increase will be smaller because prices have not performed as well as lentils. Demand from India will be a key factor during the last half of the calendar year, with markets hoping China will pick up any relaxation that might occur in Indian demand during the first half of 2017.

There are good reasons to be optimistic about the ability of processors and exporters to market the coming crop. But, it will probably take lower average prices than seen this season to accomplish that task. This has significant implications for the remainder of this marketing year and the next.

Exporters are already selling 2016 crop lentils and peas. Asking prices are discounted to spot markets. This encourages buyers to only buy enough old crop pulses to cover short term needs and try hard to avoid carrying product over into the new crop shipping positions.

The implication for growers is that this year's record high bids for lentils need to be taken advantage of. Unless it looks like there will be a crop failure next spring and summer, there is no compelling reason to carry lentils and peas over into the next marketing year.

Similarly, opening bids for 2016 crop lentils and peas are again unusually high. This suggests contracting a portion of next year's intended production might not be a bad idea.

Supply and Demand Estimate for Chickpeas and Field Peas in 2015/16

	Desi	Kabuli	Small Kabuli	All Chickpeas	Yellow Pea	Green	Other	All Peas
Area (acres)	1,000	101,000	21,000	123,000	2,910,000	720,000	50,000	3,680,000
Yield (lbs/acre)	2,205	1,596	1,659	1,611	1,870	2,129	1,618	1,917
Production	1,000	73,100	15,800	89,900	2,468,600	695,400	36,700	3,200,700
Carry-In	0	51,000	2,000	53,000	213,000	214,000	2,000	429,000
Imports	0	9,000	0	9,000	16,500	10,300	700	27,500
Supply	1,000	133,100	17,800	151,900	2,698,100	919,700	39,400	3,657,200
Exports	960	60,600	12,140	73,700	2,289,400	376,600	29,000	2,695,000
Seed	40	8,900	1,100	10,040	252,000	40,000	4,000	296,000
Feed, Waste, & Other	0	54,600	3,560	58,160	57,700	327,100	5,400	390,200
Total Usage	1,000	124,100	16,800	141,900	2,599,100	743,700	38,400	3,381,200
Ending Stocks	0	9,000	1,000	10,000	99,000	176,000	1,000	276,000
Stocks/Use	0%	7%	6%	7%	4%	24%	3%	8%

*All quantities in tonnes Source: STAT Communications Ltd.

Supply and Demand Forecast for Chickpeas and Field Peas in 2016/17

	Desi	Kabuli	Small Kabuli	All Chickpeas	Yellow Pea	Green	Other	All Peas
Area (acres)	1,000	110,000	21,000	132,000	3,580,100	572,900	54,000	4,207,000
Yield (lbs/acre)	2,425	1,792	1,417	1,737	2,181	2,226	2,009	2,185
Production	1,100	89,400	13,500	104,000	3,542,300	578,500	49,200	4,170,000
Carry-In	0	9,000	1,000	10,000	99,000	176,000	1,000	276,000
Imports	0	9,000	0	9,000	16,900	10,300	800	28,000
Supply	1,100	107,400	14,500	123,000	3,658,200	764,800	51,000	4,474,000
Exports	1,000	38,000	11,300	50,300	2,781,600	376,000	36,400	3,194,000
Seed	40	10,800	1,100	11,940	272,000	44,000	5,000	321,000
Feed, Waste, & Other	60	50,600	1,100	51,760	230,600	184,800	8,600	424,000
Total Usage	1,100	99,400	13,500	114,000	3,284,200	604,800	50,000	3,939,000
Ending Stocks	0	8,000	1,000	9,000	374,000	160,000	1,000	535,000
Stocks/Use	0%	8%	7%	8%	11%	26%	2%	14%

*All quantities in tonnes Source: STAT Communications Ltd.

There is an old saying that you never go broke taking a profit. At a time when SPG's goals for 2025 will be reached nine years early, passing market risk back to processors and exporters is not unwise.

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WHAT IS HAPPENING TO PULSE DEMAND?



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We are experiencing extraordinary times in the pulse markets. Fueled by unusually deep demand, grower prices of lentils continue to set new records for both green and red lentils. How did we

get here and will the high demand levels stay with us in the future?

A look at export statistics for Canadian lentils over the past eight years provides some insight into lentil demand patterns.

Canadian lentil exports in 2015 (to October) expanded to 2.5 times the 2008 volume exported, which is an unusually steep increase for an established commodity. The second table clearly shows that the stand-out development in demand has been the size of

exports into India, which increased 25.6-fold over the eight year period shown. Shipments into Turkey also roughly doubled, maintaining Turkey's status as the second largest destination for lentils. Further, the United Arab Emirates and Egypt more than tripled purchases, adding some heft to shipments into the Middle East. Increases in exports to the Middle East were driven by shortfalls in Syrian lentil production due to the civil war in this area, as well as by increasing overall demand. And finally, Bangladesh and Pakistan

tripled and quadrupled import volumes as well. Exports to all remaining destinations combined increased 36% to 2014, and only 2% to October 2015. The drop in shipments to other (smaller) destinations is likely due to lower availability and higher prices.

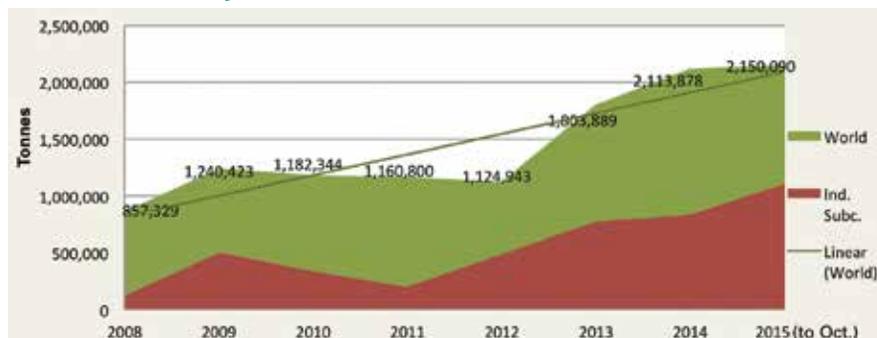
The breakdown of exports to major destinations makes it possible to isolate some of the demand drivers behind the increase in demand. Most importantly, isolating the Indian subcontinent destinations (India, Bangladesh, Pakistan, Sri Lanka) shows that exports increased nine-fold from 119,000 tonnes to 1.1 million (M) tonnes. The percentage of lentils exported to the Indian subcontinent rose from 14% of total exports in 2008, to 51% of total exports in 2015 (to October), displaying Canada's increased exposure to this market. Lentil exports to the subcontinent accelerated in 2012 helped by the idea that green lentils can act as ready substitutes for pigeon peas. They increased again steeply over the next three years as domestic pulse crops in the destination countries struggled due to lower than normal monsoon precipitation. This is an important distinction - the first increase was based on an increase in demand for lentils or by substituting another pulse crop leading to increased demand for lentils. The latter increases were based on increased demand as well as on crop shortfalls in the destination countries induced mostly by lack of precipitation. The conceivable problem or warning carried by this deduction is that, should weather and precipitation normalize on the subcontinent, then Canada may potentially face drastically reduced import demand over the next crop year. This consideration is important when contemplating the wisdom of forward contracting at attractive values for the 2016 crop. Grower contracts would essentially absorb some of the weather exposure to South Asia.

Demand for lentils by our traditional buyers has increased as well by roughly 35%. Some of this increase is likely based on the rising reputation of lentils as a healthy food, and on the relative cheapness of pulse-based protein versus animal-based protein. But these demand gains would not be enough to sustain the planned increases to the 2016 lentil acreage in Canada and globally.

Pea exports have also been strong and prices have increased over the past several weeks to reflect the strong exports. Pea demand has increased by a healthy 31% over the past eight years, but this gain is a little more moderate than those for lentils.

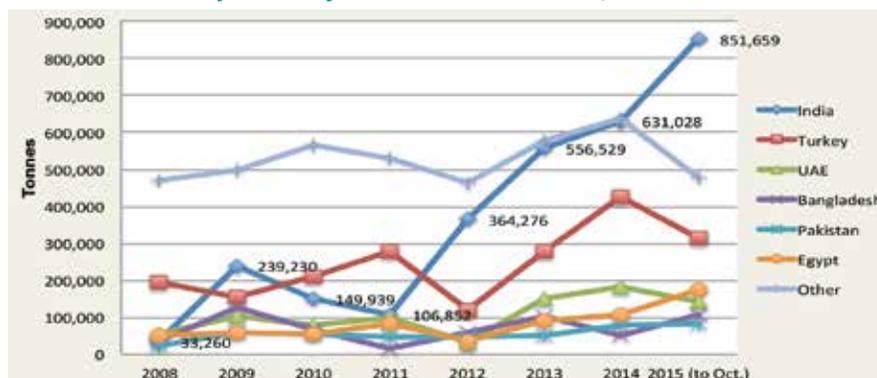
Similar to the lentil market, Canadian pea exports to the Indian subcontinent have been vital to export growth and have increased from 1.2 M tonnes in 2008 to 1.8 M in 2014, and to 1.6 M tonnes to October 2015. China has been another important element to the pea market,

Canadian Lentil Exports-Total World & Indian Subcontinent



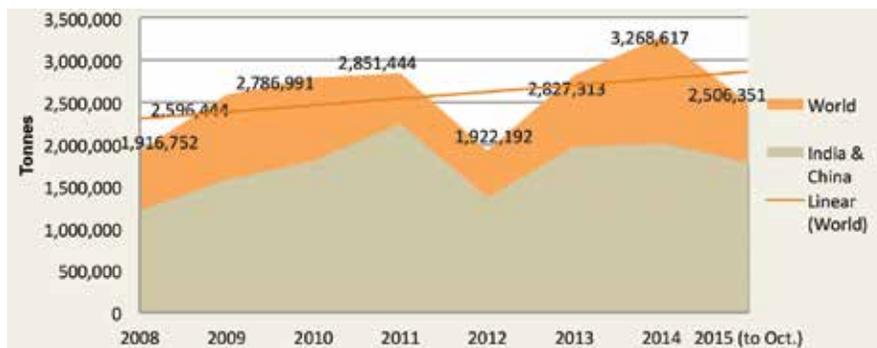
Source: Mercantile Consulting Venture Inc.

Canadian Lentil Exports: Major Growth Destinations, 2008 - Oct. 2015



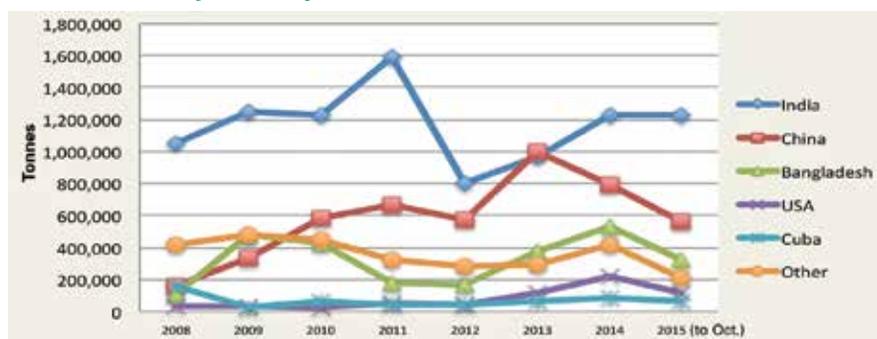
Source: Mercantile Consulting Venture Inc.

Canadian Pea Exports - Total World & India & China, 2008-Oct. 2015



Source: Mercantile Consulting Venture Inc.

Canadian Pea Exports: Major Destinations, 2008 - Oct. 2015



Source: Mercantile Consulting Venture Inc.

exports to China increased from 159,000 tonnes in 2014 to a high of 999,000 tonnes in 2013, and 793,000 tonnes in 2014. Exports to October 2015 amount to 562,000 tonnes. Availability and price of peas have made it hard to maintain gains in the Chinese market.

Still, the share of total pea shipments to China and to the Indian subcontinent combined has risen from 70% of total exports in 2008, to 85% of total in 2015. The share of sales to the

Indian subcontinent alone is at around 62% of total pea export sales.

These statistics also speak to the heavy exposure of Canadian pea exports to the weather markets in Southeast Asia. While demand for peas will remain solid for the ongoing crop year (the weak Canadian dollar is doing its part to help market into the weather-affected markets on the Indian subcontinent), there is some risk to Canadian

growers that weather improvements in India could affect demand levels next fall forward. It will be worthwhile to consider both upward and downward price risk when making 2016 crop contract decisions.

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Faba Bean Feed Benchmark Bi Weekly Report - December 15 to 19, 2015

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN\$/MT	CDN\$/MT	CDN\$/MT
Faba Bean Feed Benchmark Price	\$321.30	\$339.10	\$256.41
COMPETITING FEED INGREDIENTS			
Feed Barley	\$209.00	\$195.00	\$215.00
Mid Protein Wheat	\$225.00	\$212.00	\$235.00
Low Protein Wheat	\$225.00	\$212.00	\$235.00
Wheat DDGS	\$235.00	\$221.00	\$255.00
Corn	\$248.00	\$214.00	\$204.00
Corn DDGS	\$255.00	\$230.00	\$209.00
Canola Meal	\$288.00	\$297.00	\$273.00
Soybean Meal (46%)	\$482.00	\$464.00	\$420.00
Canola Oil	\$1,050.00	\$1,000.00	\$950.00

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - December 15 to 19, 2015

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN\$/MT	CDN\$/MT	CDN\$/MT
Feed Pea Benchmark Price	\$297.45	\$304.56	\$235.89
COMPETITING FEED INGREDIENTS			
Feed Barley	\$209.00	\$195.00	\$215.00
Mid Protein Wheat	\$225.00	\$212.00	\$235.00
Low Protein Wheat	\$225.00	\$212.00	\$235.00
Wheat DDGS	\$235.00	\$221.00	\$255.00
Corn	\$248.00	\$214.00	\$204.00
Corn DDGS	\$255.00	\$230.00	\$209.00
Canola Meal	\$288.00	\$297.00	\$273.00
Soybean Meal (46%)	\$482.00	\$464.00	\$420.00
Canola Oil	\$1,050.00	\$1,000.00	\$950.00

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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