AUSTRALIAN MARKET REPORT

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With 2016 being International Year of Pulses, Australian farmers are certainly going all out to make this the biggest year for pulse production ever.

There are a number of factors supportive of this sentiment. High prices paid for chickpeas and lentils during the 2015 harvest, followed by aggressively priced forward contracts for 2016 new crop, have been well received by farmers. The outlook for cereal prices during 2016 remains depressed which has definitely encouraged farmers to increase the area they will plant to pulses this year.

While the estimated planted areas are very upbeat for Desi chickpeas and lentils especially, there is a way to go before there is enough moisture for all this area to be planted.

In the chickpea area from central to southern Queensland and northern New South Wales, soil moisture levels are quite varied. While some areas have benefited from summer storm activity, significant rain is needed for an optimum plant. Time remains on the side of the farmers as planting can extend to the end of May without incurring a yield penalty.

For faba beans, the planting window closes early May and already farmers with a lower moisture profile are drilling beans seven inches deep to access the moisture. If rain does not happen in time, farmers still have the option to swap to chickpeas.

Some trades have estimated production for the Desi crop based on the optimistic forecast area to be anywhere between 1.2 to 1.6 million (M) tonnes. This would be a huge crop, but as each week goes by without a serious rain event, the probability of such a large crop will diminish.

Australian Pulse Production & Exports Summary May 2016

	Chickpeas		Beans		Field Peas	Lentils
	Desi	Kabuli	Faba	Broad	Dun	Red & Green
Pulse Australia First Estimate 2016						
New South Wales	400,000	16,800	59,000		60,000	2,000
Victoria	6,600	7,300	126,000	6,000	49,000	104,700
Queensland	475,000		1,200			
South Australia	3,000	14,600	126,500	18,000	116,500	139,800
Western Australia	4,500	1,200	5,300		27,000	
First estimate planted area 2016 h/a	889,100	39,900	318,000	24,000	252,500	246,600
% of 2015 planted area	129%	85%	111%	98%	107%	105%
Production est December 2015	971,900	43,700	346,000	25,500	213,400	257,400
Export Data						
Nov 2012 to Oct 2013	886,620		306,817		139,816	302,993
Nov 2013 to Oct 2014	646,834		360,280		161,707	306,713
Nov 2014 to October 2015	678,606		301,011		161,151	211,608
November 2015 to February 2016	868,887		149,726		39,410	86,005

Source: Bureau of Statistics, Pulse Australia
Note: Area in hectares, production and exports in tonnes

Ongoing strong demand since harvest from Indian subcontinent countries like Pakistan, India, and Bangladesh has kept the forward market active. Prices have hit record highs with over $1,000 USD cost and freight (CFR) Karachi trading in the last week for May shipment, and the new crop October/November position trading at $890 USD in the same period. At this time buyers for Pakistan seem most concerned, due to the estimated shortfall of 300,000 tonnes in their local 2016 crop.

Interestingly, the forecast area for Kabuli chickpeas is down some 15% despite record prices over the last season. The perception with farmers is that chickpea is a higher risk pulse, with less weed control options, and with the prices bid for Desis, the risk/reward outcome falls short.

At this stage of the season the weather remains the big unknown.

The latest three month forecast from the Bureau of Meteorology is for an increased chance of wet conditions in central and southern Australia, and dry in the far north. At the moment only Western Australia has had sufficient opening rains for seeding to start in earnest. Both South Australia and Victoria are very dry with no break to the season in sight. Victoria suffered most from lack of rain in 2015 and will start this season again with low moisture.

As for other crops, the outlook for lentils remains quite positive despite the huge area of lentils expected to be planted in Canada. Forward markets for the smaller types are still well bid, reflecting the interest of Bangladesh while interest for medium size type red whole lentil is low. Stocks of lentils appear to be low, the inference being the last Pulse Australia estimate is on the high side. Certainly forward prices for small lentils are still quite attractive to farmers and production risk will limit further sales until good opening rains. As with chickpeas, the forecast planted area with a good season would mean another record crop.

The expectations for faba beans are not as positive this season. The dry start to the season in New South Wales will mean a reduction in planted area. Price signals from the biggest market, Egypt, are not encouraging. The economic situation there is not good with the Egyptian pound plunging in value from 6.5 to 10.35 to the USD in the last six months. In addition, stringent foreign exchange rules are making Egypt a much higher risk market these days. Eastern bloc and Baltic countries like Estonia, Latvia, and Lithuania are becoming more credible suppliers for faba beans with much lower prices being offered. Recent offers for Lithuanian beans for September shipment were around $335 USD CFR Damietta level.

Dun pea area will be under pressure again this year due to the high prices for chickpeas and lentils. The demand for field peas into select areas of India and Colombo has driven prices to historical highs. Peas are now too expensive for inclusion in stock feed with large tonnages of high screenings, high protein wheat available due to the poor finish to the 2015 season.

To conclude, the stage is set for what everyone hopes will make 2016 a record year for Australian pulse production. However, the year is also starting in moisture deficit and better than average rainfall is needed for this to happen.

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FOCUS SHIFTS TO 2016 PEA AND LENTIL ACRES

Marlene Boersch
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The primary focus of the pulse markets has already shifted from the 2015 crop to the 2016 supply outlook, with Canada the most important competitor in the international pea and lentil markets. On April 21 Statistics Canada (StatCan) contributed its numbers to the discussion by publishing their first 2016 Canadian planted acreage forecast. Although the StatCan figures for pulses have lacked in accuracy over the past years, pulse buyers across the world will scrutinize the numbers. Here is review of what our buyers found.

This is the first time that Western Canada has broken the 4 million (M) acre barrier for peas, though the combined Prairie provinces came close in 2008 with 3.985 M acres. The acreage estimate came in at 4.28 M acres, a full 16.3% or 600,000 acres higher than what was seeded to peas in Canada last year. The Canadian trade's pre-report estimates, as garnered by Reuters Canada, ranged from 4-5 M acres, so the estimate came in at the lower end of the range.

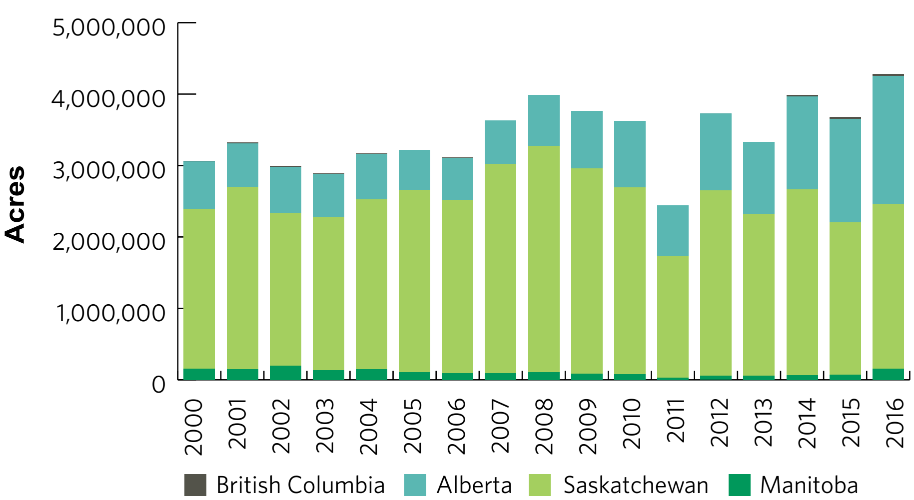
By province, Saskatchewan producers reported that they intend to seed 2.31 M acres, 8% more (over 175,000 acres) compared with 2015. Farmers in Alberta plan to increase their planted pea area by a huge 24% (over 340,000 acres) in 2016 to 1.79 M acres. Manitoba farmers reported their intention to increase the size of pea area by 16% (over 85,000 acres) to 155,000 acres in 2016.

Farmers clearly took note of the relatively good forward pea prices and forward pricing options for 2016 peas and have responded accordingly with more acres allocated to peas. The increased pulse acres are replacing spring wheat, canola, and oat acres. In Manitoba, dry bean acres are also expected to fall.

The next step is to evaluate the likely supply effect of the higher acreage seeded to peas. Using the StatCan acreage number, we would expect Canadian pea production to reach 4.2 M tonnes (3.2 M last year), and supply 4.6 M tonnes (3.9 M last year). This would represent a 32% increase in production over last year. While this sounds daunting, Mercantile Consulting Venture also expects pea exports from Canada to remain strong, primarily due to persisting pulse supply problems in India. For the ongoing 2015/16 crop year, India is estimated to import approximately 5.6 M tonnes of pulses (from all origins), up from 4.6 M in 2014/15 and 3.6 M in 2013/14. To put the 2015/16 imports into perspective, during 2015 Canada supplied about 67% of all imported peas and about 91% of all imported lentils to India.

The big question right now is whether India will be forced to maintain a similarly large pulse import program next crop

Western Canada Seeded Pea Acres 2000-2016



Source: Mercantile Consulting Venture Inc., based on StatCan data year due to tight domestic supplies. Early indications for the 2016 rabi crop give cause for concern in India. Heavy rainfall and hail during March damaged crops again in key food-producing states across north and central India. A more accurate assessment of the rabi crop results will become possible in late April. Then the 2016/17 kharif crop results (planted during June/July, harvested Sept/Oct) will come into play during the summer and fall. In other words, the results of the 2016 monsoon season for India will be absolutely decisive to the pea, lentil, and chickpea markets. For now, some, but certainly not all weather forecasters are predicting an above normal monsoon for the Indian subcontinent this year. This is why Mercantile cautioned farmers that not making any sales for the 2016 pulse crop essentially amounts to speculating on weather problems in India.

Having said this, Mercantile is currently projecting strong pea exports of 3.1 M tonnes for the new crop year because of penned-up demand from the ongoing crop year. Against the StatCan acreage and roughly average yields, this export number would result in Canadian pea ending stocks of around 855,000 tonnes, which would represent a 23% stock-use ratio, up from only 11-12% this ongoing year.

In other words, while the potentially record export sales volumes next crop year will provide farmers and the trade with very good sales opportunities, the market is likely to conclude the crop year with significantly higher ending stocks than last crop year, which eventually will have a moderating effect on prices.

After seeding, yield prospects in all the producing countries will become even more important than the acreage numbers are now. To keep abreast of the markets, growers will need to keep adjusting all the key assumptions (acreage, yields, export outlook) as we start moving through the new crop year.

The StatCan acreage outlook report for 2016 lentils confirmed that Canadian lentil acres are poised to rise to unprecedented highs this year. StatCan is forecasting 5.14 M acres, a full 30% or 1.19 M acres higher than last year. This is also 21% larger than the pea acreage (over 890,000 acres). The trade's pre-report estimates, as garnered by Reuters Canada, ranged from 4.4 to 5.5 M acres, so the estimate came in closer to the high end of the range. This is the first time that Western Canada has broken the 5 M acre barrier for lentils; in fact, acres jumped the 4 M acre level entirely. The previous high was set last year at 3.95 M acres and before that in 2010 at 3.4 M acres. You may remember that the 2010 production proved to be very burdensome for farmers.

Looking at lentil acreage by province, Saskatchewan remains dominant. Expected acreage here is 4.9 M acres, up 31% (1.16 M acres) from last year. Farmers in Alberta anticipate increasing their lentil planted area by 14% (over 35,000 acres) in 2016 to 285,000 acres. These will largely be red lentils. Manitoba is not included in the StatCan estimate for lentils, but we know that some farmers are planning to grow them in that province.

Very good forward pricing opportunities for 2016 lentil acres relative to alternative crops have done their part and pushed acres up in all provinces. Using the StatCan acreage number, we project Canadian lentil production to reach 3.3 M tonnes (up from 2.4 M last year), and supply 3.5 M tonnes (up from 2.8 M last year). This would represent a 41% increase in production over last year.

Following our reasoning on India above, we do expect lentil exports from Canada to remain very strong (2.5 M tonnes), primarily due to persisting pulse supply problems in India. Given the export projection, we can expect Canadian 2016/17 lentil ending stocks to settle around 460,000 tonnes. This would represent a 14-15% stock-use ratio, up from only 3-4% this ongoing year. Surprisingly, this is tighter than the pea ending stocks.

The potential for record export sales volumes next crop year should provide farmers and the trade with very good sales opportunities, but with 41% of all Canadian lentil exports shipped to date to India alone, the lentil market is highly dependent on what happens to production and demand there. In other words, virtually all the increase in demand for lentils over the past four years has come from the Indian subcontinent. If the intensity of demand from the Indian subcontinent is diminished because of improved domestic production there and/or because of better supplies in competing nations, then the Canadian lentil market could become oversupplied, pressuring prices.

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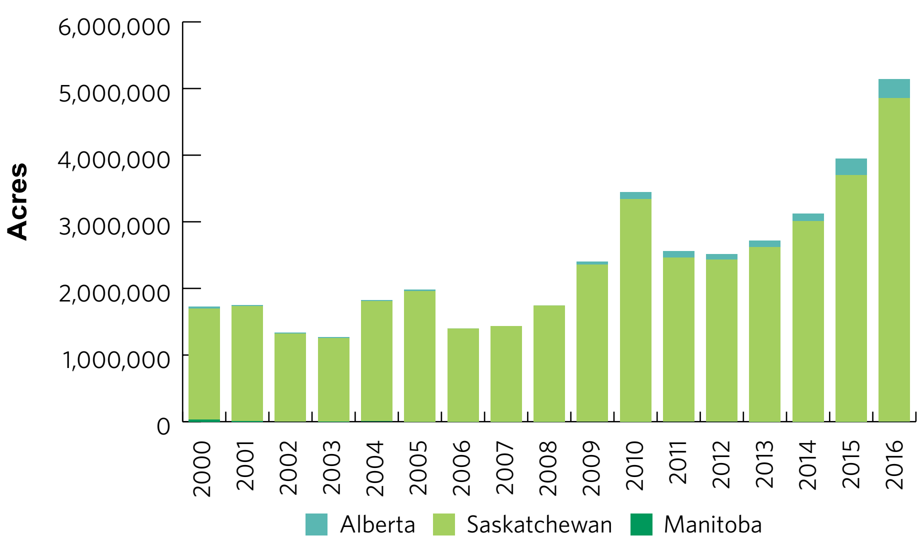
Western Canada Seeded Lentil Acres 2000-2016



Source: Mercantile Consulting Venture Inc., based on StatCan data

Faba Bean Feed Benchmark Bi-Weekly Report - April 22 to 26, 2016

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN$/T	CDN$/T	CDN$/T
Faba Bean Feed Benchmark Price	**$372.73**	**$343.08**	**$318.31**
COMPETING FEED INGREDIENTS			
Feed Barley	$205.00	$194.00	$205.00
Mid Protein Wheat	$230.00	$230.00	$232.00
Low Protein Wheat	$230.00	$230.00	$232.00
Wheat DDGS	$235.00	$230.00	$255.00
Corn	$250.00	$220.00	$191.00
Corn DDGS	$240.00	$230.00	$196.00
Canola Meal	$345.00	$304.00	$312.00
Soybean Meal (46%)	$485.00	$480.00	$443.00
Canola Oil	$1,030.00	$1,000.00	$940.00

All prices are in Canadian dollars per metric tonne.

Feed Pea Benchmark Bi Weekly Report - April 22 to 26, 2016

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN$/T	CDN$/T	CDN$/T
Feed Pea Benchmark Price	**$329.84**	**$305.76**	**$275.21**
COMPETING FEED INGREDIENTS			
Feed Barley	$205.00	$194.00	$205.00
Mid Protein Wheat	$230.00	$230.00	$232.00
Low Protein Wheat	$230.00	$230.00	$232.00
Wheat DDGS	$235.00	$230.00	$255.00
Corn	$250.00	$220.00	$191.00
Corn DDGS	$240.00	$230.00	$196.00
Canola Meal	$345.00	$304.00	$312.00
Soybean Meal (46%)	$485.00	$480.00	$443.00
Canola Oil	$1,030.00	$1,000.00	$940.00

All prices are in Canadian dollars per metric 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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