

REBOUND IN INDIAN PULSE PRODUCTION AND SOFTER PRICES WILL BOOST DOMESTIC CONSUMPTION



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What a dramatic transformation in market sentiment in just three months. After two years of tightening supplies and rising prices, the world suddenly finds itself awash with pulses, providing evidence - if one was required - of

the economic law of supply response to prices. A massive rebound in world pulse production covering major origins has resulted in a sharp downward movement in prices that has left many market participants scrambling.

In combination with large harvests in major exporting countries, the world's largest producer, importer, and consumer, India, has harvested record pulse crops in the 2016/17 kharif season. Kharif planting takes place in June-July with harvest occurring from September - October and is fed by southwest monsoon rains.

The first advance estimate released by the Government of India, Ministry of Agriculture & Farmers Welfare, shows production of various (autumn harvested) pulses at 8.7 million (M) tonnes, nearly 60% more than the El Niño reduced harvest of 5.5 M tonnes in 2015/16. Estimated production has far exceeded the target (7.25 M tonnes) set for the season.

This has been made possible by growers planting a massive 36 M acres this season, nearly one third higher than the 28 M acres planted at the same time last year, combined with reasonably well distributed rainfall between June and September 2016.

Also, the government has hiked the minimum support price (MSP) for pulses. The MSP for kharif pulses is above the threshold level of 5,000 rupees per 100 kilograms, equivalent

to approximately \$750 USD a tonne. As a result of large harvests almost simultaneously in India, Canada, the United States, the Black Sea region, Myanmar, and East Africa to be followed by Australia, export prices started to collapse by August. For instance, pigeon pea export offers declined from over \$1,100 USD/tonne six months ago to \$650 USD/tonne levels. Yellow pea quotes have moved sharply down from around \$370 USD/tonne to as low as \$300 USD/tonne. Other pulses are no exception to this trend.

glut situation in the domestic market with a consequential impact on prices.

Anecdotal evidence suggests that as much as 500,000 tonnes worth of contracts may have been cancelled or washed out following the sharp decline in prices over the last three months or so. This is sure to leave a bitter taste for some market participants.

In the first six months of the current financial year (2016/17) from April to September, India imported approximately 1.8 M tonnes of pulses, down from 2.1 M

Table 1. India's Pulse Production for the 2016/17 Kharif Season (Million Tonnes)

Pulse	Target	Output	2015/16
Tur (Pigeon Pea)	3.6	4.3	2.5
Urad (Black Matpe)	1.5	2.0	1.4
Moong (Green Gram)	1.2	1.4	1.0
Others	1.0	1.0	0.6
TOTAL	7.3	8.7	5.4

Source: Government of India, Ministry of Agriculture & Farmers Welfare

Embarrassed by the 'dal shock' of 2015 and 2016 that saw massive imports and rapidly escalating prices, the Indian government has started to apply its mind on measures to address some of the market issues. One such is the proposal to create a 2 M tonne buffer stock. It is argued that procurement or government purchase for the creation of buffer stock will improve the marketability of the crop and encourage growers to continue to plant the crop.

Even as new crop supplies at record numbers are already hitting the market, imports from various origins (commitments made several months earlier) are already hitting Indian shores. It is estimated that Indian importers have contracted about 2 M tonnes of various pulses from different origins and these are expected to arrive between October and December. This is sure to create a

tonnes during the same period last year.

There is an expectation that domestic pulse prices will trend further on the downside when domestic harvest pressure combines with imported cargo arrival pressure. This is potentially set to happen in November when the festival season demand begins to slow down. In the event domestic pulse prices move further down, the policymakers will not hesitate to impose customs duty on imports so as to support/defend the growers. Such an eventuality has the potential to throw the market in disarray.

That India is a price conscious market is well known. In the last two years, higher consumer prices resulted in some demand compression. Now, in the coming months, softer prices are likely to spur more demand for pulses. With above normal rains and a rebound in farm

output, rural incomes are set to increase. Income elasticity and price elasticity of demand are set to work in tandem.

For the whole of 2016/17 (the kharif and rabi seasons), the production target is 20.75 M tonnes comprising of 7.25 M tonnes for kharif and 13.5 M tonnes for rabi. The kharif target has already

been exceeded. With sufficient subsoil moisture and higher support prices, there is an expectation that rabi planting will also expand and production may be close to the target.

In the event, India's aggregate imports in 2016/17 are sure to decline to about 4 M tonnes from 5.8 M tonnes in 2015/16.

The following table is a snapshot of the Indian pulse market. Please note, these data are from government sources. The demand side of the data needs more robust verification.

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Table 2. Basic Indicators of the Indian Pulse Market (Million Tonnes)

Year	2012/13	2013/14	2014/15	2015/16	2016/17*
Production	18.34	19.25	17.15	16.47	20.75
Demand	20.9	21.77	22.68	23.62	24.61
Import	3.84	3.53	4.58	5.79	
Export	0.2	0.34	0.22	0.26	
Availability	21.98	22.44	21.51	22	

*Target

Source: Government of India

QUALITY A DEFINING ISSUE IN 2016 LENTIL AND CHICKPEA CROPS



Brian Clancey
STAT Publishing Inc.

Quality has emerged as the defining issue for this year's green lentil and chickpea crops. Peas and red lentils were also damaged by wet growing and harvest

conditions, but not as much as the other two pulses.

Based on comments by crop reporters around Saskatchewan, the provincial agriculture ministry reckons 4% of this year's lentil crop will grade No. 1 Canada, compared to 21% last year and the recent 10-year average of 29%. More importantly, it thought 44% would grade Extra 3 and No. 3 Canada, and 11% sample, up sharply from the recent averages of 23% and 4%.

Those estimates did not attract a lot of attention because they matched up with what people expected, especially companies more involved with green lentils. On the other hand, those same companies are having a hard time accepting data coming from the Canadian Grain Commission (CGC).

Samples submitted by farmers indicate the percentages of good quality lentils are closer to average. Of 416 lentil samples sent to the CGC by farmers, 28% graded No. 1 Canada, 35% No. 2 Canada, 26% Extra 3 Canada, and 11% No. 3 Canada.

Similarly, of the 255,000 tonnes of lentils loaded to bulk vessels by terminal elevators in Vancouver and Thunder Bay, 79% graded No. 2 Canada. Only 2% were Extra 3 and No. 3 Canada. Another 19% fell into the "other" grade category, which probably includes split lentils.

It is important to note that the CGC combines data for red and green lentils. In the case of submissions by farmers, it is fair to say that at least 76% were red. Moreover, red lentils dominate bulk export movement. There is no disagreement that the average grades for red lentils are higher than for green. The implication is the CGC results better reflect the quality of this year's red lentil crop instead of the green lentils.

Doubts about quality were reinforced by the fact the lentil harvest was stalled by rain and snow after the third week of September. Farmers in Saskatchewan struggled to harvest the last 6% of this year's crop, which almost certainly means

that a large part of that fraction of the crop will struggle to be better than sample grade. It is important to note that large green lentils take longer to mature than red, suggesting they account for more than 20% of the last fields to be harvested.

The story is worse for chickpeas. Roughly 75% of Saskatchewan's crop was stuck in the field during those weeks. Both yields and quality suffered. Migrating birds ate some seeds, others sprouted, and more suffered from bleaching.

Problems with our chickpea crop comes at a moment when the world is desperate to find fresh stocks to help cover needs until next year's harvests in India and Mexico. Canada is not a market maker in chickpeas, but our problems make it harder for buyers to calm bullish sentiment. If India follows through on its promise to massively increase the amount of pulses it will grow in the coming rabi season, markets will start to reverse direction by February or March. Then, if Mexican farmers plant more in response to this year's high returns, prices will fall further during the second quarter.

Red lentils face similar issues. Though India's farmers plant mainly Desi-type chickpeas during the rabi season, returns

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

	Desi	Kabuli	Small Kabuli	All Chickpeas	Yellow Peas	Green Peas	Other	All Peas
Area (acres)	1,000	152,000	19,000	172,000	3,700,000	519,000	55,000	4,274,000
Yield (lbs/acre)	2,205	1,507	1,392	1,498	2,440	2,165	2,008	2,401
Production	1,000	103,900	12,000	116,900	4,095,300	509,700	50,100	4,655,100
Carry-In	0	2,000	0	2,000	106,000	69,000	1,000	176,000
Imports	0	9,000	0	9,000	13,700	13,200	1,100	28,000
Supply	1,000	114,900	12,000	127,900	4,215,000	591,900	52,200	4,859,100
Exports	960	81,240	7,700	89,900	2,815,000	326,900	34,100	3,176,000
Seed	40	11,900	1,000	12,940	227,000	36,000	4,000	267,000
Feed, Waste, and Other	0	19,760	3,300	23,060	463,000	78,000	13,100	554,100
Total Usage	1,000	112,900	12,000	125,900	3,505,000	440,900	51,200	3,997,100
Ending Stocks	0	2,000	0	2,000	710,000	151,000	1,000	862,000
Stocks/Use	0%	2%	0%	2%	20%	34%	2%	22%

*All quantities in tonnes
Source: STAT Publishing Inc.

Supply and Demand Forecast for Canadian Lentils in 2016/17

	Large Green	Medium Green	Small Green	Extra Small Red	Small Red	All Red	Other	All
Area (acres)	1,100,000	60,000	305,000	218,000	4,142,000	4,360,000	15,000	5,840,000
Yield (lbs/acre)	1,168	1,213	1,200	1,274	1,251	1,252	882	1,232
Production	583,000	33,000	166,000	126,000	2,349,800	2,475,800	6,000	3,263,800
Carry-In	22,000	1,000	3,000	6,000	40,000	46,000	1,000	73,000
Supply	605,000	34,000	169,000	132,000	2,389,800	2,521,800	7,000	3,336,800
Exports	444,200	22,300	110,200	85,100	1,507,800	1,592,900	4,600	2,174,200
Seed	30,600	1,900	5,500	3,100	89,700	92,800	300	131,100
Feed, Waste, and Other	46,200	2,800	15,300	12,800	198,300	211,100	1,100	276,100
Total Usage	521,000	27,000	131,000	101,000	1,795,800	1,896,800	6,000	2,581,800
Ending Stocks	84,000	7,000	38,000	31,000	594,000	625,000	1,000	755,000
Stocks/Use	16%	26%	29%	31%	33%	33%	17%	29%

*All quantities in tonnes
Source: STAT Publishing Inc.

from red lentils have been strong enough to suggest land in that crop will also increase. Depending on how much is grown, demand could cool during the first half of 2017, making it hard for markets to stay relatively strong.

By contrast, green lentils do not rely on demand from the Indian subcontinent. This year's jump in pigeon pea production should limit our ability to sell green lentils to the region. But having a high proportion of off-grade product available means that we could sell more than expected because lower grades command lower prices.

This is becoming obvious in the No. 2 Canada market for large green lentils. That market has split into two main fractions: one with a minimum of 75% of seeds staying on top of a 15/64 inch round hole screen, and one where as much as half fall through. The price

spread between the two types can be more than five cents a pound as exporters try to convince buyers who want large green lentils to accept product with more small seeds than normal.

It is too late to recommend that farmers keep normal large green lentils separate from ones which have a bigger percentage of small seeds. But, for those growers with normal No. 2 Canada product, knowing what processors need could result in better prices.

In recent years, lentils have become just a commodity. But, that is more true of red than green lentils. Most markets for green lentils take product in bags in containers. Processors and exporters who take care of those buyers need to put more effort into managing quality. It is fair to say there are fewer opportunities to upgrade a good No. 3 Canada to a No. 2 standard than there is when shipping 10,000 or

20,000 tonnes of lentils at a time to a single buyer.

By contrast, this creates more opportunities for green than red lentil growers to improve the selling prices. Knowing the needs of local processors and exporters is the key. They need to know what you have in your bins and you need to know what qualities and sizes they need for their buyers. Matching that is the key to adding value to a difficult crop.

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

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Faba Bean Feed Benchmark Price	\$320.70	\$335.15	\$300.33
COMPETING FEED INGREDIENTS			
Feed Barley	\$158.00	\$160.00	\$187.00
Mid Protein Wheat	\$180.00	\$195.00	\$210.00
Low Protein Wheat	\$175.00	\$190.00	\$205.00
Wheat DDGS	\$210.00	\$210.00	\$210.00
Corn	\$205.00	\$184.00	\$167.00
Corn DDGS	\$235.00	\$200.00	\$164.00
Canola Meal	\$293.00	\$303.00	\$286.00
Soybean Meal (46%)	\$505.00	\$473.00	\$436.00
Canola Oil	\$950.00	\$950.00	\$950.00

All prices are in Canadian dollars per tonne tonne.

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

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Feed Pea Benchmark Price	\$282.03	\$289.17	\$253.84
COMPETING FEED INGREDIENTS			
Feed Barley	\$158.00	\$160.00	\$187.00
Mid Protein Wheat	\$180.00	\$195.00	\$210.00
Low Protein Wheat	\$175.00	\$190.00	\$205.00
Wheat DDGS	\$210.00	\$210.00	\$210.00
Corn	\$205.00	\$184.00	\$167.00
Corn DDGS	\$235.00	\$200.00	\$164.00
Canola Meal	\$293.00	\$303.00	\$286.00
Soybean Meal (46%)	\$505.00	\$473.00	\$436.00
Canola Oil	\$950.00	\$950.00	\$950.00

All prices are in Canadian dollars per tonne 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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