

2017 CANADIAN PULSE OUTLOOK



Brian Clancey
STAT Publishing Ltd.

Many of the events which ought to influence how many acres of pulses farmers plant in 2017 are being overshadowed by efforts to finish a record fall shipping program. Though lentils get more attention, peas have set the tempo for pulse exports so far this season.

Since the start of the marketing year, farmers have sold over half the crop, delivering over 2.2 million (M) tonnes into the bulk handling system and at least 300,000 tonnes to domestic processors and feed markets.

What this means is that after starting the marketing year with 1.1 M tonnes more peas than last season, the net increase was cut to around 400,000 tonnes by the end of December.

As exciting as the numbers are, the fact that five countries buy 90% or more of the crop

is more of a vulnerability than a strength. China once thought it would overtake India as the world's largest buyer of peas. That belief was based on rapid expansion of the number of factories which turn pulses into starch, protein, and fibre fractions. But, the industry was over-built and demand for products based on peas did not grow as much as expected.

By contrast, demand from India seemed limitless. The reason is that in the past 25 years, India has never grown enough pulses to cover its minimum dietary requirement. It was not until 2010, that it imported enough pulses to cover the gap. That only became possible after food price inflation raised prices paid to farmers, who used the extra income to upgrade their diets.

India is about to enter new territory. It is almost certain it will grow enough pulses to cover its minimum dietary requirement of around 22.3 M tonnes or 17.5 kilograms per person in 2017. Without imports, it will not cover the recommended requirement of 25.4 M tonnes or 20 kilograms per capita.

The numbers suggest imports should remain

between 3 and 3.5 M tonnes. Even so, buyers might be more price-sensitive because of rising domestic stocks.

Competition for available demand will also increase. Not just because pea production is expected to rise in 2017 due to the market's strong performance this year, but also because of competition from other commodities. World production of 9mm and smaller Kabuli chickpeas is expected to rise, with farmers in the United States (U.S.) likely setting a new record for seeded area in 2017. Production may also rise in Russia, while supplies of Desi-type chickpeas are up sharply because of record production in Australia.

Canadian farmers will also face more competitive pressures in green lentils in 2017 both in terms of price and quality. Though a higher than expected proportion of the crop is grading No. 2 Canada, there are significant differences within the grade. Buyers argue that high end No. 2 Canada lentils are what they expect, while low end product should have been graded as Extra 3 Canada. That affects farmers in two ways: wide price spreads and possible

Canadian Supply and Demand Estimate for Chickpeas and Field Peas in 2016/17

| | Desi | Kabuli | Small Kabuli | All | Yellow | Green | Other | All Peas |
|------------------------|-------|---------|--------------|---------|-----------|---------|--------|-----------|
| Area (acres) | 1,000 | 152,000 | 19,000 | 172,000 | 3,700,000 | 519,000 | 20,000 | 4,239,000 |
| Yield (lbs/acre) | 2,205 | 1,047 | 1,392 | 1,092 | 2,484 | 2,647 | 4,839 | 2,515 |
| Production | 1,000 | 72,200 | 12,000 | 85,200 | 4,168,900 | 623,100 | 43,900 | 4,835,900 |
| Carry-In | 0 | 2,000 | 0 | 2,000 | 115,000 | 60,000 | 1,000 | 176,000 |
| Imports | 0 | 9,000 | 0 | 9,000 | 13,700 | 13,200 | 1,100 | 28,000 |
| Supply | 1,000 | 82,200 | 12,000 | 96,200 | 4,297,600 | 696,300 | 46,000 | 5,039,900 |
| Exports | 960 | 56,640 | 10,000 | 67,600 | 2,817,700 | 386,800 | 29,500 | 3,234,000 |
| Seed | 40 | 13,800 | 1,100 | 14,940 | 266,000 | 43,000 | 5,000 | 314,000 |
| Feed, Waste, and Other | 0 | 12,760 | 900 | 13,660 | 551,900 | 179,500 | 10,500 | 741,900 |
| Total Usage | 1,000 | 83,200 | 12,000 | 96,200 | 3,635,600 | 609,300 | 45,000 | 4,289,900 |
| Ending Stocks | 0 | 0 | 0 | 0 | 662,000 | 87,000 | 1,000 | 750,000 |
| Stocks/Use | 0% | 0% | 0% | 0% | 18% | 14% | 2% | 17% |

*All quantities in tonnes

Source: STAT Publishing Ltd.

Canadian Supply and Demand Estimate for Chickpeas and Field Peas in 2016/17

| | Desi | Kabuli | Small Kabuli | All | Yellow | Green | Other | All Peas |
|------------------------|-------|---------|--------------|---------|-----------|---------|--------|-----------|
| Area (acres) | 1,000 | 171,000 | 21,000 | 193,000 | 3,784,800 | 607,300 | 67,900 | 4,460,000 |
| Yield (lbs/acre) | 2,205 | 1,672 | 1,449 | 1,645 | 2,269 | 2,206 | 2,642 | 2,266 |
| Production | 1,000 | 129,700 | 13,800 | 144,000 | 3,895,800 | 607,800 | 81,400 | 4,585,000 |
| Carry-In | 0 | 0 | 0 | 0 | 662,000 | 87,000 | 1,000 | 750,000 |
| Imports | 0 | 9,000 | 0 | 9,000 | 13,700 | 13,100 | 1,200 | 28,000 |
| Supply | 1,000 | 138,700 | 13,800 | 153,000 | 4,571,500 | 707,900 | 83,600 | 5,363,000 |
| Exports | 960 | 57,540 | 9,000 | 67,500 | 2,480,500 | 384,100 | 45,400 | 2,910,000 |
| Seed | 40 | 11,800 | 1,100 | 12,940 | 252,000 | 40,000 | 5,000 | 297,000 |
| Feed, Waste, and Other | 0 | 29,360 | 3,700 | 32,560 | 639,000 | 93,800 | 23,200 | 756,000 |
| Total Usage | 1,000 | 98,700 | 13,800 | 113,000 | 3,371,500 | 517,900 | 73,600 | 3,963,000 |
| Ending Stocks | 0 | 40,000 | 0 | 40,000 | 1,200,000 | 190,000 | 10,000 | 1,400,000 |
| Stocks/Use | 0% | 41% | 0% | 35% | 36% | 37% | 14% | 35% |

*All quantities in tonnes

Source: STAT Publishing Ltd.

Canadian 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) | 1,100,000 | 35,000 | 305,000 | 110,000 | 4,295,000 | 4,405,000 | 15,000 | 5,860,000 |
| Yield (lbs/acre) | 1,078 | 1,178 | 1,475 | 1,203 | 1,244 | 1,243 | 588 | 1,222 |
| Production | 537,900 | 18,700 | 204,100 | 60,000 | 2,423,500 | 2,483,500 | 4,000 | 3,248,200 |
| Carry-In | 13,000 | 2,000 | 12,000 | 1,400 | 43,600 | 45,000 | 1,000 | 73,000 |
| Supply | 550,900 | 20,700 | 216,100 | 61,400 | 2,467,100 | 2,528,500 | 5,000 | 3,321,200 |
| Exports | 391,500 | 12,900 | 134,100 | 37,200 | 1,480,200 | 1,517,400 | 3,100 | 2,059,000 |
| Seed | 46,900 | 2,300 | 8,000 | 1,800 | 124,400 | 126,200 | 400 | 183,800 |
| Feed, Waste, and Other | 62,500 | 2,500 | 24,000 | 7,400 | 281,500 | 288,900 | 500 | 378,400 |
| Total Usage | 500,900 | 17,700 | 166,100 | 46,400 | 1,886,100 | 1,932,500 | 4,000 | 2,621,200 |
| Ending Stocks | 50,000 | 3,000 | 50,000 | 15,000 | 581,000 | 596,000 | 1,000 | 700,000 |
| Stocks/Use | 10% | 17% | 30% | 32% | 31% | 31% | 25% | 27% |

*All quantities in tonnes

Source: STAT Publishing Ltd.

Canadian Supply and Demand Estimate for Lentils in 2017/18

| | Large Green | Medium Green | Small Green | Extra Small Red | Small Red | All Red | Other | All |
|------------------------|-------------|--------------|-------------|-----------------|-----------|-----------|--------|-----------|
| Area (acres) | 1,150,000 | 72,000 | 354,000 | 80,000 | 3,917,000 | 3,997,000 | 17,000 | 5,590,000 |
| Yield (lbs/acre) | 1,309 | 1,347 | 1,439 | 1,323 | 1,340 | 1,340 | 908 | 1,339 |
| Production | 683,000 | 44,000 | 231,000 | 48,000 | 2,381,000 | 2,429,000 | 7,000 | 3,394,000 |
| Carry-In | 50,000 | 3,000 | 50,000 | 15,000 | 581,000 | 596,000 | 1,000 | 700,000 |
| Supply | 733,000 | 47,000 | 281,000 | 63,000 | 2,962,000 | 3,025,000 | 8,000 | 4,094,000 |
| Exports | 499,300 | 32,000 | 191,400 | 42,900 | 2,017,800 | 2,060,700 | 5,400 | 2,788,800 |
| Seed | 40,000 | 1,600 | 6,800 | 7,100 | 90,000 | 97,100 | 300 | 145,800 |
| Feed, Waste, and Other | 63,700 | 4,400 | 22,800 | 6,000 | 261,200 | 267,200 | 1,300 | 359,200 |
| Total Usage | 603,000 | 38,000 | 221,000 | 56,000 | 2,369,000 | 2,425,000 | 7,000 | 3,294,000 |
| Ending Stocks | 130,000 | 9,000 | 60,000 | 7,000 | 593,000 | 600,000 | 1,000 | 800,000 |
| Stocks/Use | 22% | 24% | 27% | 13% | 25% | 25% | 14% | 24% |

*All quantities in tonnes

Source: STAT Publishing Ltd.

delays making deliveries if enough buyers follow through on threats to revert to buying on a sample rather than grade basis.

This is not a new theme. Communication solves these problems. If buyers are clear about what they need, exporters can explain this to processors. For their part, growers need to give prospective buyers accurate samples of the lentils in their bins in order to make sure deliveries match the immediate needs of processors. What makes this important is that buyers are generally more confident about buying on a grade basis from suppliers in the U.S.

Right now, buyers are willing to pay much more for green lentils than for red. By the middle of December, farmers could get 36 cents per pound (¢/lb) more for No. 2 Canada large green lentils than the same grade of red lentils. Since the start of the marketing year, the premium has averaged 19.4 ¢/lb. The story is the same

for small green lentils, with bids 32 ¢/lb higher by the middle of December and averaging 13¢ more since the start of the marketing year.

People sometimes get complacent when prices are high, thinking buyers will take what they have instead of insisting on what they need. But, the United States harvested over 564,000 tonnes of lentils this year. Most of the crop is green lentils. The quality is more consistent and buyers have more confidence in U.S. grades. American exporters are happy to let Canada set the tone for price and are eager to take advantage of quality problems.

Considering that Canada will probably face tougher market conditions for peas, lentils, and chickpeas in 2017, having buyers complain about quality is not helpful. There is a lesson for everyone in what has happened to China's dry edible bean industry.

After becoming the biggest exporter of colored beans, Chinese exporters assumed

buyers had to accept what they had, when they had it. Shipments were often late and the average quality was lower. Exporters in other countries seized on the opportunity. Now, many buyers will not look at Chinese beans without guarantees about quality, the timing of deliveries, and lower prices.

We do not want to end up on this path. Because demand and prices have been good since harvest, Canadian pulse production might be almost unchanged in 2017. The reason is that events since harvest have overshadowed rising production in India and other countries. It surely looks like competition for sales will be more intense in 2017 than was the case this year. At moments like this, reputation is as important as price.

Brian Clancey is the Editor and Publisher of www.statpub.com market news website and President of STAT Publishing Ltd. He can be reached at editor@statpub.com

CANADIAN PULSE EXPORTS END 2016 STRONG



Marlene Boersch
Mercantile Consulting
Venture Inc.

This article is being written just before Christmas and it is a good time to take store of year-to-date exports and developments for the 2016 pea and lentil crops before starting to focus on the new crop 2017 outlook.

Peas: One of the striking statistics for 2016 Canadian peas is that more than 2.22 million (M) tonnes of our peas have already been delivered into the bulk handling system by the end of shipping week 19 (December 11, 2016). This is 709,300 tonnes (or 47%) more than had been delivered last year at this time. Further, year-to-date terminal receipts are up 31% over last year, and bulk exports at 1.72 M tonnes are up by 28%. To that you can add roughly 300,000 tonnes of peas exported by container. This means that the burden of

a large Canadian pea crop, which at 4.8 M tonnes was 51% bigger than the 2015 crop, will have been much reduced by the time we reach the New Year. This is very good news in an environment where the world pea crop has also grown by nearly 25%.

Shipments have been excellent since harvest thanks to volume forward sales made over the summer by our exporters. It is also thanks to pent up demand for fall shipments due to very low pea stocks over the summer, and because peas remained good value relative to other

Canadian Monthly Pea Exports - Crop Year 2016/17 (Tonnes)

| Rank | Country | Aug. 2016 | Sept. 2016 | Oct. 2016 | Total YTD | Last YTD |
|--------------|----------------------|----------------|----------------|----------------|------------------|------------------|
| Total | World | 300,480 | 710,194 | 456,317 | 1,466,991 | 1,168,895 |
| 1 | India | 132,598 | 383,995 | 267,295 | 783,888 | 682,221 |
| 2 | China | 88,023 | 144,148 | 110,991 | 343,162 | 165,898 |
| 3 | Bangladesh | 45,875 | 101,523 | 31,104 | 178,502 | 198,540 |
| 4 | Cuba | 0 | 28,000 | | 28,000 | 65,110 |
| 5 | France | 14 | 18,898 | | 18,912 | 122 |
| 6 | USA | 15,383 | 5,387 | 6,086 | 26,856 | 15,851 |
| 7 | Mynamar | 0 | 4,965 | 7,589 | 12,554 | 5,534 |
| 8 | Colombia | 4,565 | 4,276 | 2,088 | 10,929 | 3,497 |
| 9 | Algeria | 1,393 | 1,425 | 1,204 | 4,022 | 3,148 |
| 10 | United Arab Emirates | 1,963 | 1,977 | 11,800 | 15,740 | 1,856 |
| | Philippines | 2,986 | 1,803 | 2,212 | 7,001 | 4,485 |
| | Others | 7,680 | 13,797 | 15,948 | 37,425 | 22,633 |

Source: Mercantile Consulting Venture Inc. based on Statistics Canada export numbers

pulses. Importantly, there was an unusually wide price spread to chickpeas and to lentils. This helped to bring Indian buyers back to buy more product earlier than they otherwise would have done. Increased demand from the pet food industry in the United States (U.S.) and for pea fractions in Canada and France has helped as well. All combined, Mercantile Consulting Venture Inc. figures that there are not much more than 1 to 1.1 M tonnes of peas left to sell out of a total supply of 5 M tonnes.

Official Canadian export statistics unfortunately only cover exports to October 31, but they do give a sense of the relative pace of shipments and which destinations have been important. By the end October, pea shipments were 26% ahead of last year's crop. Specifically, India is 15% ahead of last year's pace, and China more than double last year's pace. We also note the shipments to France (pea fractioning, 155% of last year and 19,000 tonnes total) and the pace of shipments to the U.S., mostly for pet food (69% over last year and 27,000 tonnes total), as mentioned above. Having said that, the top three pea buyers (India, China, and Bangladesh) still have purchased a massive 89% of all peas.

Because of the good movement to-date, we expect prices to remain firm in the New Year, though shipping will be slower early in the year when the big Australian chickpea crop (approximately 1.3 to 1.4 M tonnes) hits the Indian subcontinent.

Still, there are several risks to the market that Canadian pea producers should be aware of and monitor for both peas and lentils, of note is the development of the India rabi pulse crop. The area sown to rabi crop pulses as of December 16, 2016 stands at 32.6 M acres as compared to 29 M acres this time in 2015. This now is a 13% increase over last year with the average area seeded to pulses is 31 M acres. Importantly, soil moisture is good and germination is progressing well.

There are also two other institutional risks related to India that need watching. The first is an exemption by the Indian Government,

which allows pulses from Canada, France, and the U.S. to be shipped without being fumigated with methyl bromide at the source. This exemption runs out on March 31, 2017 and needs to be prolonged to allow smooth shipping of peas from Canada. The second exemption pertains to Canadian phytosanitary certificates, and permits our certificates to omit the sentence "free from soil contamination". Not having the extensions in hand leaves a lot of power/opportunity in the hands of the Indian government to tamper with the markets in case of a big domestic pulse crop.

Lentils: The Canadian lentil crop was also about 28% bigger than last year's, and the world lentil crop is likely going to be about 35% larger than last year. Canadian bulk shipments have now caught up and surpassed last year's by 35,000 tonnes (greater than 7%), but overall shipments including containers are probably still behind last year's. Again, Statistics Canada export numbers for this crop year only cover August 1 to October 31, but the trends are interesting.

As of October 31, lentil shipments (bulk and containers combined) were lagging 21% behind those of last crop year's. Specifically, shipments to India were 43% behind last year's, and 40% behind to Turkey. Bangladesh

is almost 44,000 tonnes ahead of last year's pace, and so are a lot of the smaller destinations. Imports by Pakistan are almost five times those of last year to-date.

There are some complications with buyers' exchange rates this year that are worth noting because they are reducing buying power. It takes 52% more Turkish lira against the U.S. dollar (USD) denominated imports just over the last 90 days, and it takes more than double the Egyptian pound against USD on December 13 relative to September 14. This is bound to have a negative effect on imports denominated in the USD. Further developments will need to be watched. The Indian rupee has fared much better, partly because the rupee has recovered somewhat over the past two weeks, but it is still 3% off the pace over the past 90 days as well.

It is clear that shippable quality product from Canada has also played a role in the markets, and we think that 380,000 to 400,000 tonnes of Canadian lentils were lost to the edible export markets due quality problems. This issue has been a big factor in green lentil pricing, where Canada faces U.S. lentils as major competitors. We therefore expect green lentil prices to remain firm, but red lentils are now faced with an unusually large Australian red lentil crop (we think it is substantially bigger than the Australian Bureau of Agricultural Resource Economics and Sciences number) that is now entering the world markets. This will tip the supply/demand balance and pressure markets in Asia and the Middle East. So even with the overall increased demand for lentils and the catch-up demand from last year, we could see red lentil values weaken.

Also, if the forecast for 2017 lentil acreage in Canada is even close to the same in the spring, this will not be constructive for prices, even though a lot of the ending stocks will be in lower grades.

Marlene Boersch is an operating partner in Mercantile Consulting Venture Inc. More information can be found at www.mercantileventure.com.

Canadian Monthly Pea Exports - Crop Year 2016/17 (Tonnes)

| Rank | Country | Aug. 2016 | Sept. 2016 | Oct. 2016 | Total YTD | Last YTD |
|--------------|----------------------|---------------|----------------|----------------|----------------|----------------|
| Total | World | 26,425 | 299,331 | 418,778 | 744,534 | 942,154 |
| 1 | India | 5,566 | 112,940 | 192,777 | 311,283 | 543,081 |
| 2 | Turkey | 1,231 | 57,034 | 51,403 | 109,668 | 156,745 |
| 3 | Bangladesh | 83 | 34,268 | 35,898 | 70,249 | 26,527 |
| 4 | Egypt | 1,660 | 25,794 | 6,483 | 33,937 | 22,542 |
| 5 | Sri Lanka | 4,115 | 13,879 | 19,963 | 37,957 | 20,654 |
| 6 | United Arab Emirates | 3,954 | 12,014 | 22,169 | 38,137 | 34,149 |
| 7 | Pakistan | 4,143 | 13,532 | 31,364 | 49,039 | 10,291 |
| 8 | Spain | 71 | 5,878 | 6,905 | 12,854 | 10,215 |
| 9 | Italy | 244 | 3,623 | 3,661 | 7,528 | 7,839 |
| 10 | Algeria | - | 2,555 | 9,514 | 12,069 | 33,054 |
| | Others | 5,358 | 17,814 | 38,641 | 61,813 | 77,057 |

Source: Mercantile Consulting Venture Inc. based on Statistics Canada export numbers

Faba Bean Feed Benchmark Bi-Weekly Report - December 17 to 21, 2016

| | CENTRAL ALBERTA | CENTRAL SASK. | SOUTH. MANITOBA |
|---------------------------------------|--------------------|------------------|--------------------|
| | CDN\$/T | CDN\$/T | CDN\$/T |
| Faba Bean Feed Benchmark Price | \$346.33 | \$ 353.91 | \$319.24 |
| COMPETING FEED INGREDIENTS | | | |
| Feed Barley | \$155.00 | \$157.00 | \$192.00 |
| Mid Protein Wheat | \$180.00 | \$195.00 | \$217.00 |
| Low Protein Wheat | \$175.00 | \$190.00 | \$210.00 |
| Wheat DDGS | \$210.00 | \$210.00 | \$210.00 |
| Corn | \$240.00 | \$218.00 | \$175.00 |
| Corn DDGS | \$240.00 | \$208.00 | \$175.00 |
| Canola Meal | \$310.00 | \$304.00 | \$305.00 |
| Soybean Meal (46%) | \$545.00 | \$498.00 | \$458.00 |
| Canola Oil | \$950.00 | \$950.00 | \$950.00 |

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - December 17 to 21, 2016

| | CENTRAL ALBERTA | CENTRAL SASK. | SOUTH. MANITOBA |
|-----------------------------------|--------------------|------------------|--------------------|
| | CDN\$/T | CDN\$/T | CDN\$/T |
| Feed Pea Benchmark Price | \$300.10 | \$304.85 | \$269.95 |
| COMPETING FEED INGREDIENTS | | | |
| Feed Barley | \$155.00 | \$157.00 | \$192.00 |
| Mid Protein Wheat | \$180.00 | \$195.00 | \$217.00 |
| Low Protein Wheat | \$175.00 | \$190.00 | \$210.00 |
| Wheat DDGS | \$210.00 | \$210.00 | \$210.00 |
| Corn | \$240.00 | \$218.00 | \$175.00 |
| Corn DDGS | \$240.00 | \$208.00 | \$175.00 |
| Canola Meal | \$310.00 | \$304.00 | \$305.00 |
| Soybean Meal (46%) | \$545.00 | \$498.00 | \$458.00 |
| Canola Oil | \$950.00 | \$950.00 | \$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.



www.saskpulse.com

@Saskpulse

If you would like to receive your copy of the Pulse Market Report by email, please contact us at pulse@saskpulse.com.

DISCLAIMER: This publication is provided for informational purposes only and should not be interpreted as providing, without limitation, agricultural, marketing, or business management advice. Saskatchewan Pulse Growers makes no express or implied guarantees or warranties of suitability or accuracy regarding the information contained in this publication. In no event shall Saskatchewan Pulse Growers be held liable for any special, incidental, consequential, direct or indirect injury, damage or loss which may arise from the use of, or any decisions made in reliance on, the information provided. The opinions expressed in this publication are those of the authors thereof and not necessarily those of Saskatchewan Pulse Growers.

Publications Mail Agreement No. #40021625. Return undeliverable Canadian addresses to: Saskatchewan Pulse Growers, 207 - 116 Research Drive Saskatoon SK S7N 3R3

Saskatchewan Pulse Growers

This report is also available at saskpulse.com