SASKATCHEWAN pulse Growers

INDIA'S QUANTITATIVE RESTRICTIONS ON SELECT PULSES AND LINGERING UNCERTAINTIES UPSET GLOBAL MARKET

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India seems set to harvest a large pulse crop for the second year in a row, and that has implications for the world pulse market.

After two years of weather-affected harvests that led to what is described as 'dal shock' (lower production, escalating prices, record imports, and government intervention), the country witnessed a massive rebound in production in 2016/17 to 22.9 million (M) tonnes, up from 16.3 M tonnes in the previous year.

There are indications that in the ongoing year India is most likely to see a repeat of last year's production performance. The kharif (summer) harvest estimate – 8.7 M tonnes - is case in point.

The 2016/17 year saw a dramatic collapse in domestic prices following a massive rebound in production. The price action was exacerbated by a surge in imports of pulses to record levels (6.6 M tonnes). Farmgate rates fell substantially below the minimum support price (MSP) announced by the government and growers were upset by the supply burden.

Farmers' protests forced the policymakers to intervene in the market to stem the price rot and defend the MSP. The government procured about 1.6 M tonnes, a quantity seen as inadequate, under the given circumstances, to prop up low prices. Huge inventories piled up and demand growth was lackluster. Demonetization of high value currency in November 2016, and its lingering aftereffects, saw demand across the commodities slowing - with pulses being no exception.

India's Pulse Production and Import Trends (in Million Tonnes)

YEAR	KHARIF	RABI	TOTAL	IMPORT
2014/15	5.7	11.4	17.1	4.6
2015/16	5.5	10.8	16.3	5.8
2016/17	9.4	13.5	22.9	6.6
2017/18	8.7	14.1*	22.8	5.0+

*Note: * Target, + Author's forecast   Source: Government of India*

In August this year, the Indian government imposed quantitative restrictions (QRs) on imports of tur/arhar (pigeon pea), urad (black matpe), and moong (green gram). For the Indian market, these pulses generally originate from Myanmar and East Africa. Growers – often smallholders – in these origins have had to bear the brunt of the Indian policy change and consequent price collapse in the export market.

As of now, the QR on select pulses is valid till March 31, 2018. There is a growing impression within the country that the government's move to curtail pulse imports is shortsighted and could prove to be counterproductive in the medium-term.

In preparation for the planting of upcoming rabi crops, the Indian government has announced MSP for chickpeas at $675 US/tonne 10% higher than the previous year. This hike is notional because chickpeas have been trading well above the MSP for more than one year. This hike is unlikely to enthuse growers. For lentils, the MSP is $650 US/tonne.

Deficient soil moisture conditions in major rabi crop growing regions (Madhya Pradesh, Uttar Pradesh, Punjab, and Haryana) is a cause for concern. The rabi crops would certainly need precipitation in the form of winter rains during mid-December/mid-January. Also, India has faced unseasonal rains during harvest time in March/April in three of the last five years. The looming weather risk cannot be overlooked.

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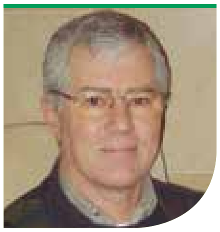
SUPPLY FUNDAMENTALS



Brian Clancey
STAT Publishing Ltd.

Every week the Canadian Grain Commission (CGC) publishes a summary of grain movement through the bulk handling system. In the past, the report meant nothing to the pulse industry but, with an increasing share of peas and red lentils moving through that system, it has become an important barometer of demand.

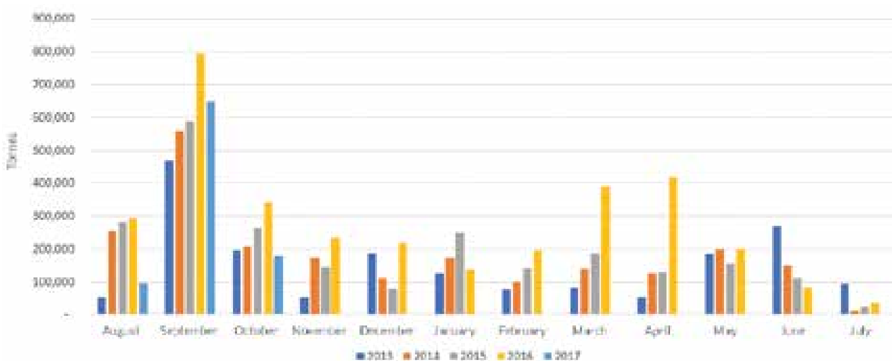
At the beginning of November, Statistics Canada will release the official export data for September. Almost every Friday, the CGC publishes data for the previous week. More importantly, it keeps a running tally of how many peas and lentils farmers have delivered to the primary elevator system and how much has been loaded for export since the start of the marketing year.

Data always paints pictures. In this case, it shows that exporters needed to buy peas and red lentils from farmers during and after harvest to get as much product loaded on ships before the end of September as possible.

The reason is that any importer in India who receives pulses from Canada with a bill of lading dated after September 30 will be fined because the product was not fumigated with methyl bromide when it was shipped. By contrast, pulses coming from the United States or Europe have until the end of the year before the same penalty applies.

Canada Bulk Peas Loaded For Export (Tonnes)-

Based on CGC data with October export clearances forecast by STAT Publishing Ltd.



When you combine your knowledge of major events in pulse markets with this kind of weekly data, you do not need other people to tell you how supply and demand fundamentals are shaping up.

CGC data gives almost as good insight into export movement for peas as for grains and oilseeds.

Last season, 88% of all peas moved through the bulk handling system, compared to 87% in 2015/16 and 71% during the 2014/15 marketing year. In years where big markets like India or China are less active, fewer peas move through the bulk handling system. What the CGC numbers do not tell you, is how much is being exported by processing plants, splitters, and the companies that mill peas to separate the protein, starch, and fibre fractions.

What is even more significant is that between August and November of both 2016 and 2015, almost all peas exported from Canada went through the bulk handling system. Because of higher than normal demand from India, that percentage was up a lot from the roughly 75% of all peas shipped from Canada went through the primary and terminal elevator system between 2009 and 2014.

When you consider how important this type of movement is for peas, it is hard not to be concerned by that fact that as of October 15, bulk clearances had dropped from 1,187,200 tonnes last year to 820,400. Chances of a big recovery in movement looked dim on that day because only 500 tonnes were enroute to Vancouver, compared to 47,900 tonnes at the end of Week 11 last year, and 58,000 in 2015.

At the same time, the quantity of peas in export terminals in Vancouver was just 54,200 tonnes on October 15, down from 155,100 tonnes on October 16 last year and 86,900 tonne in 2015. There are plenty of peas in primary elevators in Western Canada. On October 15, there were 233,900 tonnes of peas in primary elevators, compared to 310,900 last year, and 179,700 at the same time in 2015. Unless those start moving into terminals in ports, it is unlikely that line elevator companies are going to be aggressive buyers from farmers.

The story for lentils is not all that different. Bulk shipments normally account for over a third of everything exported between August and November. By October 15, they had dropped from 257,400 to 86,500 tonnes. Lack of bulk demand is clearly reflected in deliveries by farmers into primary elevators, which sank from 712,900 tonnes during the first 11 weeks of the previous marketing year, to 295,600 this year. Last year, India took over 483,000 tonnes of lentils between August and December. Movement this year could be under 70,000.

Both peas and lentils benefit from other large customers. China's pea fractionation industry has become more active in the past year, while demand for red lentils from companies in Turkey who resell the product to buyers in the Middle East is off to a strong start this season. Unfortunately, they may only cushion the drop in overall demand.

In the case of both peas and lentils, roughly half of everything that will be exported from Canada has left the country by the end of December. This means that if the proportion of the crop sold before the end of November is lower than normal, the amount of product left to sell after December could be far in excess of what markets need.

In years like this, looking at the kind of data that is easy to access can be a little depressing. But, getting in the habit of reviewing the data and thinking about in terms of how many peas or lentils are available to sell, can be very helpful in years where movement is strong.

Both situations help you come up with a better idea of the likely direction for prices. That is an important part of tweaking your marketing plan.

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