

LENTIL AND FABA BEAN SITUATION



Chuck Penner
LeftField Commodity
Research

Lentils

After getting used to a situation of rapid year-over-year growth, the 2017/18 lentil market is now adapting to a new reality. Canadian lentil exports had grown at a rapid pace, more than doubling over the past five years

but a classic case of “high prices curing high prices” have brought that market growth to a halt. Now adjusting to the new environment is causing pain.

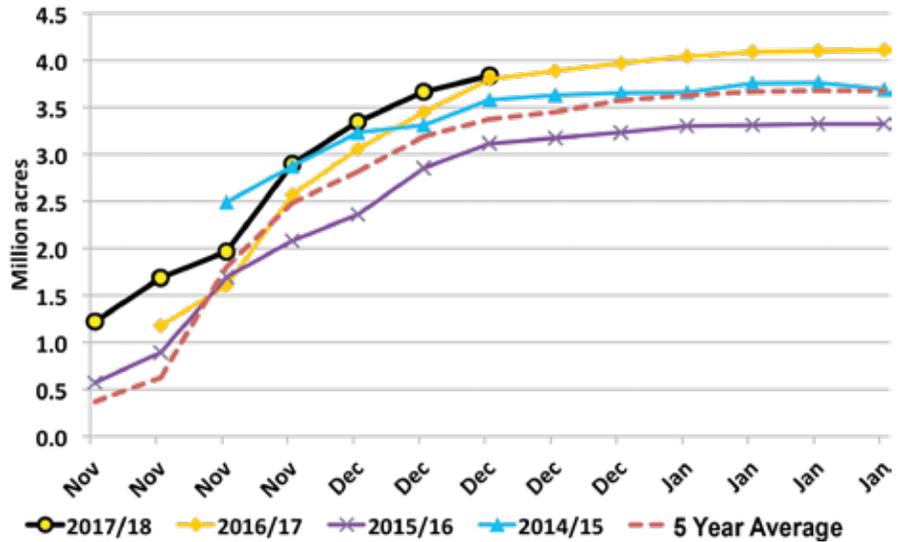
The root of the current issue actually started back in 2016 when Canadian, American, and Australian farmers all produced record lentil crops. While those were not enough lentils to weigh heavily on the market, they started a buildup of supplies in India and other surrounding countries. Then in early 2017, Indian farmers harvested a near-record lentil crop that added to the stockpiles. But even with a large crop of their own, Indian buyers kept importing significant volumes of lentils through the first half of 2017, and the pressure built further.

This brings us to 2017/18. Lentil crops in Canada, Australia, and the United States are smaller than the previous year’s record production, but are still well above average. Even before the Indian government started interfering in trade this fall, buyers were warning that Indian demand was extremely quiet, making it difficult to move much of the 2017 crop.

That is about when the Indian government started disrupting trade by requiring fumigation of imports, although not specifically targeted at lentils. Then they followed with a 50% tariff on pea imports, which sent a chill through the pulse trade as buyers waited for the hammer to fall on lentils as well. That has now happened as well, with a 30% import tariff on lentils (and chickpeas). That is partly because the Indian government expects this year’s boost in acreage will add to the surplus of pulses and drive prices lower if imports are still allowed. As of mid-December, lentil planting in India is on par with last year’s record and 12% above the five-year average.

This tariff on lentils will essentially act as a blockade on imports based on current price

Rabi Lentil Planting Progress Source: LeftField Commodity Research

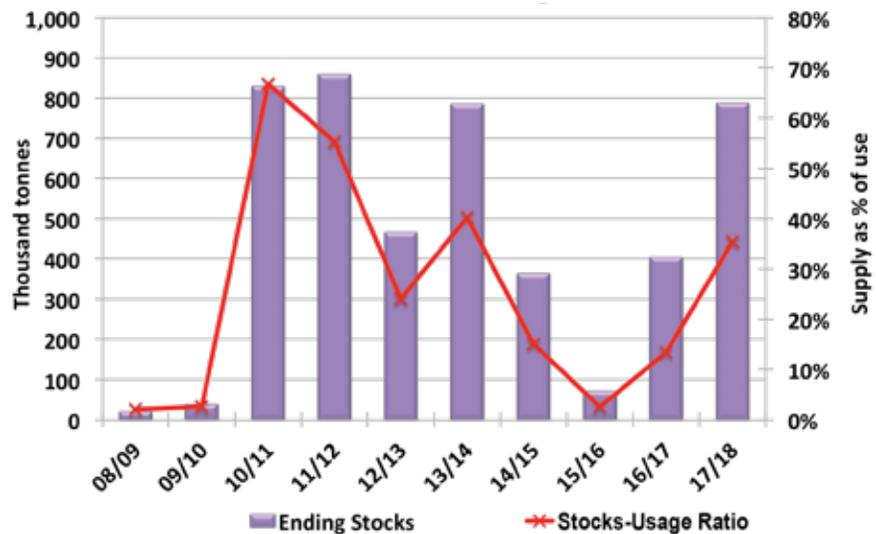


relationships. This will support domestic Indian prices and keep farmers there happy, at least until overproduction there drives their prices down. In order for Canadian lentils to move into India again, Indian prices would need to rise sharply, and unless a serious crop failure offsets the acreage increase, that is unlikely to happen. The other alternative is a sharp drop in Canadian prices, but farmers here are unlikely to sell at a large loss.

Canadian lentil exports to India had already

slowed dramatically and while some other countries have stepped in and increased their purchases, there is still no substitute for a buyer of India’s size. In 2016/17, India imported over 900,000 tonnes of Canadian lentils, 85-90% of them red lentils. With a sharp drop-off in Canadian exports, ending stocks in 2017/18 could hit a new record high. Even at our most optimistic, ending stocks will be close to 800,000 tonnes and that is not good for prices. In addition, the seesawing from extreme shortage to extreme surplus

Canadian Lentil Ending Stocks Source: LeftField Commodity Research



adds a tremendous amount of risk for all players in the market.

Red lentil bids in Western Canada had already started to decline back in spring but have seemed to find their footing more recently. Smaller volumes of reds are still moving to various markets and for now, farmers are patient with their selling. Meanwhile, green lentil bids remained steady until the fall but are still heading lower. Bids for both classes could remain flat in the medium term, as long as further obstacles in India do not arise and farmers are comfortable with holding their lentils.

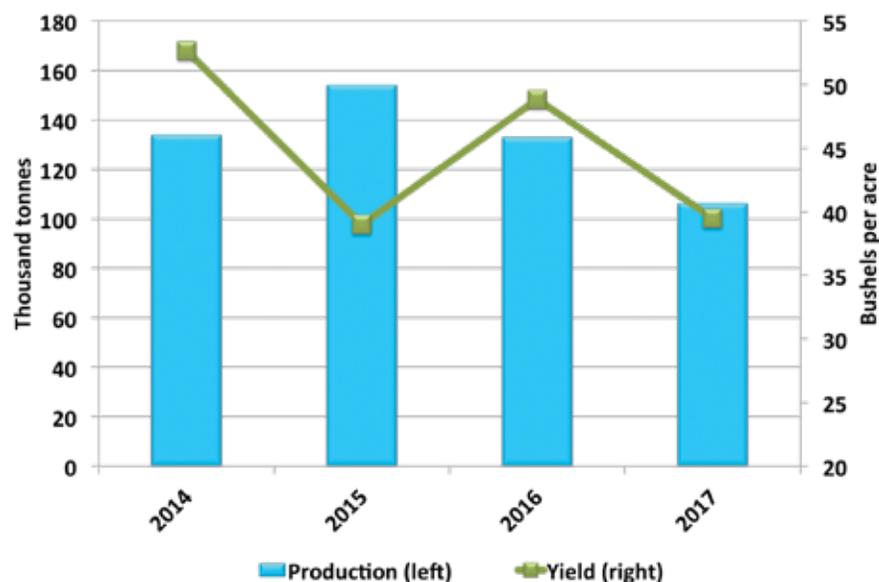
Faba Beans

Faba Bean markets have remained very steady over the past few months. The Statistics Canada production estimate pointed to a decline in 2017 yields, with the crop just over 100,000 tonnes, 20% less than last year.

This year's smaller crop will not have a large impact on bids in Western Canada. For the zero-tannin feed varieties, prices still largely follow the feed pea market. That said, it seems feed faba bean bids this year have been at par with or even slightly above feed pea prices, rather than at a small discount in previous years. Likely that is because feed users have become more accustomed to using faba beans and are valuing the higher protein content.

For the tannin varieties destined for export markets, prices still are not all that inspiring, at least not yet. Production in France and the United Kingdom was lower and quality was questionable in 2017, but production is still sizable in Baltic countries, which have become larger competitors in the last year or two.

Canadian Faba Bean Production Source: LeftField Commodity Research



The dominant exporter is Australia and the latest government estimate is showing a crop of 270,000 tonnes, 44% less than last year. There are also reports out of Australia that since this estimate came out, heavy rains in southeast Australia have damaged the faba bean crop further.

If that is the case, it could open the door for a little more demand for Canadian faba beans and with our smaller crop, it would not take much to give prices a lift. That said, there is not exactly a worldwide shortage, but the supply side is not looking as heavy as it was earlier. In the first quarter of 2017/18, Canada has exported 2,800 tonnes of faba beans,

better than last year's pace of 1,700 tonnes.

Ultimately though, for the Canadian faba bean market to expand, more domestic processing will be needed, particularly fractionation for a number of uses. Faba beans have a number of positive characteristics for processing and are attractive agronomically. The problem is that faba beans are at the difficult catch-22 market stage where growers need more processing outlets, and processors are waiting for growers to expand production before they invest.

Chuck Penner operates LeftField Commodity Research out of Winnipeg, MB. He can be reached at info@lefteldcr.com.

STATUS OF PEA AND CHICKPEA MARKETS



Brian Clancey
STAT Publishing Ltd.

Chatting with Mac Runciman when he was the president of United Grain Growers, I said that with his many years of experience it must be easy to predict what will happen to markets once seeded area and production are known. He quickly

said, no. Every year was different.

To describe this marketing year as different is an understatement. Before it started two things were clear: India would buy less peas, and chickpea markets would probably set their season highs during the first half of the season. There were two good reasons. India harvested a record quantity of pulses in the spring, which reduced the amount of peas it needed to import after July. In the case of chickpeas, another year

of high prices is bound to encourage farmers outside Canada to increase production in 2018, which will result in more competition for demand.

India's confidence in its ability to cover a bigger share of its domestic demand caused the government to make two decisions, which had a fundamental impact on demand. The first was to stop granting extensions which allowed exporters to ship peas without first fumigating them with methyl bromide. Canada's exemption for other countries expires on September 30, 2017. The exemption for other countries expires on December 31, 2017. If product is not fumigated before being shipped to India, importers face escalating fines. Some exporters from Black Sea ports solved the problem by unloading cargo in Turkey, fumigating it, and then reloading it for India.

The second decision was to impose a 50% import duty on field peas. As soon as it was announced, companies that had peas in ships heading for India were told to resell them to other countries. At the same time, prices

offered to farmers, and asking prices on world markets, plunged. On November 9, you could have sold No. 2 Canada whole yellow peas for \$8 per bushel (bu). On November 10, bids plunged to \$6. Because India is a small market for whole or split green peas, grower bids only slipped 25 cents to \$8.25/bu. Markets have recovered from the initial shock. By the middle of December, grower bids had risen to \$7.25/bu. Prices were helped by increased demand from livestock feed manufacturers and rising demand from pea fractionation plants. Even so, it is hard to see how increases in demand from domestic and other export markets will be enough to prevent ending stocks from rising. An estimated 301,000 tonnes of peas were carried over from the previous marketing year. This season could end with 950,000 tonnes of peas on hand.

Most peas will be held by farmers. Combining that with lower average prices, it is easy to imagine that land in peas will drop a million acres to around three million. Average yields would see output drop from 4.1 to 3.1 million

Canadian Supply and Demand Estimate for Chickpeas and Field Peas in 2017/18

Source: Source: STAT Publishing Ltd.

	Desi Chickpeas	Kabuli Chickpeas	Small Kabuli Chickpeas	All Chickpeas	Yellow Peas	Green Peas	Other	All Peas
Area (acres)	1,000	154,000	18,000	173,000	3,572,000	471,000	50,000	4,093,000
Yield (lbs/acre)	2,205	1,313	1,506	1,237	2,219	2,170	2,341	2,215
Production	1,000	91,700	12,300	97,100	3,595,500	463,600	53,100	4,112,200
Carry-In	0	0	0	0	180,000	120,000	1,000	301,000
Imports	0	16,000	0	16,000	13,700	13,100	1,200	28,000
Supply	1,000	107,700	12,300	113,100	3,789,200	596,700	55,300	4,441,200
Exports	960	76,840	7,700	85,500	2,100,000	388,000	32,000	2,520,000
Seed	40	11,300	900	12,240	177,000	32,000	4,000	213,000
Feed, Waste, and Other	0	19,360	3,700	15,160	637,200	102,700	18,300	758,200
Total Usage	1,000	107,500	12,300	112,900	2,914,200	522,700	54,300	3,491,200
Ending Stocks	0	200	0	200	875,000	74,000	1,000	950,000
Stocks/Use	0%	0%	0%	0%	30%	14%	2%	27%

*All quantities in tonnes

Canadian Supply and Demand Forecast for Chickpeas and Field Peas in 2018/19

Source: Source: STAT Publishing Ltd.

	Desi Chickpeas	Kabuli Chickpeas	Small Kabuli Chickpeas	All Chickpeas	Yellow Peas	Green Peas	Other	All Peas
Area (acres)	1,000	140,000	17,000	158,000	2,513,000	462,000	50,000	3,025,000
Yield (lbs/acre)	2,205	1,561	1,712	1,549	2,266	2,203	2,601	2,262
Production	1,000	99,100	13,200	111,000	2,583,300	461,700	59,000	3,104,000
Carry-In	0	200	0	200	875,000	74,000	1,000	950,000
Imports	0	18,000	0	18,000	13,600	13,100	1,300	28,000
Supply	1,000	117,300	13,200	129,200	3,471,900	548,800	61,300	4,082,000
Exports	960	77,000	5,040	83,000	1,886,000	414,000	35,000	2,335,000
Seed	40	10,900	900	11,840	174,000	36,000	4,000	214,000
Feed, Waste, and Other	0	24,400	6,260	28,360	644,900	88,800	19,300	753,000
Total Usage	1,000	112,300	12,200	123,200	2,704,900	538,800	58,300	3,302,000
Ending Stocks	0	5,000	1,000	6,000	767,000	10,000	3,000	780,000
Stocks/Use	0%	4%	8%	5%	28%	2%	5%	24%

*All quantities in tonnes

(M) tonnes, but the available supply of peas might only drop from 4.4 to 4.1 M. Unless there is a weather disaster on the Indian subcontinent in January and February, total chickpea production could approach 9.5 M tonnes. That should limit import demand for peas through the end of 2019 because they are used as a cheap substitute for gram or Desi chickpeas by a growing number of millers in India.

However, peas are generally the cheapest pulse available in the world and even with the 50% import duty, imported peas should be significantly cheaper than locally grown Desi chickpeas. The question is whether Canadian exporters can find creative solutions to the fumigation issue, and whether they can still compete in terms of price and quality with offers from Russia, Ukraine, and other producers.

The India government gave lentil and chickpea markets a lump of coal for Christmas. On December 21, the duty exemption for both pulses was lifted and import duties immediately jumped to 30%. Any product which had not yet cleared customs was affected.

Canadian chickpea markets were not hurt by the change because India is not an important destination for the types grown here. But, some companies immediately stopped buying red lentils as they tried to see what impact this would have on world markets.

Interestingly, there are indications that Desi chickpea production in India might not be up from last year. Some traders think India's Kabuli chickpea crop has doubled. The idea is based on reports that Indian exporters have dropped

the asking prices for 10 millimetre (mm) and larger calibre Kabuli chickpeas. Kabuli chickpeas are grown during the rabi season, and new crop product should be available in February.

Mexico is expected to increase production. But exporters in that country have been reluctant to start selling product that will be harvested this spring. Last year they started selling early at around U.S. \$1,400 per tonne for chickpeas. By the time they needed to cover sales from farmers, prices had risen \$500. By the middle of December, offers from India reflected around 70 cents per pound (¢/lb) for 11mm calibre chickpeas, while bids to growers in Canada ranged up to 74¢ for 10mm calibre Kabuli chickpeas. The last time India exported more than 370,000 tonnes of Kabuli chickpeas, bids to farmers here were half of what they were in

December - after taking into account the change in the value of the Canadian dollar.

Instability in prices for large calibre chickpeas is being matched by chaos in Argentina's small calibre markets. Unhappy with prices paid by exporters, a large number of growers have decided to export their own production. Of 102 companies who registered chickpea exports with the Argentine government, only eight have shipped more 5,000 tonnes so far this season, while 60 have shipped less than 500 tonnes, and 23 less than 100 tonnes. Argentina has around 55,000 tonnes of 9mm or smaller Kabuli chickpeas to sell during the first half of 2018. The problem is many of the farmers who have turned into exporters are not thinking about all the risks they face when exporting. As a result, there are now parcels of 8mm chickpeas enroute to importers at prices ranging between U.S. \$1,080 and \$1,500 per tonne. Lower priced cargoes are causing problems for the country's mainstream exporters, with some suggesting they are experiencing contract defaults. It is also reducing prices, which can be obtained by exporters in other countries. Sales by Argentine farmers back up to between 31 and 34¢/lb to farmers in Saskatchewan for 8mm Kabuli chickpeas. By mid December, bids for that calibre of chickpea were around 41.5¢/lb. To the extent Argentine farmers set the tone for export markets for that calibre of chickpea, bids to Canadian growers would be expected to decline.

Given the pricing direction for large calibre Kabuli chickpeas from India, and the unexpected competition for export sales by Argentine farmers, a strong argument can be made that Canadian growers should take advantage of current prices. Mexico is still a wild card and another crop disaster in that country would support prices for premium quality, large calibre chickpeas. Even so, it seems more likely that we have seen the high water mark in grower bids and that prices paid in 2018 and during the 2018/19 marketing year will be lower on average.

Pea growers face a similar dilemma. The recovery in prices since the news of Indian

import duty reflects competition from feed and fractionation markets for available supplies. However, that demand is unlikely to be large enough to offset the losses in sales volume to the Indian subcontinent, suggesting prices are unlikely to fully recover. Given the outlook for a significant reduction in seeded area, some growers will deliberately hold peas until the next marketing year. The ongoing stocks to use ratio during the 2018/19 season should be better than this season, which ought to support prices. But, bids are unlikely to fully reward growers for holding product unless there is a disaster in next year's pulse crops on the Indian subcontinent or a bigger than expected drop in seeded area. On the other hand, while the season average grower bid for peas could be lower in 2018/19 than this season, it is unlikely to be a wide margin.

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

Faba Bean and Feed Pea Faba Bean Feed Benchmark Bi-Weekly Report - December 16 to 20, 2017

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Faba Bean Feed Benchmark Price	\$261.03	\$295.60	\$264.99
Feed Pea Benchmark Price	\$257.27	\$287.63	\$258.10

COMPETING FEED INGREDIENTS

Feed Barley	\$196.00	\$193.00	\$200.00
Mid Protein Wheat	\$200.00	\$206.00	\$220.00
Low Protein Wheat	\$195.00	\$200.00	\$215.00
Wheat DDGS	\$245.00	\$220.00	\$245.00
Corn	\$225.00	\$190.00	\$170.00
Corn DDGS	\$280.00	\$265.00	\$244.00
Canola Meal	\$295.00	\$307.00	\$303.00
Soybean Meal (46%)	\$495.00	\$476.00	\$436.00
Canola Oil	\$1,200.00	\$1,200.00	\$1,200.00

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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