PULSE MARKET REPORT

January 2019

SASKATCHEWAN pulse Growers

WHAT TO EXPECT FROM PEA AND LENTIL MARKETS DURING THE 2019 WINTER

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The year 2019 has just started and we are already refreshing our market expectations for peas and lentils for the winter of 2019. Compared to this time last year, a number of fundamental factors have changed that alter the makeup of the pea and lentil markets.

Starting with peas, the biggest positive changes we perceive are:

- A disruption in 2018 of the trends towards a successively higher world pea and lentil production
- More muted competition by Eastern European countries into export markets, and some initial cracks in the protectionist behaviour by India
- Increased Canadian pea exports into China
- An increase in container exports

On the negative side, we see:

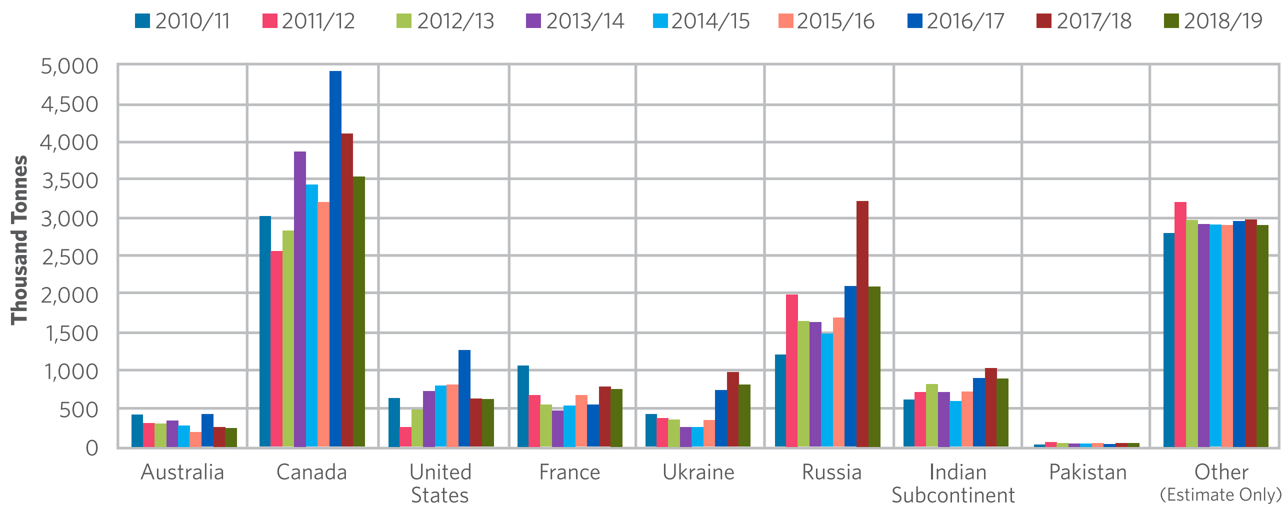
- Significantly reduced soybean and major commodity values (at the time of writing, Chicago Board of Trade March soybeans are down about $1 per bushel [roughly $49 per tonne Canadian] from a year ago)
- A more negative world economic outlook, which may well affect overall demand for commodities this year

Regarding world pea production, Mercantile calculated in fall 2018 that production would be at approximately 11.7 million (M) tonnes this crop year. The 2018/19 pea production by major producers had fallen by nearly 2.5 M tonnes from 2017/18. The biggest reductions were in Russia, Canada, and Ukraine, all major exporters of peas. These numbers also partially illustrate why competition by Eastern European peas is much reduced this winter compared to last winter. The other factor is increased domestic use of peas in Russia, due to drought reduced availability of wheat and feed grains in the domestic market. In 2018, Eastern Europeans increased their pea shipments into India by 550,000 tonnes, and kept undercutting Canadian offers by $25-45/tonne. This January, offers for Eastern European peas are hard to get.

The change towards a lower world production of peas was initiated by lower market values of peas, caused by increased production in India and the subsequent protective stands of the Indian government via quotas, tariffs, and non-tariff barriers such as fumigation requirements with methyl-bromide. While India technically still remains closed to imports, given the 50% import duties and restrictive quotas, there are now some special permits for imports to flow into ports in southeast India, mostly via containers. We expect the protective measures by the Government of India to stay in place until their upcoming March elections. With 6.5% smaller rabi pulse acreage in India (less than 1 M hectares, or 2.47 acres, as of the end of December), combined with a 9.4% deficit in the monsoon, a 44% post-monsoon rainfall deficit, and increased pressure by the World Trade Organization, may just force the government's hand to loosen import restrictions into the spring. Meanwhile, the Modi government recently lost some state elections and is reportedly pulling out all stops in rural areas ahead of the spring general elections. So, the Government of India announced on Dec. 27 the extension of derogation of pulse imports with methyl-bromide, in order to slow the flow of pulse imports, probably for the short-term.

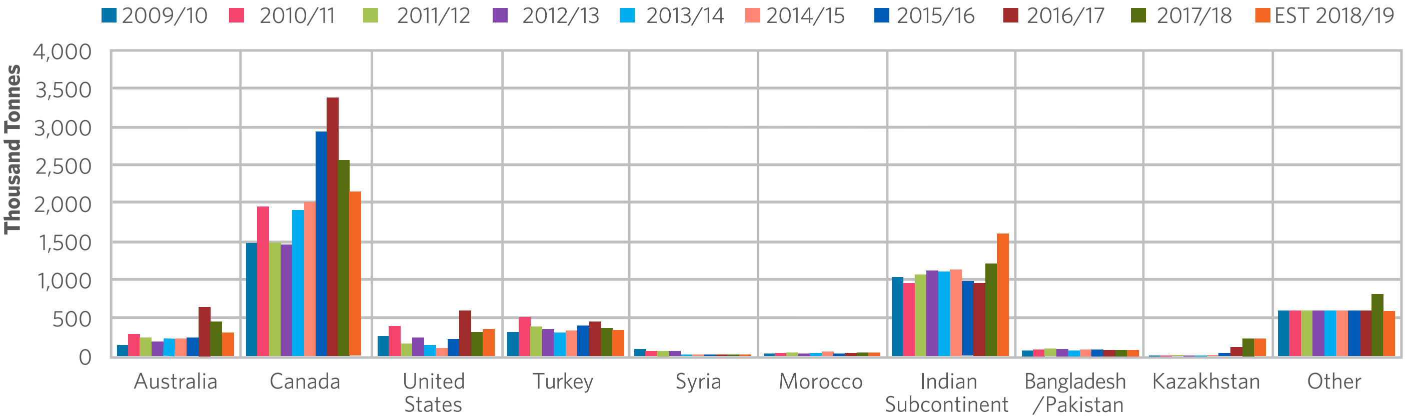
Turning to China, 2017/18 imports of Canadian peas by China were up by 859,000 tonnes over the year prior, and year-to-date (YTD) exports of 662,000 tonnes (the latest numbers to the end of October 2018) are up by 146,000 tonnes over last year's pace. Chinese pea purchases from Canada have been paused since November, and the continued pace of imports is intertwined with the flow of United States (U.S.) soybeans into China. The next set of trade negotiations between the U.S. and China is scheduled for the second week of January, and it remains anyone's guess what the outcome will be. For peas, the removal of Chinese tariffs targeting

Global Pea Production by Major Producers



Source: Mechantile Consulting Ventures Inc.

Global Lentil Production by Major Producers



Source: Mechantile Consulting Ventures Inc. - updated Dec. 30/18

U.S. soybeans would be negative.

Lower commodity values, especially for soybeans as induced by the trade war between the U.S. and China are also negative for peas, especially in the feed sector, as peas have to compete with lower valued competing feed products. We are further concerned about the generally negative world economic outlook. It portends lower incomes and lower purchasing power, which would affect overall demand.

Overall, we remain positive on the pea outlook. Given continued demand by China and Bangladesh, we expect Canadian pea ending stocks to fall significantly from last year's. This in itself will be supportive to prices. The low Canadian dollar is also supportive of Canadian grower prices.

Turning to lentils, some of the same factors are at play as in the pea market. The trend of successively increasing world lentil production has been broken due to lower prices. We estimate that major producers generated roughly 5.7 M tonnes of lentils this year, roughly 400,000 tonnes less than the year prior. Major decreases occurred in Canada and Australia, while production in India increased. Competition for red lentil markets is down mainly due to the smaller production in Australia.

Nevertheless, India, where Canada experienced a huge 1.6 M tonne reduction in demand during 2017/18, is experiencing weather problems as described above. According to Government of India data, the area seeded to lentils in India is down approximately 6% from 1.477 M hectares (3.64 M acres) to 1.395 M hectares (3.44 M acres). India has been importing Canadian lentils this crop year in spite of the import restrictions that remain in place for now. Overall lentil exports are a full 20% ahead of last year's pace. It seems that importers in all major demand areas drew down their stocks expecting prices to continue falling, and are now having to pay up somewhat, as Canadian growers refused to sell additional volumes at harvest level prices.

Contrary to peas, lentils rely on edible markets and only sell into feed markets with off grades. While this makes lentil usage less flexible, it also renders lentil demand more inelastic, meaning that the recent price increases will not erode demand. This year, stronger than normal demand has been coming from Bangladesh (red lentils), Mexico (large and small green lentils, partially furthered on to Venezuela), Nepal (for India), and to Egypt (replacing Australian peas). Current El Niño forecasts indicate there may be more dryness/trouble ahead in South Asia and in Australia, which should increase demand for Canadian lentils.

We anticipate demand for lentils to remain relatively strong due to reduced stocks in importing countries. While there are still a lot of (red) lentil stocks sitting in Canada, we may see decent contract prices if there are crop problems in India. Before we worry a lot about new crop reds, farmers should make sure to clear out past crop red lentils into the markets when the opportunity presents itself.

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Faba Bean and Feed Pea Faba Bean Feed Benchmark Bi-Weekly Report - January 4 to 8, 2019

	CENTRAL ALBERTA CDN$/T	CENTRAL SASK. CDN$/T	SOUTH. MANITOBA CDN$/T
Faba Bean Feed Benchmark Price	$321.00	$305.50	$305.54
Feed Pea Benchmark Price	$315.96	$298.01	$300.74
COMPETING FEED INGREDIENTS			
Feed Barley	$245.00	$225.00	$235.00
Wheat - Red (12% CP)	$245.00	$233.00	$240.00
Wheat - Soft White (10.5% CP)	$245.00	$233.00	$238.00
Wheat DDGS	$285.00	$300.00	$290.00
Corn	$260.00	$230.00	$208.00
Corn DDGS	$325.00	$275.00	$270.00
Canola Meal	$349.00	$352.00	$349.00
Soybean Meal (46%)	$515.00	$485.00	$456.00
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.