PULSE MARKET REPORT

March 2019

PEA AND LENTIL MARKETS LATE WINTER 2019

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We are just two months into 2019, and while the New Year started with much optimism for pulses, it is time to update the state of the markets once again. The 2019 markets seem poised to follow some of the patterns set in 2018 in that political influences remain in place, or are on the rise, as important market aspects.

Peas

We note that bulk pea exports as of week 28 have basically pulled even with last years' volumes at 1.1 million (M) tonnes shipped. This is a big improvement from the bulk tonnages shipped into December, when they were lagging last year's numbers by 18%. There are currently another 64,000 tonnes of peas held in West Coast export terminals, as well as approximately 300,000 tonnes of peas held in primary elevators, so we expect bulk exports to continue into March/April. Container shipments have been vital to exports as well, and were running in excess of 100,000 tonnes per month last fall. We would like to update this number into 2019, but Statistics Canada (StatCan) has not yet published exports beyond the end of November 2018.

China was by far the most important buyer of peas for the first four months of the crop year at 790,000 tonnes, taking a full 68% of all Canadian pea exports. The concern we have is that we need China to buy close to 2 M tonnes of peas during the 2018/2019 crop year to fully reach our pea export target, which would lower the pea ending stock-to-use ratio into single digits. The ongoing diplomatic dispute between Canada and China may put this number into doubt. The question is if China will retaliate by lowering commodity imports from Canada, as China already seems to be slowing the unloading of canola imports. We doubt feed peas will remain on the Chinese purchase list, but we expect purchases for fractionation and other edible uses to continue. If this assumption bears out, China should still take 1.6-1.7 M tonnes of peas from Canada.

India is another destination where politics seem to trump rational market decisions. While peas and other pulses have increasingly been filtering into India over the winter in spite of existing quotas and tariffs, the Government of India seems to be getting more intent again on limiting some of the pea imports, at least ahead of the federal election. Indeed, the Supreme Court of India has recently issued a ruling against the latest challenges by the trade to the import quotas on peas. In essence, the ruling prohibits the issuing of special permits or state licenses that have been allowing peas to enter the country. This ruling is what was underlying the statement from the Indian Finance Ministry in early February, instructing "to stop the clearance of bill of entries pertaining to consignments of peas (yellow, green, and dun pea, and kaspa pea) and pulses (black matpe and pigeon pea) by not issuing Out of Customs charge, with immediate effect." Overall, this news is bearish, as it will stop/slow the increasingly strong trickle of peas into India for the time being. Nevertheless, the big question going forward is, what will the Government of India do if this year's rabi pulse crop falls short of expectations? Given that there is a 9.4% decrease in pulse acres in India, monsoon and post monsoon rainfall deficits of -9.5% and -58%, respectively, there could well be a 10% drop in pulse output this year. This is why many traders are assuming that the Government of India will have to change policies after their May elections. This certainly is the biggest wild card in the pea and pulse market which could more than compensate for any shortfalls by China. We will have to wait and see how this plays out. However, we can say that if India turns into an active buyer, this would clearly support the pea market, as there are few other international sellers of peas left on the global scene.

Bangladesh is the last in the collective of important pea buyers that together buy approximately 78% of all Canadian peas. Bangladesh traditionally stocks up before the start of Ramadan. Ramadan occurs from May 7 to June 4 this year, so pulse shipments from Canada to Bangladesh will need to depart from Canada around early March to arrive ahead of Ramadan (transit time and distribution into markets for consumers). There were several vessels on the recent Vancouver vessel line up, with Bangladesh as the destination, so we must assume that this market is already well covered ahead of Ramadan.

With very little action by our three biggest markets for the moment, prices may slip in the short-term. Nevertheless, India still remains a major wild card. Should India turn into an active buyer, this would support the market materially.

Lentils

As for peas, bulk shipments of lentils have been strong over the winter months. In fact, year-to-date bulk lentil shipments at 347,000 tonnes are at 235% (over 202,000 tonnes) of last year's volume shipped. In total, an impressive 154,000 tonnes of bulk lentils have been loaded and shipped since Christmas. With another 20,000 tonnes sitting in Vancouver, some bulk lentil loadings will continue at the West Coast.

Combined container and bulk lentil exports are 15% ahead of last year's pace as well, though we are waiting for an update by StatCan on exports by destination beyond the end of November. We expect the percentage gain over last year may have dropped off a little since late November. Nevertheless, the numbers show that, while the United States (U.S.) year-to-date lentil exports (43,000 tonnes) are less than half of the recent five-year average volume, Canadian lentil exports have fared much better. The main difference is the volume of Canadian bulk red lentil exports, while green lentil exports have been slower and are facing some competition by U.S. lentils. In fact, U.S. ending stocks are likely to rise from around 140,000 tonnes to around 250,000 tonnes, which is negative for next year's green lentil market.

Grower prices have weakened by about $1 per hundredweight over the past week, reflecting the slowing export pace. New crop values show a similar drop, as there are few companies actively signing acres at the moment. We think exporters are waiting for new crop buying interest by overseas buyers, to lay off their production contract risk before committing to sizeable acreage contracts with growers. A renewed sign of urgency in Indian buying would reverse the value deterioration but, as mentioned earlier, we do not expect any major moves before their general elections in May.

In the end, much will depend on how India will conduct themselves in the face of lower pulse acres and more challenging growing conditions. We note that the recent statement singled out peas and did not specifically mention lentil imports, so we do expect India to continue adding to the 97,000 tonnes Canadian lentils bought in the first four months of the crop year.

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

Canadian Grain Commision Grain Handling Summary Bulk Peas Week 28 (to February 10/19)

('000 Tonnes)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Current Week	38.1	29.5	27.6	2.7
Week Ago	71.7	32.8	30.6	4.6
Year-To-Date (YTD)	2,002.7	1,086.5	1,096.3	116.7
Last YTD	1,587.7	1,031	1,080.6	123.8
YTD Less Last YTD ('000 Tonnes)	415	55.5	15.7	-7.1
YTD Over Last YTD (%)	126%	105%	101%	94%

- *Mercantile based on weekly Canadian Grain Commision handling data*

Canadian Grain Commision Grain Handling Summary Bulk Lentils Week 28 (to February 10/19)

('000 Tonnes)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Current Week	18	26.7	53.3	2
Week Ago	31.1	32.1	13.2	4.2
Year-To-Date (YTD)	1,076.4	304.3	346.7	84.9
Last YTD	727.5	92.7	144.8	102.5
YTD Less Last YTD ('000 Tonnes)	348.9	211.6	201.9	-17.6
YTD Over Last YTD (%)	148%	328%	239%	83%

- *Mercantile based on weekly Canadian Grain Commision handling data*

Faba Bean and Feed Pea Faba Bean Feed Benchmark Bi-Weekly Report - February 16 - 20, 2019

	CENTRAL ALBERTA CDN$/T	CENTRAL SASK. CDN$/T	SOUTH. MANITOBA CDN$/T
Faba Bean Feed Benchmark Price	$319.48	$300.91	$296.80
Feed Pea Benchmark Price	$316.83	$294.17	$282.54
COMPETING FEED INGREDIENTS			
Feed Barley	$250.00	$225.00	$240.00
Wheat - Red (12% CP)	$251.00	$230.00	$248.00
Wheat - Soft White (10.5% CP)	$251.00	$230.00	$248.00
Wheat DDGS	$280.00	$285.00	$285.00
Corn	$262.00	$228.00	$208.00
Corn DDGS	$302.00	$275.00	$235.00
Canola Meal	$340.00	$340.00	$324.00
Soybean Meal (46%)	$510.00	$478.00	$446.00
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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