PULSE MARKET REPORT

April 2019

SASKATCHEWAN pulse Growers

PEA AND LENTIL MARKETS LATE WINTER 2019

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Fuelled by political uncertainty affecting market performance, commodity markets have been unusually volatile this past winter. With spring at our doorstep, this is a good time to re-evaluate the status of the 2018 pea and lentil markets with respect to exports and prospective ending stocks, and what the early prospects are for the 2019 crop.

Peas

The 2018 current crop peas have actually had decent exports so far year-to-date. Statistics Canada (StatCan) destination data is only available to the end of December but it shows pea exports 11% ahead of last year's pace, with China taking in excess of 900,000 tonnes to the end of December. This calculates to 64% of total pea exports.

The Canadian Grain Commission data is incomplete because it does not include all containerized exports, but it covers shipments to March 17. It shows that bulk exports alone are still 6% ahead of last year's pace. Total pea supply (production plus ending stocks) at the start of the crop year was about 2% smaller than the previous year, so if we can maintain the export pace into the reminder of the crop year, this should again tighten pea ending stocks a little by the end of the year. However, the export pace is what has come into question, because it depends to a large degree on China continuing to buy from Canada.

In reality, we expect that China will buy no further feed peas this year, in large part due to the reduction in swine herds caused by African Swine Fever (ASF). The swine herd cull in China is now said to have reduced the hog herd by up to 17% from last year.[1] This is reducing the need for hog feed considerably. The dispute about the extradition of the Huawei CFO does not help matters either. Nevertheless, we do expect pea imports for pea fractioning to China to continue into the summer. Pulse production in China has continued to fall, and contrary to the feed ingredient market, there are no price competitive substitutes for yellow peas suitable to process into vermicelli noodles that China could readily import to displace Canadian peas.

India is the second wild card in the export equation, and we will have to wait and see if the Government of India will loosen import restrictions after their federal elections in April. If they do, that would be very supportive to the market, but there is no way of telling at this point which way India will turn. We expect a stock-use ratio for 2018/19 peas between 10-15% this year.

The first question to be answered about the 2019 crop is the acreage that is going to be seeded to peas in Canada. Agriculture and Agri-Food Canada (AAFC) is projecting a 3.1% increase in acres (March report), but we project an 8% increase in acres, especially given the current problems in the canola market. Assuming average yields for now, this should result in 3.9 million (M) tonnes of pea production and about a 4.4 M tonne supply. We expect global pea supply to stay roughly the same in the new crop year, and trade should remain around the 6 M tonne level again. This points towards a similar year for 2019/20 peas as we had last year. While India will remain a wild card, it is unlikely that we will get much help from Chinese feed pea purchases in the coming fall. Unless India jumps into the breach, this may affect prices off the combine.

Lentils

For the 2018 lentil crop, exports also have been reasonably strong and were an impressive 16% ahead of last year's pace by the end of December (latest destination data). In fact, Canada so far is the only export nation that can show increases in lentil exports over last year. This is due mainly due to very decent bulk red lentil exports, which (as of March 17) are virtually double those last year.

In spite of this, the market now has almost ground to a standstill, with very limited new sales bookings hampered further by ongoing container shipment problems. As we have said before, shipment problems and delays become especially punishing in slow, down markets. Buyers have no incentive to wait until Canada can execute shipments and extra charges for source loaded containers, for example, erode profitability in Canada. Basically, high ending stocks from last year continue to stifle the lentil market, as buyers do not feel threatened by a potential shortage of lentils. Even with our projected exports of roughly 1.7 M tonnes, we still expect 2018/19 ending stocks in excess of 700,000 tonnes, down just about 110,000 tonnes from the previous year.

We project for the 2019 crop that lentil acres will down by 4% this year (AAFC is projecting an 11% drop), and this should generate about 2.1 M tonnes of production and a 2.9 M tonne Canadian supply. This would be slightly less than the 2017/18 lentil supply. Global lentil supply should remain roughly unchanged at 6.5 M tonnes, with close to 3 M tonnes being traded. We project Canadian 2019/20 exports to reach 1.8 M tonnes. This would allow Canadian 2019/20 lentil ending stocks to recover by another 250,000 tonnes to about 515,000 tonnes. A smaller than projected acreage this year would help clear the burdensome stocks more quickly.

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

[1] China's Ministry of Agriculture released some startling numbers on March.14. February hog herd culling was 5.4% compared to January, and down 16.6% for the year. This would imply a decline of around 65 million hogs. The year-on-year number seems to coordinate with the earlier announcement that February pig feed was down by 20%. The year-on-year number seems to coordinate with the earlier announcement that February pig feed was down by 20%.

TOP IMPORTERS OF CANADIAN PEAS

(August to December 2018/19 vs August to December 2017/18)

Country	YTD '18/19	Last YTD '17/18
World	1,416,990	1,281,254
China	904,090	687,778
Bangladesh	130,039	51,122
India	89,424	252,328
USA	85,438	133,921
Belgium	35,182	2,579
Cuba	35,000	52,000
Nepal	19,459	2,522
Philippines	12,710	11,055
UAE	9,105	1,877
Colombia	8,614	9,357
Yemen	7,732	1,877
Taiwan	5,291	4,961
Peru	4,805	4,573
Algeria	3,619	4,026
Brazil	2,236	1,826
Oman	1,979	0
Others	62,267	59,452

Source: Mercantile Consulting Venture Inc.

TOP IMPORTERS OF CANADIAN LENTILS

(August to December 2018/19 vs August to December 2017/18)

Country	YTD '18/19	Last YTD '17/18
World	726,252	623,544
India	114,050	115,564
Bangladesh	53,077	1,562
Mexico	52,309	30,828
Egypt	52,105	16,688
Algeria	46,441	61,597
Turkey	34,318	93,275
United States	31,518	22,380
Colombia	27,941	15,796
Sri Lanka	25,826	27,078
Nepal	20,702	2,549
Morocco	18,310	22,200
Pakistan	17,104	10,920
Peru	14,677	12,425
Italy	14,435	15,800
Spain	8,258	16,876
Sudan	7,876	50
Syria	7,536	4,195
Brazil	5,554	4,091
Other	174,215	149,670

Source: Mercantile Consulting Venture Inc.

Faba Bean and Feed Pea Faba Bean Feed Benchmark Bi-Weekly Report - March 26-30, 2019

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN$/T	CDN$/T	CDN$/T
Faba Bean Feed Benchmark Price	$310.97	$307.65	$308.10
Feed Pea Benchmark Price	$309.25	$295.90	$292.65
COMPETING FEED INGREDIENTS			
Feed Barley	$254.00	$241.00	$250.00
Wheat - Red (12% CP)	$251.00	$244.00	$254.00
Wheat - Soft White (10.5% CP)	$251.00	$244.00	$252.00
Wheat DDGS	$279.00	$280.00	$280.00
Corn	$267.00	$235.00	$212.00
Corn DDGS	$309.00	$255.00	$239.00
Canola Meal	$331.00	$325.00	$335.00
Soybean Meal (46%)	$515.00	$484.00	$448.00
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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