PULSE MARKET REPORT

July 2019

WORLD LENTIL MARKET UPDATE

Marlene Boersch
Mercantile Consulting Venture Inc.

India has increased their tariff on lentils from the United States (U.S.) to effectively 55%, so it is an interesting time to contemplate the global market for Canadian lentils. This is because India is again taking a prime position among Canadian lentil destinations this ongoing crop year. Even the thought of what potentially higher tariffs might do to Canadian lentil ending stocks highlights the singular importance of that market to the Canadian lentil balance sheet.

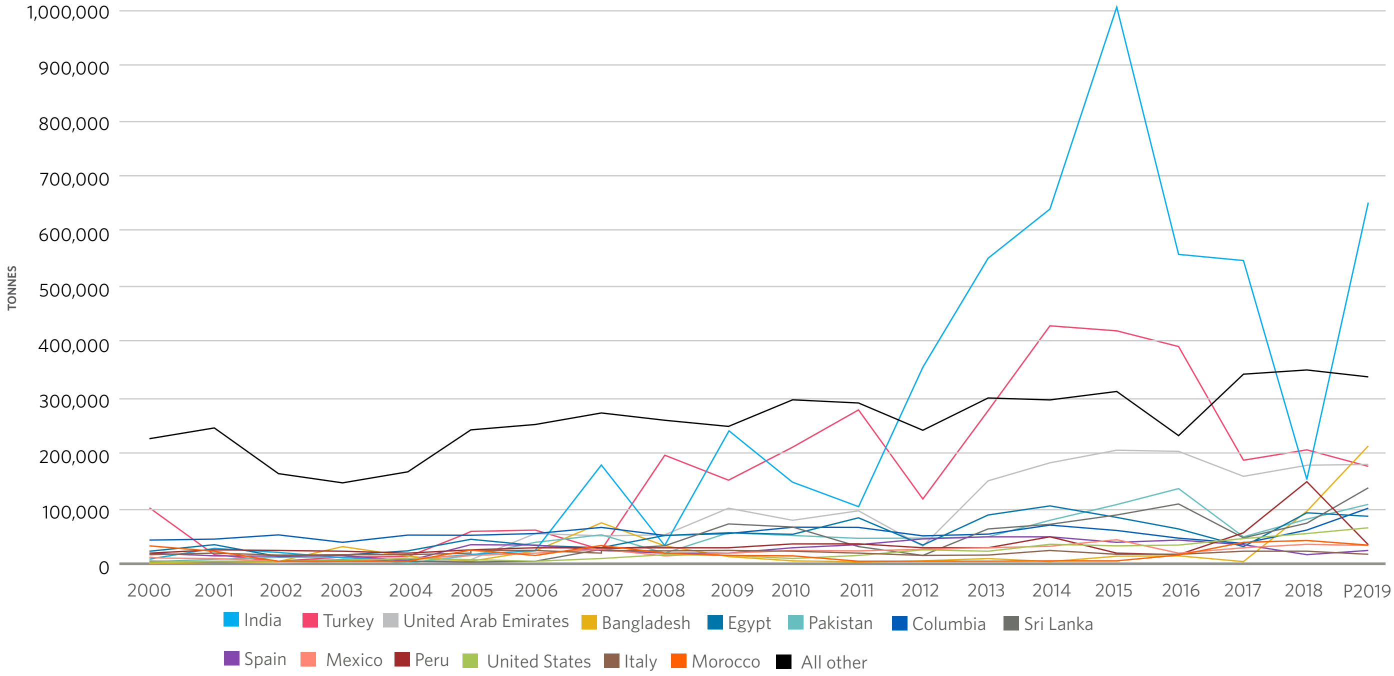
The table below shows the evolution of major Canadian lentil export destinations for the calendar year 2000 forward, with the numbers for 2019 extrapolated to the full year from actual exports for the first four months of the year. The Indian market, shown in blue, had become ever more important to Canadian producers until the introduction of protective tariffs by India in 2017, when that calendar year imports fell to a mere 161,000 tonnes. Depending on the quality of this year's summer monsoon, the 2019 year could bring a substantial recovery of lentil exports to India (see bright blue line). Around 216,000 tonnes of Canadian lentils have already been shipped directly to India from January to April 2019, compared to 15,000 tonnes during the same period the year prior. Crop year to date, lentil exports to India are 2.5 times bigger than last years. Importantly, exports to destinations other than India are also up cumulatively by 10% this crop year over last years. This says that there is an overall improvement in demand, or else other export origins had less volume available to sell.

We at Mercantile Consulting Venture Inc. think that both factors are in play this year. On the supply side, we calculate that global lentil production (major producers) fell from a high of nearly 6.8 million (M) tonnes in 2016/17, to 6.1 M tonnes in 2017/18, and to 5.8 M tonnes in 2018/19. We currently project a production of about 5.5 M tonnes for 2019/20, and this includes 1.5 M tonnes of lentil production for India. In other words, the 2019/20 production may be about 19% (-1.3 M tonnes) smaller than the peak production in 2016/17. However, remember that high production years can have long tails, and we think that there are still about 1 M tonnes of lentil ending stocks in the world, which have to be added to the production numbers to generate the supply outlook. The stocks are primarily held in Canada, Australia, and in the U.S.

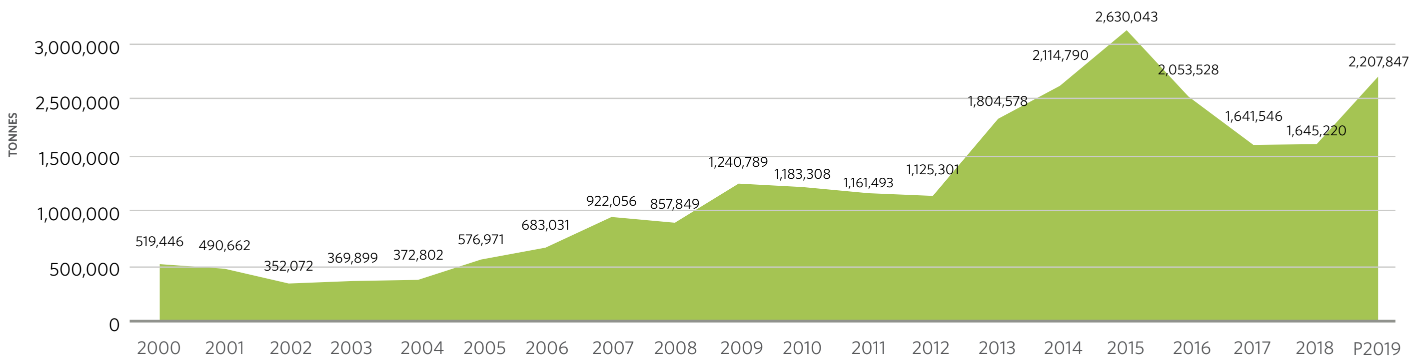
Overall demand for lentils peaked in 2017 fuelled by high demand numbers from India. India purchased 1.1 M tonnes of lentils from all origins in 2017. Global demand decreased as prices for lentils soared and then again, as buyers transferred the stock holding obligation from buyers to sellers in a well-supplied market. If recent developments in demand hold, then lentil ending stocks will again be lowered in the new crop year.

We also note that current projections for the 2019/20 supply assume 'average/normal' crop conditions while many crops are still in the early stages of development or still have to be seeded (India). For example, Canadian lentils are currently stressed by drought conditions, though good rain was received in late June. Lentils in Russia are facing hot temperatures, and India is already facing delays in the monsoon. Australia, on the

CANADIAN LENTIL EXPORTS, MAJOR DESTINATIONS, 2000-2019P (CALENDAR YEARS)



TOTAL CANADIAN LENTIL EXPORTS - 2000 - P2019



other hand, had good rains in June and crop estimates for 2019/20 are again in excess of 350,000 tonnes.

In terms of importance to export markets, Canadian lentil production still is very determinant. Mercantile projects that about 38% of the world's lentils (major producers) will be produced in Canada. The next biggest producer should be India (27%), but India does not generally export lentils. Australia, Turkey, the U.S., and Kazakhstan will comprise the biggest competition in the various export markets.

Mercantile projects about 1.8 M tonnes of demand for Canadian lentils for the 2019/20 crop year, with an important 28% of that demand coming from India. Turkey, the United Arab Emirates, Mexico, Algeria, Bangladesh, Sri Lanka, Egypt, Pakistan, and Colombia are also expected to be sizeable buyers. In this scenario, we anticipate Canadian lentil ending stocks to drop to about 430,000 tonnes by crop year end, a much improved 18% stock-use ratio.

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

MAJOR BUYERS OF CANADIAN LENTILS - P2019/20

Country	'000 Tonnes	%
World	1,795,000	-
India	500,000	27.9%
Turkey	200,000	11.1%
Bangladesh	100,000	5.6%
Egypt	70,000	3.9%
Sri Lanka	75,000	4.2%
United Arab Emirates	150,000	8.4%
Pakistan	60,000	3.3%
Spain	35,000	1.9%
Italy	20,000	1.1%
Algeria	70,000	3.9%
Mexico	150,000	8.4%
Morocco	20,000	1.1%
Colombia	45,000	2.5%
Other	300,000	16.7%

MAJOR LENTIL PRODUCERS - P2019/20

Country	'000 Tonnes	%
Canada	2,087	37.7%
India	1,500	27.1%
Other	650	11.7%
Turkey	360	6.5%
Australia	350	6.3%
U.S.	263	4.7%
Kazakhstan	200	3.6%
Bangladesh/Pakistan	90	1.6%
Morocco	30	0.5%
Syria	10	0.2%
Total	5540	

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Saskatchewan Pulse Growers, 207 - 116 Research Drive
Saskatoon SK S7N 3R3