

Pea and Lentil Market Situation

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It has been a long and protracted harvest season on the Prairies. Most crops are now in the bin, so this may be a good time to refocus on markets to decide on the second stage of the annual marketing plan.

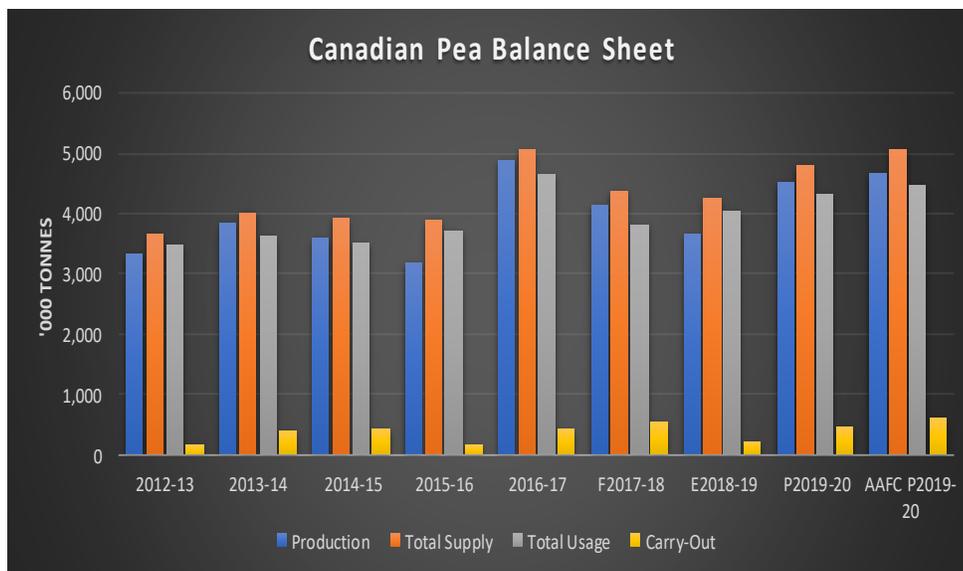
Peas

Peas are one of the first crops to come off, meaning many of the delays experienced with major crops were avoided. Yields were generally good. In their final crop report for the year, Saskatchewan Ministry of Agriculture (SMA) is showing Saskatchewan peas are 99% harvested with yields averaging 38 bushels per acre (bu/ac), 3 bu higher than the 10-year average yield of 35 bu/ac. Mercantile has been using a 39 bu average yield for all Prairie peas. We calculate the 2019/2020 Canadian pea supply at 4.8 million (M) tonnes against total usage of roughly 4.3 M tonnes, leaving ending stocks at 459,000 tonnes. This is somewhat smaller than the November Agriculture and Agri-Food Canada (AAFC) number of 600,000 tonnes due to smaller 2018/2019 ending stocks.

to import peas this fall to cover their fractioning needs, but were surprised to find they also bought peas for feed. This shows that peas were valued competitively to other available feed grains.

At 104,000 tonnes shipped, Bangladesh is well behind last year's pace, but we expect this to be corrected in next month's data. Exports to India have been small (12,000 tonnes). However, fuelled by recent harvest losses in India, the gap between domestic pea and pulse prices and those of imports keeps growing. We sense that food price inflation may develop into a serious problem for the Modi government, but there is no sure way of knowing if this will translate into effective demand. Even if import restrictions in India were eased only temporarily, this would be bullish for Canadian peas.

The upshot of the good fall export movement is that farmers had already delivered one third of peas produced this season into the bulk handling system by the middle of November, and front end loaded exports always reduce supply pressure later in the crop year. Unfortunately, the recent CN rail strike is the last thing agriculture exports needed. It led to additional lost capacity and will also further hurt Canada's reputation as a reliable shipper.



Source: Mercantile Consulting Venture Inc.

On the demand side, peas actually benefitted from the late canola and wheat harvests because additional rail and fobbing space was allocated to peas during the early fall. The resulting pace of shipment so far has been impressive, and this in spite of continued roadblocks by India. The Government of India has been maintaining both quota restrictions and high tariffs against peas. The Statistics Canada (StatCan) September pea export number (latest available) exceed last years by 20% (over 111,000 tonnes). According to the weekly Canadian Grain Commission (CGC) pea handling numbers as of week 15 (to November 17), pea exports are a full 331,000 tonnes (over 54%) ahead of last years.

Looking at the bigger export destinations, the single biggest gain in exports during the first two months of the crop year has been made to China (over 162,000 tonnes). Mercantile had fully expected that China would continue

This may prevent additional sales of peas for feed, as feed compounders need reliable supplies.

Mercantile pea export projections for 2019/20 are still at approximately 3.4 M tonnes, a 2% increase over last crop year. This would leave us with ending stocks of roughly 460,000 tonnes, higher than last year's ending stocks, but not dangerously high. Any changes in India would quickly diminish this number. For now, we would not sell yellow peas below \$6.50/bu, but events in India will determine the upside for yellow peas. Green peas fetch a very good \$10.75/bu, already showing an unusually high spread to yellow peas.

Lentils

Lentils also come off relatively early, but quality was not quite as unscathed as for peas. Still, the final SMA crop report showed lentil yields at 1,391 pounds per acre (lb/ac), 75 lb/ac higher than the 10-year average Saskatchewan yield. Mercantile has been using a 1,400 lb average yield for all Prairie lentils, resulting in a total 2019/20 Canadian lentil supply of 2.85 M tonnes against total estimated usage of 2.4 M tonnes. This would leave ending stocks at 425,000 tonnes, again smaller than last year's. This is smaller than the November AAFC number of 550,000 tonnes.

Year-to-date exports for lentils have also been good. According to StatCan, lentil exports to September 30 exceeded last year's by 24% (over 75,000 tonnes), and reviewing the CGC weekly statistics as of week 15, bulk lentil exports are a full 60% (more than 83,000 tonnes) ahead of last year.

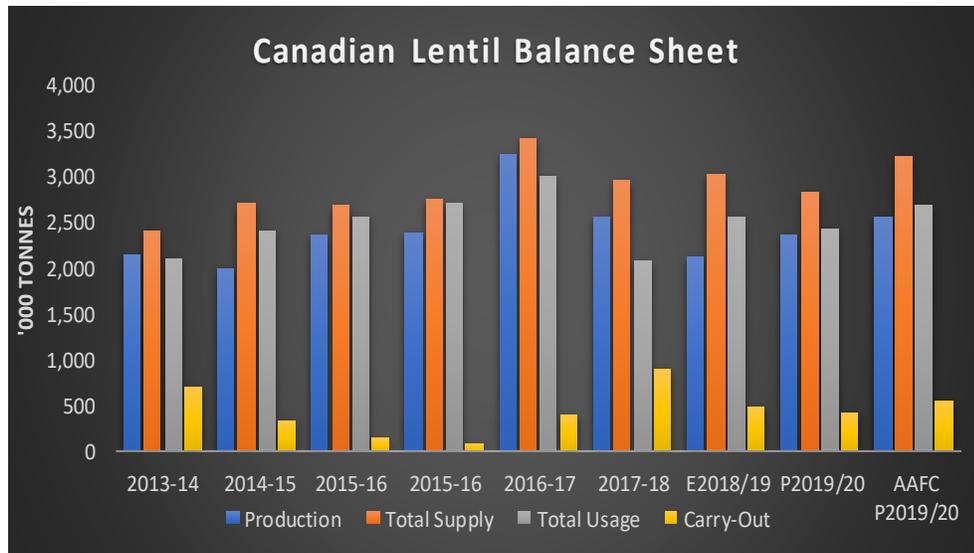
The single biggest gains in exports by destination have been made to India (more than 51,000 tonnes over last year during the first two months of the crop year). In fact, India remains the biggest single lentil importer from Canada. In India, pigeon pea prices have almost doubled over the past two weeks due to harvest problems, with consequences both on volumes and quality. Due to reduced kharif harvest results, as well as delays in rabi crop seeding, concern about food price inflation in India, including those for pulses, is rising. If this is enough to ease import regulations remains to be seen.

We expect this will most likely result in a temporary relaxation of restrictions, but not in a permanent change. Should rules be relaxed, this would support both green and red lentil prices due to improved export volume prospects into India. Regarding other major lentil destinations, Bangladesh is 46,000 tonnes ahead of last year, the United Arab Emirates is 25,000 tonnes ahead, and Turkey is 17,000 tonnes ahead of last year.

Mercantile believes that our earlier 2.02 M tonne export projections for the 2019/20 season look very achievable, and projections could well be surpassed into India. Exports to Turkey may rebound as well, perhaps to levels seen in 2017/18, while exports to Mexico and Egypt are falling behind last years.

We think current green lentil prices are good value for those who have reasonable quality and have not sold new crop lentils, but we would not be sold much more than 50% for now. Red lentils at roughly \$19.50 per hundredweight are worth a look.

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



Source: Mercantile Consulting Venture Inc.