

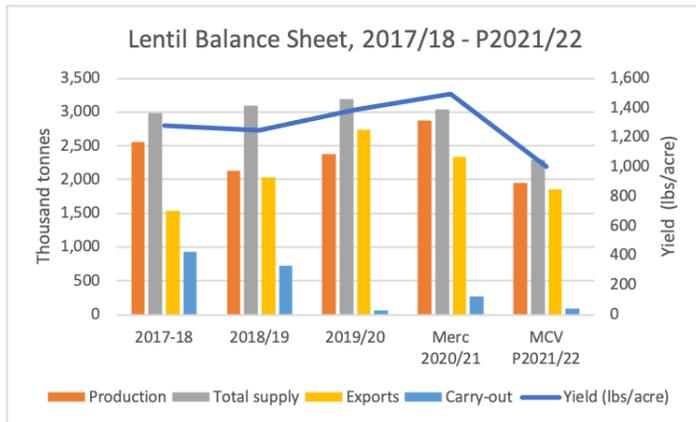
## Lentil & Pea Global Economic Outlook

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The Canadian pulse harvest is officially over, but there are still a lot of questions about the actual size of the Canadian crops. Official yield estimates by both Statistics Canada (StatCan) and the provincial agriculture agencies have lowered yields progressively during August and September, but we are not so sure if they did not end up a little too low in the end. However, we think the true size of the crop will not be evident until late this crop year.

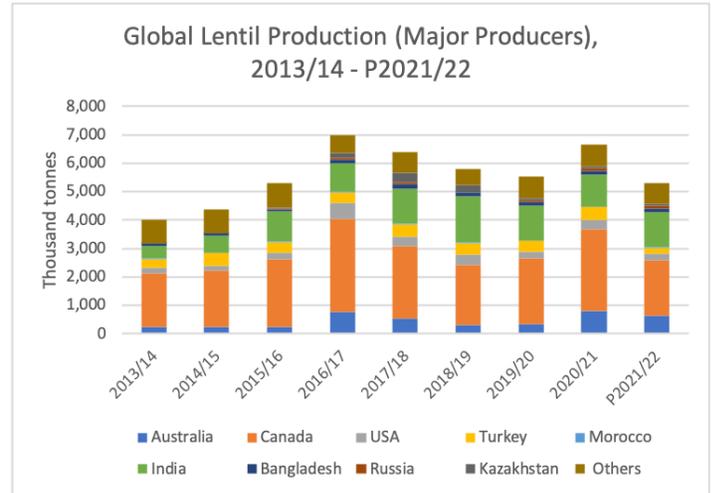
### Lentils

Official yield estimates for Canadian lentils range from 1,030 to 817 pounds per acre (lbs/acre). Mercantile settled on an average yield of 1,000 lbs/acre, which represents a 33% reduction from the 2020 yields, and a 26% reduction from the five year average yields. This yield pegs Canadian lentil production (all types) at 1.95 million (M) tonnes compared to 2.9 M tonnes last year, and supply falls to 2.3 M tonnes, 25% lower than last years. It is the smallest lentil production since 2012/13.



Source: Mercantile Consulting Venture Inc.

To put these numbers into a market context, we must remember that Canadian lentils generally represent about 42-47% of global lentil production. This year, this will be reduced to about 37% of global production, simultaneously contributing to the reduction of the 2021/22 global lentil production to about 5.3 M tonnes from 6.7 M tonnes in 2020/21. In our calculations, this will also lead to a decrease in global lentil trade from about 4.3 M tonnes to around 3.5 M tonnes. In other words, demand rationing is needed to balance the global lentil supply and demand and to reduce the traded volumes seen over the past several years. How painful this process will be for importers depends in part on how well their own domestic crops turn out, especially in India. The high prices we are currently seeing for lentils are aiming to accomplish the demand rationing that is needed. How long this process will take, and when buyers will simply stop looking for more product, is hard to predict.



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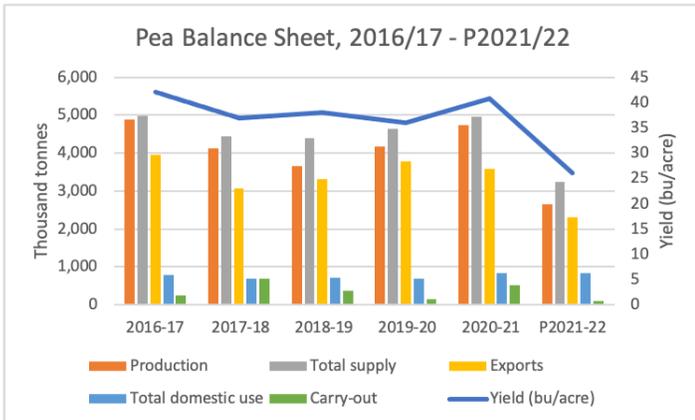
This year, the additional serious problems with bulk and especially with container freight availability and cost make judging this market more difficult and also obscure market signals to buyers. In Canada, the true magnitude of these developments will only hit farmers fully when prices will come off the current high levels and reveal to which extent high freight costs impact domestic bids. The continued inactivity of the Canadian government on competitiveness issues like these is unforgivable.

Following the various yield assessments, prices for both red and green lentils in Canada have broken out of the general price channels we have seen since 2018 (reds: \$359- 661/tonne; large greens: \$419- 749/tonne). Prices seem to be heading towards the previous highs seen in 2016. For reds, the short-lived high was at \$1,256/tonne, and for large greens at \$1,653/tonne. Our bias is that lentils might reach these levels, but remember that buyers are hit hard by unprecedented freight rates in addition to high sourcing costs and at some point will turn away.

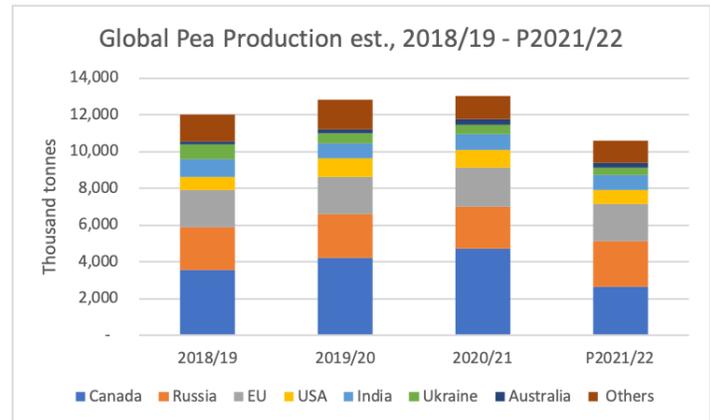
Regarding timing, we think that prices will need to be firm while acreage decisions are made. Flaxseed, durum, and canola prices are also especially high and will compete for acres. Given the competition for acres by a number of crops, it might be hard to increase lentil acres significantly this time around, although they are currently quite competitive. Potential acreage decisions this winter, as well as moisture levels, are sure to influence prices January forward.

### Peas

Official yield estimates for Canadian peas range from 32.5 to 23.9 bushels per acre (bu/acre). Mercantile settled on an average yield of 26 bu/acre, which represents a 36% reduction from the 2020 yields, and a 33% reduction from the five year average yields. Pea production falls to 2.65 M tonnes compared to 4.7 M tonnes last year, and supply falls to 3.3 M tonnes, 34% lower than last years.



Source: Mercantile Consulting Venture Inc.



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Canada generally presents roughly 30–35% of global pea production, but this will fall to about 25% this year. On the trade side, we figure that Canadian exports will have to be reduced to about 2.3 M tonnes from 3.6 M tonnes last crop year due to the smaller supplies.

China is Canada’s single biggest buyer of peas (China bought 73% of all Canadian pea exports last crop year), and we expect a lot of the reduction in exports to occur to China. China had already forward-bought 500–600 thousand tonnes of peas earlier this year at lower prices and buyers seem content to look after executing earlier purchases for now instead of buying more tonnage at the higher prices. We also hear that some of the Chinese feed pea purchases are being re-sold to fractioning buyers in China, thus easing the tightness in the Chinese fractioning market. This bypasses some of the container problems and feed buyers presumably then look to cover their needs via other feed grains like corn, soybean meal, and feed wheat. Should China stop buying feed peas this year, this would reduce remaining demand by 600–800 thousand tonnes. However, the market would still need to ration demand by another 600,000 tonnes elsewhere.

At the same time, with the United States (U.S.) pea crop down by about 25% from last year, U.S. buyers of peas for Food Aid and for pet food have also been unusually active for this time of year. They are trying to secure supplies for their plants into the spring, as are domestic Canadian buyers. We have doubled our pea export forecast to the U.S. due to their short crop to about 200,000 tonnes.

The global pea supply and demand is tight as well, so there are not a lot of options for buyers to substitute Canadian imports. Black Sea shippers have been making sales following harvest, but their volumes will not suffice to fill the gaps left by shortfalls in Canada and the U.S. Mercantile estimates global pea production to be down by about 19% in years following relatively small ending stocks, so overall pea supply is clearly smaller.

In terms of prices, yellow pea bids are already at a long time high. Peas traded in a price channel of \$6–8 CAD per bushel (/bu) from October 2017 to October 2020; graduated to \$11.25/bu in the spring, and then to \$16/bu this September. This is reflecting the overall tightness in the global market, with most support coming from the processing/fractioning and edible demand sectors. We expect prices to remain firm and, like lentils, peas will have to compete hard for acres this winter.