

Pulse Market Report

July 2015

The Pulse Market Report is a monthly newsletter featuring market analysis and commentary aimed at helping Saskatchewan pulse producers make the best decisions for their crop production and marketing.

Normal is the Average of Two Extremes



Larry Weber
Weber Commodities

I cannot take credit for the above headline. I first heard it from Ted Allen, then Chair of United Grain Growers sometime in the 1990s, and I am sure Ted heard it from someone older than he. I do know, however, we were

discussing weather. While in Winnipeg, it was easy to get lost in the concrete confines and to forget what made the industry tick - grain. In 1988, some farm boys' hearts hardened while some industry personnel continued to wear their heart on their sleeves. Business can sometimes take the emotion out of agriculture but I have learned not to do that over the past 30 some years.

It is the last week of June as I write this, and there really is only one thing on everyone's mind - weather. I've logged about 1,000 kilometres (km) driving in the past month, and 12,000 km flying from east to west. I've been looking at crops from the ground and from the air for over 30 years. This much I can say emphatically; I've never witnessed such a mess from the air as I have this year during the first three weeks of June. At least in 2010 and 2011, and even last year, the areas around the potholes were green.

Between the frosts (all four of them) and a lack of rain, emergence is best monitored from 7,000 to 10,000 feet. If you think that crops look patchy from the seat of a farmer's sprayer - try it from a higher elevation. There are some bright spots for those that have managed some moisture

in May and June, but they are few and far between. The difference in 2015 between 1988 and 2002 for me is that the area under duress seems bigger - earlier. Oilseed crops are in worse condition than pulse crops since they were hit harder with frost. Non-betting estimates are that 1.6 to 1.8 million (M) acres of canola were reseeded. While pulse crops survived the frosts better, it still knocked them back a good seven to 10 days.

I'm going to attempt to answer the most emailed, phoned, or verbally communicated question to me over the past month in three separate tables; What can I expect for pea and lentil yields - given the lateness of the spring and the lack of moisture?

When I put the tables together, 1988, 1989, 1995, 2001, 2002, and 2003 all stood out the most. I had even forgotten about 1989 and 2003. I'm not going to discuss the yields other than as a farmer in Saskatchewan. You can find your Crop District, and analyze a year that you best think mirrors the moisture conditions on your farm. The extended forecast for the best pea and lentil growing areas should make importers sit up and take notice. There is little to no precipitation until July 6, and temperatures will range between 25°C and 36°C.

Before I drive everyone to their local favourite watering hole, much can change quickly as it did in 2009. That year, there was a similar weather pattern that broke on the long weekend in July, and farmers managed to pull off better than average crops. My concern this year is that many of the plants have already gone into survival mode, and are expending energy

CROP	PEAS/LENTILS - AVERAGE YIELD: 1988 to 2014			
	CANADA		SASKATCHEWAN	
	PEAS (bu/ac)	LENTILS (bu/ac)	PEAS (bu/ac)	LENTILS (bu/ac)
1988	17.5	385	13.7	367
1989	23.2	831	19.4	795
1990	31.8	1,424	29.2	1,407
1991	30.7	1,284	30.1	1,355
1992	29.0	1,166	27.3	1,217
1993	30.9	949	29.7	993
1994	31.3	1,040	30.0	1,050
1995	27.3	1,179	24.5	1,169
1996	33.5	1,183	31.2	1,194
1997	30.9	1,027	28.4	1,032
1998	32.2	1,152	31.2	1,154
1999	40.1	1,301	39.6	1,302
2000	34.9	1,186	34.4	1,198
2001	23.7	761	20.8	759
2002	19.5	821	18.3	817
2003	25.0	866	22.5	862
2004	37.0	1,144	36.2	1,143
2005	35.1	1,323	34.0	1,320
2006	30.4	1,115	28.7	1,115
2007	30.2	1,136	29.5	1,136
2008	33.6	1,329	32.5	1,330
2009	33.8	1,415	33.8	1,413
2010	32.3	1,335	29.8	1,321
2011	38.2	1,397	36.4	1,384
2012	33.7	1,367	30.0	1,351
2013	44.3	1,842	42.4	1,817
2014	34.9	1,456	31.7	1,446

Source: Weber Commodities

to reproduce in the most efficient manner – sometimes that requires one pod and one seed per plant. Pea and lentil crops this year are shorter than normal, however tall crops are not a necessity for yield.

That is the bad news. The good news is that Western Canada will still have the opportunity to sell every pound of pea and lentil crops that are grown. Demand from India will remain insatiable until the end of October and beginning of November when Canadian supplies are expected to fill their limited pipeline. While the Indian Government is sticking to their monsoon deficit of 88% of normal over the next three months, a private weather analyst, Skymet, has issued a 92% of normal forecast during mid-June. India has raised the Minimum Support Prices to farmers, and has offered a 2,000 rupee bonus per tonne (\$38.93 CAD per tonne) to try and keep inflation in check by growing more in their home country. There have been many editorial debates in India’s major newspapers on whether this government intervention can control the cost of wholesale pulses over the next 12 months.

The other piece of good news is that El Niño looks to be fully engaged. Unfortunately, it is a double-edged sword as it is surely responsible for the blocking pattern of moisture along the 49th parallel this year. Australia is already suggesting that their wheat harvest will be the lowest in eight years. Sea surface temperatures for the central and eastern tropical Pacific are more than 1°C above average for a

sixth straight week. The last time the Pacific waters were at temperature levels seen today was in 1997. If the wheat crop is going to decline, there is a high probability that their pulse production will suffer as well. Consensus today is that El Niño will peak in the fourth quarter of 2015.

Please take some time to study the charts, and determine the best and worst case scenarios as you contemplate any risk management strategies prior to harvest. Today, the best risk management strategy is to sell nothing. Pulse crops have been lagging in price as the crops have turned worse. Many traders believe there is still an average to above-average crop on the way, and are waiting for farmers to watch old crop prices arbitrage to new crop prices. While it has happened to some extent already, farmers quit selling a month ago and won’t sell now until they are guaranteed their contracted volume is covered, or there is a general rain for at least three days. While normal may well be the average of two extremes, I don’t remember what normal is. Save for

SASKATCHEWAN PEAS AND LENTILS: The Good, the Bad, and the Ugly years				
CROP	CANADA		SASKATCHEWAN	
	Average Pea Yield (lbs/ac)	Average Lentil Yield (lbs/ac)	Average Pea Yield (lbs/ac)	Average Lentil Yield (lbs/ac)
1988	17.5	385	13.7	367
1989	23.2	831	19.4	795
1995	27.3	1,179	24.5	1,169
2001	23.7	761	20.8	759
2002	19.5	821	18.3	817
2003	25.0	866	22.5	862
Average six dry years	22.7	807.2	19.9	794.8
2010	32.3	1,335	29.8	1,321
2011	38.2	1,397	36.4	1,384
2012	33.7	1,367	30.0	1,351
2013	44.3	1,842	42.4	1,817
2014	34.9	1,456	31.7	1,446
Average Last five years	36.7	1,479.40	34.1	1,463.80

Source: Weber Commodities

the frost in 2004, and the extreme wetness in 2010 and 2011, it has been a good 10-year run. Have as good a summer as possible and please be safe.

Larry Weber operates Weber Commodities Ltd. More information can be found at www.webercommodities.com.

Weather Challenges for Pea and Lentil Crops



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Canada had such a great start to the season, but weather challenges on the Prairies since spring have changed production and market expectations significantly. This is especially true for special crops and canola for two reasons. First, ending

stocks are going to be low for these crops as demand has continued to be high, and there will be no significant volumes left at

the end of July to cushion any 2015 crop production problems. Secondly, Canada holds significant export market shares in these crops, and below average yield reductions will be reflected in forward prices domestically and internationally.

Pea Market

Old crop at 2.5 million (M) tonnes, crop year-to-date pea exports (to the end of April) are 27% higher than last year’s exports, in spite of a roughly 11% smaller crop in 2014 than in 2013. Season-to-date bulk clearances are now just over 2 M tonnes. This reflects outstanding demand from India, China, Bangladesh, and the

United States, in order of importance. In fact, these four destinations took almost 88% of all Canadian pea exports. Exports to container destinations have been strong as well. As a result, expected ending stocks for 2014/15 are approximately 110,000 tonnes, a small 3% stock-use ratio. As mentioned, there will be little tonnage left to cushion production problems in 2015.

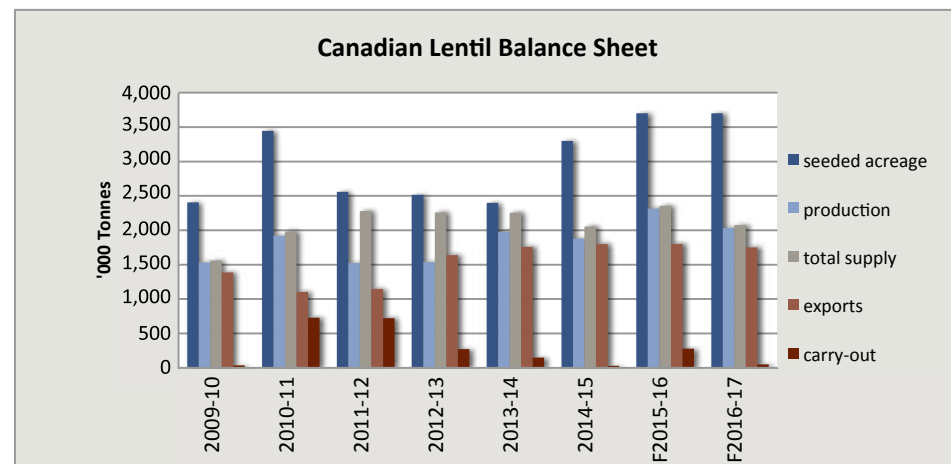
New crop peas: Statistics Canada does not release its crop planting estimates until June 30, but pre-report estimates by the trade today pegged 2015 pea acres at 3.8 M acres, almost at par with the 2014 pea acreage of 3.795 M acres. Mercantile Consulting

Venture still thinks this acreage may be too low, given the export performance of the peas. However, at 3.8 M acres and given a five-year average yield, production should be close to 3.8 M tonnes, roughly the same as in 2013/14. This level of production would allow for a repeat of the 3 M tonne near-record export level we project for this ongoing crop year. In fact, a scan of the important pea destinations shows that the 2015/16 demand likely will be as good as this year. If Canada fails to reach an average yield performance due to adverse weather and lack of precipitation, then export demand will have to be rationed via price. For example, each 10% yield loss from the average represents 3.59 bushels per acre (bu/ac), or a 385,000 tonne loss in production.

Pea pricing: We are surprised how stable both old crop and new crop country pea pricing has remained. We appreciate what is happening in old crop peas, there simply is very little volume left until we are done, so the market is practically parked. We did expect to see more pressure on new crop prices as the weather deteriorated. Margins between sales values and grower contracts were very lucrative for traders during the spring, and significant tonnages of new crop yellow peas have been forward sold for fall shipment. A good percentage of these sales were covered by production contracts, but the deteriorating crop conditions must create some anxiety to traders. Also, while country prices have stayed relatively flat, values for new crop peas free on board (FOB) Vancouver have increased by \$1.40/bu USD, thus widening the gap between FOB and country bids. We appreciate that the higher price levels are not currently being traded in overseas destinations like India, which means that the high prices are not currently being paid by consumers, but only by the shorts in the market trying to cover. Nonetheless, to growers it still means that prices have further upward potential and that their peas are needed for fall shipment.

Lentil Market

Old crop at a year-to-date export record of 1.7 M tonnes, export shipments are 38% higher than last year-to-date, in spite of the fact the lentil crop was approximately 8.5% smaller than the previous year. Exports to India, Turkey, and the United Arab Emirates have been especially good. In



Source: Mercantile Consulting Venture

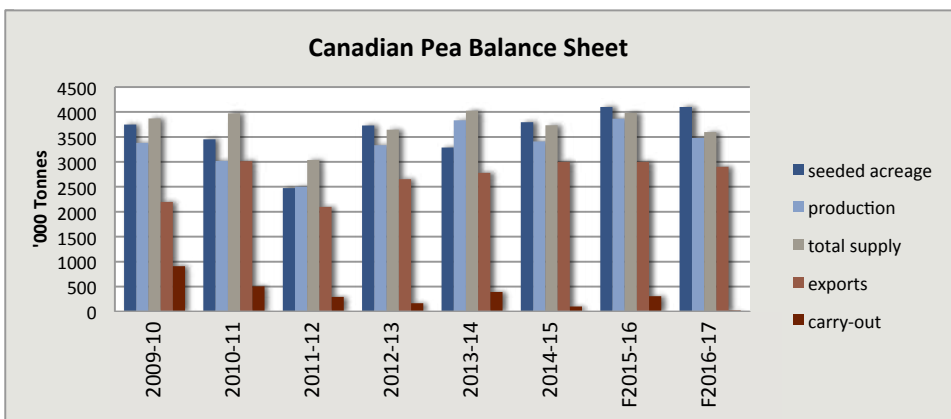
F= forecast

fact, the top three importers represent 57% of the total market. Though bulk shipments have dropped over recent weeks, they are still 24% (or 88,000 tonnes) ahead of last year's. Ending stocks this crop year will be very small, roughly 30-35,000 tonnes, or a 2% stock-use ratio.

New crop: Lentil acres in 2015 have been forecast at 3.6 M acres, though we think this number is understating seeded acres due to the good export performance and contract prices offered this year. Even so, with average yields and exports similar to this year, ending stocks would not rise dangerously and likely stay within a 13% stock-use ratio. However, if yields deteriorate, then we could quickly drop into single-digit stock-use ratios once again. For example, with a 3.7 M acre base, each 10% drop in yield represents a loss in production of about 275,000 tonnes.

Lentil pricing: Lentil prices have increased relatively more than yellow pea prices and reflect the tight conditions. However, if yields are affected further as we move into the hot months, then prices will move to levels that will effectively restrict demand. Overall, we expect firm pulse markets and excellent shipping opportunities upon harvest.

Other updates: The government in India published their Minimum Support Prices (MSPs) for pulses grown during the kharif season last week. The MSPs were increased between 5% and 6% over last year, effective October 1/15. We believe the MSPs will not be effectual as they are too low relative to high prevailing market prices for pulses in India. Mercantile Consulting Venture nevertheless calculated the approximate returns per acre generated by the new Indian MSPs for all major kharif crops, and then ranked those returns per



Source: Mercantile Consulting Venture

F= forecast

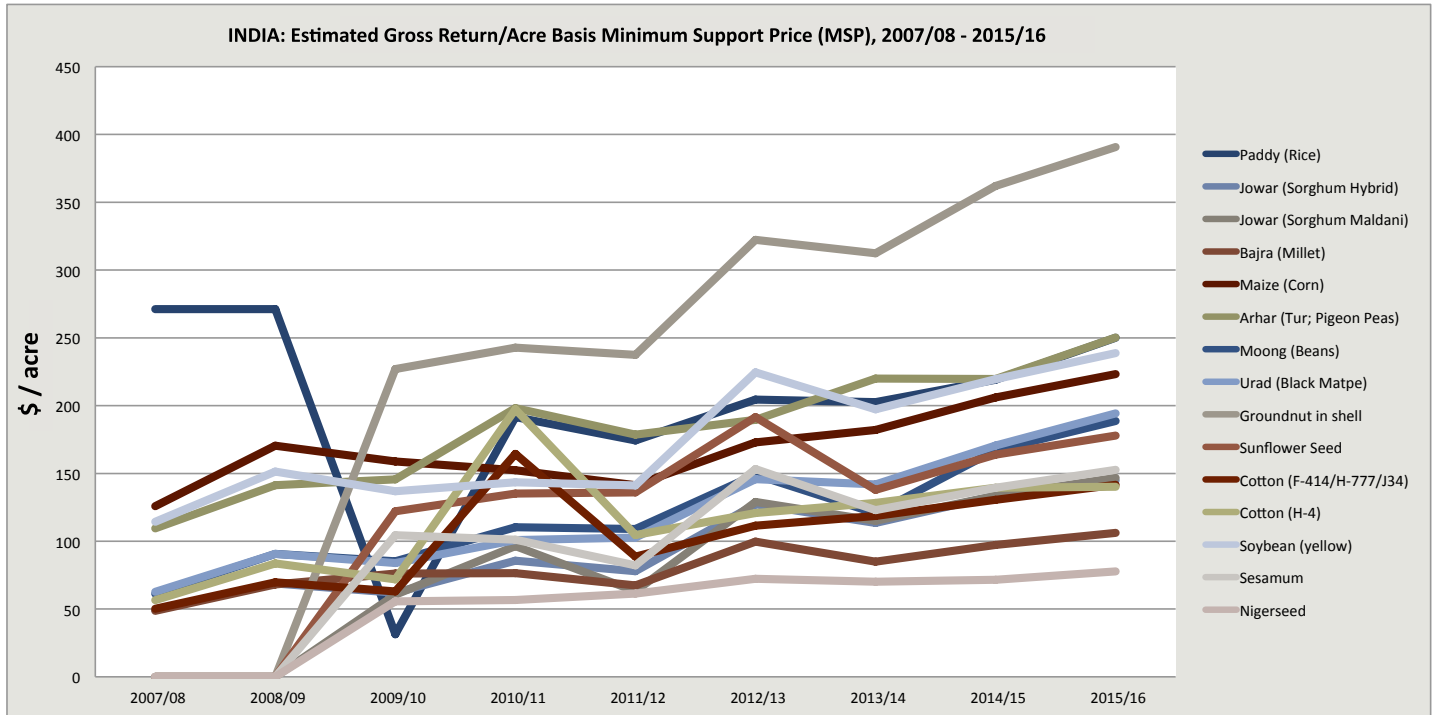
acre for each crop. This helps decide if the scheme is more attractive to farmers for certain crops over others. Groundnuts come out on top as the most profitable crop, followed by pigeon peas in second place, and rice in third. This signifies that the production of pigeon peas is perceived as important and thus receives relatively high support. Canada competes with lentils in

the Indian pigeon pea market.

The Turkish lentil harvest is underway as we write. Early yields are said to be decent, and colour is reported to be good. Even so, total production at an estimated 350,000 tonnes is disappointing to traders in Turkey. Red lentil production is estimated at 328,000 tonnes (325,000 tonnes last year),

and green lentil production remains small at 21,500 tonnes (20,000 tonnes last year). We expect good exports from Canada into Turkey again this coming crop year. We shipped 375,000 tonnes to Turkey during the ongoing crop year.

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Source: Mercantile Consulting Venture



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