

Pulse Market Report

May 2015
Mid-Month Report

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.

Pea and Lentil Projections for 2015



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Pulse seeding in Western Canada is off to a good and early start. Beyond the obvious agronomic advantages, the early start has additional benefits for marketing in the

longer term. An early

harvest gets new crop shipments going prematurely and will also add additional vessel loading capacity to the pea and lentil fall program, increasing Canadian overall export capacity for the crop year. This is especially important in a year where ending stocks for pulses will be tight, and shipping may otherwise dwindle to next to nothing during August due to lack of supplies.

The reality of tight ending stocks for lentils and peas highlights a number of differences that the pulse outlook is enjoying relative to major grains in Canada:

- Lentils and peas will see stock-use ratios of around 4% and 7% respectively this summer, while major grains will have stock-use ratios of a minimum 14% to 29%. These are Agriculture and Agri-Food Canada numbers, which we think are actually going to be too low given the rail performance since Christmas. Canola will be the only major crop that will equal the pulse tightness, with an anticipated stock-use ratio of 5% to 9%.

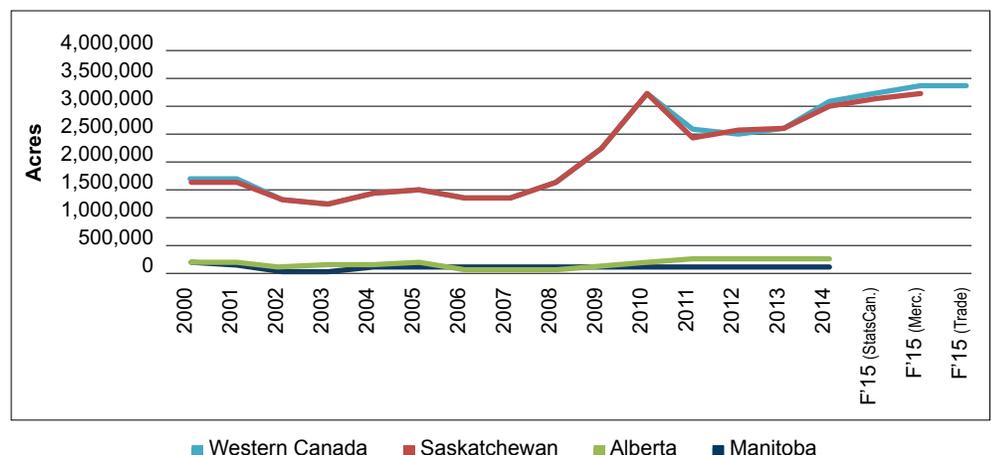
- World stocks for pulses are down, while stocks of major grains and oilseeds will be up significantly going into next crop year.
- Demand for pulses has been unusually high (primarily due to weather events in the Indian subcontinent), and there is an excellent chance that the strong demand will persist at least into the first quarter of 2016.

All these factors have contributed to extremely strong old crop lentil values and a firm old crop pea market. Mercantile Consulting Venture expects that this will allow pulse markets to remain strong into the new crop, even while facing important acreage increases this spring.

Lentil Market - Prices have been extremely firm for all classes of lentils. Stocks of any quality are being drawn down and demand continues to come in. Mercantile Consulting Venture expects this year's lentil ending stocks will be as low as 74,000 tonnes. As farmers, we would get rid of all current crop lentils before trading stops due to lack of stocks.

Looking at new crop, Mercantile Consulting Venture thinks that the Statistics Canada (StatsCan) acreage of 3.35 million (M) acres will be too low, and we anticipate a 13% to 16% increase in acres to around 3.7 M acres. Part of the difference between our prediction and StatsCan's is buried in our expectation about Alberta lentils. While Mercantile Consulting Venture expects to see a

Canadian Lentil Acres by Province, 2000-F2015



Source: Mercantile Consulting Venture

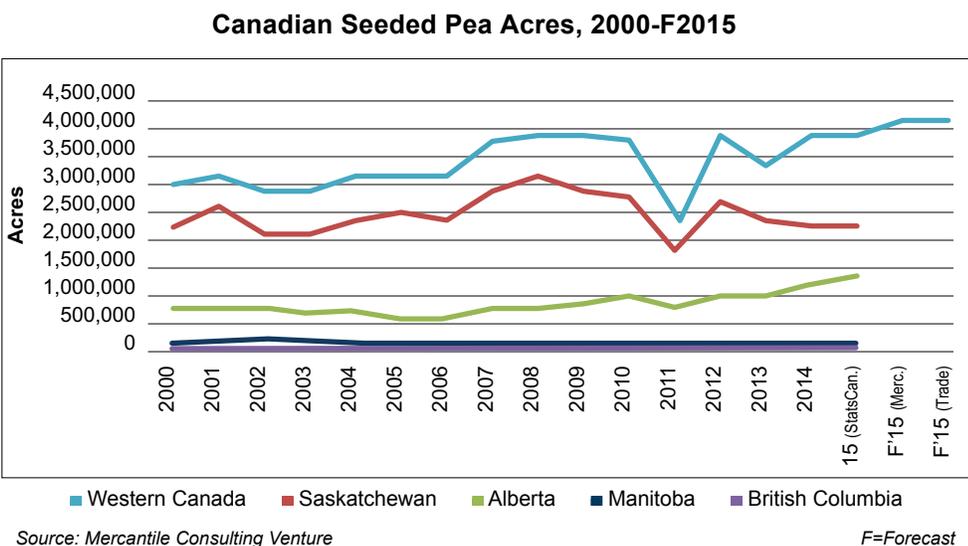
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significant increase in red lentil acres in Alberta, StatsCan is actually predicting a 9% decrease. We think that the ability to deliver red lentils to the elevator has made lentils much more viable to Alberta than they were before.

Given the average yield, the bigger acreage will likely give Canada an increase in 2015 lentil production of around 400,000 tonnes. This could well be a bearish scenario like we had in 2011/12, but we calculate that demand this year will remain solid enough to keep new crop prices firm into 2016. We expect world trade of green lentils to remain close to 700,000 tonnes in 2015/16 (a small drop from this year), and for red lentils to perhaps touch 1.6 M tonnes (up from 1.5 M tonnes this crop year). Canada should trade about 420,000 tonnes of green lentils and around 1.2 M tonnes of red lentils. This should keep the 2015/16 stock-use ratios for green and red lentils within 10-15%, respectively.

We note that this is not as tight as for the previous crop year, but reasonably constructive. Note that yields bigger than average will relax the balance sheets accordingly.

Pea Market – For peas, year-to-date bulk exports are still running at 143% of last year with a crop that was about 400,000 tonnes smaller than the year prior. If Canada continues to reach their export target of 2.9 M tonnes, then this crop year's ending stocks will be approximately 233,000 tonnes. Others are using an



export number as high as 3 M tonnes, which would put ending stocks at 133,000 tonnes (a very low 3.7% stock-use ratio). If the latter number proves true, then we should see current crop pea values take another step up.

Like with lentils, Mercantile Consulting Venture is not ready to adjust our pea acreage numbers to the 3.795 M acres StatsCan uses. We continue to use 4.1 M acres, but note that others seem to be as high as at 4.2 to 4.4 M acres. Mercantile expects Alberta to increase their pea acreage by almost 18% (220,000 acres) to 1.42 M acres. The Alberta increase makes sense as their pea yields have been quite good and bulk shipments via the West Coast favour Alberta prices, due to the lower inland rail freight to the coast. Given average yields, the acreage

increase should bump up pea production by another 470,000 tonnes. Mercantile Consulting Venture projects pea exports for next year at approximately 2.9 M tonnes (the same as this crop year) which amounts to about 57% of the world pea exports. Based on these assumptions, the 2015/16 stock-use ratio should end up at 11%, similar to 2011/12 and 2013/14. Again, if bigger than average yields develop, this will relax the balance sheet.

Overall, we expect firm pulse markets and if the problems in India are as large as they seem, a constructive balance sheet for the new crop season as well. There is no harm concentrating on seeding for now.

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