

PRICES

ARE CURRENT PRICES GOOD OR BAD?

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With all the hubbub going on in pulse markets, including concerns about India, acreage guesses for 2018 and weather concerns, it's not a bad idea to step back and evaluate where prices are at. The question of whether current price levels for pulses are good or bad can be answered in a few ways. For farmers, higher is almost always better (although high prices can sometimes trigger responses that aren't positive).

To gain some perspective, we like to take a longer-term look at price levels. This type of extended view helps avoid "recency bias" where the latest events can distort a realistic price expectation. Sometimes it's hard to remember where prices were a few years ago. It's also typical to think that the last few years are now the "new normal". For pulses, it's probably fair to say the

extreme volatility of the past couple of years has affected or maybe even distorted farmers' price expectations.

There are a number of ways to get this perspective, but one tool we use to gain perspective is a 10-year price chart, as shown below for yellow peas. It's probably a lot easier to remember the \$14.07 high than it is to recall the \$4.24 lows back in 2010. The latest prairie-wide average price just shy of \$7.00 per bushel looks poor compared to the peak in 2016, but if we were just coming off the depressed market from the beginning of the decade, it would seem much more positive. Thus the value of perspective.

A few other calculations help provide more context. Market advisors often talk about selling the crop in the top-

third of prices. That's great in theory but unfortunately, picking off those higher prices isn't always possible, at least in the short-term. It's also not clear how that "top third" is defined; some people rely on a vague idea of where that top third should be.

For our analysis, we use the last 10 years. By that measure, the top third means yellow pea prices would have to be above \$8.58 per bushel to achieve the goal of "top third marketing". That could take a while. Calculations also show that prices were below \$6.58 per bushel one third of the time over the last 10 years. Current bids are now in the middle third, although more to the lower side.

The average (mean) yellow pea price over the last 10 years has been \$7.74

10-Yr Canadian Yellow Pea Price



10-Yr Canadian Red Lentil Price



per bushel, so selling now would be below average. One long-standing market principle is that prices will try to return to the average level. From where yellow pea prices are now, the market will try to work higher toward the mean.

Unfortunately, there's nothing in the chart that tells us when that might happen, especially since artificial factors such as Indian government manipulation and weather variability are major market influences. It's also worth noting that even though market forces try to pull prices back toward the average, they never stay there for long.

The red lentil chart is more discouraging, although there could be a more optimistic way to view it. Bids are currently hovering just above the minimum price of \$15.65 per cwt and are at the low end of the bottom third. One third of the time over the last 10 years, prices have remained below \$22.35 per cwt, so red lentils have a ways to go just to get out of the bottom third. Because of some extreme highs in the past 10 years, the average (mean) is \$27.64 per cwt, and current prices are even further below that level.

If there is a good way to look at the red lentil chart, it's that prices are

currently close to the lows. This means there's more upside potential than there is downside risk, although that doesn't mean zero risk of even lower prices. But over the long haul, they're more likely to work their way higher. Unfortunately, the chart also shows that waiting for prices to get back into the middle third of the range or up to the mean can take a while.

These same types of calculations can be done for any crop, given enough price history. Those who are looking to run the numbers for other pulses can find historical prices at the Alberta Ag or Saskatchewan Ag websites.



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