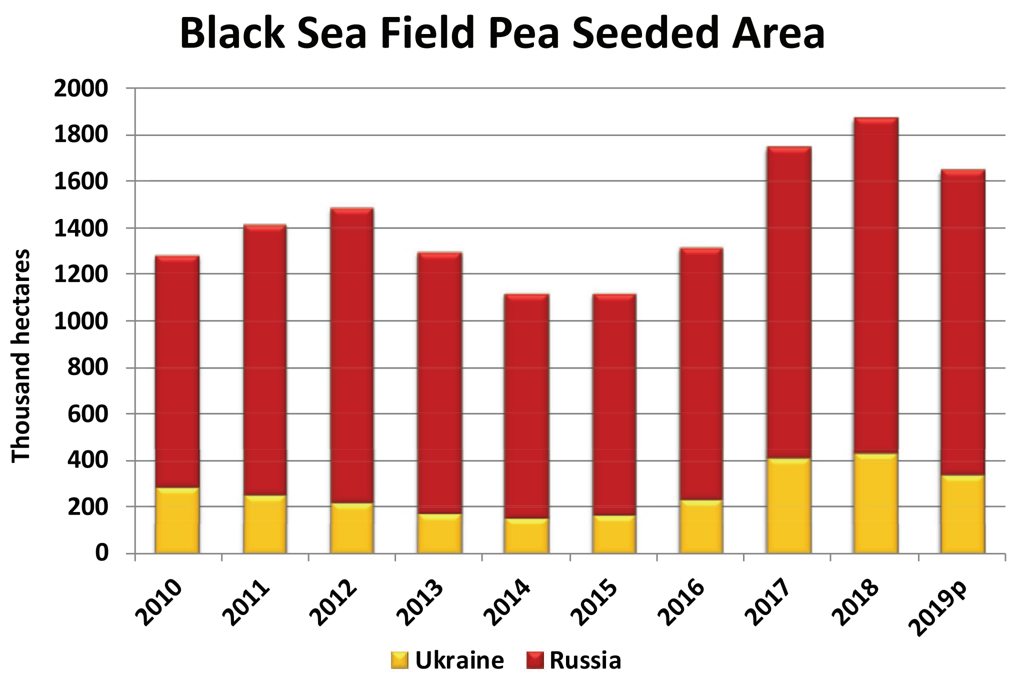
PRICES

LOOKING INTO 2019/20 AND BEYOND

By Chuck Penner, LeftField Commodity Research



There's a whole lot of uncertainty in pulse markets these days. Indian restrictions on pulse imports showed up in late 2017 and are still in place, keeping lentil and pea trade depressed. The key question now is when and how those restrictions will start to be rolled back, but that's still a bit of a guessing game. For now, the tariffs and quantitative restrictions remain in place and that means new-crop bids for peas and lentils are either cautious or nonexistent, making it difficult for farmers to plan their marketing.

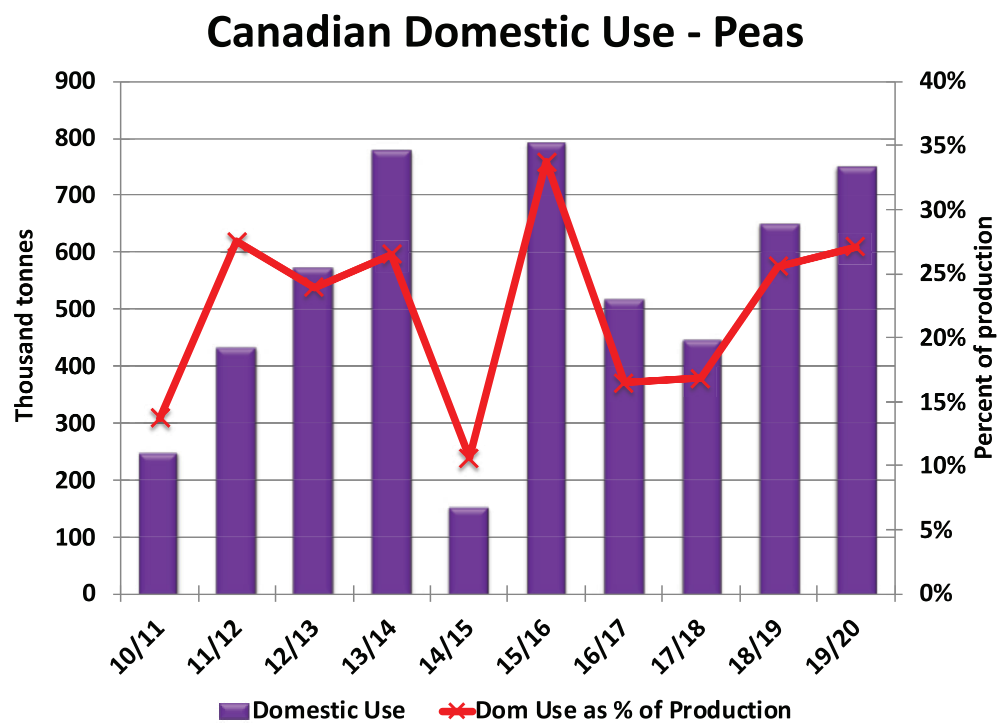
Since then, an additional risk has cropped up, with questions about China's willingness to continue importing large amounts of peas. Just as a refresher, China ramped up its purchases of peas last year just as India was cutting back, which helped the 2018 pea crop find a home, especially yellows. Through the first half of 2018/19, India bought 110,000 tonnes of Canadian peas, less than half of the 260,000 tonnes in 2017/18 (and way below the 1 million in 2016/17). Meanwhile, Canada sent 985,000 tonnes to China in August-January of 2018/19, up from 785,000 tonnes in the first half of 2017/18. Now, however, there are growing concerns that diplomatic tensions affecting Chinese imports of Canadian canola could spill over into peas.

While that risk is still far from certain, just the possibility of losing Canada's other major pea buyer should cause farmers to revisit their marketing strategies. In this heightened uncertainty from both India and China, marketing objectives should become more defensive, protecting against risk rather than trying to hit a home run. It's also time to dust off some of the old marketing maxims and put them into practice. These include "sell when you can, not when you have to", "you never lose money taking a profit" and "hope is not a marketing strategy".

Aside from these concerns on the demand side, 2019 production is very much a question mark, but there are some helpful signals. Seeded area in several export competitors is expected to drop, including fewer acres of peas in Ukraine and Russia and a drop in US lentil acreage. Production of chickpeas is also expected to fall sharply in most exporting countries such as Mexico, India and the US. Smaller supplies will provide some market support even with the demand risks.

There are also longer-term developments just starting to show up that will have an influence in 2019/20 and beyond. Other countries are becoming stronger competitors in export markets. While acreage in Russia and Ukraine are expected to dip in 2019, the recent trend toward higher production isn't expected to go away. When pulse prices start to recover (and they will), farmers in these countries will respond by increasing acreage. Other countries also boosted pulse production in response to higher prices a year or two ago, including Kazakhstan, the Baltic region and eastern Europe.

Now that they've had some success, they won't disappear entirely.



On the demand side, the stated goal of India's government is to increase self-sufficiency and pulses and that has been the case the past two years. Of course, that improved output was supported by favourable weather. Meanwhile in 2019, we will see how precarious those production outcomes are if rainfall doesn't show up in the amounts needed. As a result, we expect India will continue to be a highly variable importer, dependent on its own yield results.

As highlighted above, Chinese demand for peas is continuing to grow even as its domestic pulse production is declining. Part of China's increased pea purchases in 2018/19 were destined for the feed market as it cut back on US soybean imports, but demand for peas for fractionation purposes is also expanding year-over-year. At some point, the current diplomatic dispute will be resolved and China will remain a large buyer. The only cloud in this outlook is that China will likely try to diversify its sources of peas, likely from Russia or Ukraine.

Probably the most favourable parts of the longer-term demand outlook will be the increased North American use of pulses as a food ingredient. While there are many new food products being introduced containing pulses, the growth in Canadian processing volumes is still in its early days. Several facilities are still in their planning or construction phases and that influence hasn't been felt yet. While the data is a little unclear, domestic usage of peas (including feed, seed and milling) has accounted for roughly 20-30% of the Canadian crop.

Over time, domestic processing could easily use up over half of Canadian production, leaving the Canadian industry less reliant on overseas markets that are sometimes random or arbitrary. More domestic usage could also allow the entire pulse industry to expand in a more stable way.

While this expansion will take a number of years to develop, Canada has a couple of examples of fundamental shifts in how crops are used. Canola is the most well-known example, with the crop almost evenly split between domestic crush and exports of seed, where just 10 years ago only one-third of the crop was crushed domestically. The other example is oats, which went from less than 5% milled domestically, up to 25% in recent years. At the same time, the amount of the oat crop used as feed dropped from 70% in the early '80s to less than 25% now. The point is that if these longer-term shifts in value-added can happen in other crops, it's also quite possible for pulses.