PRICES

PULSE MARKET SENTIMENT HAS SHIFTED

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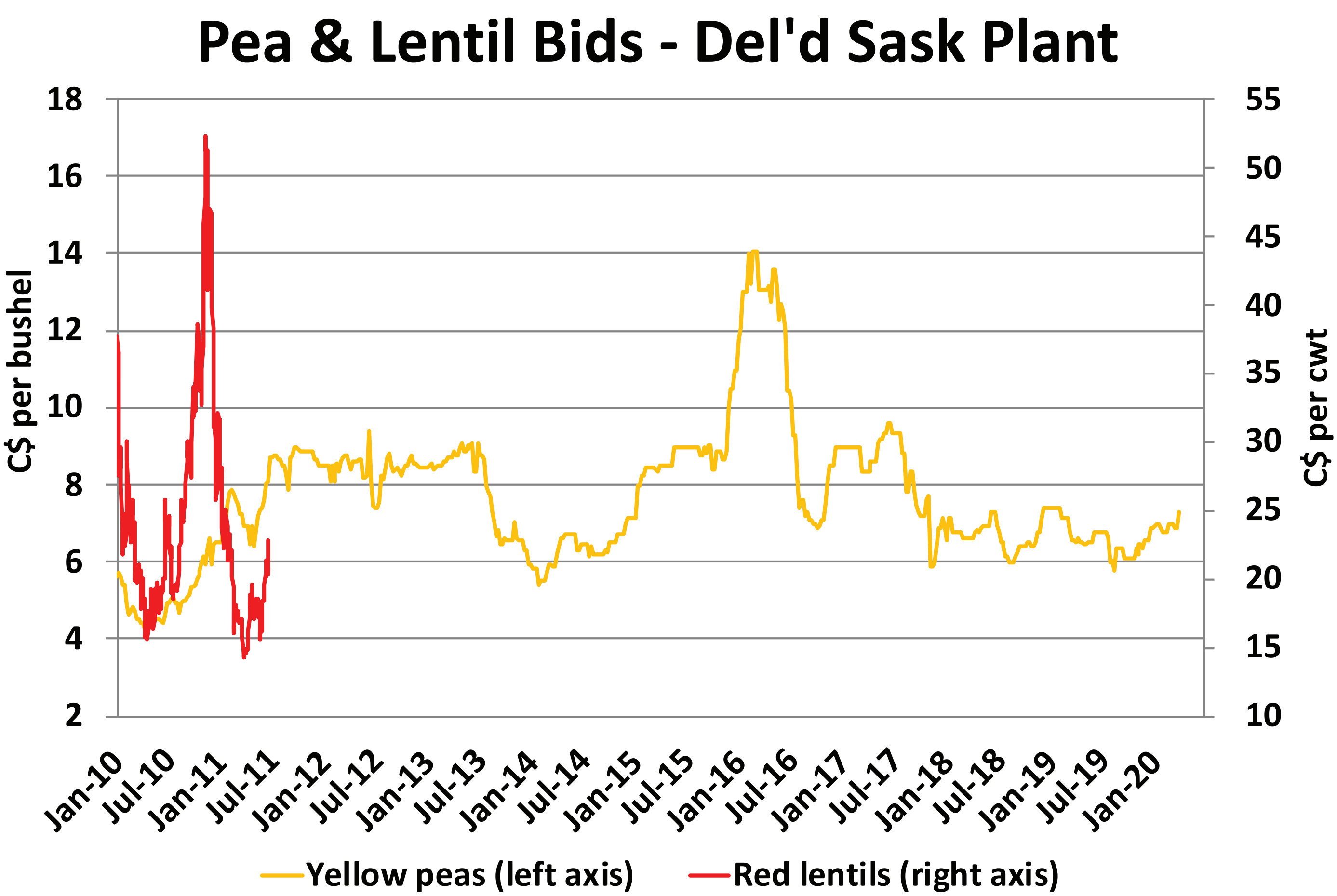
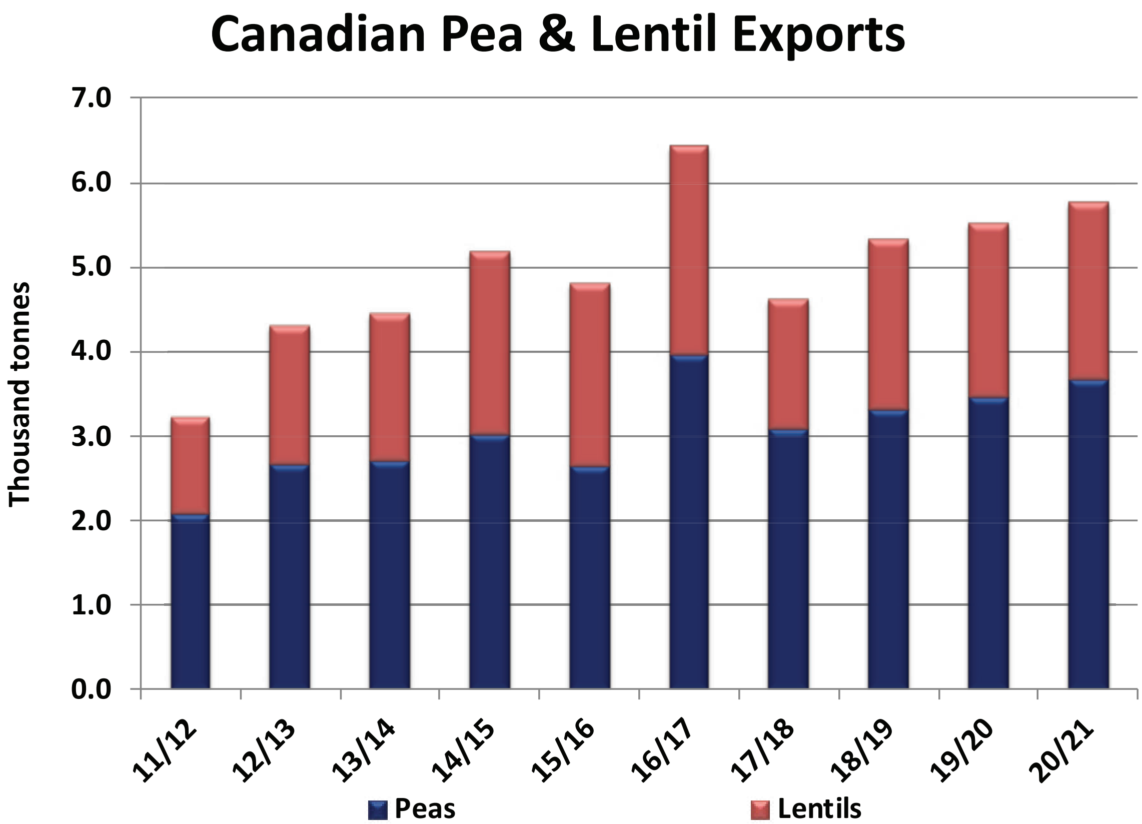


You don't need to follow pulse markets closely to know that something significant changed this spring. We are seeing a monumental shift in the marketplace, from a sluggish environment in midwinter to a hyperactive buying frenzy just before planting time.

There's no question the COVID-19 pandemic caused the sharp response this spring, but it may have only been the spark that ignited the fuel. Even before the outbreak picked up speed and triggered a flurry of buying, supply outlooks for most pulse crops were looking tighter. It's just that overseas buyers weren't really paying attention to shrinking inventories. Now they are.

Essentially, the shift has been from a buyers' to a sellers' market. It may be too early to call it a complete "cycle", but this is the second major go-round of strong demand from overseas buyers. And to be clear, some of that move was already starting to develop (albeit more slowly) prior to the COVID-19 outbreak.

As a bit of a refresher, back in late 2015, Indian demand for Canadian pulses started to ramp up, due to a poor harvest in that country. Back-to-back droughts in India added to the pulse shortfall, with exceptionally strong Indian imports for the next two years. This was



the first "megacycle" in the pulse trade, which kept prices strongly supported, particularly in 2016.

What followed was better weather in India and a spike in global production that surpassed demand. Of course, it didn't help that India's government decided to employ a number of interventionist tactics, including restricting imports, to keep domestic production high. Indian farmers responded as expected but ultimately, that ended up backfiring and kept prices low.

The period of low prices did its job of discouraging pulse production in all major exporters, and some demand shifted away from India to other countries, such as China for peas. These adjustments have set the stage for the current environment. Throughout 2019/20, supplies of most pulses (except chickpeas) have tightened up. Demand has been generally solid, but it's the COVID-19 situation that really pushed the envelope, causing prices to rally more quickly and more sharply, which brings us to the 2020/21 outlook.

As we look toward the upcoming marketing year, the market seems to be at the front end of another cycle with strong pulse trade and prices. There are several reasons for our optimism. The first is the strong 2019/20 demand, especially in the final few months, which has drawn down old-crop carryover of peas, lentils and dry beans (chickpeas may need to wait a little longer). This means there's less cushion for any kind of lower production in 2020. This spring's rally in pea and lentil prices is also likely too late for a substantial shift of acres into those crops, in Canada and in other exporting countries. This means a 2020 production response will be limited, depending on weather conditions and yields. If that's the case, demand could outstrip supplies, completing the shift from a buyers' to a sellers' market. Canadian exports would rise, but only if acreage (and yield) have produced a large enough crop in 2020 to make that possible.

In addition, the COVID-19 situation has heightened food security concerns among many countries. For importing countries, the urgency to build stockpiles will boost demand and accelerate their normal purchase patterns. It may also force some countries to reduce or drop import tariffs on pulses. This is a serious about-face from the recent complacent mindset of comfortable supplies.

Food security issues could also cause exporting countries to intervene and limit pulse exports, a sharp U-turn from the earlier situation when importers were the ones restricting trade. If so, those exporters with available supplies will become much more attractive targets.

While this current environment won't last forever (that's why they're called cycles), it's a clear reminder that market situations, either good or bad, are not set in stone. We can see how finely balanced supply and demand actually are and how quickly things can change.