PRICES

THIS TIME IT'S DIFFERENT (OR IS IT?)

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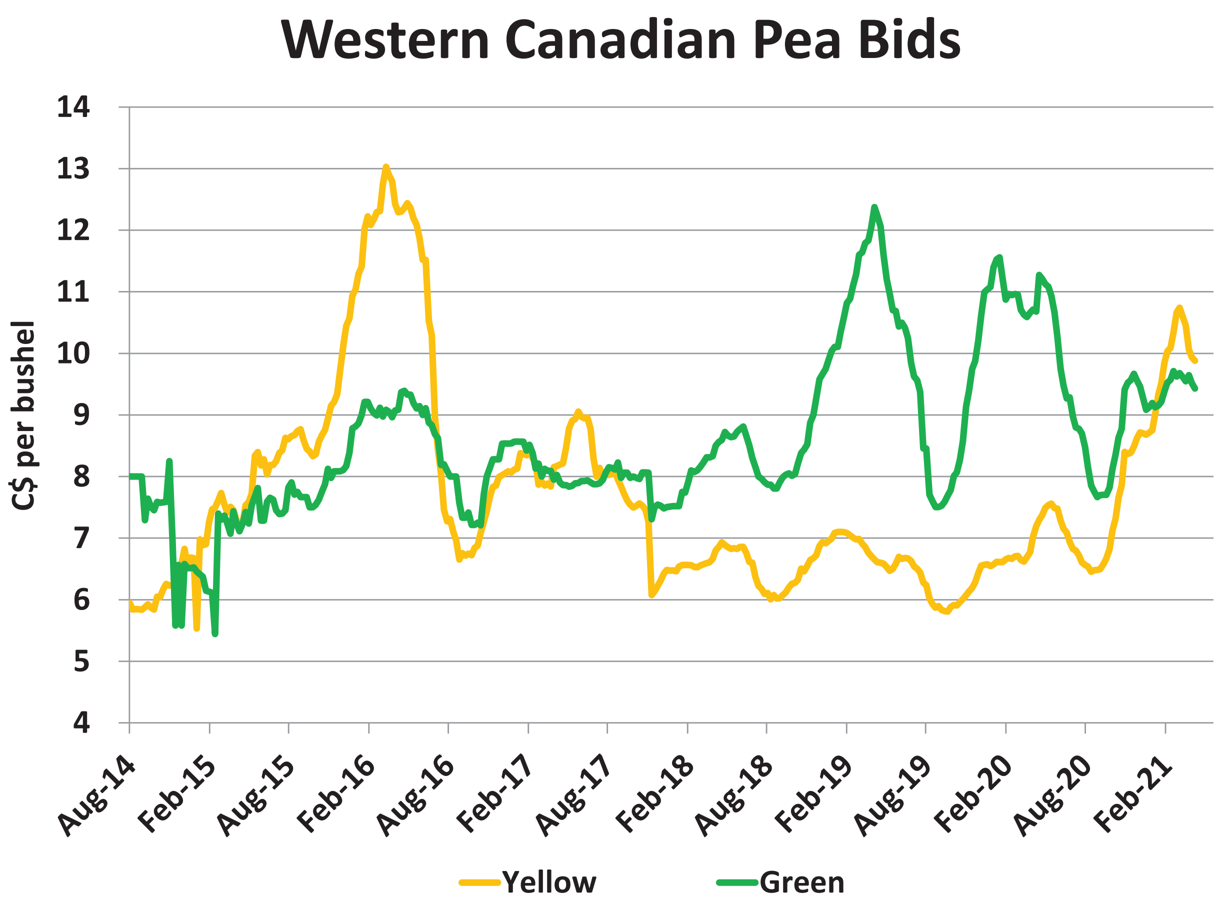
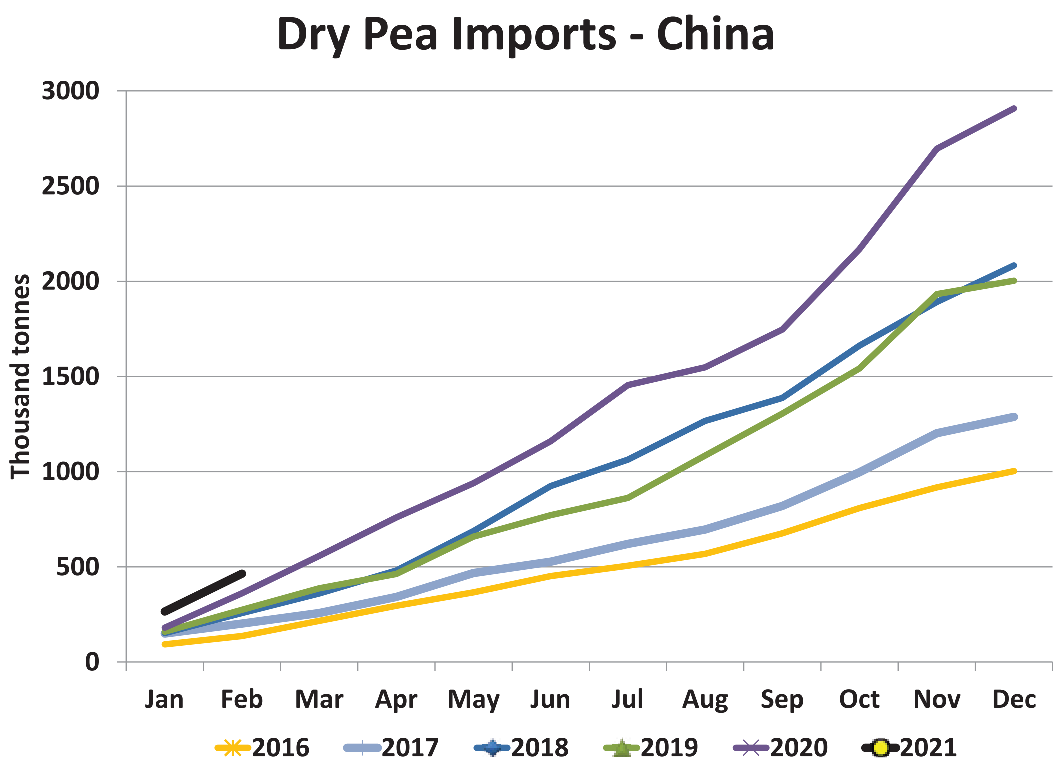


The 2020/21 marketing year for peas is only three-quarters done, but it's already been quite impressive. Exports have been running at a near-record pace, yellow pea bids moved back above greens and have hit the highest level in nearly five years. This exceptional performance has helped boost farm returns, especially for those who held onto some peas until later in the rally.

This positive environment also raises the question of whether pea prices can continue at a new higher level or if history will repeat itself in the same (typical) way as the market moved sharply lower from the 2015/16 highs. To answer this question, we need to look at what caused the last bull market five years ago and what might be the same or different this time around.

Back in 2015/16, the pea market was driven higher by demand from India, which was going through the first of two successive rabi and kharif droughts. The heavy demand caught the global market off-guard, with small pea crops in Canada and other exporting countries. That severe imbalance between demand and supply pushed yellow pea prices to record levels. It's also worth noting that Indian demand was almost exclusively for yellow peas, which left prices for greens lagging badly. In 2020/21, India has been almost entirely absent from the pea market as its domestic pulse crops have largely been adequate for a



few years. It's already well-known that in recent years, China has more than offset the lost Indian demand, buying record volumes of Canadian peas. This year, Chinese consumption of peas has two main parts – fractionation and an increasingly large feed component. Fractionation demand has been growing steadily year-over-year but China's seemingly insatiable demand for feed ingredients in 2020/21 has pushed pea imports over the top.

Indian and Chinese pea demand are not the same, meaning that something different is happening this time around. The boost in Indian buying was largely weather-driven and faded again as soon as rains returned, although some changes in government policy helped Indian pulse production to recover.

In China, the demand is more structural and sustainable as the fractionation industry has expanded over the years. The main question is whether the extra demand from the Chinese feed market will remain in place next year. There are plenty of opinions about whether China's feed deficit is a long-term issue or if it will be resolved (at least partly) with a return to better weather conditions in 2021. Even if it fades, there's still a large 1.5-1.8 million tonne base of demand from the fractionation industry.

The other key difference in pea demand for 2020/21 and beyond is the development of the Canadian domestic processing industry. More growth in processing volumes will show up in 2021/22 as processing plants ramp up to operate at full capacity and the amounts are still a smaller portion of overall pea demand, but it is a noticeable shift in the balance. This usage is ongoing and sustainable.

The supply side of the pea market will also be different in 2021/22. After the record high prices in 2015/16, seeded area in 2016 expanded by over 500,000 acres in western Canada. Other countries also saw big gains. The increase in Canadian acres was also met with an 11 bushel increase in yields from the previous year and the 2016 crop hit a record 4.8 million tonnes, more than 50% larger than 2015. That huge production response was enough to tip the market in an extreme way.

In contrast, Canadian pea acres in 2021 will struggle to show much of an increase at all, despite very attractive prices. The "problem" for peas is that prices of most other crops, including canola and barley, are also near record levels, creating intense competition for acres. This means there won't be nearly the same production response this year that happened back in 2015/16. In fact, it's possible that the 2021 crop could be smaller than last year.

The bottom line is that the pea market is very different now than it was five years ago. Demand is much steadier, even if China needs fewer peas for hog feed, and Canadian domestic use will expand. On the other side of the equation, Canadian farmers will not be boosting pea acreage much, if at all and that will leave supplies roughly unchanged. The result is less risk of a sudden move in the pea market for 2021/22, meaning that things truly are different this time around.