PRICES

LESSONS LEARNED ABOUT PULSE DEMAND IN 2021/22

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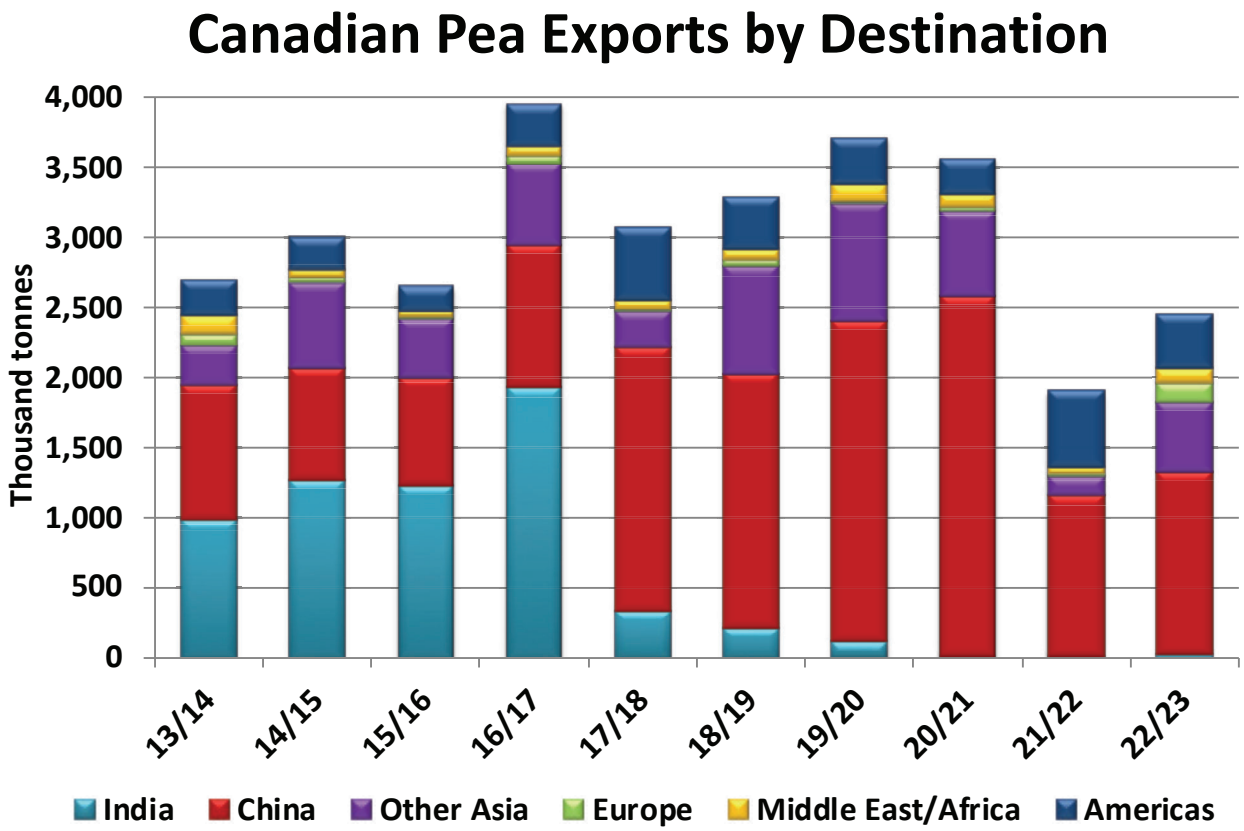


Source: Statistics Canada, LeftField

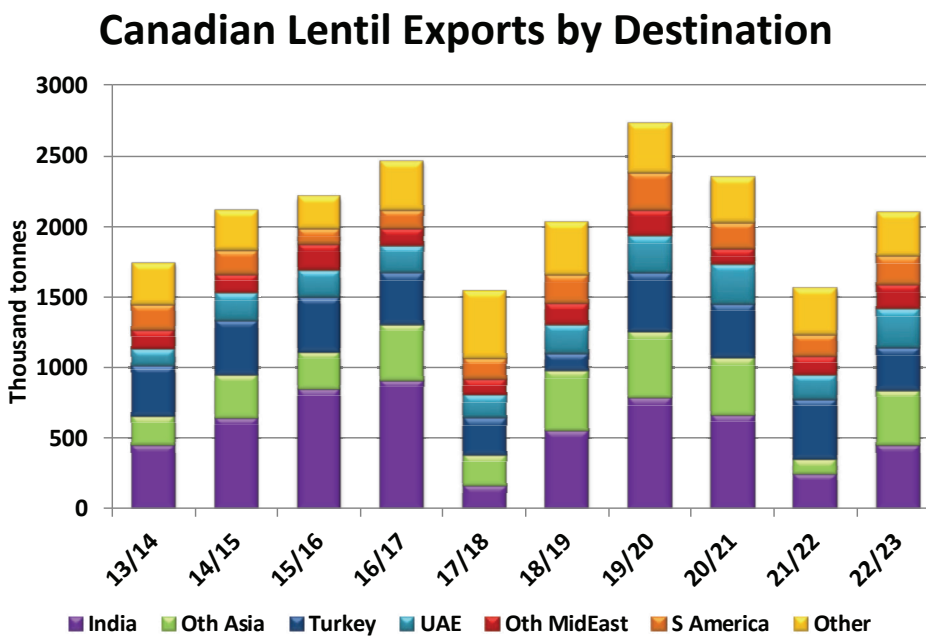
The extreme conditions of 2021/22 provided a lot of "learning opportunities" about markets and marketing. For many, the historic drop in yields was a lesson in dealing with worst-case scenarios, including the painful necessity of buying out grain contracts. For some, those losses were partly offset by record prices on tonnes not committed to a contract.

For analysts like me, 2021/22 was a great reminder about the limits of trying to predict future events. Besides that, we learned a tremendous amount about how prices behave when supplies are extremely short and how they affect demand. As prices shot higher last fall, the question we heard most often was, "how much higher can they go?".

In the past, we've often talked about steady importers that are less affected by high prices and those that are more price-sensitive.

In economic terms, this is "price elasticity of demand" which essentially looks at how much demand is lost as prices go up (and of course, the opposite is also true).

Another way to think about this is to look at demand as a series of layers, in a type of pyramid. At the bottom, where prices are the lowest, there's plenty of demand as cheap prices encourage more buying. As prices go up and you move up the pyramid, the layers of



Source: Statistics Canada, LeftField

demand get smaller and smaller. Some buyers are at the bottom; others are at the top.

In the pea market, China is the dominant buyer especially for yellows. Within that country though, there are several layers of demand. Prior to 2021/22, when pea prices were low, Chinese demand was extremely large, rising above 2.5 mln tonnes in 2020/21. Most peas headed to China are used in either the food sector for fractionation into protein and starch or the feed sector. When prices shot higher in 2021/22, the feed demand dropped away and left only the fractionation business. This year's high prices clearly revealed the two different layers of Chinese pea demand, each about half the total.

Indian pea buying is more price-sensitive but in recent years, the demand picture has been clouded by government decisions that largely took global prices out of the equation. The Indian government decided to shut out nearly all pea imports and that policy is only going to change if prices within the country rise too far and consumers get angry. Right now, that doesn't seem to be in the cards.

Other Asian countries like Bangladesh and Nepal have been sizable buyers of Canadian peas in the past but as we saw in 2021/22, high prices forced them out of the market. These destinations fit into the lower layers of pea demand. In 2021/22, the US emerged as a very strong buyer of Canadian peas. Exports to the US nearly quadrupled from the year before despite record prices for yellow peas. Drought in the northern states cut its domestic pea crop and buyers there were willing to pay whatever was necessary to lock in supplies. Last year showed that US pea demand was the top layer of the pyramid.

Looking ahead to 2022/23, the bigger Canadian pea crop will need to find a home. The US can be a strong buyer but will need fewer peas this year, thanks to a bigger crop of its own. The Chinese market is still split into food processing and feed sectors and may not change much. This means price-sensitive buyers will be needed to absorb the bigger Canadian crop and that may require moving down a layer in the price/demand pyramid.

There are a lot more moving parts to lentil demand, with more classes and sizes. India is often the country we think of as the main red lentil buyer but in 2021/22, it faded into second place, with Turkey taking the top spot. The sizes of their own lentil crops were key demand factors, but Turkey's bigger purchases in 2021/22 were a sign that its demand fits in the top layers of the pyramid, less affected by high prices. Meanwhile, other countries like Bangladesh and Sri Lanka really backed away from the market, as more price sensitive buyers.

The green lentil portion of the market is much more dispersed among many more buyers. Even so, there are layers of stronger and weaker demand. Buyers like the UAE, Algeria, Colombia and other South American countries showed strong demand in 2021/22, even with high prices. European buyers also stayed in the market, although those volumes tend to be smaller. The big drop-off in last year's green lentil demand was India, showing it's quite price-sensitive.

In 2022/23, the Canadian crop will bounce back with larger supplies available of both red and green lentils. If so, the market will need to attract more demand from countries in the lower layers of the price/demand pyramid, and that could require lower prices.