

CHICKPEA AND FABA BEAN OUTLOOKS



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Since I last wrote about chickpeas and faba beans back in October, the market picture has become clearer in many respects. Some of these events were fairly predictable, while others were a bit of a surprise,

but that's always the case in agriculture.

For chickpeas, the old adage that "the best cure for high prices is high prices" certainly came true. Last fall and through much of the winter, chickpea prices were at-or-near record levels in all global markets, including key markets such as India, Turkey, and Mexico. Supplies had already been tight and the disastrous crop in Western Canada didn't help the situation. Even a record 2016 crop in the United States (U.S.) wasn't enough to make a dent in the supply shortfall.

The high prices have triggered a boost in chickpea production. This response started when good weather allowed Australia to produce a record crop of 1.4 million (M) tonnes, mostly Desi chickpeas, 400,000 tonnes more than the previous year. This harvest in late 2016 triggered the first weakness in Desi chickpea prices.

Indian farmers also saw high prices and planted 16% more chickpea acres than a year ago. The weather has been mainly favourable and now that harvest is underway, most production estimates are now above 9 M tonnes. That compares to the last two disastrous years when crops were closer to 7 M tonnes. Again, the majority of Indian chickpeas are Desis but the sky-high prices for Kabulis have encouraged farmers to shift more acreage toward Kabulis, with some ideas that Kabuli production this year could be over 500,000 tonnes.

The Mexican Kabuli chickpea harvest will also be starting soon and that crop looks like it will be larger too. The strong prices

over the winter prompted farmers there to increase acreage by nearly 50% from last year's very small plantings. Weather has been mostly favourable there and even with average yields, the 2017 crop could be 40% larger than last year.

Looking ahead to the North American outlook, new-crop bids have remained quite attractive and that should encourage more acreage this spring. That's especially the case in the U.S. where last fall's harvest avoided most of the problems experienced by Canadian farmers.

The bottom line for chickpeas is that the global cupboards that had been bare are now in the process of being replenished, although Turkey is still short of Kabulis for now. Prices have already responded (in some cases sharply), starting with Desis and more recently with Kabulis. And now that the Indian and Mexican crops are close to being in the bin, some weather risk has dissipated as well. As a result, most chickpea prices will be pressured lower for the remainder of 2016/17. It also means there's little possibility of another rally in chickpea prices for at least the first half of 2017/18.

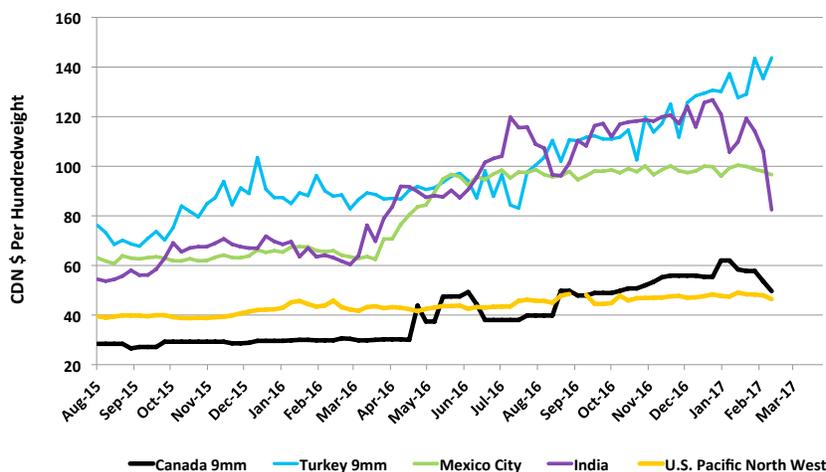
The faba bean market hasn't been as

euphoric as chickpeas, but production in numerous countries has expanded too. The dominant crop came from Australia where 2016/17 production jumped to 570,000 tonnes from 320,000 tonnes a year ago. Last fall, production had increased in the United Kingdom and farmers in Baltic countries had also raised production. These larger crops have weighed on global prices and the potential for a meaningful rally is limited.

These larger crops have meant more competition for the Egyptian market, the only sizable importer of faba beans. Canada has managed to export 3,600 tonnes to Egypt so far in 2016/17, about the same as last year, but could find it difficult to keep up that pace in the second half. Smaller volumes have also gone to the U.S. and India and those could develop into larger opportunities in the future.

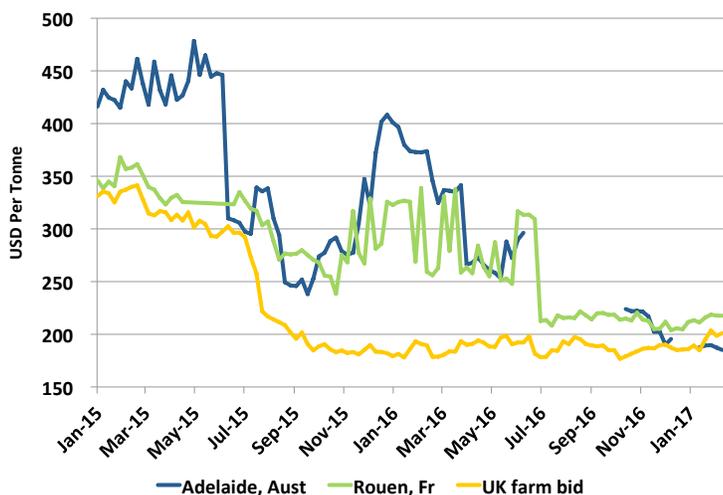
For the most part though, faba bean consumption has largely been confined to domestic feed use. Prices in Western Canada have mostly tracked feed pea values which are still historically strong. Faba beans have generally been priced at a small discount to feed peas in spite of fabas' higher protein content. This is mainly because faba bean supplies

Selected Kabuli Chickpea Prices



Source: LeftField Commodity Research

Selected Faba Bean Prices



Source: LeftField Commodity Research

still aren't quite large enough yet to ensure steady flow into feed mills, and the discount is needed to keep buyers interested.

Because the export market is more competitive and most Canadian faba beans will stay in Western Canada, the outlook for faba bean prices is mostly tied to the feed market, especially protein sources such as feed peas and soybeans. There are some clouds on the rise in for these markets as the 2017 production is forecast to increase. Of course, these North American crops haven't even been planted yet, so there's still plenty of uncertainty.

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REDUCED DEMAND FROM INDIA FOR PEAS AND LENTILS



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The first major Canadian report for the coming marketing year will be released the third week of April. That is when Statistics Canada (StatCan) releases its seeding intentions. What

happens to those numbers are being influenced by two reports which came out in February because those reports went a long way toward defining the supply and demand fundamentals now facing farmers.

StatCan's December 31 stocks in all positions report helps us understand supply fundamentals for peas and lentils. On the other hand, India's second crop production estimate for the 2016/17 production cycle gives us a sense of how demand might evolve the rest of the year.

On December 31, there were 1.76 million (M) tonnes of lentils on hand in Canada, including 1.56 M on farms and 206,000 tonnes in cleaning plants and the bulk handling system. This is a huge increase from the previous year when there were 1.019 M tonnes of lentils left to market, with farmers holding 1.04 M and the trade 149,000 tonnes.

Higher stocks is not surprising because the marketing year started with 418,000 tonnes more lentils than last season. What is surprising is that disappearance was weak. Exports fell 91,000 tonnes to

December 31 Stocks in All Positions Report For Lentils (in Tonnes)

Lentils	2013	2014	2015	2016	Average
Production	2,261,700	1,987,000	2,540,500	3,248,200	1,980,120
Carry-in	467,000	786,000	365,000	73,000	661,600
Total Supply	2,728,700	2,773,000	2,905,500	3,321,200	2,641,720
Dec 31 Stocks					
On Farms	1,860,000	1,549,000	1,037,000	1,558,000	1,512,600
Commercial	108,000	104,000	149,000	206,000	102,000
Dec 31 Stocks	1,968,000	1,653,000	1,186,000	1,764,000	1,614,600
Inferred Use	760,700	1,120,000	1,719,500	1,557,200	1,027,120
Use Ratio	27.9%	40.4%	59.2%	46.9%	38%
Exports	718,643	1,080,279	1,529,562	1,438,794	891,410
Domestic (1)	42,057	39,721	189,938	118,406	135,710

BASED on Statistics Canada data

(1) Domestic usage is inferred and may include exports which have not been accounted for

Source: STAT Publishing Ltd.

December 31 Stocks in All Positions Report For Peas (in Tonnes)

Field Peas	2013	2014	2015	2016	Average
Production	3,960,800	3,810,100	3,200,700	4,835,900	3,362,880
Carry-in	174,000	329,000	684,000	176,000	397,400
Total Supply	4,134,800	4,139,100	3,884,700	5,011,900	3,760,280
Dec 31 Stocks					
On Farms	2,107,000	2,102,000	2,112,000	2,419,000	1,913,000
Commercial	228,000	184,000	261,000	268,000	236,600
Dec 31 Stocks	2,335,000	2,286,000	2,373,000	2,687,000	2,149,600
Inferred Use	1,799,800	1,853,100	1,511,700	2,324,900	1,610,680
Use Ratio	43.5%	44.8%	38.9%	46.4%	43%
Exports	1,271,015	1,759,258	1,509,229	1,994,733	1,379,864
Domestic (1)	528,785	93,842	2,470	330,167	230,816

BASED on Statistics Canada data

(1) Domestic usage is inferred and may include exports which have not been accounted for

Source: STAT Publishing Ltd.

1.44 M during the first five months of the marketing year, while inferred domestic disappearance dropped from 190,000 to just over 118,000 tonnes.

It does not look like last year's lower

average quality was the problem. Shipments to Europe, the Americas, and the Middle East were up 10% compared to last year. Green lentils dominated shipments to Europe and the Americas, where many buyers were as concerned

with quality as price. Significantly, green lentil exports were up in those areas. Unfortunately, those gains were offset by a steep drop in shipments to India. Shipments plunged 37% to roughly 54,000 tonnes, with the result exports to all destinations slipped 3% to around 331,000 tonnes.

Reduced demand from India was a direct result of last year's jump in tur or pigeon pea production. Some millers substitute green lentils for tur when there are shortages or when prices are at a premium to lentils. Neither was the case last fall.

Grown during the monsoon or kharif season, pigeon pea output jumped from 2.46 to a record 4.23 M tonnes. Prices paid to farmers fell below the government's minimum support price (MSP), making green lentils uncompetitive.

India's demand for red lentils is also down sharply. Last year's lentil harvest in India was just 970,000 tonnes. Expecting a reduction because of the failure of the monsoon, India's buyers starting importing vast quantities of red lentils in the fall of 2015. Shipments from Canada pushed past 673,000 tonnes between August and December. Movement during the same period last fall sank to 415,000 tonnes, more than offsetting increased demand from Pakistan, Bangladesh, and Sri Lanka.

Strong domestic markets and a higher MSP for lentils has encouraged farmers in India to plant more, with the result production is expected to rebound to 1.23 M tonnes. That fact alone makes it hard to see how our red lentil exports can recover, with the result farmers here could reduce demand, relative to the amount in their bins, through the rest of the marketing year.

The increase in Indian lentil production is part of a general increase in pulse production in the country. In its second crop estimate of the season, India's agriculture department said total output during the 2016/17 crop cycle will hit 22.14 M tonnes. That is 3 M tonnes above the previous record and almost 6 M tonnes more than last season.

This isn't a surprise to farmers who attended the Regional Pulse Meetings at the beginning of February. I told them India would probably grow a record 22.35 M tonnes of pulses this season. That number came from a statistical book published in December and available as a free download in the library section of the statpub.com website.

	Minimum domestic requirement		Optimum domestic requirement	
	17.5 kilograms per capita		20 kilograms per capita	
	% domestic	% + Imports	% domestic	% + Imports
2000	-25%	-17%	-35%	-25%
2001	-37%	-21%	-45%	-29%
2002	-29%	-14%	-38%	-23%
2003	-33%	-21%	-41%	-29%
2004	-26%	-17%	-35%	-26%
2005	-31%	-22%	-39%	-30%
2006	-31%	-19%	-40%	-28%
2007	-22%	-9%	-31%	-19%
2008	-31%	-12%	-40%	-21%
2009	-30%	-13%	-38%	-22%
2010	-19%	-6%	-29%	-16%
2011	-16%	-3%	-26%	-13%
2012	-20%	-1%	-30%	-11%
2013	-14%	0	-25%	-10%
2014	-12%	4%	-23%	-7%
2015	-24%	-5%	-33%	-15%
2016	-15%	1%	-26%	-10%
2017	-7%	8%	-18%	-3%

Source: STAT Publishing Ltd.

For field pea growers, these numbers are as frightening as they are confusing. Frightening because the jump in production is bigger than India's imports. Confusing because pea exports have been booming.

What makes it confusing is that we have been talking about a massive rebound in pulse production in India for several months. When people look at the numbers and the way markets have been performing, they sometimes say India's production estimates are inflated. That is the easy way out. Harder is seeing the story in the numbers.

Instead of looking at production on a marketing year basis, think about it on a calendar year basis. That fits better with our experience as exporters. At the same time, our perspective as an exporting nation, makes us think about consumption in India in the wrong terms. Instead of looking at tonnes, think about per capita availability of pulses.

Without question, more pulses were available from domestic crops during the 2016 calendar year than in 2015. It can be argued that they jumped from 16.7 to 18.8 M tonnes. That is down from the 19 M available in 2014 and in line with the 18.4 M tonnes available in 2013. On a per capita basis, there was around 13.36 kilograms (kgs) available in 2015 and 14.83 kgs in 2016.

The implication is India was short between 5.7 and 8.3 M tonnes of pulses in 2015 and between 3.9 and 6.6 M during the 2016 calendar year. Current production estimates for the 2016/17 production cycle suggest that shortfall could shrink to between 2.0 and 4.7 M

tonnes this calendar year.

Why is there a shortfall if production is up so much? It is simply because India's minimum per capita dietary requirement for pulses is 17.5 kgs per year, whereas the optimum requirement for a healthy diet is closer to 20 kgs. For at least the past 20 years, India's farmers have never grown enough pulses to meet even the minimum domestic requirement.

Over the same 20 years, India's diet has been improving, if only because of rising wealth. Credit Suisse reckons India's middle class totaled 26 million people in 2015. Ernst and Young think it now totals 50 million and will rise to 200 million within five years. That group is spending more money on their diet, resulting in an upward trend in per capita consumption of all foods.

As a result, pulse consumption in India is moving toward the optimum dietary requirement. It went from 14.9 kgs per person between 2001 and 2005 to 17.64 kgs between 2011 and 2015. If imports approach 4 M tonnes this year, consumption could average 19.38 kgs.

As it stands, the pace of Canadian field pea exports to India is expected to slow until India decides whether to extend the exemption to allow us to ship field crops without fumigating them with methyl bromide. The current exemption expires on March 31. That, combined with optimism about the current rabi or winter pulse crop has cooled demand for peas. But the slack has been picked up by other countries, with the result exports were up 32% at almost 2 M tonnes between August and the end of December.

Strong exports were reflected in December 31 stocks in all positions report from StatCan. Even though we started the marketing year with over 1.1 M tonnes more peas than last season, over 46% disappeared by the end of December. Stocks on hand totaled 2.69 M tonnes, up from 2.37 M a year earlier. Farmers had 300,000 tonnes more peas at 2.42 M,

while the trade was sitting on 268,000 tonnes, up just 7,000 from 2015.

It is still hard to see a way for ending stocks to drop much under 750,000 tonnes when July rolls around. But, new demand is emerging, which will help offset any negative impact from rising production and slowing demand in India. Prices are at levels which are helping

create demand as markets take advantage of the versatility of peas and its fractions. Sadly, market development in lentils is moving at a slower pace.

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Faba Bean Feed Benchmark Bi-Weekly Report - February 7 to 11, 2017

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Faba Bean Feed Benchmark Price	\$316.02	\$311.65	\$306.81
COMPETING FEED INGREDIENTS			
Feed Barley	\$150.00	\$150.00	\$185.00
Mid Protein Wheat	\$175.00	\$185.00	\$210.00
Low Protein Wheat	\$170.00	\$180.00	\$205.00
Wheat DDGS	\$210.00	\$210.00	\$210.00
Corn	\$225.00	\$205.00	\$175.00
Corn DDGS	\$230.00	\$200.00	\$170.00
Canola Meal	\$340.00	\$336.00	\$331.00
Soybean Meal (46%)	\$535.00	\$498.00	\$463.00
Canola Oil	\$950.00	\$950.00	\$950.00

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - February 7 to 11, 2017

	CENTRAL ALBERTA	CENTRAL SASK.	SOUTH. MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Feed Pea Benchmark Price	\$305.37	\$302.76	\$280.47
COMPETING FEED INGREDIENTS			
Feed Barley	\$150.00	\$150.00	\$185.00
Mid Protein Wheat	\$175.00	\$185.00	\$210.00
Low Protein Wheat	\$170.00	\$180.00	\$205.00
Wheat DDGS	\$210.00	\$210.00	\$210.00
Corn	\$225.00	\$205.00	\$175.00
Corn DDGS	\$230.00	\$200.00	\$170.00
Canola Meal	\$340.00	\$336.00	\$331.00
Soybean Meal (46%)	\$535.00	\$498.00	\$463.00
Canola Oil	\$950.00	\$950.00	\$950.00

All prices are in Canadian dollars per tonne.

The feed pea and faba bean benchmark is intended to be used as a pricing reference. This benchmark provides a consistent and unbiased estimate of the feeding value of peas and faba beans in the three regions shown. Feed peas and faba beans will trade at various differentials to the benchmark based on local supply/demand, quality differences and other contract terms.



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