

THE PULSE

newsletter



>>> Trucker Strike: Adding Insult to Injury



We are all fully aware of the problems with the railroads not moving our grain to market. The trucker strike just added insult to injury. The poor level of service by CN and CP rail was already taking its toll on the shipments. As of grain service week 34 the hopper car supply for Western Grain shippers continued to worsen. CN and CP projected a combined shortfall against car orders of 69,500 cars. Demand for cars remains high with 10,000 cars ordered per week vs. only 7,100 cars per week being provided by the railroads.

Our company is 100% dependent on CP Rail to move our exports from our plants to market. When asked why there is such a poor level of service, CP Rail blamed the weather but the truth is Mr. Hunter Harrison, CEO for CP Rail, since mid-2012 has laid off 4550 people, and removed 400 locomotives and 11,000 railcars off the rails. The lack of resources to move grain is the real reason for the poor level of service.

Furthermore, we load boxcars with bagged lentils to reduce mechanical damage caused by bulk handling. This past fall the entire 50 foot boxcar fleet was taken out of service. Now, CP rail only offer a limited supply of 60 foot boxcars. Competition for this boxcar fleet is fierce. We have heard that pulp and paper companies in BC who also load 60 foot boxcars for export are receiving the same poor level of service.

They are now putting pulp and paper on the ground and covering it with tarps as they wait for railcars to ship their inventory.

Finally, on March 7th, Minister Raitt and Minister Ritz announced the government would introduce the Fair Rail for Grain Farmers Act to force CN and CP to increase their capacity to carry a minimum of 500,000 MT per week. Failing to move this volume will result in a penalty of up to \$100,000 per day.

The trucker strike in Vancouver was 28 days in length. The primary issues were the length of time truckers waited in line at the terminals to return and pick up containers. These long waits made it difficult for the truckers to operate profitably. This strike went on far too long and it really hurt the pulse crop industry.

The impact of the strike is obvious. First of all, our delivery program for purchase contracts has been delayed by the embargo that CP placed on any railcar movement to Vancouver. Secondly, we have international buyers who are running precariously low in inventory or they are out of stock all together. Thirdly, the railcars we have stuck in Vancouver will be collecting demurrage at \$90.00/day virtually taking any margin we had in the sales program.

The strike finally ended on March 26th, as 250 unionized truckers and 1000 non-unionized truckers accepted a 12 per-cent hike in round trip rates and a \$25.13 minimum of hourly drivers.

The lingering effects of the strike will take until May to clear the backlog. The four container terminals were so full of loaded containers that the steamship companies evacuated empty containers and shipped them overseas. Empty containers will be the major constraint as we work our way back to a balanced supply chain.

Finally, I am estimating the lentil industry will be 100,000 Mt behind schedule as sales will need to be rolled to later months. This has prevented sales off the Vancouver port. Ending stocks of lentil were previously forecasted to be around 200,000 Mt and we have now revised the estimate to 300,000 MT of ending stocks as of July 31st, 2014.

>>> Lentil Market Synopsis

Old Crop 2013/2014 Lentils

Overall demand for lentils has been good. With the record crop production of 80.1 million metric tonnes for all crops and good crops globally, we are not experiencing any technical shortages to drive market prices high. The total lentil supply of nearly 2 million metric tonnes has been sufficient to keep markets well supplied.

The Canadian dollar continues to weaken. Currency is very hard to forecast but Canada will continue to weaken due to the improvement of the US economy. This is allowing Fed Chairman Janet Yellen to taper the purchase of bonds. As a result, the US dollar supply is going to be reduced and this will cause the USD to strengthen. This policy shift only makes Canadian lentil prices even more attractive. Currently the CAD is about 90 cents and it could weaken to 85 cents by the end of 2014.

We are adjusting our forecasted ending stocks from 200,000 MT to 300,000 MT. This is largely due to the continued poor level of service i.e. no railcars from CN and CP during the months of Feb/Mar. Also, the trucker strike in Vancouver slowed container shipments as well. Recovery from the trucker strike will take at least one to two months to clear up the congestion.

New Crop Lentil Outlook

Growers are looking favourably towards lentils for several reasons, so we are forecasting an increase in acres for the 2014/2015 crop year. Here is what I consider to be the primary considerations:

- Rotations are so important now. With the emergence of more Type 2 Herbicide resistant weeds, growers will be much disciplined in their approach to herbicide choices. With good rotations farmers can implement a herbicide strategy that will reduce the impact of resistant weeds taking over lentils crops. Our farm has been using more Sencor lately to help with wild mustard control.
- With the wetter than normal cycle in the past several years there has been an increase in diseases; Fusarium graminearum in durum wheat, sclerotinia in canola and lentils, etc. The idea of canola-snow-canola as a rotation does not cut it anymore.
- Fertilizer prices are up considerably from last fall. These increases have made wheat and canola much less profitable to grow. Lentils fixate nitrogen and for this reason they are providing for more profitable returns when compared to wheat and canola.
- Lentils are a good cash crop and it looks like we will be able to market the majority of what will be planted next year. With normal yields and quality we expect the ending stocks to be very manageable.

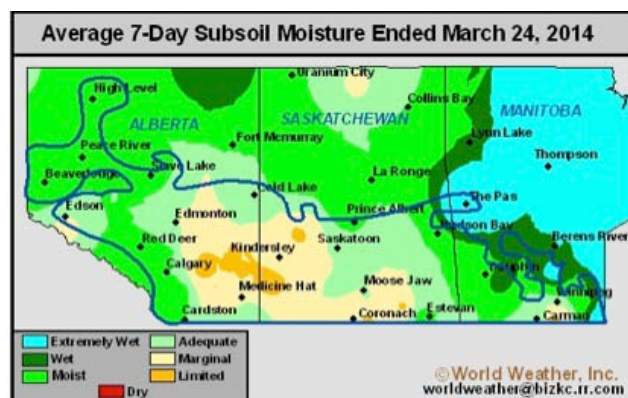
Lentil Supply/Demand 2014

CARRY IN		310,000 MT
TYPE	SEEDED ACRES	METRIC TONNES
LARGE GREEN LENTILS	898,000	570,000
SMALL GREEN LENTILS	228,000	155,000
RED LENTILS	1,568,000	1,137,000
OTHER LENTILS	156,000	92,000
IMPORTS		20,900
TOTAL	2,850,000	2,284,900
DOMESTIC UTILIZATION		165,000
SEED		153,000
EXPORTS		1,650,000
CARRY OVER		316,900
TOTAL USAGE		1,968,000
STOCK/USE RATIO 13.87%		

Large Green lentils or Laird type lentils – The current market conditions would support an increase in seeded acres. As discussed, the major drivers will be rotation, fertilizer costs and cash flow. The price is not the best but in comparison to other crops, we see Laird being a good choice. Canada is the only supplier for Laird lentils and we are very concerned about the low levels of sub soil moisture. In the subsoil moisture chart below, you can see how limited moisture is in the primary lentil growing region. Good rains in May/June will be required to grow a good average crop. And good growing conditions in July will be needed to grow a bumper crop.

Environmental conditions last year provided for a smaller calibre lentil. The size of the seed was one of the smallest we have experienced. Countries such as Columbia, Italy, Spain, Turkey and Iran all need large No. 1 sized lentils from new crop. Those who can master the growing technique of growing this quality will be rewarded with a premium price.

Iran and the USA are negotiating the nuclear plant issues. This has potentially allowed for some sanctions to be removed. This will allow for banks to once again engage in commercial commerce. Since Iran buys over 50,000 MT tonnes per year of No. 1 Laird lentils, we remain optimistic for the demand and price for No. 1 Laird.



Red Lentil production will increase significantly. In addition to all the benefits discussed earlier in this newsletter, we are seeing other reasons to be optimistic.



>>> Lentil Market Synopsis

India is harvesting their Rabi harvest of red lentils. Heavy rains during harvest have reduced the quality and yield of the crop. India will need to increase imports from Australia, Canada and the USA to make up for the reduced crop. This is good news for Canadian red lentils growers who have seen an increase in the bid price for both old and new crop.

Demand for red split lentil has also been a positive development for SSI and our customers. Our superior quality, design and processing techniques have captured the attention of buyers domestically and internationally. To meet the increased demand, SSI has installed two more mills to double our milling capacity. The best variety for our milling is the larger seeded varieties that have evolved out of the Red Rider variety, i.e. CDC Imax. The most popular variety is CDC Maxim which is about 85% or more of the production base. CDC Dazil Certified seed sold like hot cakes this spring so we expect to see another wholesale shift in the varieties over the next several years.

Small Green or Eston type lentil production will likely stay the same or increase slightly to 228,000 acres. We have good demand for old crop lentils for June/July shipment. The color and quality is excellent so the main question is what the price will do in the last few months of this crop year.

Peak demand for Eston lentils are in the fall. The next major demand for Eston is for Lent, so this market opportunity is satisfied. For April to July, we will have some demand to fill in Mexico, Peru and Morocco. This demand will not be sufficient to drive the market higher. We are currently bidding 17 cents for current crop #1 Estons.

Given the current dry conditions on the west side of the province, one can only expect the weather will have the last say on the price for new crop.

Iberina®, **Spanish Brown lentils** have moved very well this year and proved to be the most profitable crop grown this year. All old crop Spanish Brown lentils have been committed to export and now we are down to just a few hundred tonnes of stock.

We have sold all of the new generation seed of Iberina®, CDC SB-2 for planting this spring. We hope to see excellent results again from this year's crop and hope to be in a position to offer enough seed for 10,000 acres or more in the spring of 2015.

Canaryseed

At this time, canary seed is only used for caged birds. It is mixed with other seeds such as sunflower seed, millet, safflower, hemp, etc. The majority of the canary seed is exported to Mexico, Belgium, Spain, United States, Colombia and many other countries with high populations of caged birds.

Currently, growers are bid 20.5 cents/lb. delivered to our plant Kyle. Bids are firm but without railcars for Mexico, we are unlikely to see bid prices increase. Furthermore, we are now entering into a period where canary seed prices historically trade sideways.

New crop Canary seed will likely trade in the range of 18 to 20 cents/lb. We expect canary seed to look more attractive to growers as ending stocks will be very low and the opportunity to get delivery and cash flow will be very good for new crop.

Bottom-line, canary seed is a good cash crop with a good price relative to other crops. Low ending stock will make the weather a key element in the price for next fall. Conditions are dry to very dry in West Central Saskatchewan. This region will need good rains in May/June to provide for a good average crop. If dry conditions persist, the bid may increase for canary seed. If you are fortunate to have good subsoil condition now, good snow cover and near normal rain this summer, then this will provide for a good return growing canary seed. In other words, I do not see much downside in the canary seed market.

Canaryseed Supply/Demand 2014

CARRY IN	10,000 MT
SEEDED ACRES	METRIC TONNES
300,000	142,000
TOTAL STOCK	152,000
DOMESTIC UTILIZATION	6,500
EXPORTS	136,000
TOTAL USAGE	142,500
CARRY OVER	9,500
STOCK/USE RATIO 6.3%	

>>> Pakistan Revisited

This February, Simpson Seeds was able to return to Pakistan, our last visit was in the early 2000's, prior to exhibiting at Gulfood 2014 in Dubai, UAE.

We were able to spend February 19th-21st, in Pakistan, 2 days in Karachi and 1 day in Faisalabad, visiting many of our customers and discovering their specific needs/requirements. In total we were able to sit down with 40 buyers in Karachi and another 50 buyers in Faisalabad. As well, we were able to visit the main pulses market in Faisalabad. Faisalabad is in the Punjab region where 80% of the lentils imported in Pakistan are sold and consumed, the other 20% are sold in the market in Karachi.

After finishing in Karachi we continued to Dubai where we exhibited during Gulfood, February 23rd to 28th. This year the Gulfood show was split and machinery and food ingredient companies were moved to another show in November. With this there was a lot more room in and between booths. This enabled visitors to find their suppliers more easily and provided a better atmosphere to have more effective one on one discussion. The show was well attended from all nearby areas (all the Middle East countries, Pakistan, India and Sri Lanka) providing an excellent opportunity to meet current and new customers.

>>> Simpson Seeds Inc. 2014 Crop Production Contract Program

All Production Contracts (PD) with an Act of God (AOG) clause are for 500lbs/acre and contain a 1st and last right of refusal on the balance of production on the contracted acres. All prices listed below are in cents per pound and on a delivered Swift Current or Moose Jaw basis. Price levels are subject to change without notice:

PD with AOG

Deferred Delivery Contract

Large Green

#1	21	#1 90% 15/64RH or larger	23
#2	19	#1 80%-89% 15/64RH	22
Extra 3	15		
#3	13		

Small Green

#1	17	#1	18
#2	15		
Extra 3 and #3	No Bid		

Richlea

#1	19	#1	20
#2	17		
Extra 3 and #3	No Bid		

Whole Red Lentils *(not extra small varieties i.e. Robin, Imperial, Impala, etc.)*

#2 OB	20	#1	22
		#2 OB	21
Extra 3 and #3	No Bid		

Canary Seed

PD with AOG

Deferred Delivery Contract

Maximum 0% hulled/1% dockage 19	20
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>>> Coming Down the Pipeline

For the 2015 farming season SSI will be offering seed treatments on all pedigree lentil and durum seed varieties. More details on this in the fall. We are also continuing to expand our distribution outlets to Swift Current and Kyle plant locations and will be offering a seed delivery service for producers in 2015.

We will be hosting a Field Day July 10th, 2014 allowing you to come out and see the varieties that are going to be offered in 2015. See for yourselves if these crops are going to be suitable for your farm and how they compare side by side to older varieties. We will be sending out SMS messages for more details.

Give us a call or stop in at the plant we are happy to talk with you anytime to help with your farm operations.

Well we hope everyone has a safe and enjoyable farm season.



Simpson Seeds Inc. was a winner of Canada's Best Managed Companies program in 2012 and Requalified in 2013 to maintain our status as a Best Managed Company.



>>> Off to the Races

Well the time has come again to start getting the equipment out and go for another round. And Simpson Seeds Inc. is very excited about what we have to offer for new pedigree seed varieties in peas, chick peas, flax, canary, durum, CPS, and HRSW.

Spanish brown lentils have been gaining a lot more interest with the latest SB-2 variety available for this year's cropping season. The new SB-2 variety is getting a yield check similar to CDC Maxim CL and has a great disease package. Production contracts for Spanish Browns are available today. Call today if you are interested in participating in the SSI Spanish brown lentil program. Looking forward to 2015 season, SSI will be offering a new Spanish Brown variety called SB-3 that is equipped with the Clearfield technology, and has a yield check that seems to be surpassing CDC Maxim CL.

Pasteur wheat is a crop getting a lot of buzz lately. It boasts one of the highest numbers in the seeds book at 143% yield check, and it proved true for us. Primarily grown for ethanol this wheat has a good lodging score, and has superior fusarium head blight resistance as compared to AC Andrew and Sadash. Being that Pasteur is so close to HRSW in characteristics; people are even selling this into the milling market south of the border. We find this crop to be a good risk management option for our farm.

Stocks are now starting to get a little lower in the more popular crop varieties. As we start to see the snowbanks disappear, more people are getting their seeding plans together. Don't delay your seed purchases if you want to be sure you seed the variety you desire.