

THE PULSE newsletter



SPECIAL GUEST FARM/CROP TOUR

We were fortunate enough to be asked to host a tour of Food Bloggers of Canada which includes Food Network Canada as well as magazine writers from Chatelaine, Canada Living and Taste of Home. Perhaps the most well known guest was the Lentil Hunter himself, Chef Michael Smith. This group is passionate about food and gaining knowledge on lentils and the different ways we can incorporate them into our diets. *Continued on back page.*



Chef Michael Smith
@ChefMichaelSmith

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Jamie @simpsonseeds talking growth and yields! #LoveLentils @CdnLentils





NEW RECORD 3.870 MILLION ACRES OF LENTIL SEEDED

Statistics Canada released the actual seeded acreage for lentils on June 30th. Many did not anticipate this sharp increase in seeded acres but it is not surprising when you consider production contracts guaranteed over 30 cents/lb. this spring.

There has been 24% more lentils seeded in Canada to establish a record 3.870 million acres. The pipeline is virtually empty and will take a couple years to resupply. Normally, a crop of this size would have been enough to fill the void but a super El Nino event in Canada has brought on a drought that has reduced the prospects of a big crop.

CANADIAN LENTIL SUPPLY - DEMAND ESTIMATES
(METRIC TONS, ACRES)

YEAR	2013	2014	2015
AREA (acres)	2,620,000	3,120,000	3,870,000
YIELD (lbs)	1,828	1,404	1,410
PRODUCTION	2,172,800	1,987,000	2,475,000
CARRY IN	297,000	163,700	22,930
IMPORTS	9,362	17,000	15,000
STOCKS	2,479,162	2,167,700	2,512,930
DISAPPEARANCES			
AUGUST - APRIL EXPORTS	1,093,483	1,532,556	N/A
PERCENT OF FORECAST	62.4%	82.3%	N/A
EUROPE	61,689	51,300	56,800
MEDITERRANEAN	438,424	472,900	415,300
SOUTH AMERICA	182,273	145,500	180,400
N/C AMERICA	83,210	82,500	82,000
PACIFIC RIM	659,321	743,300	838,400
ARAB/AFRICA	328,227	367,500	348,700
TOTAL EXPORTS	1,753,149	1,863,000	1,921,600
SEED	101,900	125,800	94,600
OTHER DOMESTIC	460,413	155,970	246,523
TOTAL USAGE	2,315,462	2,144,770	2,262,723
ENDING STOCK	163,700	22,930	250,207
STOCK/USE	7.1%	1.1%	11.1%



Drought has spelled disaster for canola but the lentils are doing better. The curse of last year's flooding has now turned into a blessing. The soil profile was saturated well beyond the 4 foot level and is now providing a reservoir of moisture for the lentil crops to tap into. In addition, temperatures have been fluctuating with a cool bias for many days. These cool days have provided the crop an opportunity to recover from some of the warmer days and send roots deep into the ground to find moisture.

Crop varieties have advanced over the years as well, so it will be interesting to see how the lentil crops actually perform in drought conditions. Furthermore, the lack of rain has promoted a very healthy stand of lentils.

For the above reasons, I remain optimistic that the yields will be 20 to 25 bushels per acre on average. With bids over 30 cents per pound, I believe lentils will end up being the best paying crop on the farm.

With the early seeding and dry conditions, we expect the lentil harvest to begin during the first and second week of August. We have enclosed sample bags with this newsletter so please take advantage of our free grading service.



RED LENTIL

Unlike the Laird type lentil market, we need to analyze the supply – demand for other major producers; including Australia, India, Turkey, and the United States.

India is consistently falling short in producing enough lentils to meet domestic demand. Weather conditions can be blamed for some of the production problems in India but there is more to the story.

Last year, the seed quality was very poor due to rain at harvest time. Prices for lentils went up significantly as Canada's crop failed. Some of the Indian farmers had an opportunity to seed more acres but they tried seeding Canadian lentil varieties. The results were disastrous as the lentil plants did not produce any pods. The result is India will import 550,000 to 600,000 MT from Australia, Canada and the United States. India is not the only country with poor varieties.

Turkey could be a major producer of lentils, but the industry has not kept up on investing in new genetics to improve yields. As a result, Turkey only produced about 400,000 MT. All these lentils will be split in Turkey and used for domestic consumption. In my opinion, Canada has an opportunity to take over the Turkish production as our Crop Development Centre has the technology to produce more variations of the red lentil to meet domestic taste in Turkey.

CANADIAN RED LENTIL SUPPLY - DEMAND ESTIMATES (METRIC TONS, ACRES)			
YEAR	2013	2014	2015
AREA (acres)	1,328,000	2,120,000	2,765,000
YIELD (lbs)	1,952	1,487	1,446
PRODUCTION	1,176,000	1,430,100	1,813,000
CARRY IN	20,000	17,900	5,900
STOCKS	1,196,000	1,448,000	1,818,900
DISAPPEARANCES			
EXPORTS	1,024,576	1,267,400	1,377,000
SEED	65,900	86,300	60,200
FEED & WASTE	87,624	88,400	174,300
TOTAL USAGE	1,178,100	1,442,100	1,611,500
ENDING STOCK	17,900	5,900	207,400
STOCK/USE	1.5%	0.4%	12.9%

Australia has pretty good moisture conditions even with the El Nino impacting the weather. Drew Lerner's recent prognostication spoke of good rains in the major lentils producing area. Near record high prices for red lentils encouraged Australian farmers to increase acres from 467,019 acres to 601,936 acres with a potential to produce approximately 400,000 MT. This would be a record size crop if the rains are favorable in August/September.

The United States increased planting of all varieties from 281,000 acres to 385,000 acres with an expected production of 215,000 MT. The drought conditions will likely impact Montana production. Seeding was completed in April so US growers will be the first North American production to re-supply the pipeline.

Canada's red lentil production will be a record crop even with drought conditions. With an average yield of 20 bushels/acres we will produce close to 1,504,160 MT. Remember, India only imports about 600,000 MT so we will need to rely on demand from Turkey, Sri Lanka, Pakistan, and Bangladesh to draw down the other 700,000 MT. We will need record demand to emerge in order to drive exports higher. The biggest remaining question is "will the market pay +30 cents/lb and import a record 1.3 million metric tonnes?" If yields are higher than expected, I believe prices will dip below 30 cents/pound.

LARGE GREEN LENTIL

Farmers growing Laird type lentils have reasons to remain optimistic. First of all, it is my opinion that the larger green lentils have more yield potential in drought conditions. Back in 1988 we had hotter and dryer conditions and we still managed to produce 900 lbs per acres. Today, we have better varieties, superior harvesting equipment and the drought is not as bad as 1988.

The pipeline is empty and will take some time to resupply. Buyers will be happy to see some nice No. 1 green color assuming that we have good harvest conditions in August. One concern about the early harvest in August is the intensity of sunlight can cause sun tanning in green lentils. So, try to get the lentils into the bin on a timely basis and get the aeration fans running to cool the seed to prevent tanning.

Weather at harvest will need to be monitored closely. If we have good weather the current premium of 4 cents/lb for No. 1 quality over No. 2 quality will be reduced to 1 or 2 cents/lb. Of course, the opposite is true if we have poor harvest weather. Remember 2002 when we had rain all through the month of August! That year we only produced 1% No. 1 quality! With the El Nino conditions it seems unlikely that we will have this situation occur again.

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LARGE GREEN LENTIL (CONT.)

Otherwise, the demand for large green lentils will be underpinned by good demand for No. 2 or better quality. India will emerge as a major buyer this year as a substitute to Chana dahl. High prices are not popular in a poor nation such as India, so expect this to be a political issue in the upcoming elections. Politicians who have not managed food prices in the past have lost elections, so expect the government to be active with tenders to try and drive the price down through subsidies.

The Supply - Demand chart on the right for Large Green lentil does not reflect the anticipated drought reduce yields. I think we will do very well to produce 400,000 MT while we have demand for 450,000 to 500,000 MT. The result will be continued high prices to slow demand and allow us to stretch the supply into the spring of 2016.

SMALL SEEDED GREEN LENTIL

The increase in Eston type lentils was a pleasant surprise. We have been working hard to expand our market share for small caliber green lentils. The weaker Canadian dollar will help us to be more competitive. Exporters in Montana enjoy a freight advantage to the Mexican market so the weaker Canadian dollar will help us to be more competitive and gain back market share. Also, the USA has an FAQ or Fair Average Quality approach to setting grades. For example, last year rain at harvest time produced a No. 2 quality but the USA FAQ meeting graded them No. 1 quality.

In comparison, SSI doesn't change the standard from year to year. We have a brand promise that adheres to the highest standards. In the end, this policy has expanded our market share.

Mexico, like many importers of lentils, is a price sensitive market and has a good supply of cheap beans to consume. The question that remains unanswered at this time is "will the Mexican consumer support high prices for Eston type lentils or will they buy cheaper priced beans"?

CDC IBERINA CL, SPANISH BROWN LENTIL

If there was a year to grow Spanish Brown Lentils, 2015 was the year to grow them. First of all, everyone is now growing SB3 generation which is high yielding, slightly taller and has Clearfield resistance. The Spanish market acceptance of CDC IBERINA is very good and will likely become the new standard as we ramp up production here in Canada.

The pipeline is completely empty and will be eagerly waiting for new crop to hit the market. Spain's production of Pardina Spanish Brown lentils has been devastated by drought and hot temperatures reaching 40° C!

Meanwhile, Washington and Idaho growing conditions have not been all that favourable as hot dry weather is lowering yield expectations. In light of the above, we expect prices to remain firm and in excess of 30 cents/pound. Hopefully, this will encourage more acres for next spring as we have demand for another 10,000 acres to be contracted. This is a niche market so we need to keep the acreage controlled by the added discipline of a contract program.

CANADIAN GREEN LENTIL SUPPLY - DEMAND ESTIMATES (METRIC TONS, ACRES)

YEAR	2013	2014	2015
AREA (acres)	950,000	710,000	770,000
YIELD (lbs)	1,722	1,231	1,331
PRODUCTION	742,200	396,500	465,000
CARRY IN	226,000	109,900	11,000
STOCKS	968,200	506,400	476,000
DISAPPEARANCES			
EXPORTS	575,173	428,400	376,200
SEED	29,000	31,400	27,900
FEED & WASTE	254,127	35,600	37,900
TOTAL USAGE	858,300	495,400	442,000
ENDING STOCK	109,900	11,000	34,000
STOCK/USE	12.8%	2.2%	7.7%

CANADIAN SMALL GREEN LENTIL SUPPLY - DEMAND ESTIMATES (METRIC TONS, ACRES)

YEAR	2013	2014	2015
AREA (acres)	280,000	215,000	265,000
YIELD (lbs)	1,650	1,224	1,289
PRODUCTION	209,600	119,400	155,000
CARRY IN	40,000	29,000	4,400
STOCKS	249,600	148,400	159,400
DISAPPEARANCES			
EXPORTS	117,300	128,300	132,200
SEED	4,900	6,000	4,600
FEED & WASTE	98,400	9,700	15,600
TOTAL USAGE	220,600	144,000	152,400
ENDING STOCK	29,000	4,400	7,000
STOCK/USE	13.1%	3.1%	4.6%



FRENCH GREEN LENTILS

This is another niche market but every tonne we can produce is value added to the production on someone's farm. There is about 15,000 MT of consumption for French Green Lentils. Improved genetics have reduced disease problems and improved the quality. This is a gourmet lentil that is used by chefs, especially in France. One of the biggest barriers we have with French Green is the expectation for there to be "no cereals." Consumers are wanting gluten free diets and for others it is because they have allergies. If you can, keep this in mind when managing crop rotations and use herbicides to minimize cereals. On our end, we are investing in sophisticated technologies that will separate cereals by color and shape.

2015/2016 CANARY SEED

We have seen strong export demand for Canary Seed during the 2014/2015 export season. So much so that we have exported more than the estimated production. The carryout of the 2014/2015 crop has been adjusted to a negative level to compensate. Although the chart below suggests that there is not any carry over, this finally provides a more accurate picture of what was and will be available from Canadian production.

CANADIAN CANARY SEED SUPPLY - DEMAND ESTIMATES (METRIC TONS, ACRES)		
YEAR	2014	2015
AREA (acres)	275,000	330,000
YIELD (lbs)	1,001	1,022
PRODUCTION	124,900	153,000
CARRY IN	16,000	-
STOCKS	140,900	153,000
USAGE/EXPORTS	155,500	148,800
CARRYOVER	-14,600	4,200
STOCK/USE	-9.4%	2.8%

Although the above chart does suggest another year of tight supplies for Canary, the price levels do not have the elasticity of some other crops such as lentils. This is a product that does not have any human food implications and importers will substitute other items into their bird food mix if the price becomes too expensive. With the largest portion of our production being exported to Mexico, a very price sensitive market, they do tend to dictate price levels. We could see spikes in price given some technical issues but I would not expect to see prices beyond the range of 23-28 cents per pound as we move through the 2015/2016 marketing year.

In conclusion, we have lots of storage available for early delivery. If you want to move your lentils or Canary Seed quickly just call our buyers ASAP, negotiate a price and delivery date. We can guarantee the price for your harvested lentils and Canary Seed right now through the use of our production contracts. Have a safe harvest.

CUSTOMERS ARE #1

Our senior management team is focused on improving our company to meet customer demands. Demand for lentils is growing and SSI has invested millions of dollars to increase our capacity to meet the growing needs of our grower customers and importing customers.

Red lentils have been gaining popularity and we made adjustments to respond to market demand. We have modified one of our processing lines to double the capacity. This will result in more customer satisfaction as we work hard to maximum asset utilization.

In addition, more warehouse storage solutions are on the way for the farm plant as we will be installing 320 tonnes of storage racks. These racks will allow us to increase efficiency of our processing and warehouse assets. Furthermore, we are expanding our receiving system to enhance the grain handling. The new scale has been a much needed addition and in the next few months we will have the ability to use two scales and two receiving pits to expedite the receiving of trucks.

Designs are under way for a new plant in Swift Current. We have completed the first phase of the expansion with the completion of a fully automated packaging system to load boxcars and hopper cars easily and efficiently. The construction of a second spur will add 15 hopper cars of additional capacity for bulk hopper loading. The new plant will provide an additional 100,000 MT of high end processing capacity and will utilize the best technology in color sorting, destoning and metal detection equipment.

SSI is committed to putting our best foot forward as a value added processor of high quality lentils. This means jobs will remain in Canada.

Thanks for your continued support.





SPECIAL GUEST FARM/CROP TOUR (CONT.)

The purpose of their visit was to see how lentils are grown, purchased from the farm, cleaned and shipped for export. We were able to show the group how we grow new lentil seed varieties on our farm for commercial seed as well as export. The new red IBC550 shown in the photos on the right is performing very well and we are looking forward to seeing the results of this variety.

After the field tour, we took the group through our grading, buying, processing and shipping process. The group was impressed with how much the machines removed foreign material from the product as well as our ISO22000 food safety measures that ensures metal is detected and removed before shipping product to end users.

Our day wrapped up with any amazing lunch provided by Common Café + Bakery. They did a custom curried lentil soup and lentil beet cupcake. Both were big hits with Chef Michael Smith and the Food Bloggers. It is great to see how lentils are becoming more popular in restaurants and baking. This trend will only help grow the lentil industry and demand as the knowledge spreads to the general public about this "Food of the Future". We are always excited to be a part of nourishing people locally and internationally.



Simpson Seeds Inc. was a winner of Canada's Best Managed Companies program in 2012 and Requalified in 2014 to maintain our status as a Best Managed Company.