



THE PULSE

newsletter

..... 2016 - RECORD LENTIL CROP ANTICIPATED

The free market is doing its job. This past year, lentil growers have been rewarded well with new record high prices. I had reported last fall that gross receipts for lentils would set a new record. My earlier estimates have been revised up to an average price paid of \$850.00/MT or \$0.38/lb. We produced about 2 million tonnes last year, so the total estimated gross receipts for this crop year will be a record breaking \$1.770 Billion! That is higher than Durum Wheat gross receipts by a long shot.

Growers from all producing countries received all the right signals and the incentive to expand production. Based on average yields, the total world production will increase from 4.9 MMT (Million Metric Tonnes) to 6.3 MMT.

CIF (Cash Insurance Freight) prices have already started to trade lower. Weather conditions have been favourable now that the weather phenomena known as El Niño has handed the baton to La Niña. Generally, this weather shift means wetter and cooler conditions for Canada, the return of monsoons in India and rain in all other lentil producing nations.

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SUMMER 2016

CANADIAN LENTIL SYNOPSIS

CURRENT LENTIL MARKET



LARGE GREEN LENTIL

Seeded acres are up and forecasted production will be about 675,000 MT. There has been plenty of rain over the lentil production regions, and in some cases excessive moisture has flooded low land. Lentils do not like too much moisture as this only promotes an increased disease pressure that can reduce yield and quality.

The weather forecast is not favourable, as prognostications by Drew Learner are suggesting a cooler and wetter than normal July and August. This will likely delay the maturity of the lentil crop as well. Should this happen, we will shorten the window for harvest which increases the probability of lower quality.

Demand will be exceptional as the pipeline is empty and will require everything we can produce to fill the annual demand of large green lentils of 600,000 MT per year.

India is forecasting monsoons to return to normal. This will end two years of drought in this region and help the 1.2 billion people there get food prices back to normal. Imports were up the past two years as large green lentils are used as a substitute for pigeon pea.

MEDIUM GREEN LENTILS

This specialty market will produce about 35,000 MT of production this year. This calibre of lentil trades at a 2 cent discount to large green lentils. However, yields are higher by as much as 10% so this variety does reward those who enjoy the benefits of lower seeding costs and earlier maturing lentils.

The Canadian dollar is a friend to growers of medium green lentils as we have customers in the USA that prefer this caliber. The Canadian dollar has been weak as it trades in the range of 1.28 to 1.34.

With Brexit high on the minds of global markets, expect money to flow towards the US Dollar. A strong USD is generally negative for commodities and that means the Canadian Dollar is likely to trade in the current range with a bias to go weaker.

LENTIL SUPPLY/DISPOSITION 2016/2017

CARRY IN		10,000 MT
SEEDED ACRES		
LARGE GREEN	1,150,000 AC	675,000 MT
MEDIUM GREEN	60,000 AC	35,000 MT
SMALL GREEN	305,000 AC	185,000 MT
SMALL RED	4,310,000 AC	2,900,000 MT
OTHERS	10,000 AC	5,000 MT
IMPORTS		10,000 MT
TOTAL	5,835,000 AC	3,820,000
SEED		130,000
DOMESTIC UTILIZATION		350,000
EXPORTS		2,610,000 MT
TOTAL USAGE		3,090,000 MT
CARRY OVER		730,000 MT
STOCK/USE RATIO		23.6%

U.S. DOLLAR/CANADIAN DOLLAR, D, FXCM



CANADIAN LENTIL SYNOPSIS

CURRENT LENTIL MARKET



SMALL GREEN LENTIL

The pipeline is empty for small green lentils. Buyers will be needing stocks ASAP to fill dry packaged and canning requirements. Expect a significant drop in prices as there will be more than enough small green lentils produced this year.

You know prices are stressing markets when governments make exceptions on import tariffs. For example, Canada has been in negotiations with Morocco for years to establish a FTA (Free Trade Agreement). But, due to the high prices, Morocco conveniently waived the tariff for a couple months just before Ramadan to allow lentils to escape the tariff.

Mexico, another major buyer of small green lentil, simply stopped buying any significant volume this past year. Statistics show that from August to April last year, Mexico imported 30,417 MT vs. August to April this year when imports dropped to only 8,114 MT. Mexico consumes lentils as a staple in their diet but typically increases demand prior to Lent.

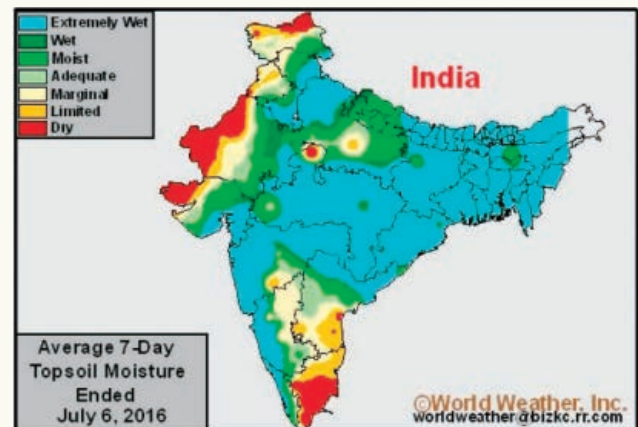
RED LENTILS

Production in Canada is forecasted to jump from 1,813,000 MT to 2,890,000 MT. Planting lentils to this extent has several implied implications such as:

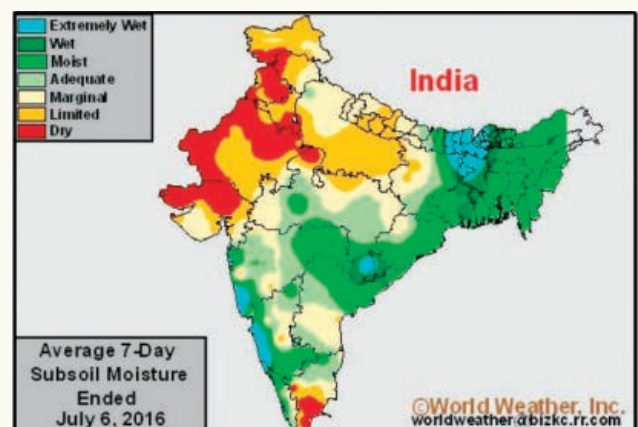
- > There are new growers who do not have the experience
- > Lentils are being grown in areas that are regarded fringe production areas
- > Spraying and harvest operations will be challenged to manage timing
- > Rotations may have been shortened so disease may reduce yield

Price volatility is a major concern. Given the high prices paid to the growers and the over production of red lentils, we can expect a significant drop in prices. This is especially true with the number of bulk vessels lined up in Vancouver ready to haul tens of thousands of tonnes of red lentils to India before December. India buyers will be in "shock and awe" as they wonder why they booked such high prices late last year.

As discussed earlier, the shift from El Niño to La Niña generally means the monsoon rains will return to India. If you have been watching the national news, you would have seen the flooding that has taken place in Sri Lanka in mid June. The monsoon season has arrived and is delivering much needed rain. I have provided a couple maps that show the surface moisture improving in India, but moisture is still lacking near the Pakistan border.



The next map shows the subsoil in lentil producing areas still very dry. We will need to continue to monitor the monsoons as India is in desperate need of a good monsoon season to replenish surface, subsoil and aquifers.



"Production in Canada is forecasted to jump from 1,813,000 MT to 2,890,000 MT."

CANADIAN LENTIL SYNOPSIS

CURRENT LENTIL MARKET



SPANISH BROWN, CDC IBERINA

Spain grows about 8,000 MT per year but they consume about 30,000 MT per year. This shortfall is an excellent marketing opportunity for SSI customers who have decided to grow a much superior variety called CDC Iberina.

Conditions in the Castile and Leon regions, the regions where Spanish Brown lentils are grown, have increased seeded acres in response to the high prices paid this past year.

My research has revealed some conflicting weather reports. A very rainy winter, while good for recharging moisture reserves and ensuring irrigation water, caused ponding and poor germination. That was followed

by "a near absence" of rain in April and May, causing early drying up of cereals. Farmers also faced "intense proliferation" of fungal disease. The Pardina variety is very susceptible to ascochyta, stands poorly and yields are poor when compared to CDC Iberina which has strong disease resistance, stands better and yields much higher. For this reason, Spain might have increased production but only marginally.

Prices are trending lower as production in Canada and the USA have increased. The U.S. Pardina crop is mainly grown in the Palouse Washington area and lentil production for all varieties is up from 60,000 acres last year to 70,000 acres this year. We expect the U.S. will produce about 15,000 MT tonnes. We will have the competitive advantage with weaker currency.

U.S. LENTIL PRODUCTION SETS RECORD

The U.S. planted a record 930,000 acres of lentils this spring. Last year they planted 493,000 acres. Using long term average yields, expectations are for the U.S. to produce about 500,000 MT, up from last year's drought reduced crop of 243,000 MT.



INVESTING IN THE FUTURE

SWIFT CURRENT EXPANSION



Every year we invest in capital improvements to grow our capacity to meet our highly valued customer's needs.

In the past two years, we have added about 25,000 MT of additional capacity to our Moose Jaw operations. However, we do recognize this is a negligible increase, given the significant expansion of the pulse crop industry, especially red lentil. For this reason, SSI gave the green light to a massive expansion of our Swift Current location.

The highlights of the expansion include the purchase of additional property from CP Rail to double our rail spur. We will have the capacity to spot 30 cars with 3 switches per week or 90 railcars per week shipping capacity.

In addition, we have built a high capacity lentil processing mill using the best of fine separating equipment capable of 75 MT per hour processing. We have included precision processing machines, such as gravity separators, destoners, and color sorting equipment.

Receiving capacity for the new line will feature a 7500 bushel per hour unloading capacity which will be the fastest unloading speed in the lentil industry. We are expecting a time frame of 5 to 10 minutes to unload a 1500-bushel Super B.

The old office is gone! You will now have a brand new office to visit this fall. We hope to have the new office and processing up and running for new crop.



WHAT'S REALLY IN THE BIN?

OBTAINING A REPRESENTATIVE FIELD SAMPLE



It's that time of year again - we are in the home stretch of the growing season, and waiting to see that crop starting to turn and ripen. It is this time of year, we like to get in touch with growers and offer various tips that can make your experience with Simpson Seeds an excellent one! In this edition of our newsletter, we would like to key in on obtaining representative field samples at harvest. Field samples are important for producers as they indicate the quality of grain held on the farm. Samples are important for us to give global markets an idea of the quality available in the growing area, and to facilitate the matching of grain to an export market.

For those individuals who currently have production contracts with us, you may be familiar with sampling as our contract outlines that a representative two pound sample must be provided immediately upon harvest. Ultimately, the more representative the sample of your grain is, the more accurate our grading staff can properly assess the grade of your product.

Here are some steps for effective grain sampling:

1. As trucks unload to a bin, take samples at regular and consistent intervals. Keep in mind, the amount of grain being moved and the size of conveyance equipment should be taken into account.

For Example: If you are using a larger auger, sample more frequently.

2. When sampling with a grain scoop, avoid sampling right when the gate opens, as there is a lot of chaff and dust at first. Once a good flow is established, alternate between the sides and the center of the grain stream. Often a 'zig-zag' pattern with the scoop is effective.

Ideally, a pail should be about $\frac{3}{4}$ full by the time the truck is unloaded. Mix the contents thoroughly by hand. Best practice at this point is to split the sample down using 2 additional pails, each receiving half the product from the sampling pail, and retaining one of two splitting pails. This should give about a 2 kg sample (enough to fill one of our sample bags). However, if you cannot split the sample down, just ensure the sampling pail is mixed well before portioning into a grain sample bag.



Photo Credit: Canadian Grain Commission

3. Label the sample bag with your name (or farm name), phone number, bin number/reference, commodity and tonnage available to speed up the process when you drop off your field sample at Simpson Seeds.
4. This same procedure can be followed when moving grain out of a bin as well, again paying attention to the speed or size of the conveyance equipment, and the amount of grain being moved.
5. Because the uniformity of grain can change so much across a field due to topography or weather, we recommend creating a composite sample of each bin, as one never knows when one bin may be of better quality than another. Sampling frequently and thoroughly mixing the sample will help us to give you the best quality assessment of your grain.

We thank you again for supporting us in this growing season and past ones.
We wish you a safe and prosperous harvest, and look forward to serving you in the future.



Simpson Seeds Inc. was a winner of Canada's Best Managed Companies program in 2012 and has demonstrated their commitment to the program and successfully achieved the designation as a Gold Standard member in 2015.