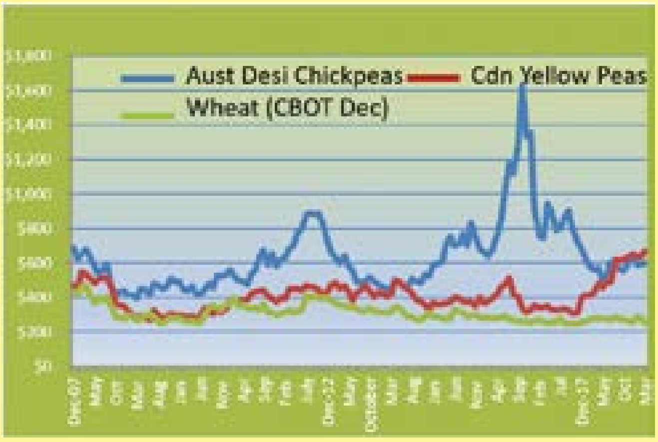
Faba bean prices are currently high due to tight global supplies.

FIGURE 1: Price basis USD CFR Mumbai



area to cereals around the world. Therefore, we will continue to see strong competition from traditional and non-traditional exporters of a range of pulses including chickpeas, lentils, peas and faba beans.

Faba beans over the past nine months have been a bright spot, largely due to what seemed to be a coordinated collapse in production, as a result of hot and dry conditions in key producing regions. Demand will remain stable into 2020 as supply attempts to rebalance, but we would expect the Baltics, the UK and Canada to roar back into being major export competition for Australia from October this year.

Canadian total pulse area is not likely to change materially with lentils down around 10 per cent to 3.4 million acres, peas up around 10 per cent to just over 4 million acres, beans up around 10 per cent to be around 325,000 acres but kabuli chickpeas will be down around 25 per cent to 335,000 acres.

All wheat intentions look to be up around 1 million acres on last year to around 25.75 million acres this year and canola is likely to lose around 500,000 acres to be around 21.3 million acres. This data is gleaned from StatCan.

Canadian farmers are no different to any other farmers around the world in accepting that while they don't like the prices, lentils and yellow peas have at least been moving into India (for lentils) and both India and China for yellow peas. The 30 per cent duty on lentils into India is still seeing competitively priced Canadian product move into the market – Australian prices have been too high to do the same in any volume.

High faba bean prices have encouraged greater expected Canadian faba bean area and faba beans would represent probably all the increase in the bean area. Not surprisingly, the kabuli area has been poleaxed because of an oversupply situation. The massive area jump from 2017 to 2018 (170,000 acres to about 450,000 acres) simply created too many kabuli chickpeas in Canada (and everywhere else!)

The pricing spinner

Desi chickpea prices are likely to continue to erode towards historical levels assuming we receive enough rain in key areas to have the crop seeded. While we are unlikely to see 2016 type outcomes in terms of area and yield, desi chickpeas are favoured in the rotation and there's no real encouragement in the international wheat market (assuming an east coast export surplus) to shift area to wheat and away from desi chickpeas.

With nearly a 40 per cent stocks to use ratio there seems no medium-term bullish prospects on wheat. We have a wheat supply problem in the world which is manifesting itself in larger pulse crops and thus lower prices.

Figure 1 demonstrates the relationship between wheat, peas and desi chickpeas, CFR Mumbai. Wheat is continuing to drag on pea and chickpea prices. While India is still the basis (even though it's out of the market for desi chickpeas) it's interesting to note that desi chickpeas in India are similar to, or below, pea prices, which is most unusual.

This is probably due to large Government held stocks of desi chickpeas and smaller availability of yellow peas due to import tariffs etc. The pea price also needs to be taken with a grain of salt given the lack of liquidity in local supply.

Similarly much can be said about red lentils. While Australia had a smaller crop last year there is still carryover stocks locally, as well as in the other major exporting countries of Canada and places such as Kazakhstan. Lentils remain 'flatlined', wedged between the reality of comfortable stocks and the resistance of farmers to accept much lower prices and the customers not being prepared to pay more.

This highly illiquid 'low-volatility" environment we would expect will continue to persist well into 2020.

While faba beans were an attractive, albeit drought affected crop in Australia due to poor competitors' crops, we would expect faba beans to head back to more traditional pricing levels as supply comes back on stream. Egyptian faba bean demand demonstrated much greater inelasticity than most expected, with scarce and expensive faba beans being preferred in falafel production over plentiful and cheap kabuli chickpeas. Greater supply will see prices erode as we head towards harvest time.

The bottom line

2019 is more than likely going to be a year of 'resetting towards the norm' following the extremes we have seen in pulse markets over the past three years. The macro fundamentals around wheat and soybean pricing has some way to run before we see supply come back closer to demand.

Closer to home, feed shortages are supporting some east coast cereal and pulse prices, while seasonal uncertainty is bringing lower risk cropping options to the fore.

With the expectation that India will be 'open for business' by this time next year (hopefully earlier!), the 2020 Australian winter rotations should be much closer to the norm, as we, and markets globally, reset towards the norm. ■