CLOUDBREAK GRAIN MARKETING

LENTIL OUTLOOK

23rd January 2023

Lentil Prices Hit by Huge Harvest

Outlook - Grower selling in SA has slowed as prices slumped to between $730-$750/mt. However, as the VIC harvest has been very late, consequently grower selling has continued. The lentil market has been pressured by the combined impacts of the continued selling, a higher Aussie dollar and the large projected national production of 1.24MMT, an increase of 25-26% on pre-harvest estimates.

VIC growers faced disease and subsequent quality issues on this season's lentils, yet on average, quality and yields reported by growers and traders is slightly above prior market expectations. In USD terms, the price of Aussie lentils is comparable to that of Canadian origin on a CIF basis to Chittagong, Bangladesh. With Canada's production revised significantly lower by Stats Can from 2.78MMT to 2.3MMT in December, the forecast ending stocks become drastically tighter, providing support to the international market price.

Locally, as short-term vessel requirements have been met and VIC grower selling continues, the outlook is for prices to track sideways to softer for now. Seasonality shows that Jan/Feb are frequently weaker for lentil prices, before the period of Ramadan kicks in (late Mar-early May). With pre-harvest sales of around 40%, and a further 10-15% in the early harvest period, we expect most growers to be between 50-65% sold based on conservative estimates; in reality, the high yielding scenario of 2022/23 means that actual sales are likely closer to 40-50% total. That leaves an estimated 600-700kMT lentils seeking a home at the national level.

The next round of selling should be targeted toward the Ramadan period; seasonally there is improved buyer liquidity and price in this window. With that said, risks of a rising Aussie dollar and a much larger domestic carry-out for Australia could limit the range of the rally. It is also unknown what level a rally would commence from.

We have the benefits of tight projected Canadian stocks and improved trade with India on our side at this stage; so this is another time where patience could pay off for those willing to wait. Monitoring of export pace, the Aussie dollar movements and the size of the upcoming Indian Rabi crop harvest will be key to managing market expectations over the coming months.

Recent Price Action & AUD - Ahead of harvest, the lentil market saw bids as high as $900/mt driven by shipping shorts and delays to harvest. This pricing also reflected the concerns over both yield and quality losses expected due to heavy rains and disease in Victoria, combined with the benefits of a lower Aussie dollar. Once some of these concerns were, in part, alleviated by the higher yields and improved grower selling in SA, the market settled back to around $800/mt. This was maintained up until January as several shipping requirements still needed to be met by exporters.

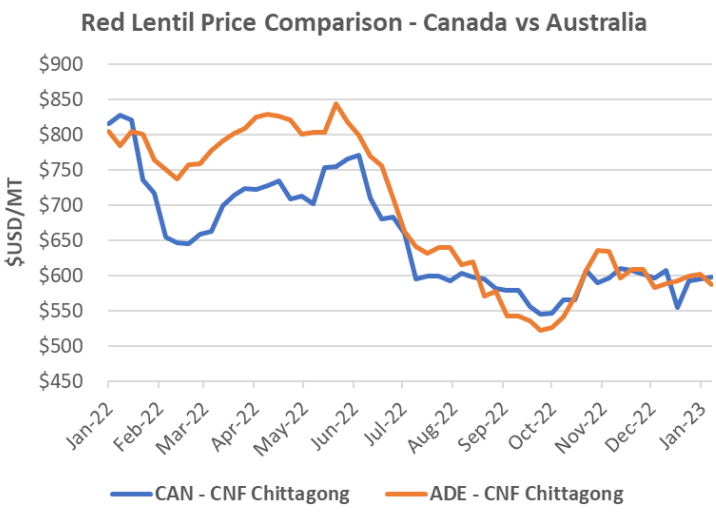
As we enter the new year, the lentil market faces headwinds as harvest progresses through south-eastern SA and western Vic. High yields have been reported throughout SA as soon as the headers started rolling, as well as for some Vic growers who were able to control botrytis mould amid the wet pre-harvest period. The estimated combined production of roughly 1.24 million tonnes of lentils has been more than sufficient to cover many of the short-term shipping requirements.

In SA, grower liquidity has slowed significantly as prices have dropped lower into the new year, but Vic grower selling continues to weaken the Aussie lentil market. Further price pressure has resulted from a strong rise in the Aussie dollar, contributing to about $30/mt of losses (in AUD terms) when compared to the pre-Christmas market. This represents about ¾ of the total price decline in the period assessed. We can look at the relative market changes in the comparison matrix below to see the heavy influence of the Aussie dollar. When excluding the moves from the AUD, we can see that the market move in the last few weeks has been far less than the market pull-back from the highs in November when harvest quality and delay concerns were paramount.

Recent Lentil Market Changes			
Comparison 1		Comparison 2	
Late Dec	$ 790.00	Early Nov	$ 900.00
AUD	-$ 30.22	AUD	-$ 65.38
Market	-$ 9.78	Market	-$ 84.62
Now	$ 750.00	Now	$ 750.00

International Price Competition - Weekly average lentil prices in SA have been comparable with Canadian origin on a CNF Chittagong basis. However, lower-quality lentils in Vic have been priced as much as $150/mt below this comparative value. Furthermore, several key delivery locations for lentils in SA are reportedly filling up. This has shifted the onus to on-farm storage for the balance of production for growers that can accommodate it. It also means that some bulk storage sites and related buyers are not incentivising new deliveries (at least in the short term) via attractive prices. For now, Aussie lentils are priced at fair value against Canada, and there doesn't seem to be much reason for Aussie prices to rally over and above the Canadian equivalent whilst supplies are abundant.

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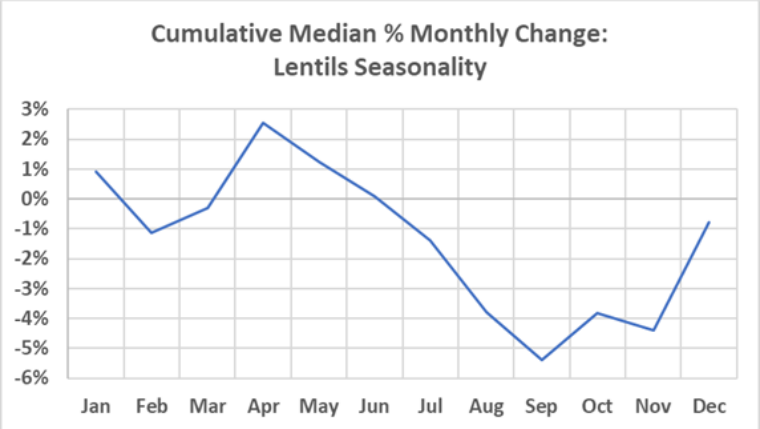


Seasonality - Aussie harvest pressure has certainly contributed to price declines over the last six weeks; however, it must be noted that it was not unexpected and is a similar relative decline as the prior two harvests. Of course, last season saw far more volatile prices due to the limited global supplies brought about by Canada's drought.

Lentil Harvest Pressures - Values in USD/mt

Season	Pre-Harvest High	Harvest Low	$ Change	% Change
16/17	$ 645	$ 487	-$ 158	-24.5%
17/18	$ 458	$ 349	-$ 109	-23.8%
18/19	$ 384	$ 375	-$ 9	-2.3%
19/20	inverse market			
20/21	$ 535	$ 465	-$ 70	-13.1%
21/22	$ 800	$ 688	-$ 112	-14.0%
22/23	$ 583	$ 500	-$ 83	-14.2%

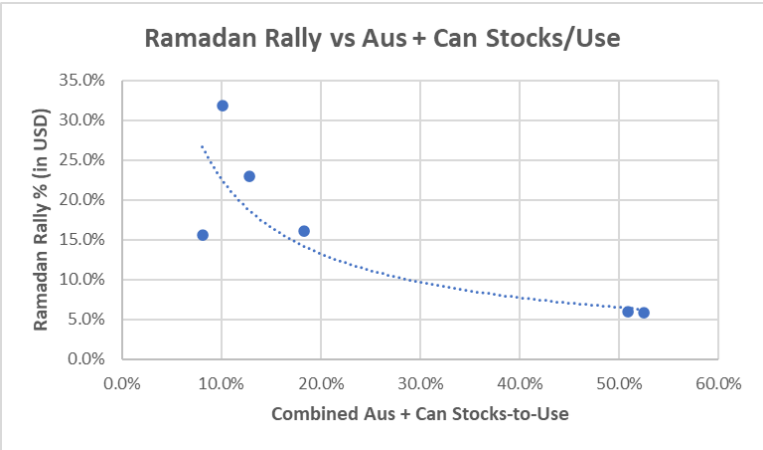
Upon revisiting the seasonal trends for lentils, even with the high volatility seen over the last 18 months, we note that it is not uncommon to see price weakness in Jan-Feb, followed by a rebound in Mar-May with the peak developing in April. Whilst no two seasons are identical, every year for the last 6 years, April has seen a rebound in price. This is the period that CloudBreak often discusses as the window of improved buyer activity and price strength. Ramadan starts on the 22nd March, with the major festival of Eid al-Fitr occurring in the 3rd week of April.



Lentil Post-Harvest Rallies - Values in USD/mt

Season	Jan/Feb Low	LH Apr High	$ Change	% Change	Aus + Can Stocks/Use
16/17	$ 460	$ 534	$ 74	16.1%	18.3%
17/18	$ 360	$ 381	$ 21	5.8%	52.4%
18/19	$ 368	$ 390	$ 22	6.0%	50.9%
19/20	$ 450	$ 593	$ 143	31.8%	10.1%
20/21	$ 515	$ 633	$ 118	22.9%	12.9%
21/22	$ 659	$ 762	$ 103	15.6%	8.1%
22/23 f'cast	$ 520	$ 645	$ 125	24.0%	9.2%

The extent of each seasonal rally has a loose connection with the combined stocks-to-use of the major exporters, specifically Australia and Canada. There are several assumptions in our forecast for 22/23 season, since the final stocks position for each respective exporter is a long way from being realised. The onset of new crop supplies from the Subcontinent could also dampen the export pace this year, putting our forecast 'rally estimate' further along the curve.



India's Rabi crop is the next large pulse harvest to influence market price direction. In short, the Rabi crop outlook is bearish for the lentil market on projected higher planted area and yields. On the 5-yr average, lentil production in India is around 1.3MMT (20/21 reported at 1.28MMT), with harvest occurring between late Feb and early April. Presently, planted area to lentils in India is about 6% ahead of the same time last year, and the market broadly expects a production increase of between 5-10%. Given the current status of the Rabi crop, we can expect roughly another 1.4-1.5MMT of lentil supply to come online and help meet subcontinent demand.

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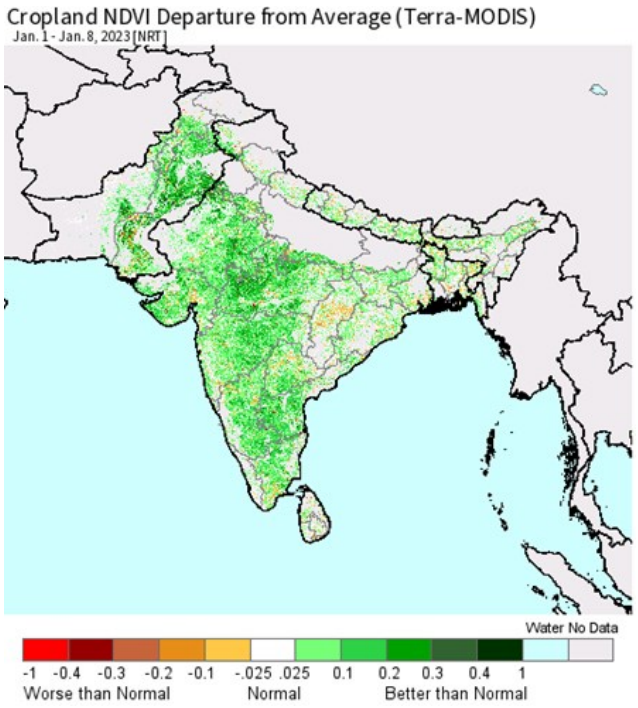
Initially, the Rabi crop planting was delayed by about a fortnight due to the late onset of the seasonal monsoon, so the fact that planting is now ahead of normal pace is indicative of a larger crop this year. For the season to-date there haven't been any major upsets to the Rabi crop; satellite vegetation and soil moisture data are both positive for the crops, and a rise in the minimum support price (MSP) in India has been an incentive for growers to increase area to lentils among a few other commodities. Whilst the MSP tends to be higher each year, the rise to lentils is the largest announced in both absolute terms and percentage change; this is reflective of the Indian government's desire to ensure adequate domestic supply to help keep food price inflation in check.

	MSP (Rs. Per quintal)		Y/Y change	
Crop	2022/23	2023/24	Absolute	%
Wheat	2015	2125	110	5.5%
Barley	1635	1735	100	6.1%
Chickpeas	5230	5335	105	2.0%
Lentils	5500	6000	500	9.1%
Canola	5050	5450	400	7.9%

India's import policies have been a hot topic for lentils for some time; it's a balance for the government between their goals of self-sustainability, supply and price. Whilst Bangladesh is historically Australia's largest importer for lentils, we note that India's policies on pulses have large-scale impacts on price and market sentiment. Furthermore, India has been accepting the highest volume of Aussie lentils for the start of the 2022/23 shipping period; the combined total for Oct-Nov for India represents 43.9% of the total, compared to the next highest Sri Lanka at 20.2%, Egypt at 16.5% and then Bangladesh at 7.0%. It's somewhat surprising to see this breakdown, since on an annual basis, Bangladesh is normally accounts for between 38-54% of Aussie lentil exports and India sits between 14-21%.

The increased percentage of imports from India could be partly due to sentiment surrounding the new 'Australia-India Economic Cooperation and Trade Agreement' (ECTA). Lentils have been included in the Agreement, where if import duties are imposed, Australia would only be subject to 50% of the prevailing duty up to a quota amount of 150,000MT annually. Whilst important for ongoing trade relations, the point is effectively moot; just before the new year, on 29th December, India extended the zero-tariff on lentils until 31st March 2024. This is a 12-month extension to the duty exemption for lentils and comes with the objective of reducing the imported cost of lentils.

So, whilst there sits a bearish shadow over the upcoming Rabi crop production in India, both the trade policies and recent import quantities demonstrate demand in the medium-to-long term is less likely to be subject to the volatility normally felt by sovereign risk.



Australia's Major Lentil Export Destinations						
	1718	1819	1920	2021	2122	2223 (Oct/Nov)
Bangladesh	54%	52%	43%	38%	39%	7%
India	15%	16%	21%	14%	21%	44%
Sri Lanka	15%	20%	16%	18%	11%	20%
Egypt	6%	5%	5%	9%	10%	17%
Pakistan	3%	3%	7%	8%	4%	4%
United Arab Emirates	3%	1%	1%	6%	9%	0%
Turkey	0%	1%	1%	4%	1%	0%
Combined Other	3%	3%	5%	4%	4%	8%

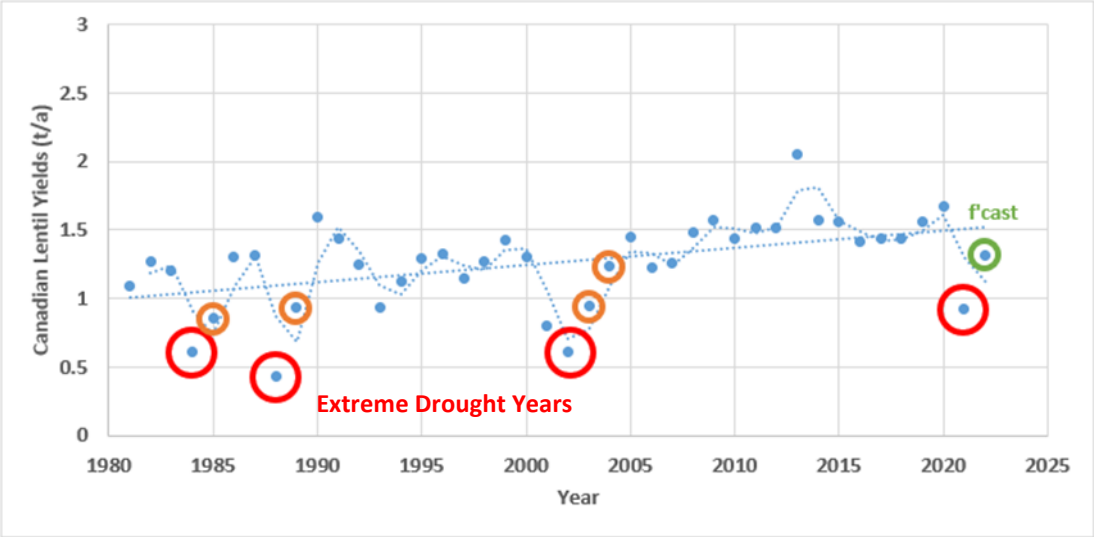
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Canada's lentil production estimates from Stats Canada were revised in December based on the survey-based estimates (previously only using satellite imagery). The new figure comes in at 2.3MMT, compared to 1.61MMT for the drought-stricken 2021/22 season. Whilst higher year-on-year, the new estimate is down significantly from the September figure of 2.78MMT and the general trade expectation of around 2.7MMT. Of the estimated total, about 1.77MMT is red lentils.

Below-trend yields shouldn't be surprising, as our historical yield analysis shows that in at least one consecutive season following every harsh drought since 1980, yields cannot fully recover.

Canada's carry-out stocks are expected to be incredibly low due to the drop in production forecast. Even with Australia's production increasing by 200-250kMT vs prior (Oct/Nov) estimates, Stat Can's revision puts exporter supplies at a net loss of around 230kMT. Whilst it is still early days, Canada's seasonal exports are projected to reach up to 2.3MMT, which would leave less than 50kMT carry-out – a record low if it comes to fruition.

On the flipside, if exports are lacking throughout the year, we could see a higher-than-anticipated carry-out. This, in combination with the high supply from Australia (and potentially India), we could be in for increased price weakness into 2023/24 as global production and supplies return to above-average levels.



Demand for lentils in bulk shipments appears to be the preferred mode despite container prices falling. Freight costs have also finally fallen, almost back to pre-covid levels, though there's a little way to go. For Bangladesh, previously shipments were unable to be readily split between end-users, whereas now the shipments can be sold in more bite-sized pieces, providing greater flexibility. Whilst this could hamper the container market share, the new flexibility attached to bulk has an advantage to Australian growers, as there are opportunities to accept a wider variety of grades which can be blended. Sri Lanka has re-engaged with the market for nuggets and jumbo lentils; and whilst the issues and trade ramifications surrounding economic hardship won't disappear overnight, the increase in engagement from the trade of late points to improved demand moving forward. Nuggets and jumbos presently maintain a premium in the market, in part due to Sri Lanka, but also due to their tiny proportion of the total Aussie lentil crop.

	Canada		Australia	
Year	2021/22	2022/23	2021/22	2022/23
Area (ha)	1,741,500	1,748,100	430,800	524,163
Yield (MT/ha)	0.92	1.32	2.21	2.37
Production	**1,606,441**	**2,307,492**	**952,910**	**1,239,806**
Carry In	436,170	213,984	36,109	17,519
Imports	51,300	75,000	1,500	1,500
Total Supply	**2,093,911**	**2,596,476**	**990,519**	**1,258,825**
Exports (Aug-Jul)	1,608,427	2,300,000	944,000	950,000
Domestic Use	271,500	250,000	29,000	30,000
Total Use	**1,879,927**	**2,550,000**	**973,000**	**980,000**
Ending Stocks	**213,984**	**46,476**	**17,519**	**278,825**
Stocks/Use	**11.38%**	**1.82%**	**1.80%**	**28.45%**

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