

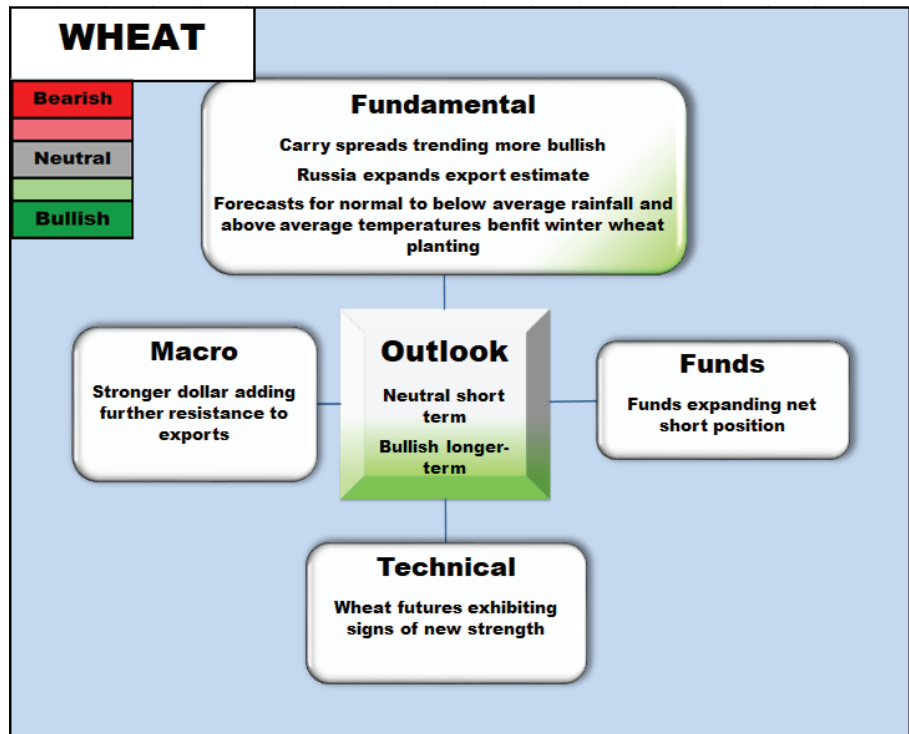
Trilateral Bakery Report

November 5, 2018

Recommendations

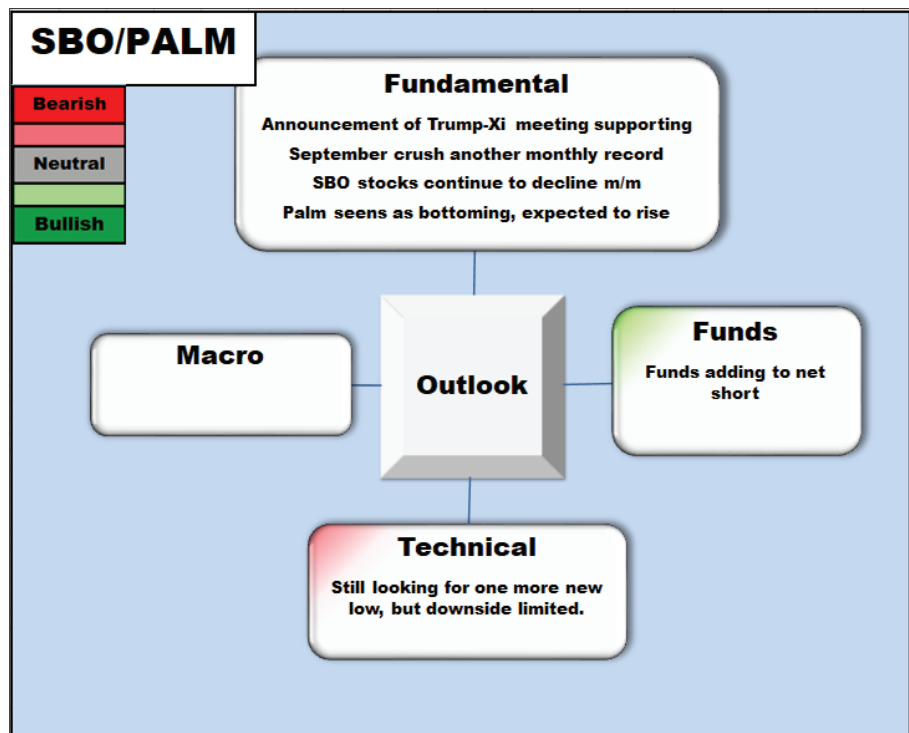
Wheat

Coverage should be through Q2 and recommended to start scaling in Q3.



Edible Oils

As SBO futures continue to fall, watch for bottom indicators to extend futures coverage through end of 2019 growing season.



Market Highlights



Wheat

- Carry spreads and gulf basis trending more bullish.
- Some international buyers extending coverage into mid-2019.
- Russia raises export estimates.

[Read detailed recap](#)



Oils

- Announcement of Trump-Xi meeting rallies soybeans.
- USDA crush report sees SBO stocks decline again.
- Leading palm analysts say palm oil futures are at bottom and expect to see prices rise.

[Read detailed recap](#)

Market Recap

Wheat

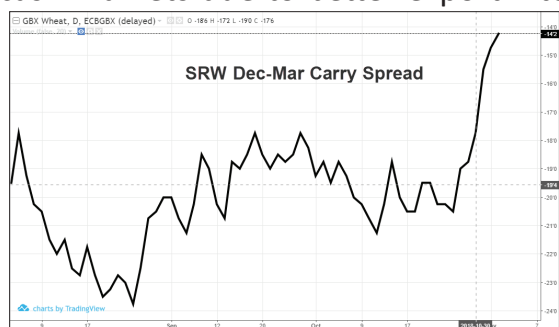
Wheat markets surged on the rare bit of positive news that Egypt had included a small chunk of U.S. soft wheat purchases in a recent tender. However, optimism and prices quickly faded amid overall weak export shipments. “Even if this deal will not change the U.S. balance sheet massively, it demonstrates that American wheat is back on the international stage,” consultancy Agritel said of the Egyptian purchase.

Russian Agriculture Minister Dmitry Patrusev announcement that the country’s 2018/19 wheat export estimate was expanded to 33-34 mmt from a previous estimate of 30 mmt—a move interpreted as a sign that risks of export curbs were easing—also pressured prices lower.

By mid-week, price action took on another tenor with other signs that US wheat is becoming more competitive: firming carry spreads and rising Gulf basis.

Dec-Mar narrowed nearly 6 cents last week. The strength in the WZ/WH spread, which hit its highest level since July 31, was the focus in Wednesday’s rebound. By Friday the WZ/WH closed at -15.25 cents, up from -21 cents the previous Friday. This represented only 38% of full carry.

The WZ/WH spread is being supported by firmer cash markets due to better export interest. This



is also illustrated by delivery receipts being canceled again Wednesday night. Another 42 receipts were canceled out of Cargill’s elevator in

Mt. Vernon, Indiana. The previous week, when receipts were canceled out of a Cargill elevator, we sold soft red wheat to Egypt. It remains to be seen if this will occur again this week.

Technical charts following Wednesday’s rebound reflected:

- The December 240-minute chart showed that the previous week’s low was tested and held.
- The deferred charts (March, May and September) all appeared to have “Double-Bottoms” or an inability to penetrate the relevant July lows; a potentially bullish signal.
- Divergence between the July low and the recent October lows. The lack of higher downside price momentum on the new October lows is strongly suggesting a longer-term bottom is forming.

Reiterating our recommendation on page one, coverage should be extended through the second quarter, at a minimum.

The weekly wheat export sales figure was surprisingly strong: 582,500 metric tons. Stronger basis bids have been noted not just for the row crops, but also for all three classes of wheat. Gulf SRW basis has pushed up to +70 from +30 in mid-September.



U.S. winter wheat planting progress last week was reported at 78% complete vs. 82% expected and 85% average. The delays in HRW country at this point are difficult to dismiss as KS still has

Market Recap cont.

24% of its crop left to seed, or somewhere around 2.0 million acres. National emergence is 63% vs. 67% average but little growth should occur on acres which have just been seeded or still will be in the next week to ten days.

However, risks to lagging hard red wheat plantings in the U.S. Southern Plains are mollified by forecasts for normal to below average rainfall and above average temperatures. The weekly update to the U.S. Drought Monitor showed the trend of improvement continuing in the High Plains region, with less area in extreme or exceptional drought, and that's a promising omen for a good start to the 2019 winter wheat crop.

Soft red winter planting forecasts still stand for the most part, with 5% to 7% increases possible in those Central states that have seen good weather: Illinois, Indiana, Ohio. Increased acreage in Michigan, Wisconsin and Pennsylvania may be limited by excessive precipitation that delayed harvest of fall crops from fields intended to be planted to wheat.

And finally, the USDA quarterly Flour Milling Products report showed all wheat ground for flour during the third quarter 2018 was 233 million bushels, up 3 percent from the second quarter but down 1 percent from the third quarter 2017 grind. Third quarter 2018 total flour production was 108 million hundredweight, up 3 percent from the second quarter 2018 but down slightly from the third quarter 2017.

[See wheat technical, protein premium and millfeed charts and tables](#)

Oils

President Trump's announcement that he will meet with Chinese President Xi Jinping at the upcoming G-20 summit sent the soy complex sharply higher

on Thursday. "Just had a long and very good conversation with President Xi Jinping of China. We talked about many subjects, with a heavy emphasis on Trade," Trump wrote in a post on Twitter. SBO rose nearly a full percentage point and beans nearly four percent on the day of the announcement. Other than Trump's announcement, there has been no positive change in the U.S.-China trade war.

During the tariff period, China has shifted its soybean purchases almost exclusively to Brazil. China's purchases of Brazilian soybeans in September jumped 28 percent from the prior year.

But some in the trade believe Brazil has not fully satisfied China's needs and that China is expected to face a shortfall in the fourth quarter. Oil World said, "Total Chinese imports of soybeans will decline substantially by at least 11 million tonnes from a year earlier in November 2018-January 2019 unless purchases of U.S. soybeans are resumed." That is the time when China typically buys most of its soybeans from the United States.

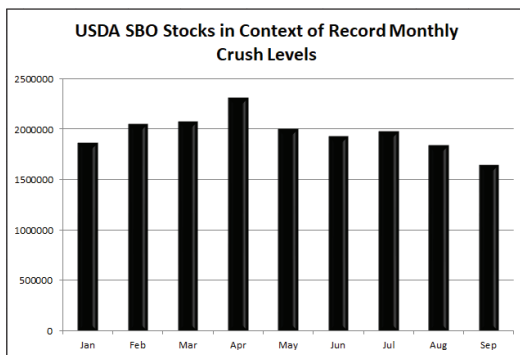
Many in the trade believe China may be able to resume purchasing Brazil beans sooner than normal. The latest Brazilian progress report was released Monday as well with soybean planting at 73.3% complete vs. 51% last week and 44% average. Barring major drought or flooding, there is no reason to think Brazil won't have new crop supplies available for export by the middle/end of January.

Oil World also said it expects China to enter the global edible oil and animal feed meals markets in coming weeks as the tariff situation has reduced soybean stocks to supply China's oilseeds processing industry.

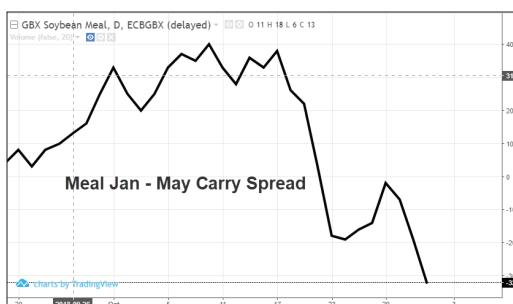
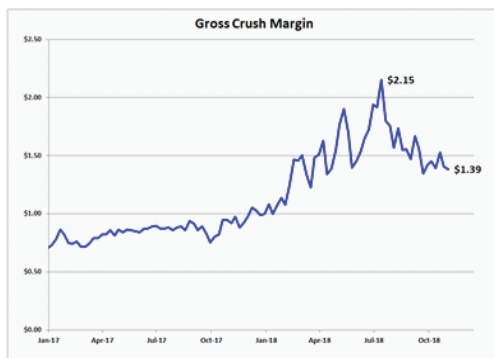
Absent of resumed US imports, Oil World says, "We also expect China to become a more active buyer of palm oil, soyoil, sun oil and rapeseed oil in coming

weeks to ease the prospective vegetable oil supply tightness on the domestic market.”

The November 1 USDA crush report said the September crush was down slightly from August, but was 16.4% over the previous year. Oil production was also down slightly m/m but up nearly 14% y/y. SBO stocks, however, declined once again from the previous month, albeit still 17% over last year’s level.



The five months of declining SBO stocks could be accelerated if crush levels begin to drop from current lofty levels as the crush margin declines and meal demand weakens. Fear of lower meal demand via swine fever and China importing rapeseed meal from India casting negative tone. A symptomatic bearish indicator is meal’s Jan-May carry spread widening near August lows.



Palm oil analysts say palm oil prices are expected to rise next year as production growth eases and China shifts some of its vegetable oil demand to palm due to its trade dispute with the United States.

Palm oil prices are near the bottom said industry analyst Dorab Mistry at a palm oil conference in Indonesia. At current ringgit levels, Malaysian futures at around 2,100 ringgit (\$504.81) a tonne make palm competitive and can help producers boost exports. Malaysian palm oil futures 1FCPOc3 fell to their lowest in more than three years on Friday (11/2) at 2,108 ringgit a tonne.

Thomas Mielke expects palm oil and soy oil prices to rise by \$50 to \$100 per tonne in the next nine months. Mielke said global palm oil stocks would peak in November or December this year, before starting to fall in 2019 as growth in output slows. Mielke reiterated his estimate that Malaysian palm oil prices would trade between 2,200 ringgit and 2,600 ringgit per tonne in the first half of 2019.

[See oils charts and tables](#)

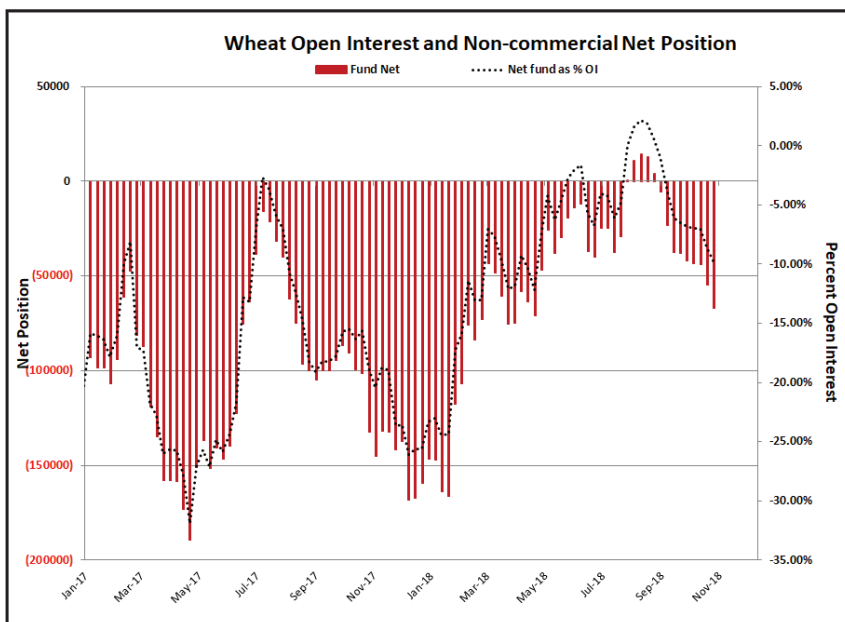
Wheat Charts and Tables

Technical Outlook



- For the third week now we have been looking for confirming price action to call wave **2** complete.
- The new resistance levels were 5.11 and 5.18, which prices did rise above but did not close above.
- Minimum requirements have been met for the completion of wave **2**, but we want to see prices penetrate resistance levels. Settlements above previous swing highs of 5.15 and 5.185 would give greater confidence that wave **2** is complete.

Money Flow



Protein Premiums

Because of fall harvest delays, wheat basis was tasked with drawing out additional supplies at a time when plentiful supplies typically would keep prices low.

Soft Red Winter: St. Louis-area mill bids for nearby were 10@35c over Chicago December, unchanged. Chicago mill bids were 10c over Chicago December. Toledo mill bids for nearby were 10c over Chicago December, unchanged. Elevator bids were 8c under Chicago December, unchanged, with elevator not taking wheat, likely until January. Cincinnati elevator bids were the Chicago December price. Michigan white wheat mill bids were 10@20c over Chicago December; soft red bids were 10c under to 15c over December. Gulf bids on soft red winter wheat for November were 70c over Chicago December, unchanged.

Hard Red Winter: Premiums on hard red winter wheat in Kansas City advanced across the scale over the past week as weaker futures place an increased burden on the cash wheat basis to originate wheat.

Back-and-forth bidding between two major mills over 12 early-arriving rail cars of lower protein wheat elevated premiums at the bottom of the scale. A major mill's bid in the 13% range was impetus for the premium advance across top third of scale.

Hard Red Spring: Premium changes for hard red spring wheat in Minneapolis were higher last week.

Wheat activity was minimal with most attention still aimed at harvesting, handling and transporting fall row crops.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.50 a bu, unchanged. Minneapolis price was \$7.20 a bu.

As of November 1, 2018

KCBT Wheat Protein Premium Scale

The following hard red/soft winter wheat scale is in cents per bushel, basis KCBT Dec futures, according to billing and quality. Source: KCBT Cash Grain Committee.

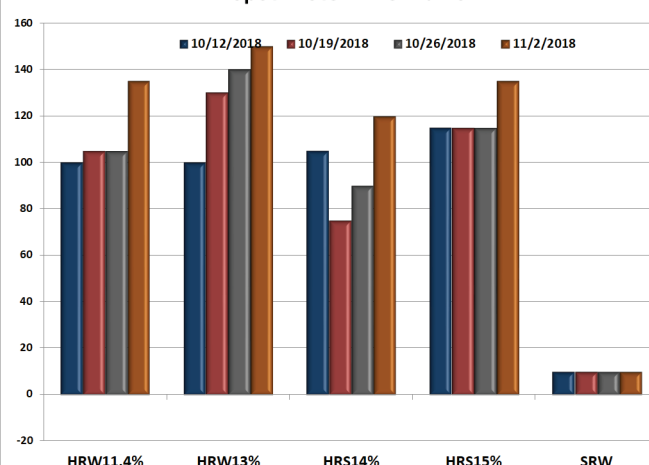
11.0%	115-130 Z	+30
11.2%	115-130 Z	+30
11.4%	115-130 Z	+30
11.6%	122-137 Z	+17
11.8%	122-137 Z	+17
12.0%	130-145 Z	+25
12.2%	130-145 Z	+25
12.4%	130-145 Z	+25
12.6%	130-145 Z	+10
12.8%	130-145 Z	+5
13.0%	135-150 Z	+10
13.2%	135-150 Z	+10
13.4%	135-150Z	+10
13.6%	135-150 Z	+10
13.8%	135-150 Z	+10
14.0%	140-155 Z	+10
SRW basis Chicago	+10 Z

MWE Wheat Protein Premium

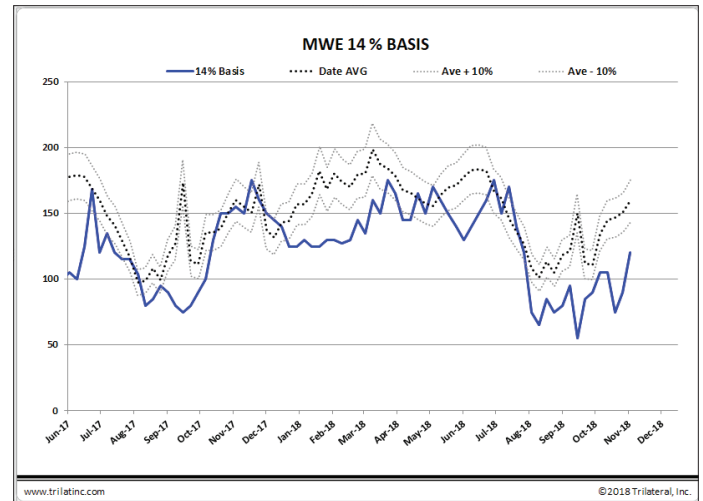
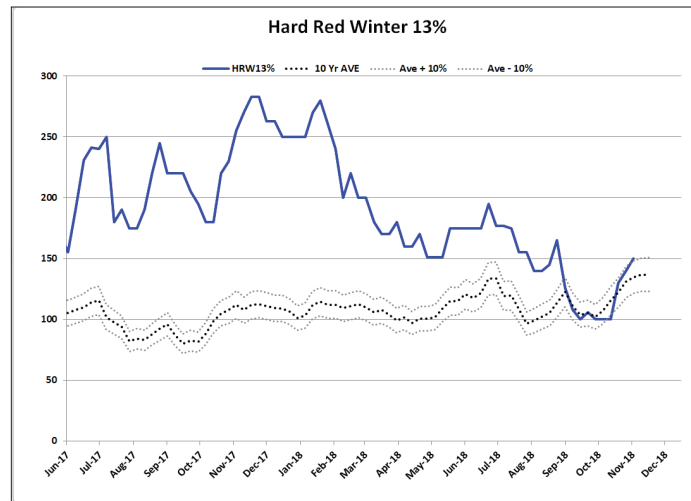
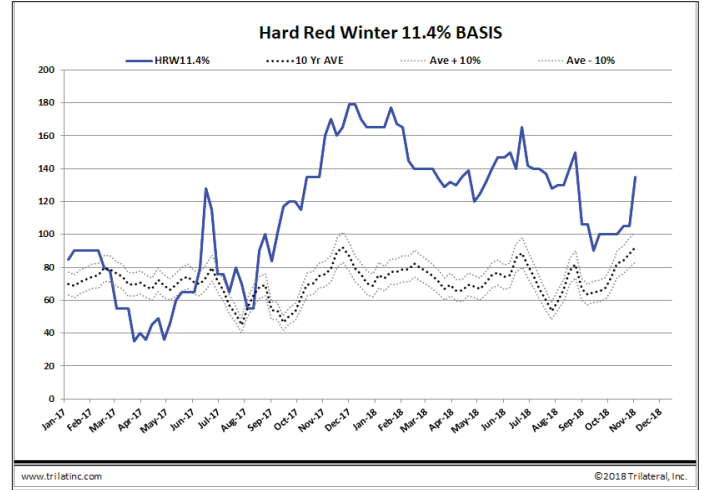
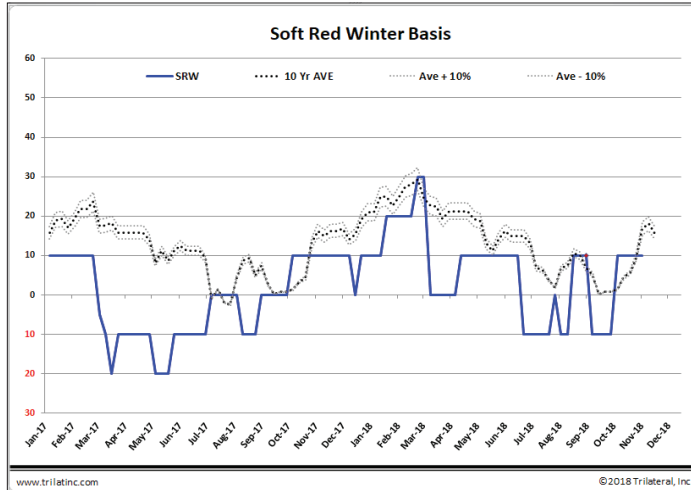
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

13.0%	70-70 Z
14.0%	120-120 Z	+30
15.0%	135-135 Z	+20

Spot Protein Premiums



Protein Premiums cont.



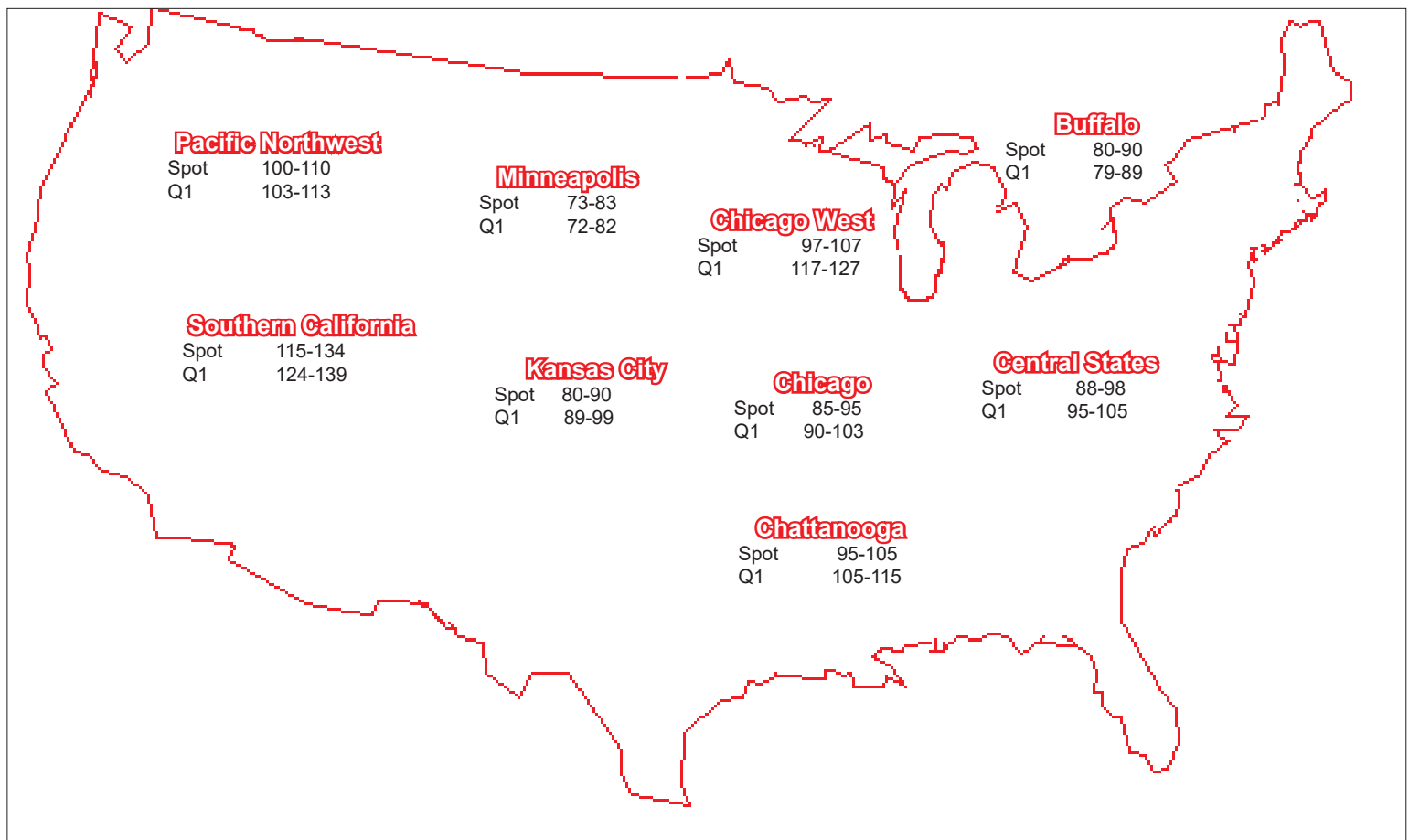
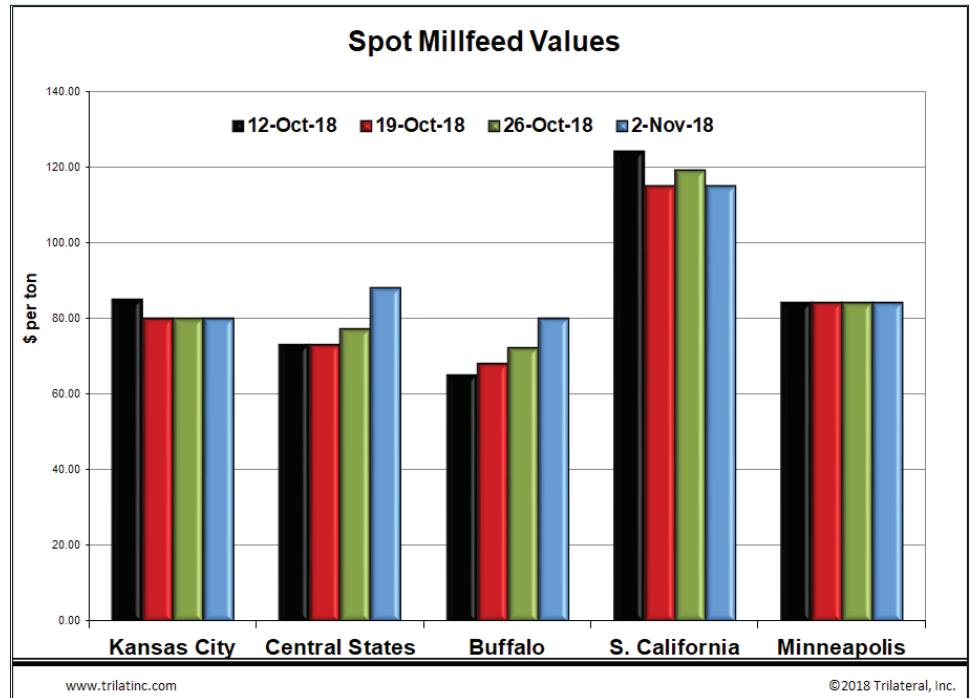
Millfeed

Wheat middling prices were steady in minimal trading viewed as “unusual for time of year.”

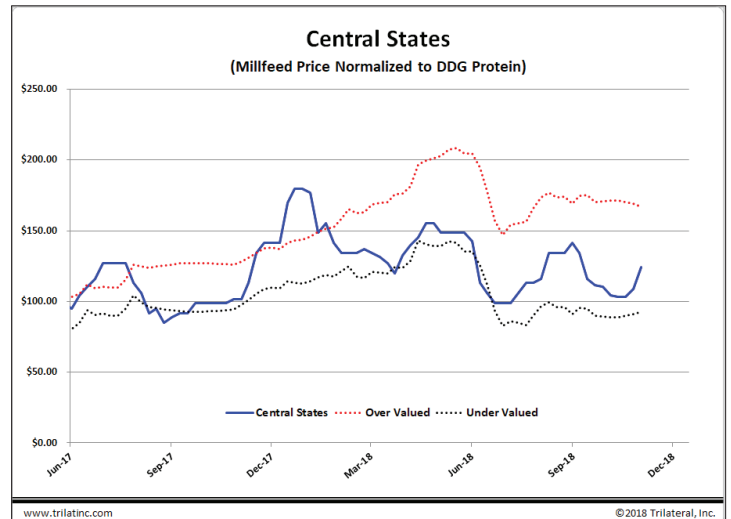
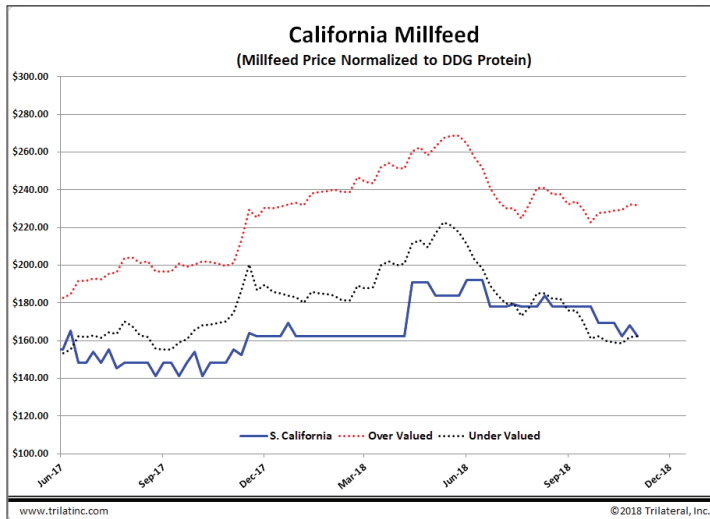
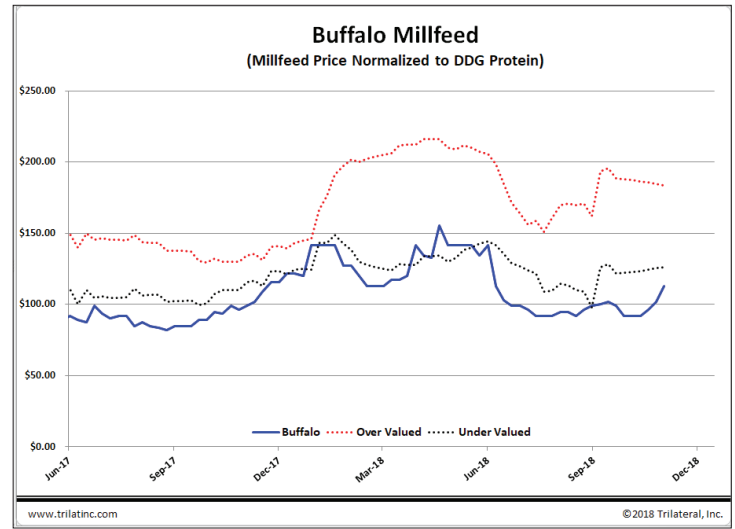
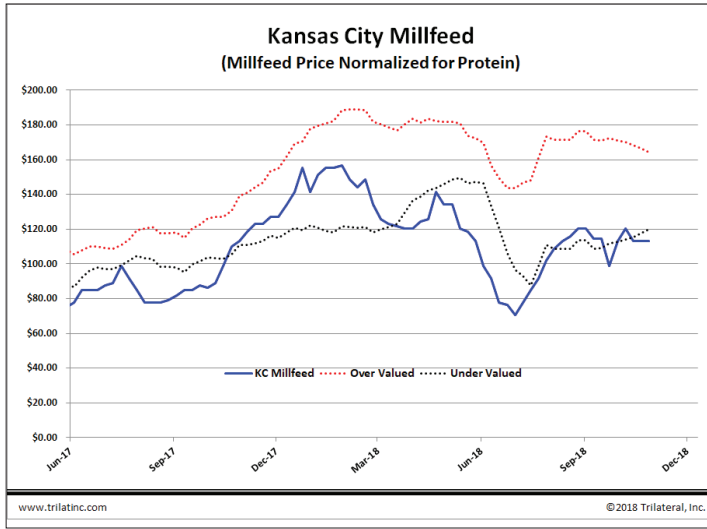
High values that walked out of spring into summer, coupled with recent attempts to build premiums into deferred periods, were “beating people up, psychologically,” causing would-be buyers to delay purchases, in some cases until supplies dwindled nearly to nil.

Southwest markets remained under pressure. One merchandiser reported numerous cancellations from customers in Texas and Oklahoma where recent moisture has left ranches and other destinations too muddy for delivery. Producers were opting to use supplies on hand, but some feed mixers shut down production, opting to use time for fumigations and other maintenance.

Flour mill runtimes were strong in Southwest (6+ days) but weaker moving east. Corn and soybean futures advanced.



Millfeed cont.



In the above charts the center line is the current millfeed price for the respective cities. The upper and lower lines are the range that millfeed prices trade between 80 and 90 percent of the time. One should avoid forward contracting millfeed when prices are near the lower boundary and wait to sell millfeed when prices are closer to the upper boundary to achieve the greatest results.

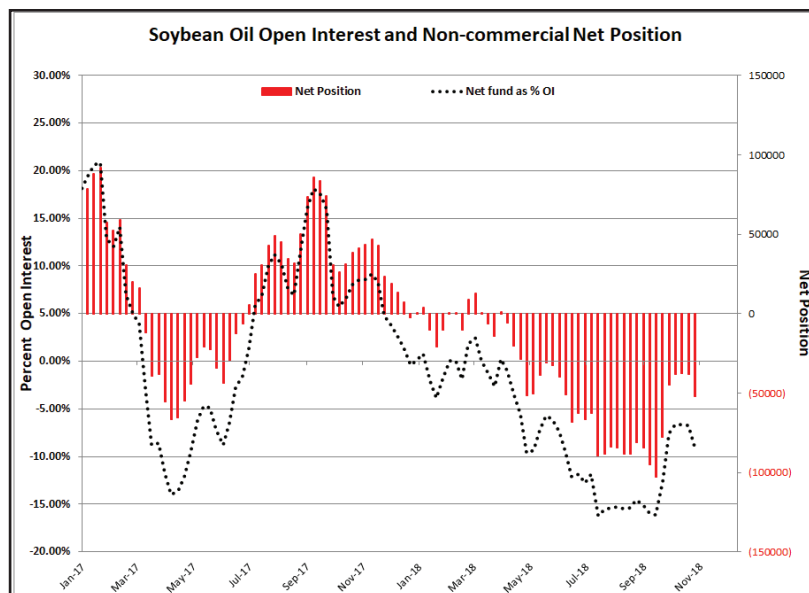
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Oils Charts and Tables

Technical Outlook

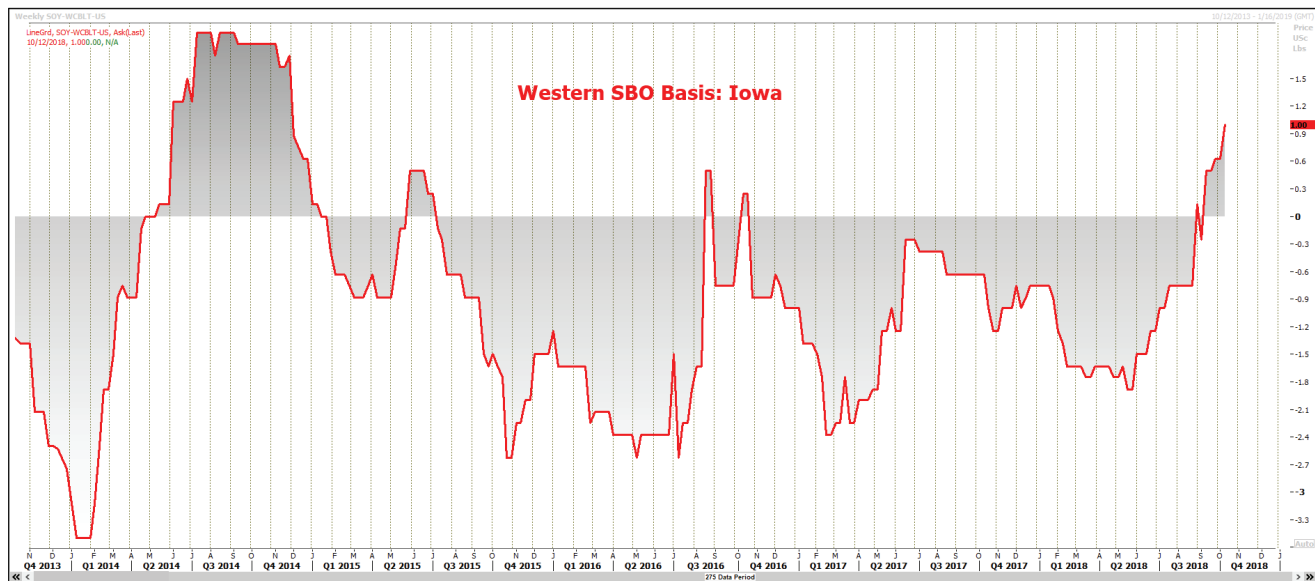
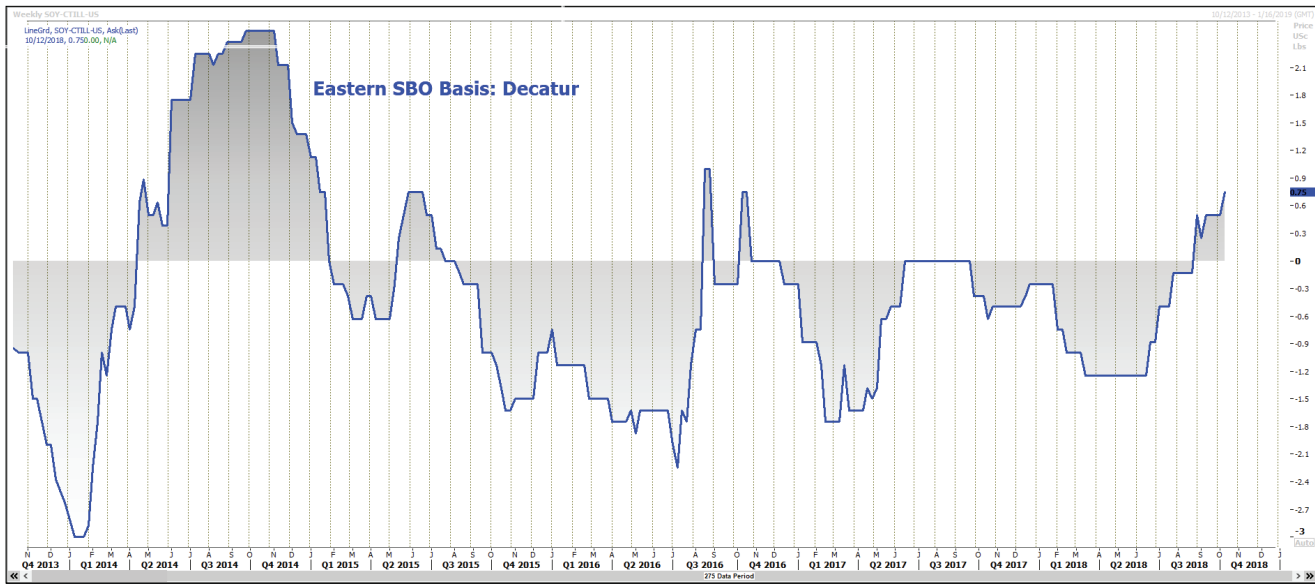


- The SBO market has been in a corrective mode, wave (4), since mid-September.
- We are calling wave **c** of **B** complete and are now looking for prices to rise in the final third wave **C** higher to complete wave (4)



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SBO Basis



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