

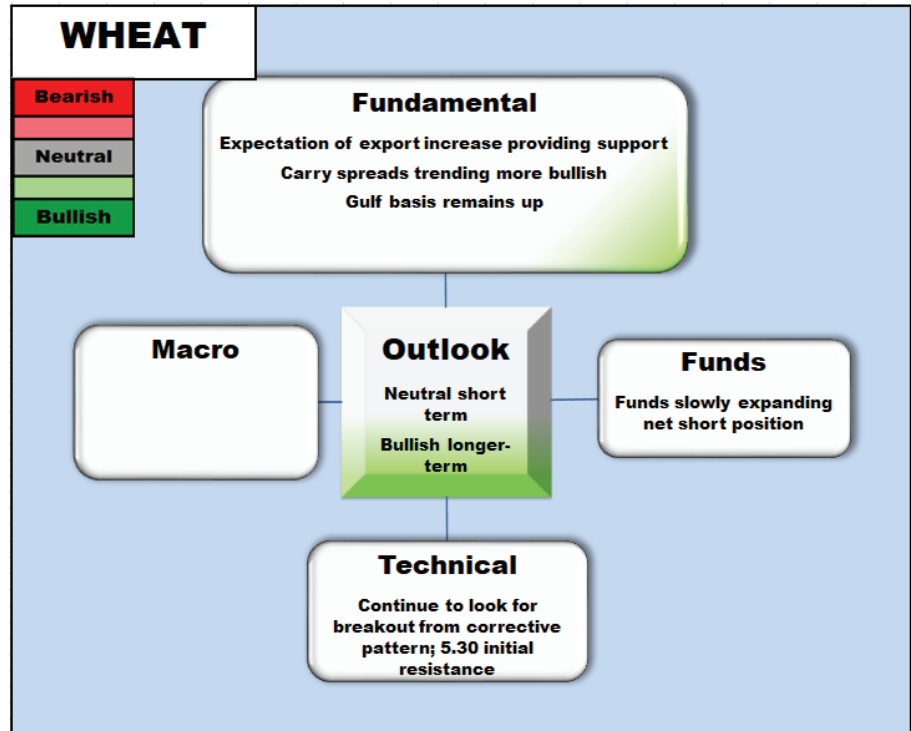
Trilateral Bakery Report

December 3, 2018

Recommendations

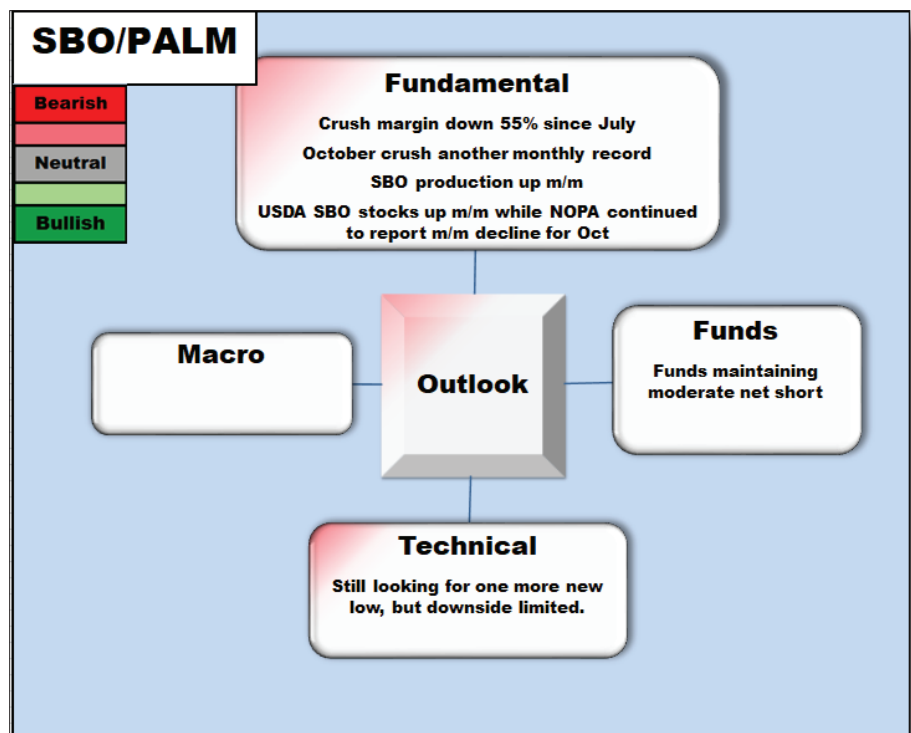
Wheat

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

- Shipments down 13% vs. USDA forecast for 13% gain
- Mar-May carry spread is demonstrating the same bullish tendency as has the Dec-Mar
- NOLA basis remains up

[Read detailed recap](#)



Oils

- Bean oil stocks have declined six consecutive months even as monthly crush levels were record volumes and SBO production was steady or increasing m/m
- US export commitments down 32% y/y
- Crush margin down 55% since mid-July.

[Read detailed recap](#)

Market Recap

Wheat

Wheat prices have been underpinned by expectations that U.S. wheat exports will pick up next year as the Black Sea region runs out of surplus supplies. This has translated into improving cash markets, which in turn have provided support to futures.

Demand for HRS wheat has been strongest, leaving deliverable stocks at the lowest level for this time of year since 2011, an inverted MWZ/MWH carry spread and the MWH/MWK at a bullish 28% of full cost of carry.

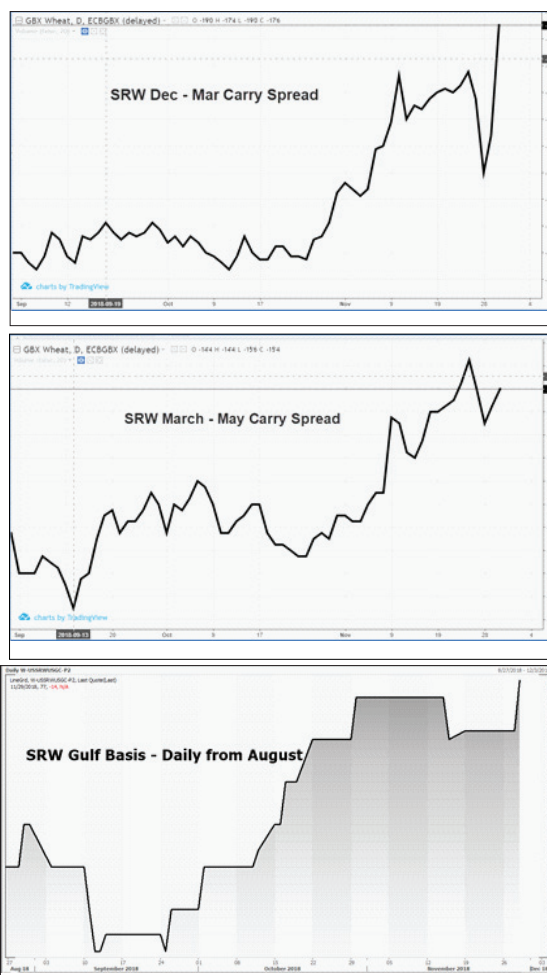
Year-to-date sales and shipments, however, remain below expectations with total commitments down down 13% from a year ago vs. USDA calling for a 13% increase.

Canada export data for October showed that so far in 18/19, Canada's wheat shipments to the PRC are up 96.5% from a year ago as the US-China trade spat continues.

Russia's Sov Econ says that Russia's 2019 wheat production would be 77.3 mmt compared to 70 mmt last year. Competition in world wheat markets will continue to be fierce.

Chicago's SRW cash markets also showed continued strength in NOLA basis and carry spreads. The midweek CIF SRW was reportedly trading as high as +76/78Z. These sort of values have cash above delivery equivalence as merchandisers and analysts continue to pencil in more demand into the Middle East. Carry spreads also continue to reflect a modicum of optimism with narrowing Z/H and H/K spreads (see accompanying charts).

Current chatter is saying 2019/20 spring wheat acres will rise on the coat tail of reduced soybean planting. An analyst cited by Reuters said that if spring wheat acres increase 5% next year, and yields hold at the 5-year average, ending stocks could easily rise to the highest since the late 1980's without a corresponding jump in demand.



Meanwhile, the final portion of wheat plantings could be highly challenging, with snow cover and extreme cold, mostly impacting KS, TX and OK. Kansas State University study indicated yield potential for Decemberplanted wheat in Kansas was only 59% of that for wheat planted by Oct. 1.

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

Oils

The USDA's crush report this afternoon showed the amount of beans crushed was up 4.0% y/y but crude SBO produced was up 5 ½ % y/y and up 10% m/m. Diverging from NOPA, however, which reported SBO

Market Recap cont.

stocks lower for a sixth consecutive month, today's USDA stocks showed October up 2.6% m/m.

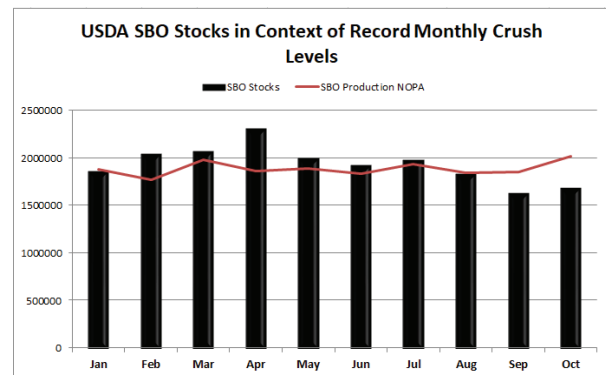
The threat of the expansion of African Swine Flu in China on global soybean trade could ultimately trickle down to influence the price of SBO if demand for crushing for meal reduces SBO supply.

Just Friday China announced it had bought U.S. pork despite trade tariffs as the hog disease spreads. The purchases are a signal that an outbreak of African swine fever is raising concerns of an eventual supply shortfall. "It's kind of like, why do you buy from your enemy? Because you have to," said Don Roose, president of Iowa-based broker U.S. Commodities.

China's imports of soybeans are set to drop as an outbreak of African swine fever hits its huge pig herd and saps demand for the animal feed ingredient. African swine fever has spread rapidly through China, with more than 70 cases reported across farms since early August. That and already large soy inventories are curbing appetite for beans in what is by far the world's biggest importer of the commodity, traders and analysts said.

The impact may also be appearing in the Brazil market. Demand, and price, for Brazilian soybeans has also dropped significantly. Brazil's FOB soybean price continues to narrow the gap with FOB soybean prices in New Orleans. Brazil's prices were as much as \$2.60 a bushel above New Orleans in October, but are now just 96 cents above.

An anticipated revision to the tax bill would reinstate the \$1 blender's credit on biodiesel -- positive for soybean oil demand.



[See oils charts and tables](#)

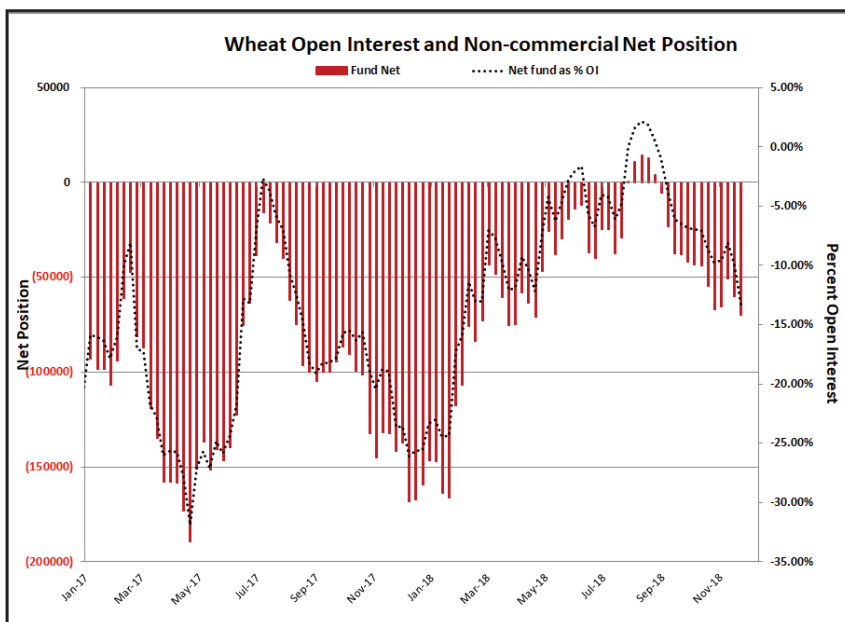
Wheat Charts and Tables

Technical Outlook



- Wheat price action continues to struggle to confirm the completion of wave **2**. Indeed, as reported previously, minimum requirements have been met, but price we must see aggressive upward price movement, characteristic of a wave 3, above 5.30.

Money Flow



Protein Premiums

Soft Red Winter: Significant snow cover remained across Central states, including top halves of Missouri, Illinois and Indiana, and majority of Ohio and Michigan. St. Louis-area mill bids for nearby were 30c over Chicago March. Chicago mill bids were 10c over Chicago December, with rollover to March likely Friday. Toledo mill bids for nearby were 10c over Chicago March; January-March, 10c over March; April-May, 10c over May. Elevator bids were 5c under Chicago December with wheat deliveries suspended, likely until new year. There was no nearby bid at Cincinnati elevator; new crop bid was Chicago July price. Michigan white wheat mill bids were the Chicago December price to 20c over; soft red wheat mill bids were the December price to 15c over. Gulf bids on soft red winter wheat for December were 83c over Chicago December, up 7c.

Hard Red Winter: Premiums on hard red winter wheat in Kansas City were lower across the entire scale over the past week, rather sharply lower in some cases.

With winter wheat planting in Kansas at 96% by latest U.S.D.A. estimate, producers had eyes on a rapidly closing window for successful seeding. Kansas State University study indicated yield potential for December-planted wheat in Kansas was only 59% of that for wheat planted by Oct. 1.

Hard Red Spring: Premium changes for 14% and 15% hard red spring wheat in Minneapolis were basically unchanged while 13% moved up significantly.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.40 a bu, unchanged. Minneapolis price was \$7.10 a bu.

As of November 30, 2018

KCBT Wheat Protein Premium Scale

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

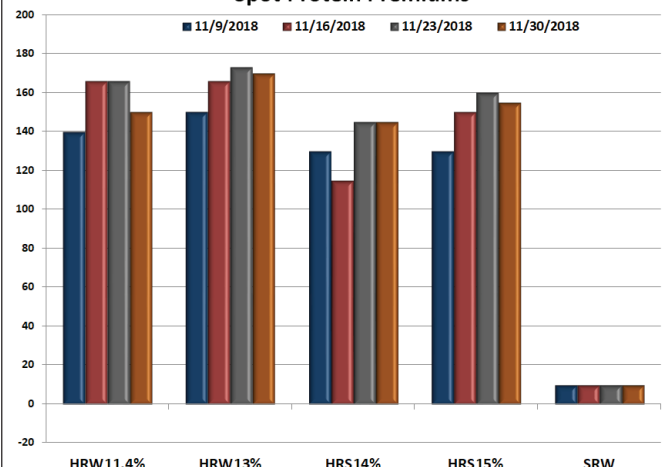
11.0%	123-138 H	-17
11.2%	135-150 H	-5
11.4%	135-150 H	-16
11.6%	135-150 H	-16
11.8%	135-150 H	-16
12.0%	145-160 H	-15
12.2%	145-160 H	-6
12.4%	145-160 H	-13
12.6%	145-160 H	-13
12.8%	145-160 H	-13
13.0%	155-170 H	-3
13.2%	155-170 H	-3
13.4%	155-170 H	-3
13.6%	155-170 H	-3
13.8%	155-170 H	-3
14.0%	160-175 H	-1
SRW basis Chicago		+10 H
	

MWE Wheat Protein Premium

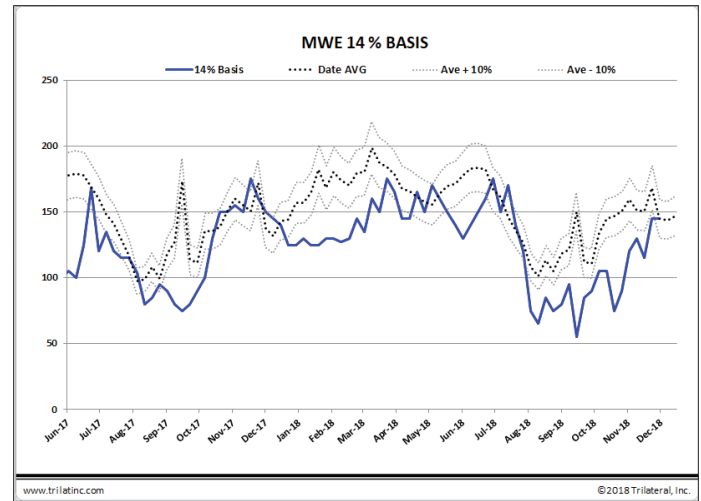
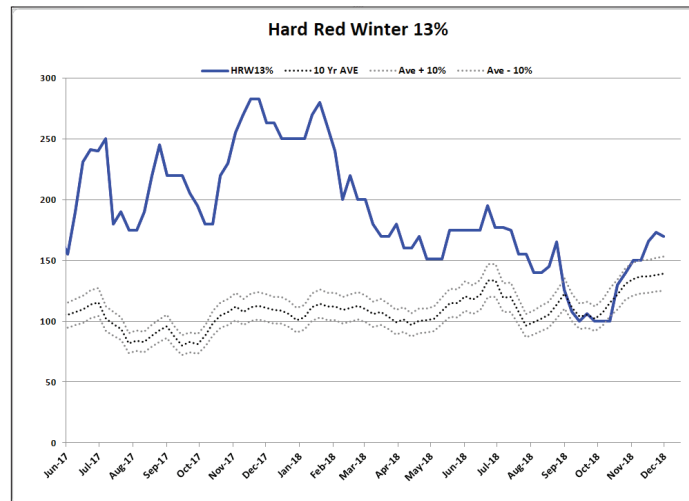
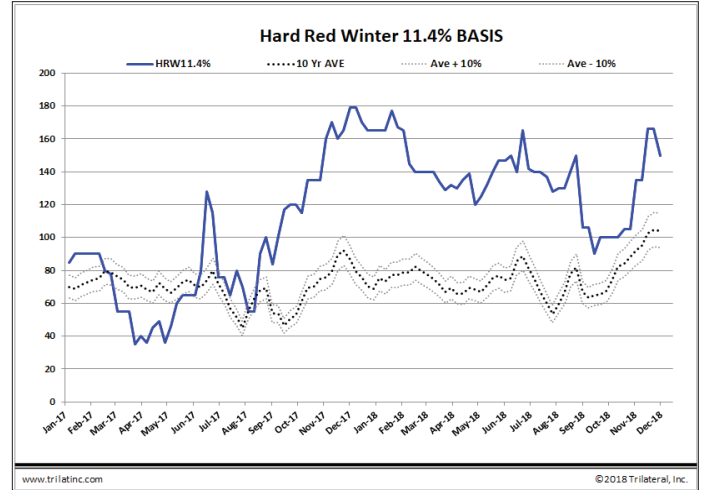
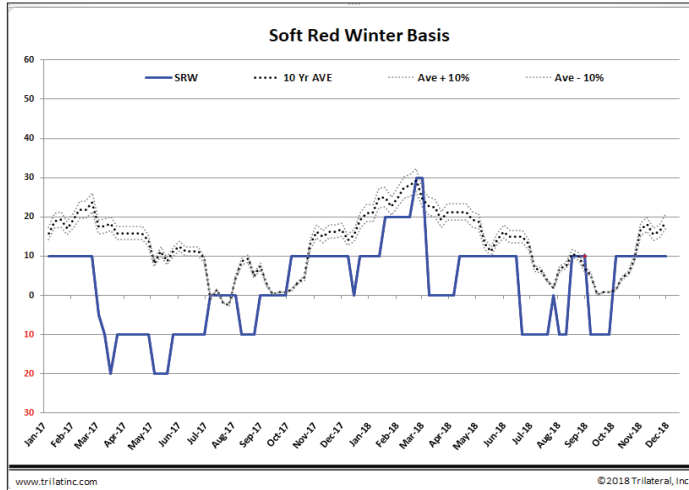
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

13.0%	90-110 H	+40
14.0%	145-145 H
15.0%	145-155 H	-5

Spot Protein Premiums



Protein Premiums cont.



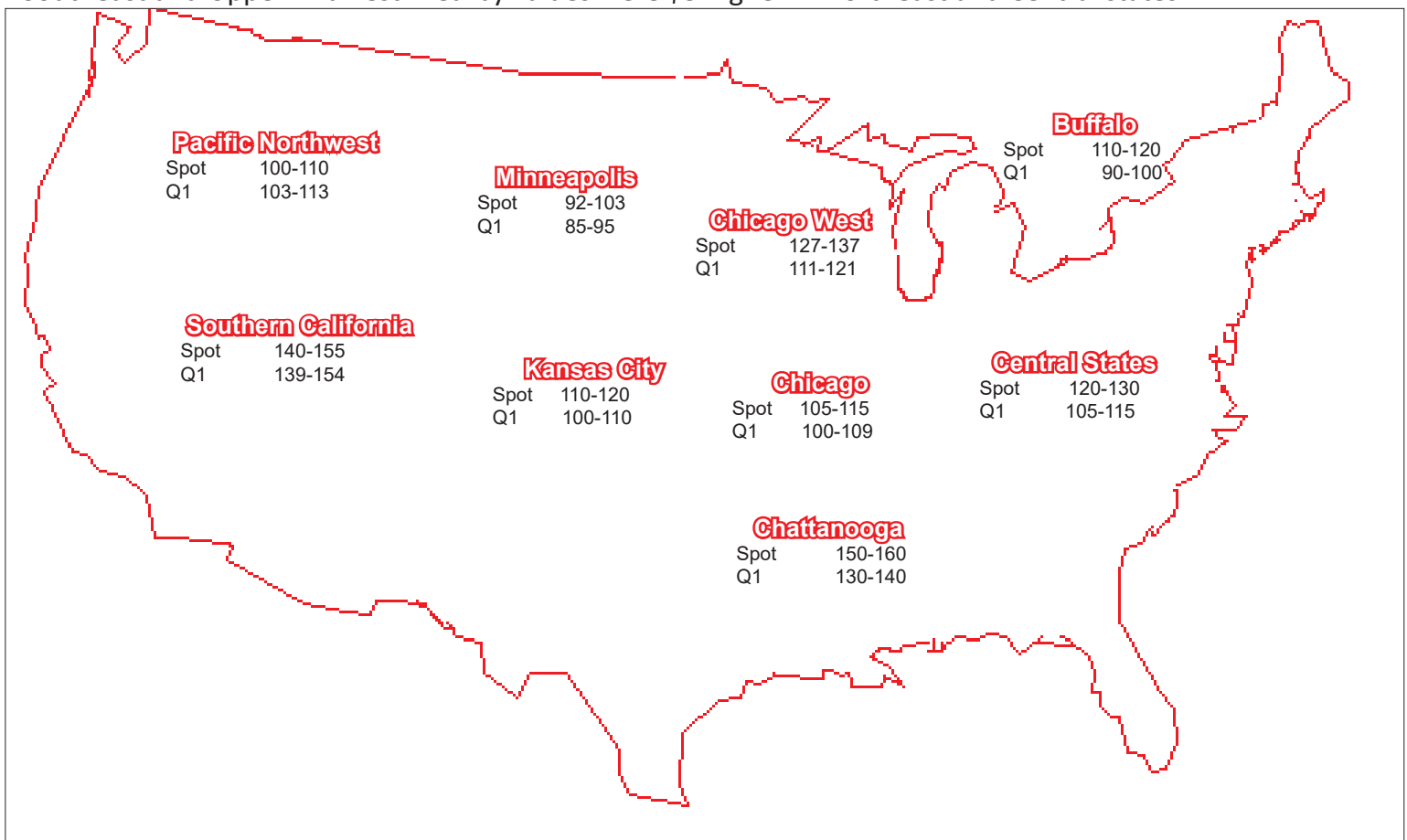
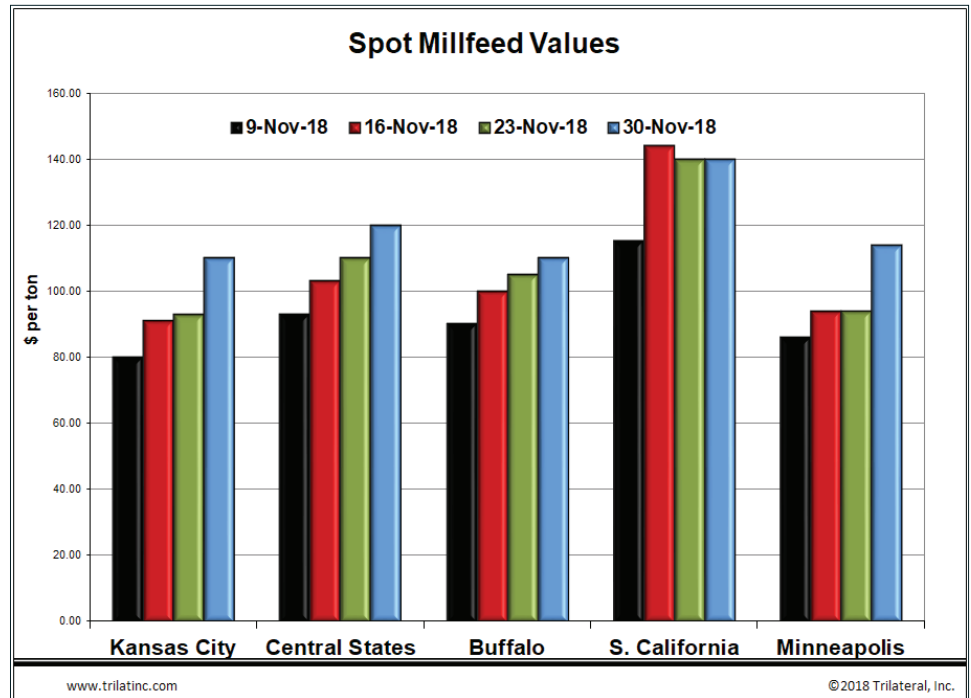
Millfeed

Prices were higher, sharply so in some cases. Supplies were tight everywhere amid healthy feed demand three days out from a holiday break that curtailed flour grind.

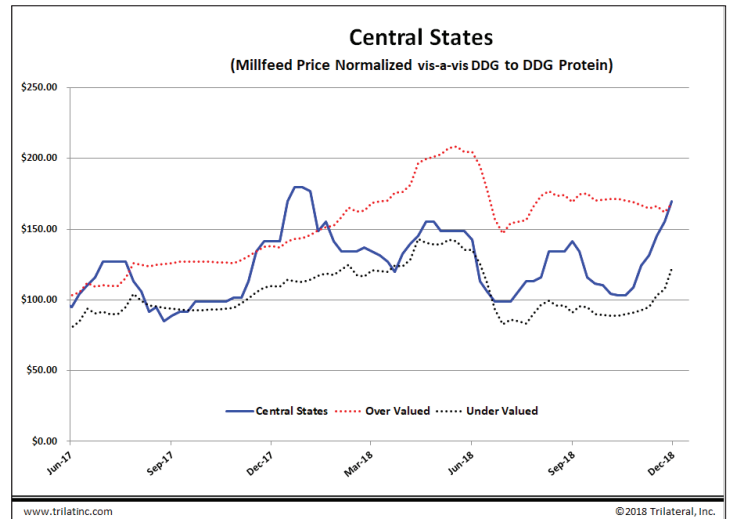
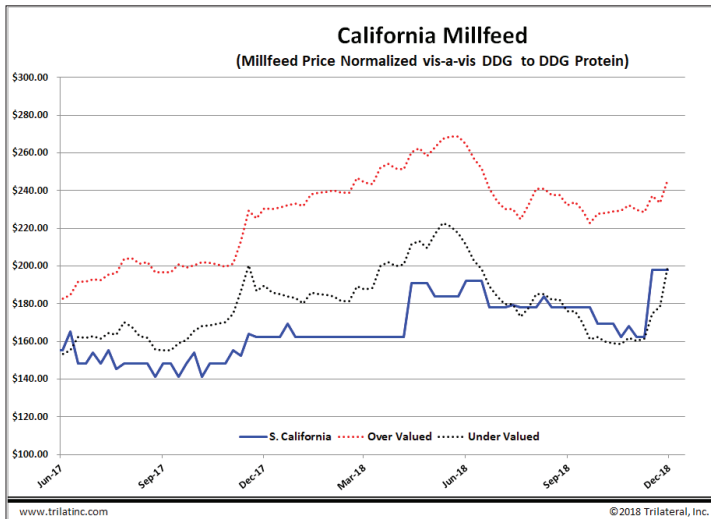
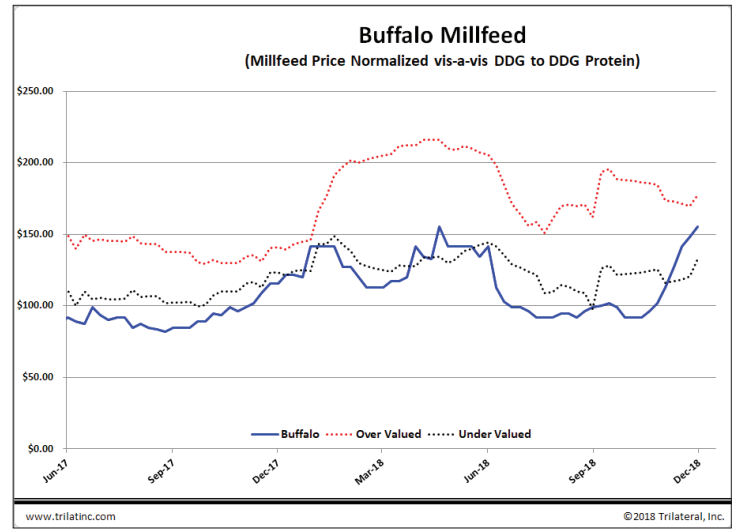
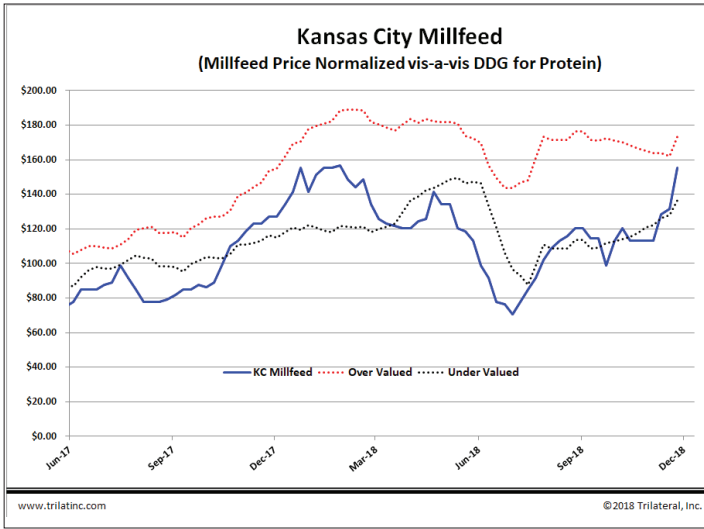
Snug Northeast suffered from typical logistics challenges, and unexpected overnight downtime kept mills from building expected inventory for morning loads.

Central states had limited supplies but wasn't "overly tight," meaning spot buyers could source loads without difficulty. Feed demand in Upper Midwest increased to "average or decent," but values were pulled up along with surrounding regions.

Trucks were loading on stream in Southeast due to strong demand in Gulf coast states. Traders said tight supplies would endure for the next five to six weeks and become more balanced in January. Sources said feed mills and other end users might look at reformulation, but availability and values for competing ingredients didn't immediately suggest a prime replacement for wheat midds. Nearby prices were \$10 a ton higher in Southwest, Southeast and Upper Midwest. Nearby values were \$5 higher in Northeast and Central states.



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.

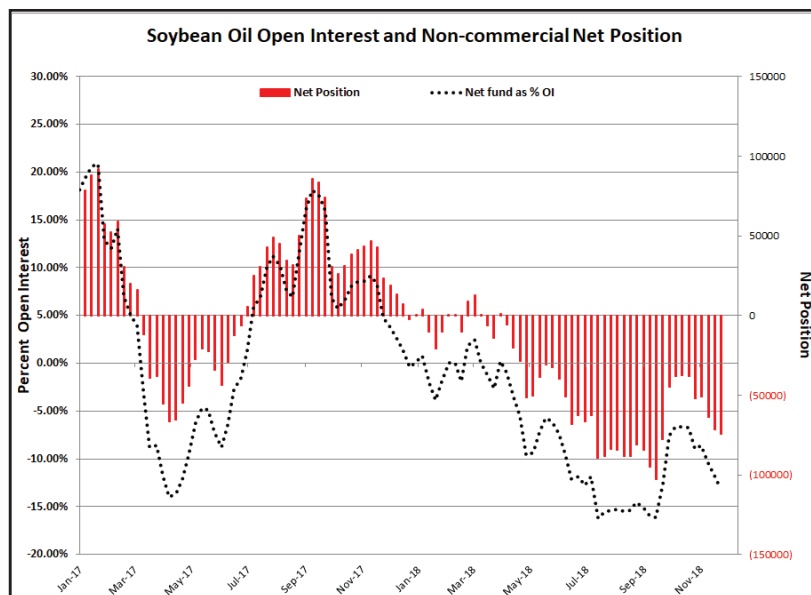
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Oils Charts and Tables

Technical Outlook

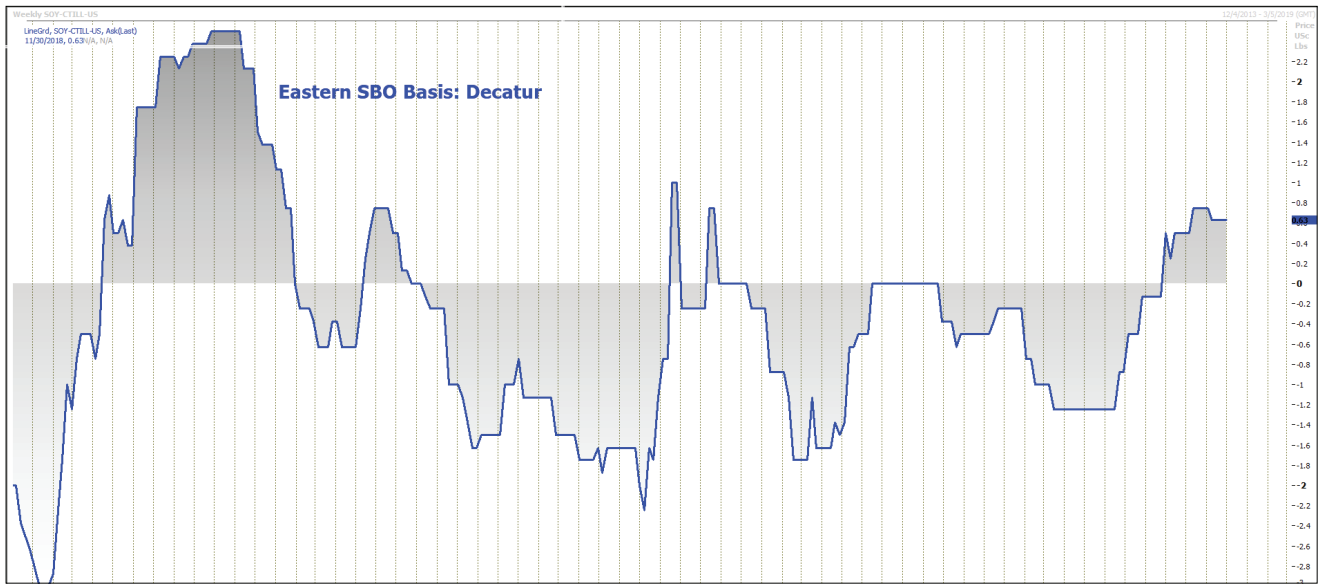


- The SBO market remains in a downtrend, corrective mode in wave 4, or possibly wave 5 of the final wave C lower.



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SBO Basis



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