

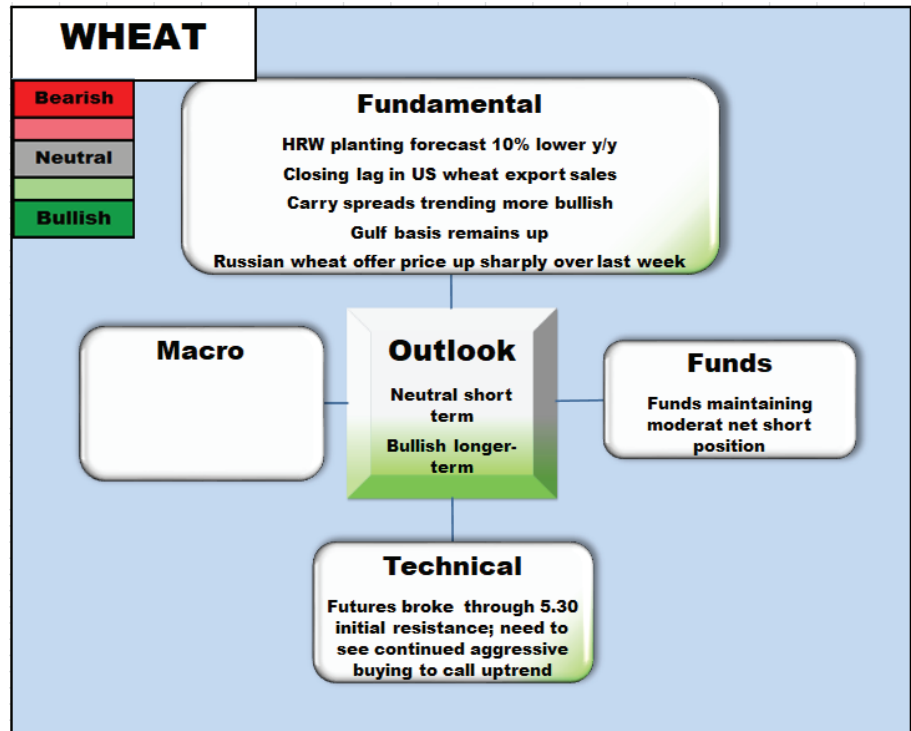
Trilateral Bakery Report

December 17, 2018

Recommendations

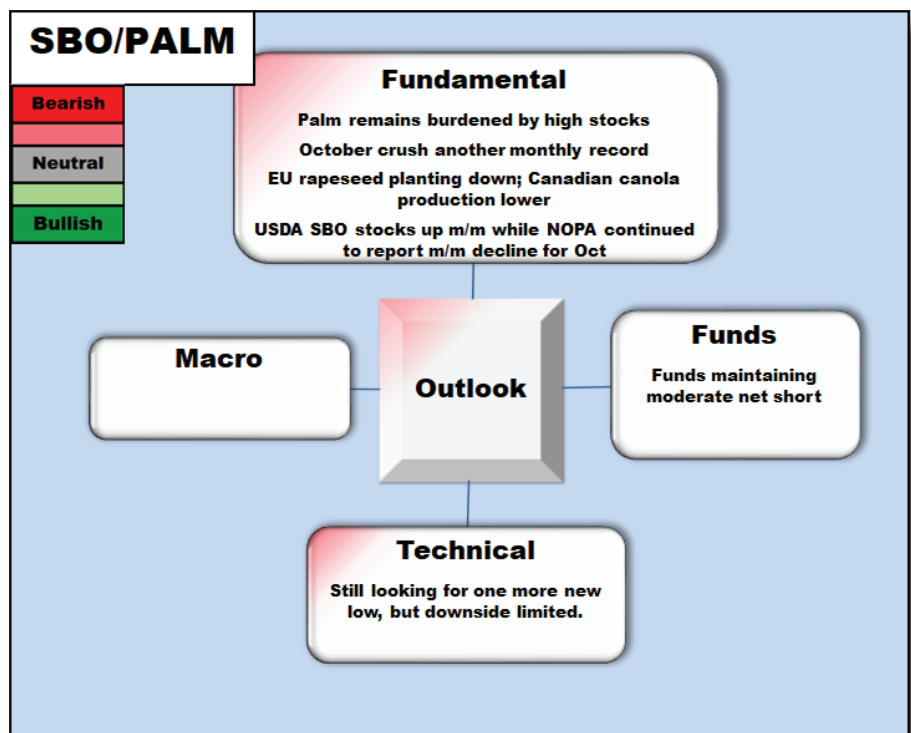
Wheat

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



Edible Oils

Watch for wave 5 bottom indicators to extend futures coverage through end of 2019 growing season.



Market Highlights



Wheat

- 25 mb reduction in exports
- Closing lag in US wheat export sales vs. LY
- Oct exports the highest for the month since 2013
- December 21 meeting of the Russian Ag Minister with exporters

[Read detailed recap](#)



Oils

- Palm oil stocks at 18 year high
- Edible oils trade continues to monitor the truce in the US-China trade war for further progress.
- USDA leaves projected soybean stocks unchanged at the record 955 mb

[Read detailed recap](#)

Market Recap

Wheat

The USDA's December WASDE report showed ending stocks at 974 million bushels, or 25 mb higher than last month, but 11% lower y/y. Without any changes to wheat production, USDA's ending stocks adjustments were due to a 25 mb reduction in exports

USDA predicted a 4 percent year over year decline in world wheat production for marketing year 2018/19, driven by severe drought in Australia and current cold, wet conditions in Russia. Australian production is expected to fall 32 percent below the 5-year average, the lowest level since 2007/08. Russian production is expected to fall 18 percent year over year, which would exceed the 5-year average by 6 percent.

The outlook for US wheat continues to appreciate ever so slightly. US Oct exports the highest for the month since 2013, but cumulative exports are the lowest since 2015 and the second lowest export total since 1971. But the gap between last year and this year's export pace is beginning to narrow.

Richard Feltes of RJO'Brien wrote last week that the "long awaited bull market in wheat may finally be developing" with:

- Closing lag in US wheat export sales vs. LY
- Russian wheat offers up sharply over last week
- Expectations for 6-7 mmt cut in Russian Jan-June wheat exports vs. LY
- Expectations for 4-5 mmt cut in Australian wheat exports
- Items 2 thru 4 should be supportive to accelerating US wheat export sales in coming weeks.

Meanwhile, SovEcon reports Russian exports in Dec could fall 35% y/y...would be slowing sales for 2nd straight month.

While defending market share appears to be the most important to Russian exporters, the Russian government may have other priorities as projected ending stocks are the lowest since 2013/14 and the

projected Russian wheat stocks/use ratio of 6.97% is the lowest since 2000/01. Traders are anxious to see if a December 21 meeting of the Russian Ag Minister with exporters could perhaps focus on new export restrictions.

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

Oils

The December WASDE report found the USDA leaving projected soybean stocks unchanged at the record 955 mb based on an unchanged projected 1.9 billion-bushel export market, which many in the trade find a bit ambitious given the lag in the current export pace.

The USDA also raised its estimate of Brazil's production to a record 122 mmt while Brazil's government food supply and statistics agency CONAB estimates Brazil production at 120.1 mmt. Agribusiness consultancy Céleres is highest with 123 - 130 mmt.

The headlines for the week, however, go to the palm oil market. According to Reuters, palm oil suppliers across Southeast Asia are struggling to cope with record output, with plantations delaying harvest and mills stalling on deliveries as storage tanks overflow.

The most recent MPOB update showed Malaysia's oil stocks rising 10.5% m/m to over 3 mmt, an 18 year high. And this was on lower production! Obviously sales slumped again, this time by 13% m/m. "The ending stocks are as per our expectations but a decline of more than 6 percent in production is bit of a surprise," said Santhosh Kumar, chief executive of Singaporean trading and consulting company Arcis Global Merchants Pte Ltd. "Most people were looking at a decline of around 3 percent." Indonesian stocks totaled more than 4.4 million tonnes in October, having peaked at close to 5 million tonnes in July

Market Recap cont.

The outlook for the NOPA December report, which will be out later this morning, is that U.S. soybean processing likely slowed in November following a record-large crush the previous month as tightening margins encouraged soy plants to scale back production.

NOPA members, who handle about 95 percent of all soybeans processed in the United States, likely crushed 168.444 million bushels of soybeans last month, according to an average of estimates given by eight analysts in a Reuters survey.

If realized, the processing volume would be the third-largest monthly crush on record and the biggest-ever November crush, topping the 163.546 million bushels crushed a year earlier. But the processing total would be down 2.3 percent from October's all-time crush record of 172.346 million bushels.

Meanwhile the edible oils trade continues to monitor the truce in the US-China trade war for further progress. So far it has effected a drop in Brazilian port premiums. Paranagua basis is falling but remains \$16.00/metric ton more expensive than NOLA. Gulf is even with Argentina. Still no word of a strong bid off the Pacific Northwest which would be a big indicator a trade deal has actually been conducted.

[See oils charts and tables](#)

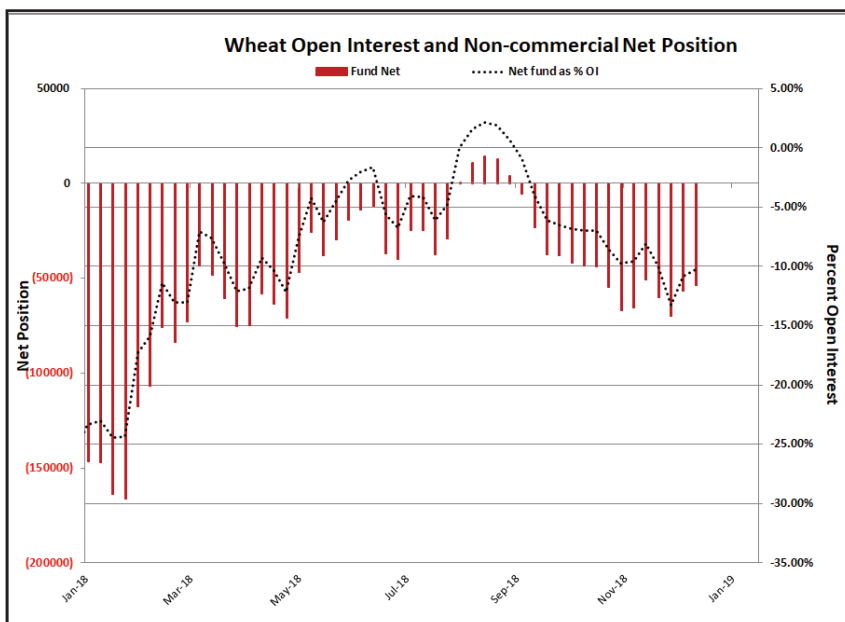
Wheat Charts and Tables

Technical Outlook



- We want to see greater accelerated upside, which is characteristic of a wave 3, to confirm wave 2 complete. For now, however, we believe wave 3 of 1 is developing.

Money Flow



Protein Premiums

Soft Red Winter: St. Louis-area mill bids for nearby were 10@30c over Chicago March. Chicago mill bids were 10c over Chicago March. Toledo mill bids for nearby were 15c over Chicago March, 5c higher; January-March, 10c over March; April-May, 10c over May. Elevator bids were 10c under Chicago March, but elevator still was not accepting wheat deliveries. Cincinnati elevator bid still was 10c under December with wheat unloading suspended for time being; new crop bid was Chicago July price. Michigan white wheat mill bids were 20c over Chicago March; soft red wheat mill bids were 15c over March. Gulf bids on soft red winter wheat for December were 78c over Chicago March, unchanged.

Hard Red Winter: Premiums on hard red winter wheat in Kansas City were higher across most of the scale over the past week with the largest gains in the 12s.

A major player continued to buy wheat, but no longer at high side. About 18 rail cars of Colorado wheat was offered on spot floor today with proteins of 10.6%, 11% and 11.2%. All were bid lower giving market a weaker tone. If traded at that level, further weakening of basis may be seen.

Hard Red Spring: Premium changes for 14% and 15% hard red spring wheat in Minneapolis saw minor mixed change over the past week.

Mills overall had strong pipelines in place, but were monitoring spot floor and willing to pay premiums for wheat suiting their needs for quality or ease of spread to their facilities. Some double-booked with an eye to preventing back-ups in case weather prevents delivery of contracted supplies. Many in market remain hopeful export business will pick up in January

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.35 a bu, down 5c. Minneapolis price was nominal \$7.05 a bu. Chicago price a year ago was about \$8.75 per bus.

As of December 14, 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.

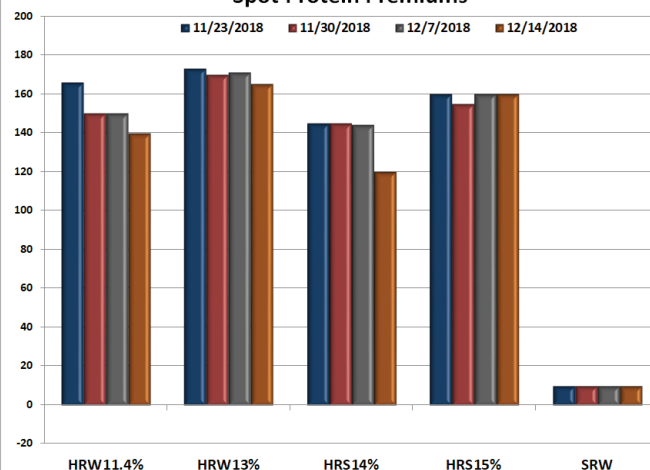
11.0%	125-140 H	+2
11.2%	125-140 H	-5
11.4%	125-140 H	-5
11.6%	140-155 H	+5
11.8%	140-155 H	+5
12.0%	150-165 H	+5
12.2%	150-165 H	+5
12.4%	150-165 H	+5
12.6%	150-165 H	+5
12.8%	150-165 H	+5
13.0%	150-165 H	-5
13.2%	150-165 H	-5
13.4%	150-165 H	-5
13.6%	150-165 H	-5
13.8%	155-170 H
14.0%	165-180 H	+5
SRW basis Chicago	+10 H

MWE Wheat Protein Premium

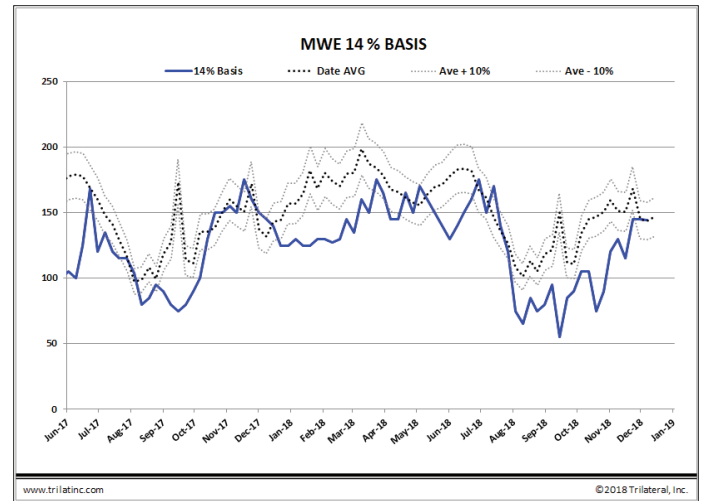
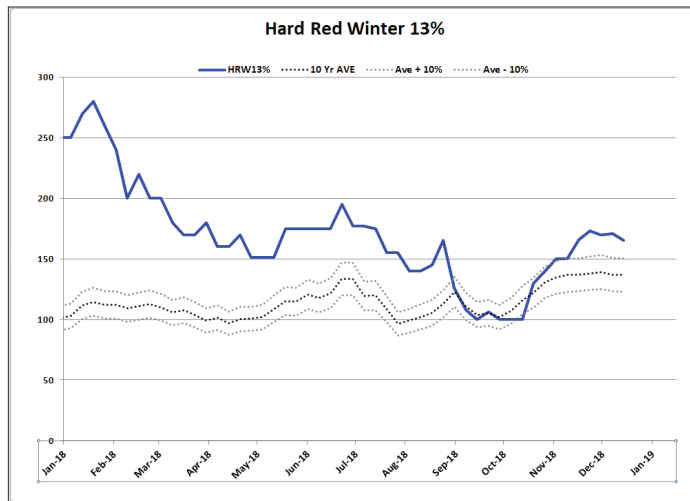
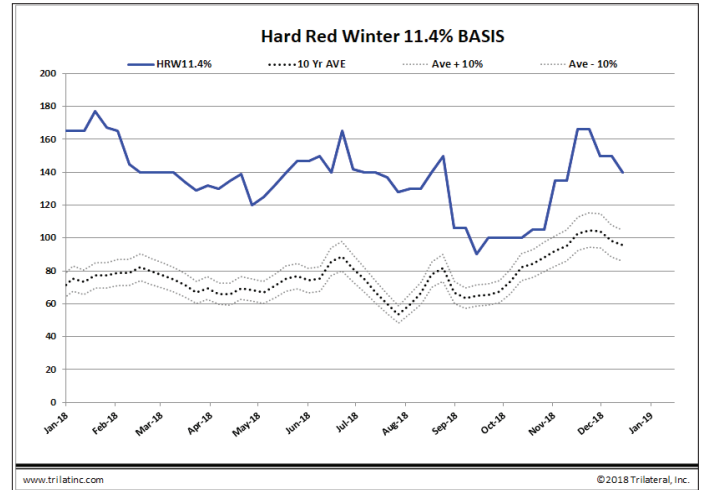
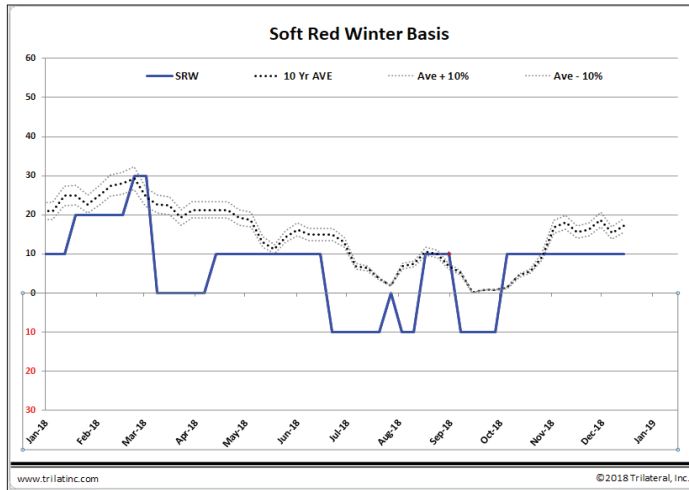
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

13.0%	90-110 H	-20
14.0%	110-144 H	-24
15.0%	160-160 H

Spot Protein Premiums



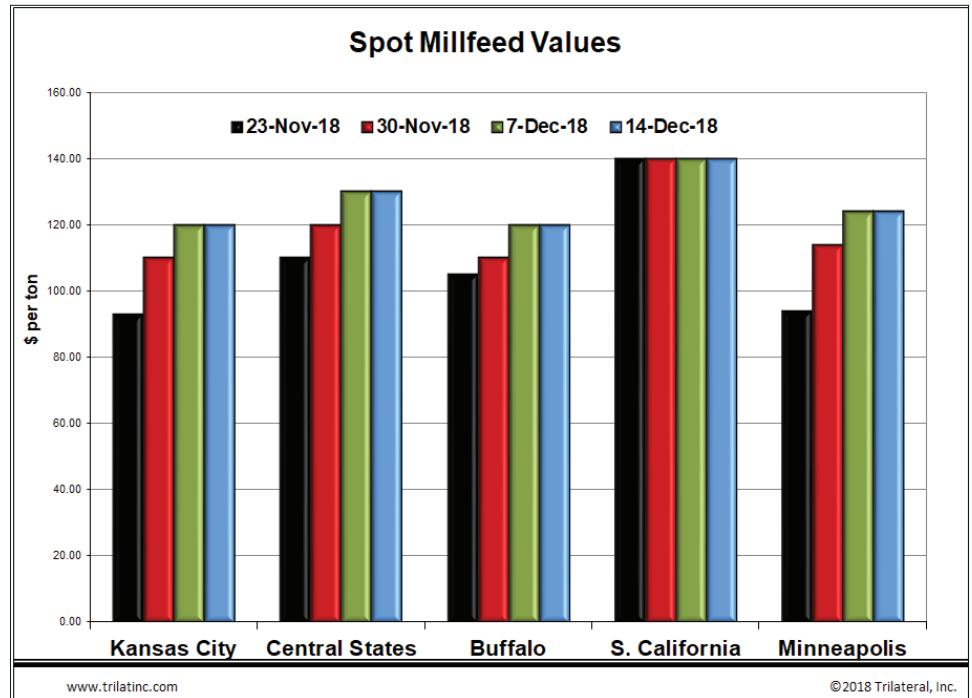
Protein Premiums cont.



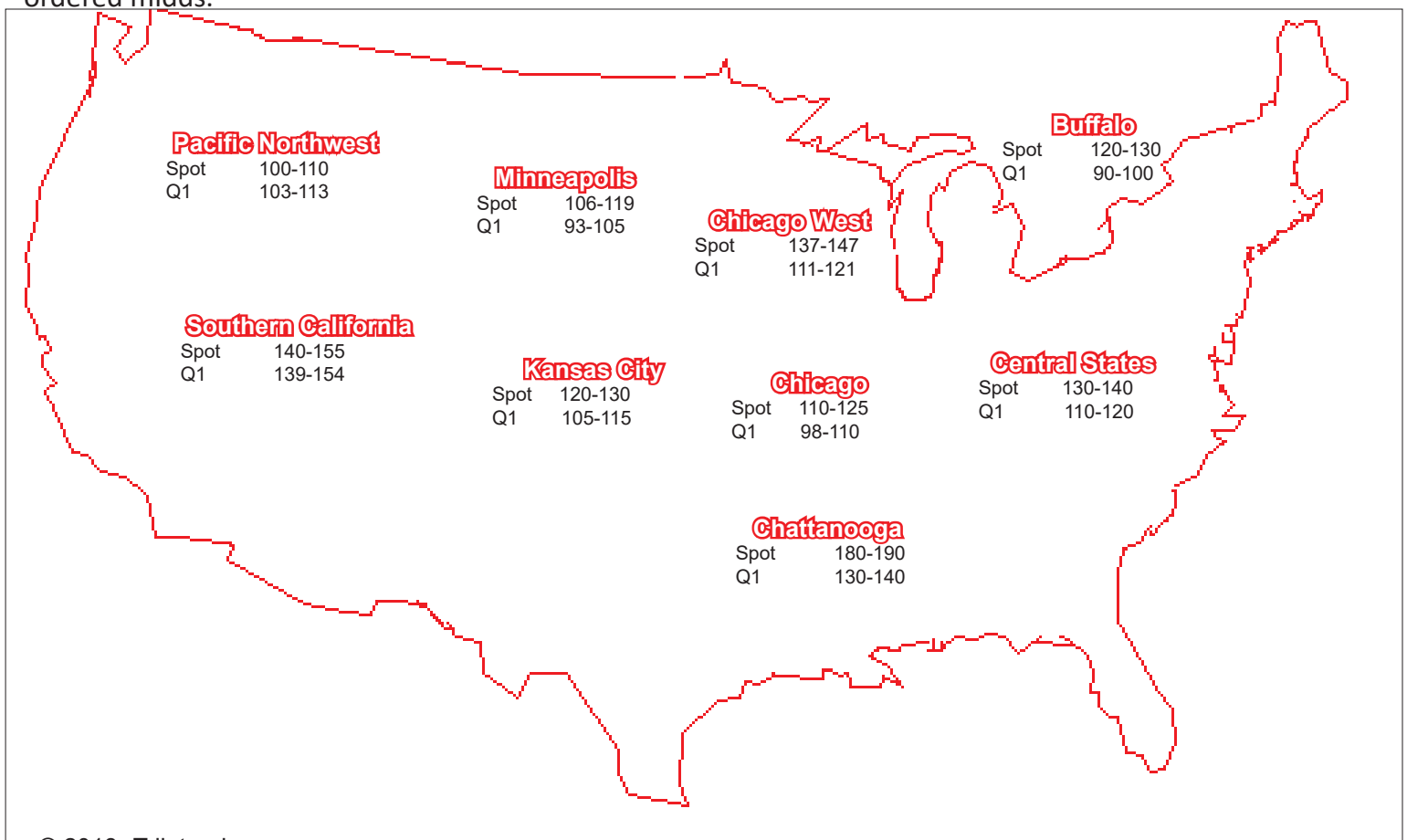
Millfeed

Prices were mostly unchanged and nominal in many areas. But after three weeks of calls seeking offers, some sellers were placing inquiry calls with many buyers reporting their bins were brimming and seeking decreased frequency of deliveries.

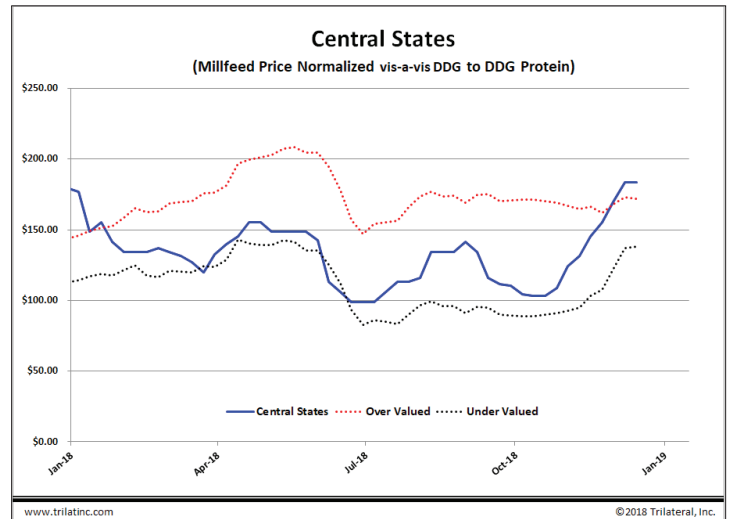
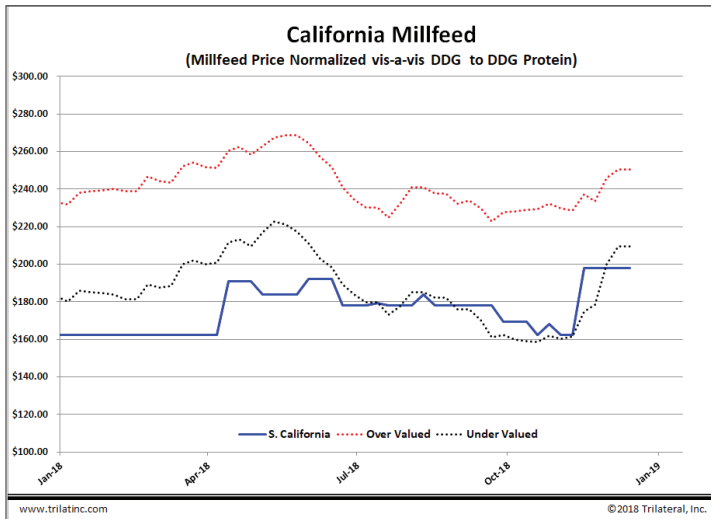
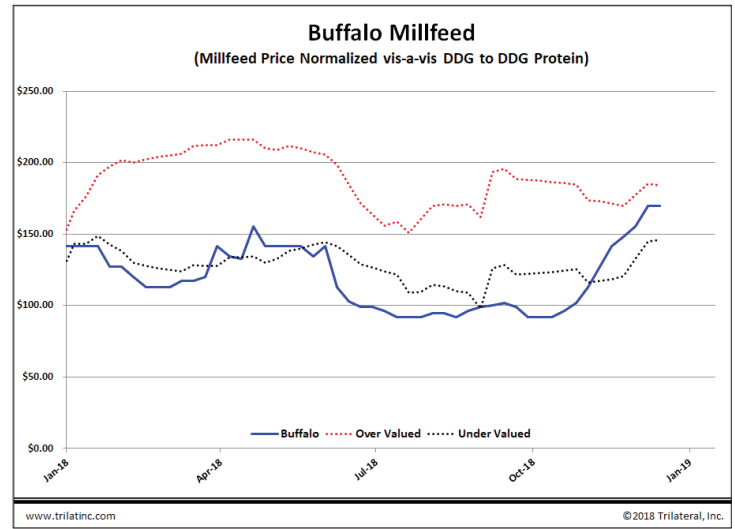
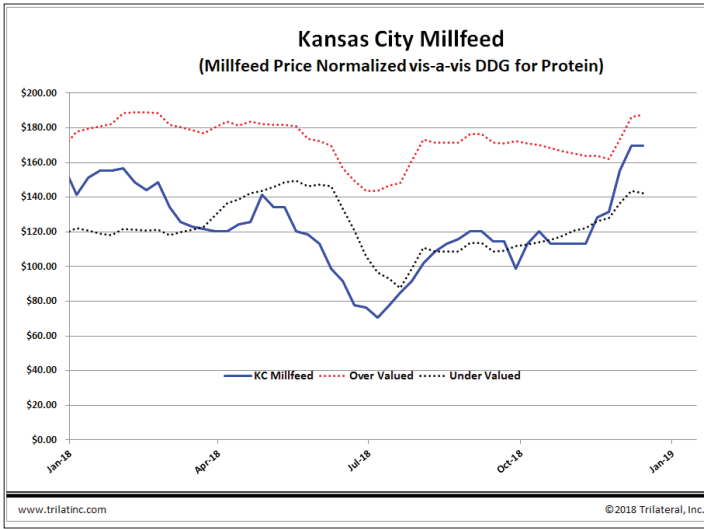
"The bloom is off the rose," a trader declared, surmising prices had found a ceiling. Still-tight Southwest wasn't yet bearish, but intensity of feed demand diminished and trucks desperately sought at \$220 per ton at dawn of week were being bid lower. A merchandiser agreed prices reached that level for Wichita-originated supplies. Oklahoma, Texas and Kansas millfeed users were said to be "backed up" with feed. Several indicated to traders they planned to stretch supplies they had on hand over next two weeks before reformulating in January.



Northeast had little in way of free stock and only quotes were for January-March. Typical logistical complications were exacerbated by long lines to unload at feed mills and other destinations believed to have over-ordered midds.



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.

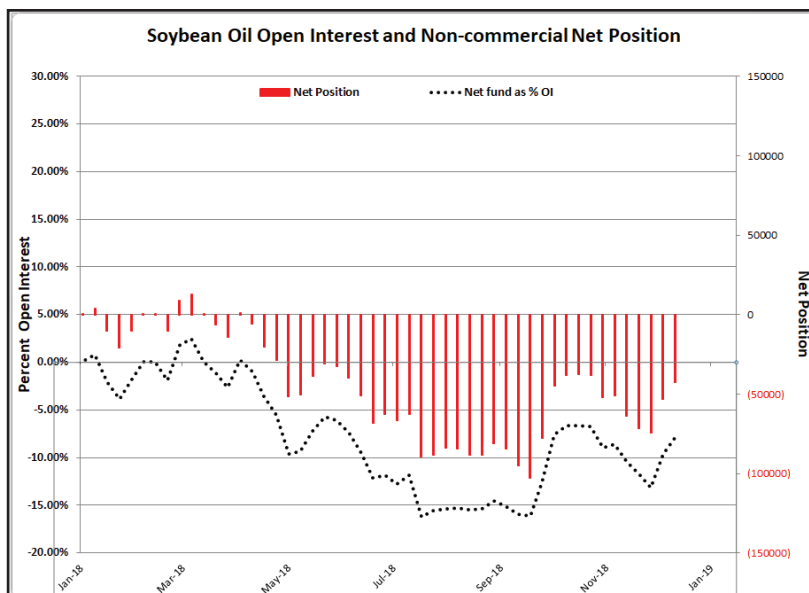
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Oils Charts and Tables

Technical Outlook

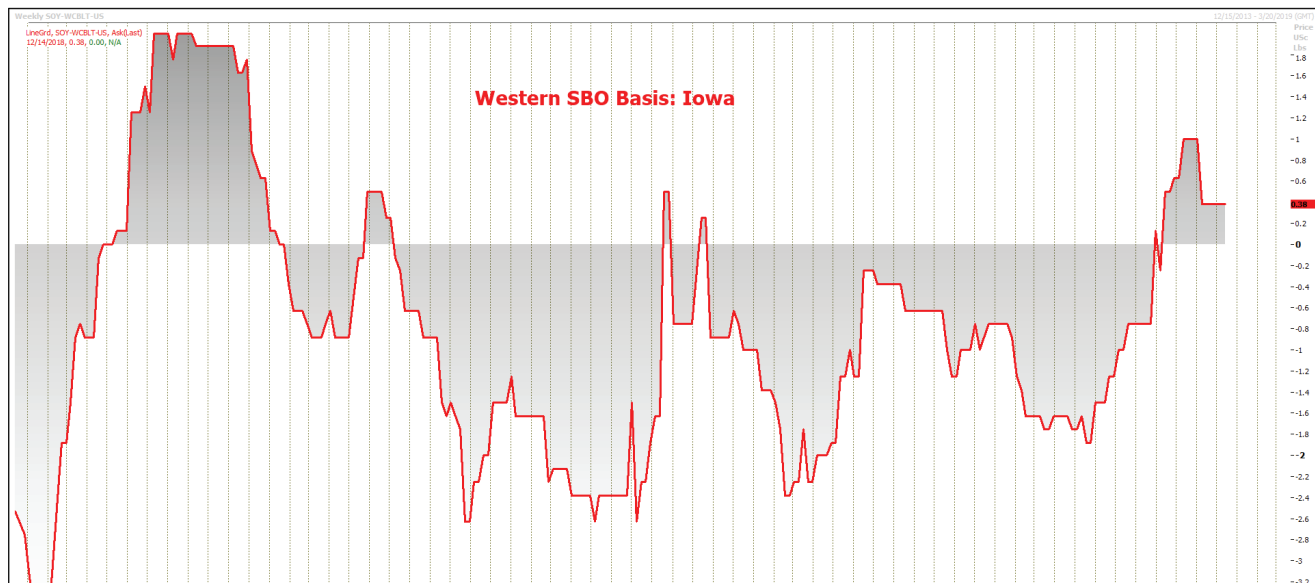
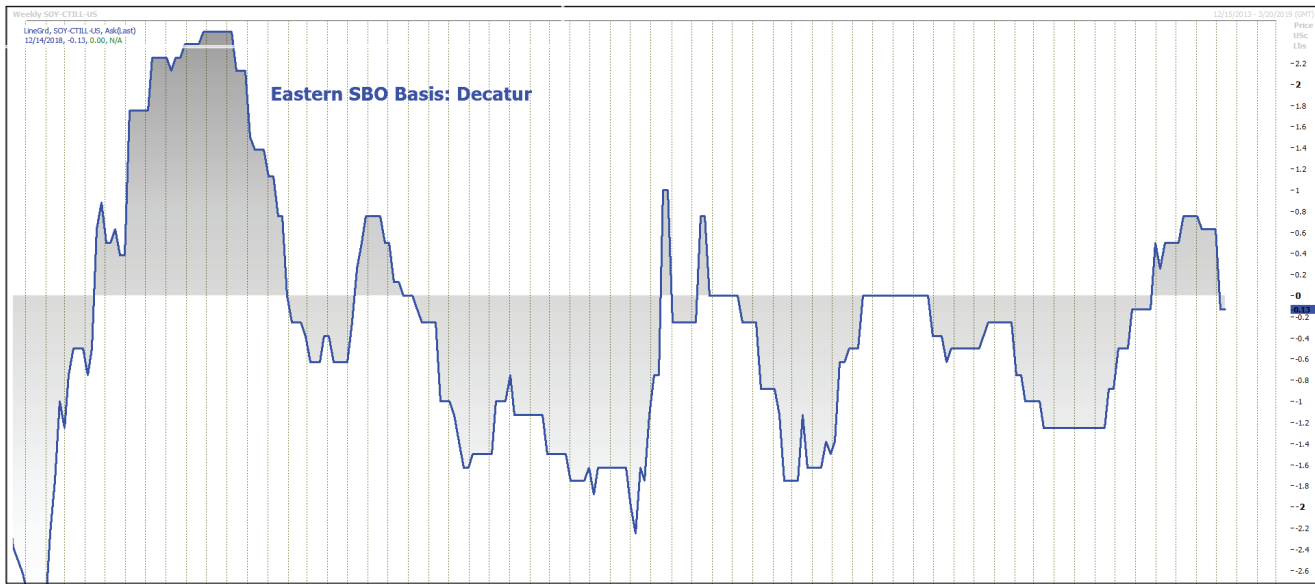


- With the recent impulsive move higher, labeled as wave **1**, we are calling wave **C** complete and are looking for further upside following the completion of corrective wave **2**.



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SBO Basis



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