

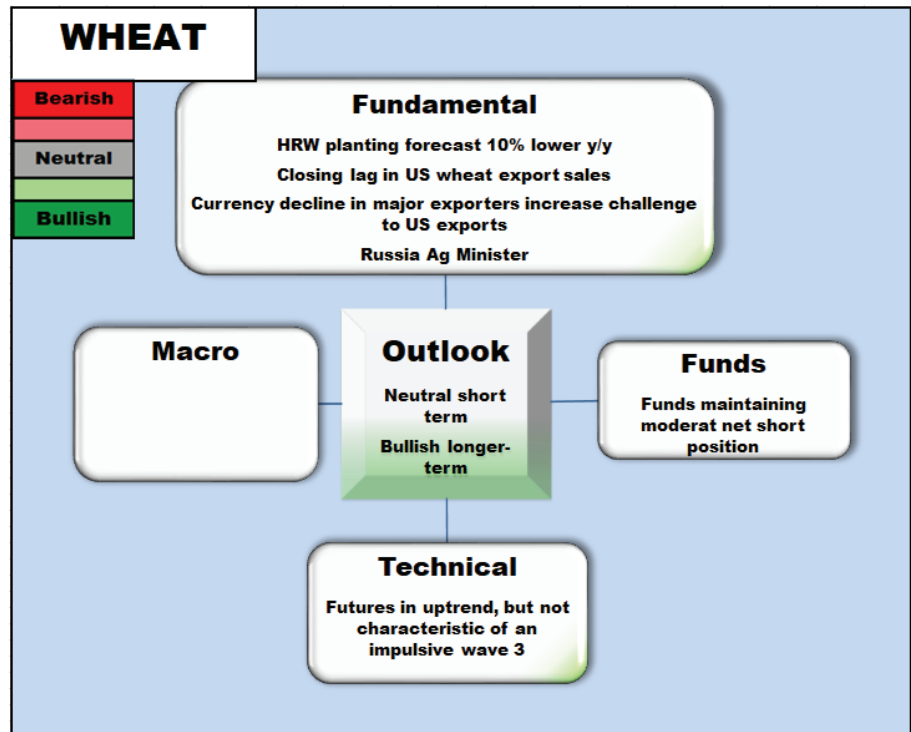
Trilateral Bakery Report

December 21, 2018

Recommendations

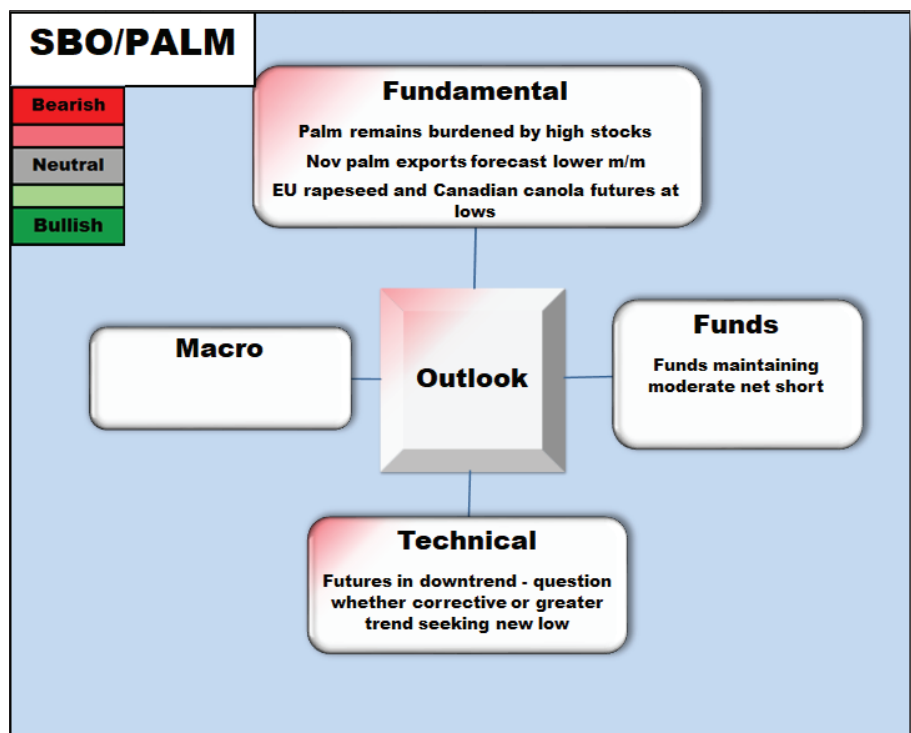
Wheat

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

- Drops in Canadian dollar, Aussie dollar and Russian ruble making wheat from three of the world's largest wheat exporters more attractive
- A few global weather issues that are adding support to wheat markets
- December 21 meeting of the Russian Ag Minister with exporters

[Read detailed recap](#)



Oils

- November palm exports expected to be lower m/m as stocks are at 18 year high
- Canola and rapeseed futures also down
- PRC soy purchasing disappoints

[Read detailed recap](#)

Market Recap

Wheat

From a flour buyers perspective, the market received bearish news today when Russia increased its export target from 35 mmt to 42 mmt. Moreover, the meeting between the Russian Ag minister and exporters did not result in any export tax or other restrictions as feared. A combination of a falling ruble and strong export demand has pushed domestic Russian prices to record highs, which prompted suspicions of some sort of restrictive action on exports.

Wheat futures have been attempting to maintain a delicate balance of responding to positive demand news, but not responding too enthusiastically by pushing prices above competitive export levels.

US wheat inspections have picked up in the past few weeks with last week's 25.1 mb said to be a marketing year high. The lag between this year's export pace to last year has been narrowing.

Global wheat prices continue to be driven by soaring world wheat values, led by Russia.

Russian wheat offers are said to have risen \$13 per metric ton in the past two weeks. However, a new wrinkle to the US market remaining competitive in global export markets has been the drop in the Canadian dollar, Aussie dollar and Russian last week, making wheat from three of the world's largest wheat exporters more attractive.

There are a few global weather issues that are adding support to wheat markets:

- Russian prices are being supported by concerns over export restrictions as well as the forecast of bitterly cold temperatures increasing winter-kill potential.
- Heavy rains in Argentina are also underpinning wheat, with the thought that perhaps there are some 1.5 to 3 mmt of Argentine wheat in the northeast that could be subject to quality issues. Argentine wheat production estimates continue to ease slightly with chatter now sug-

gesting the crop might be closer to 17 to 17.8 mmt compared to the recent Buenos Aires Grain Exchange 19 mmt forecast.

- Australia cut its harvest forecast 11% to 10-yr low on drought.

The NGFA estimates HRW planting at of 5% to 10% fewer acres. Also, much of the HRW wheat planted was planted late, which resulted in poor emergence/dormancy conditions going into winter. This increases potential for winter kill.

As USDA pointed out, the European Union will be a net grain importer (wheat and corn) for the first time since 2007/08. The projected 4 million metric tons (mmt) trade deficit on corn and wheat is the second largest deficit ever and just the third deficit of the last 30 years.

Finally, a decline in ethanol production has rallied DDG prices, which should add demand pressure to millfeed as a feed ingredient alternative to DDGs.

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

Oils

There have been no changes to the bearish conditions of the global edible oil markets over the past week.

Following last week's report that palm oil stocks had risen to 18 year highs, export demand in November is expected to be under October's sales. Expanded biodiesel usage in both Malaysia and Indonesia continues to support domestic demand. The downtrend in palm oil futures remains firmly intact.

SBO futures resumed a bearish profile last week. The new selling could be part of a corrective move or the beginning of new wave lower—further price action is needed to verify.

Market Recap cont.

The spotty and relatively small PRC purchasing of US soybeans has resulted in minimal price impact so far. Rich Feltes at RJO thinks the market appears to be drifting awaiting more clarity on depth of PRC demand and whether crude oil/equities can bounce.

Canola futures and Paris rapeseed futures rounded out the bearish global edible oils markets last week with canola falling to just barely off two-year lows while the rapeseed futures traded within a couple euro of 5-month lows.

[See oils charts and tables](#)

Wheat Charts and Tables

Technical Outlook



Protein Premiums

Soft Red Winter: Entirety of Michigan's upper peninsula remained under snow cover, and majority of lower peninsula still showed evidence of recent snowstorms. 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; January- March, 15c over March; April-May, 15c over May. Elevator bids were 10c under Chicago March, but elevator still was not accepting wheat deliveries. Cincinnati elevator will not accept wheat for time being, perhaps until January; 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 80c over Chicago March, unchanged.

Hard Red Winter: Premiums on hard red winter wheat in Kansas City tumbled last week. Basis lost its support, and several rail cars were bid sharply lower, leading to the downward adjustments, which ranged from 5c to 35c.

Hard Red Spring: Similar to HRW basis, HRS basis fell sharply lower over the past week.

Growers are generally more positive remained reluctant to sell much additional wheat without a more significant advance in prices.

Spring wheat acres are still are expected to increase in 2019.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.35 a bu.

As of December 20, 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.

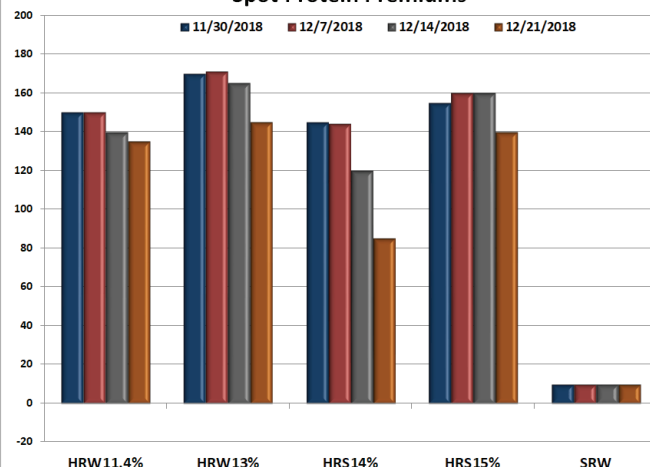
11.0%	120-135 H	-5
11.2%	120-135 H	-5
11.4%	120-135 H	-5
11.6%	120-135 H	-20
11.8%	120-135 H	-20
12.0%	130-145 H	-20
12.2%	130-145 H	-20
12.4%	130-145 H	-20
12.6%	130-145 H	-20
12.8%	130-145 H	-20
13.0%	130-145 H	-20
13.2%	130-145 H	-20
13.4%	130-145 H	-20
13.6%	130-145 H	-20
13.8%	130-145 H	-25
14.0%	130-145 H	-35
SRW basis Chicago		+10 H
	

MWE Wheat Protein Premium

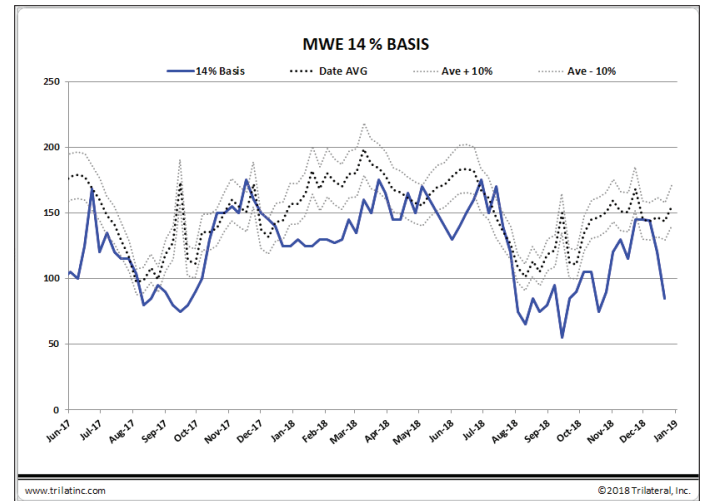
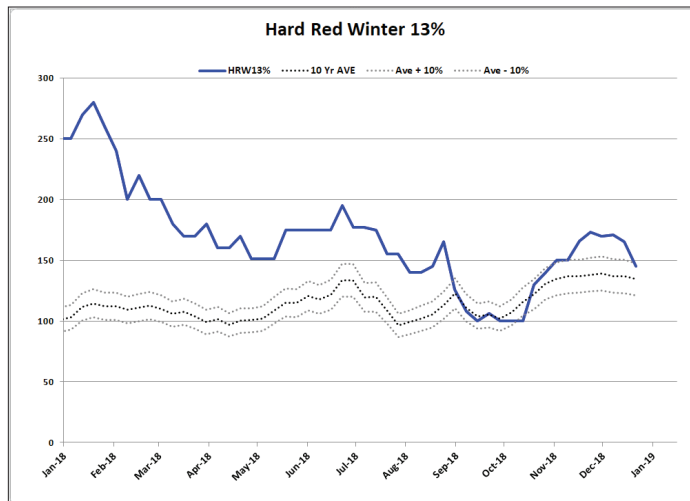
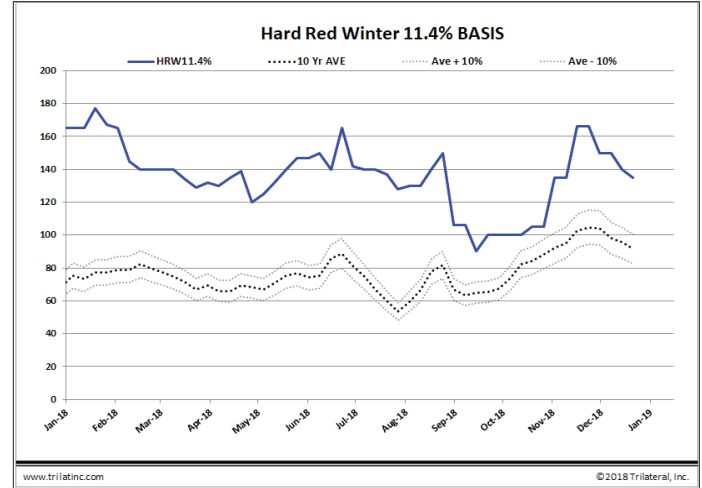
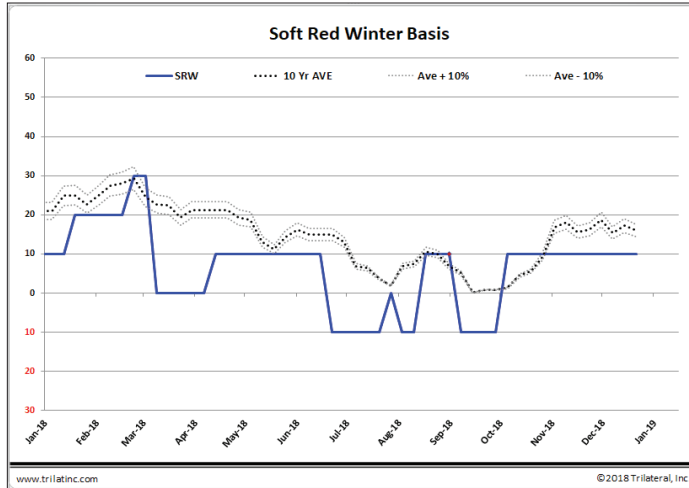
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

13.0%	70-70 H	-40
14.0%	110-144 H	-59
15.0%	160-160 H	-20

Spot Protein Premiums



Protein Premiums cont.



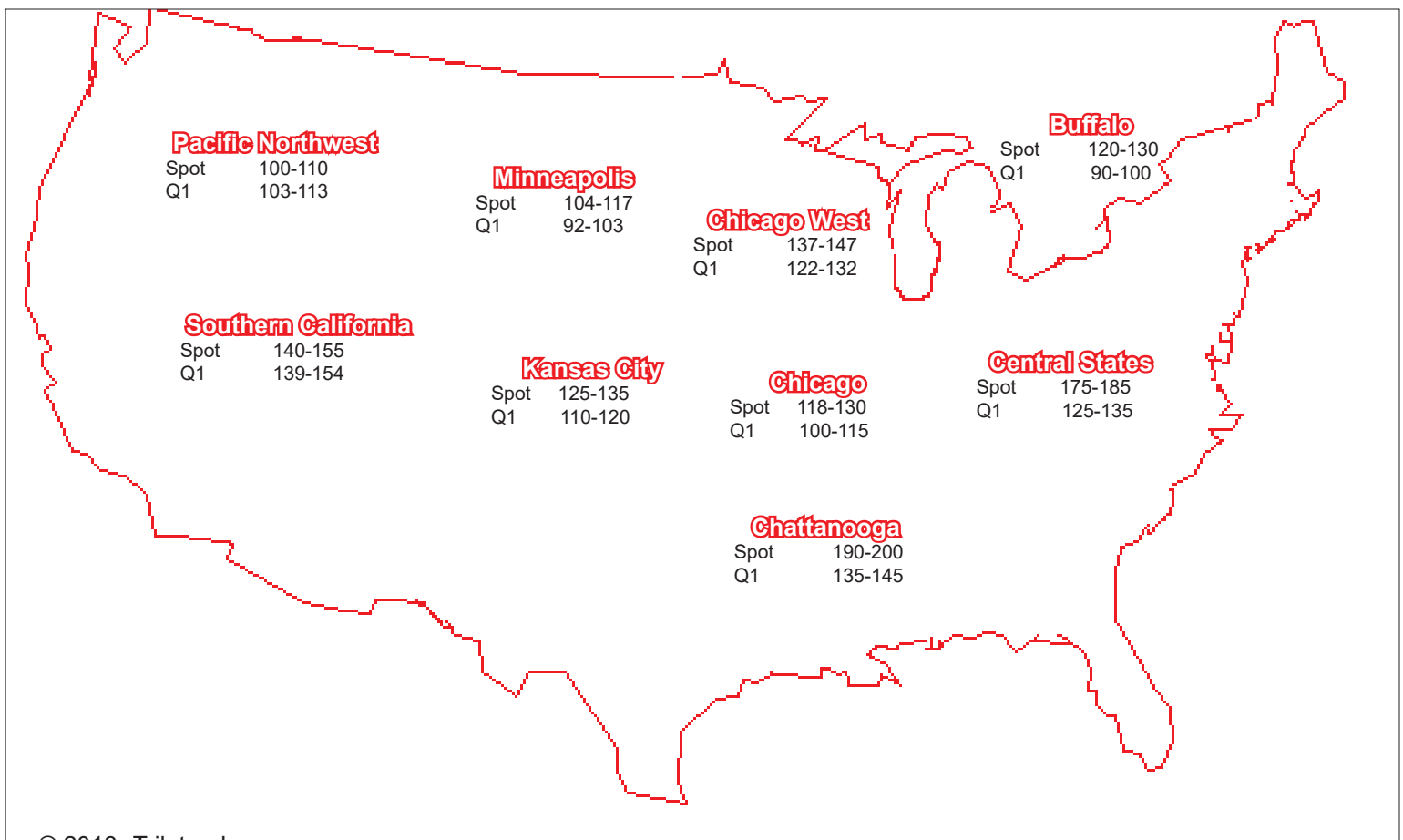
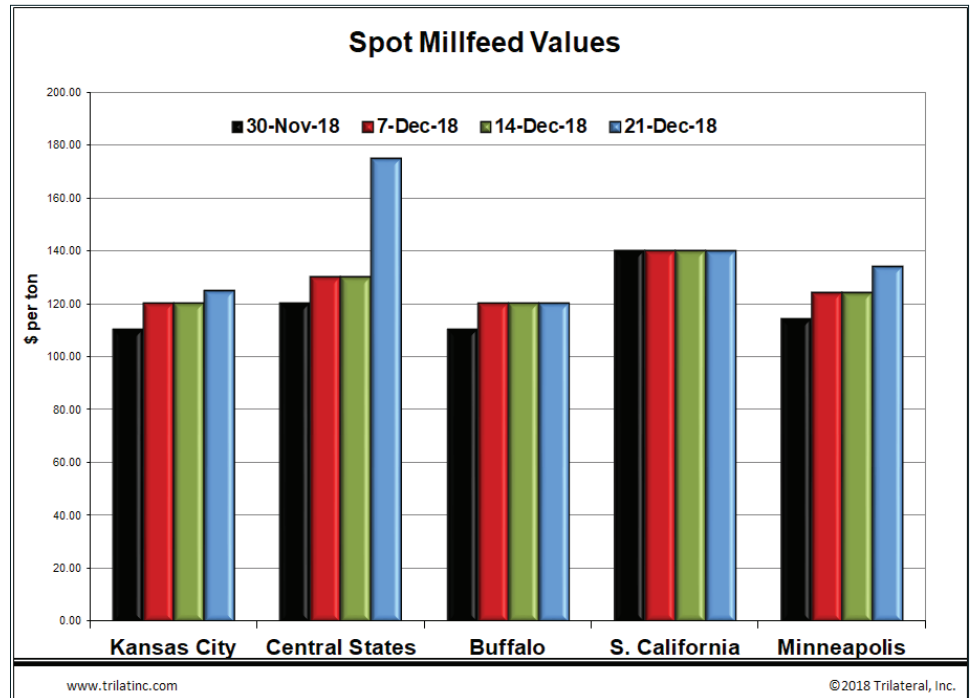
Millfeed

Prices were steady to higher in quiet trading. Supplies were tight, but millfeed markets were liquid and loads could be purchased on spot in some places, albeit at premium.

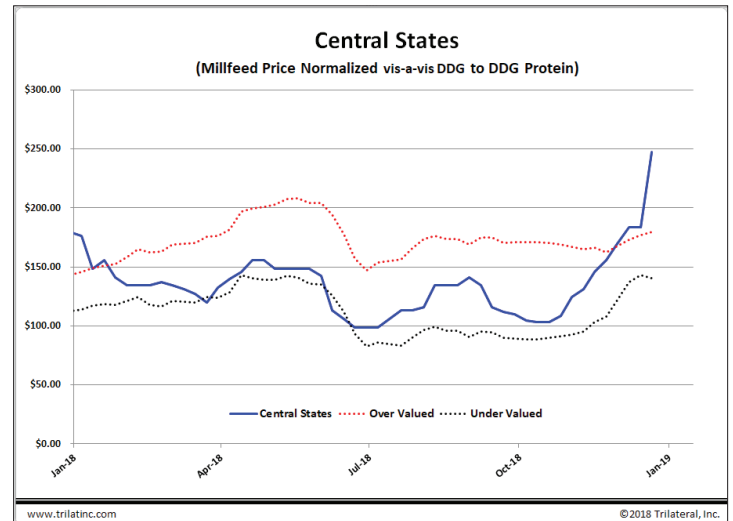
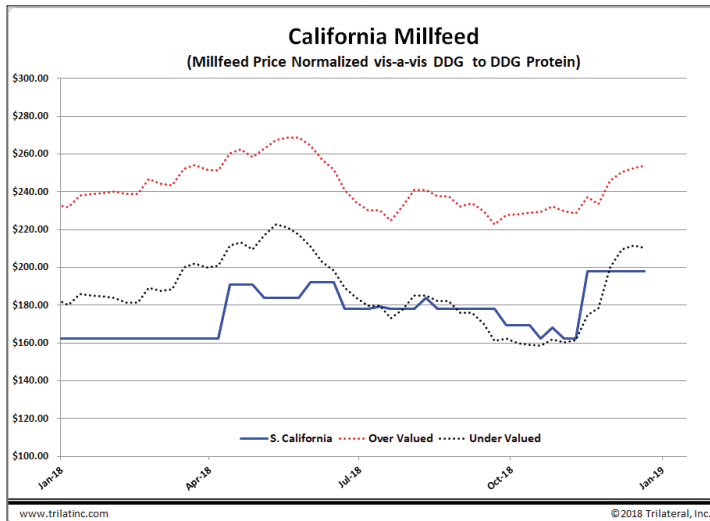
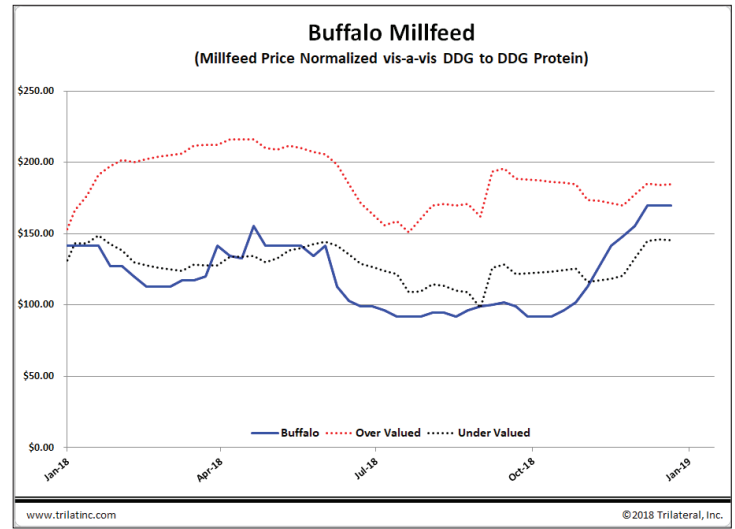
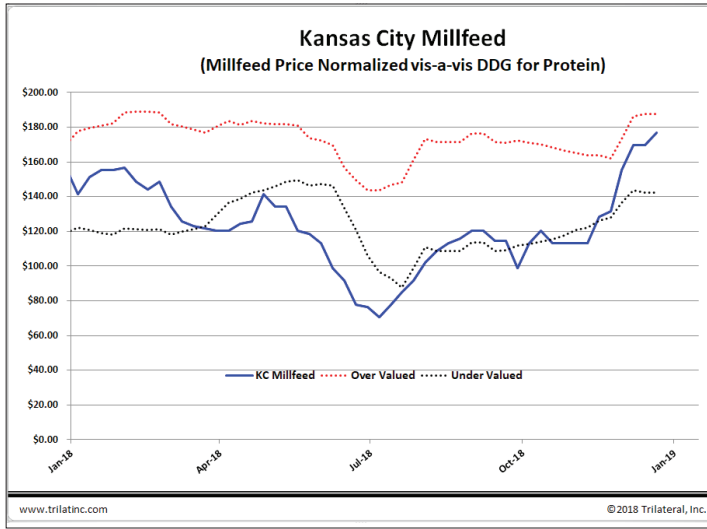
Values remained high partly on inability to shift millfeed to intended destinations due to severe transportation shortage.

Relative balance was evident in trader's comment that it takes five calls to get rid of a load, but seven calls to locate a mill willing to sell on a spot basis, as most preferred January- March contracting, surmising that prices will fall by February.

"It's a day-by-day market until after the holidays," source said. Midds were available in Southwest if a buyer sought a couple truckloads, but not in higher volumes. Wichita loads remained a \$10@15-a-ton premium to Kansas City. Several feed mills were said to be down unexpectedly for maintenance causing traders to seek alternate homes. Upper Midwest was trading in a wider-than-normal range. Supplies remained tight and values unchanged in Northeast.



Millfeed cont.



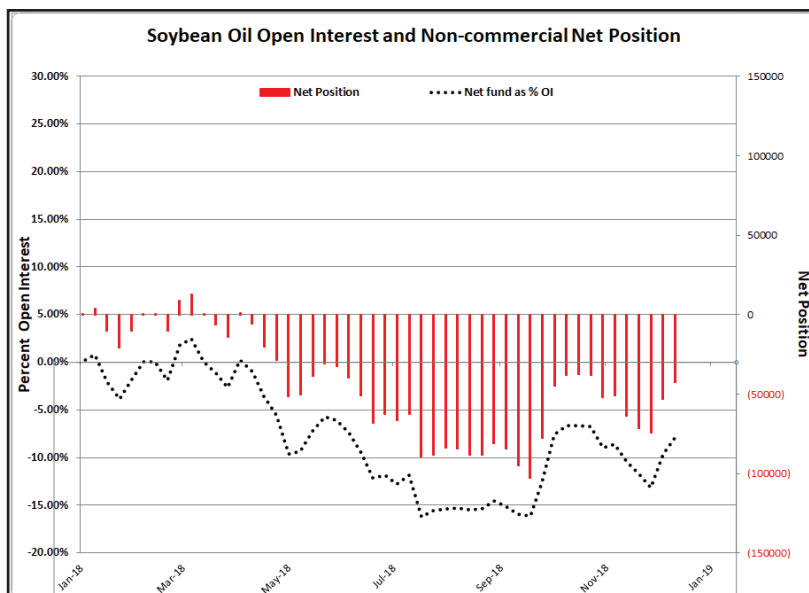
In the above charts the center line is the current millfeed price for the respective cities. The upper and lower lines are the range that millfeed prices trade between 80 and 90 percent of the time. One should avoid forward contracting millfeed when prices are near the lower boundary and wait to sell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

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Technical Outlook

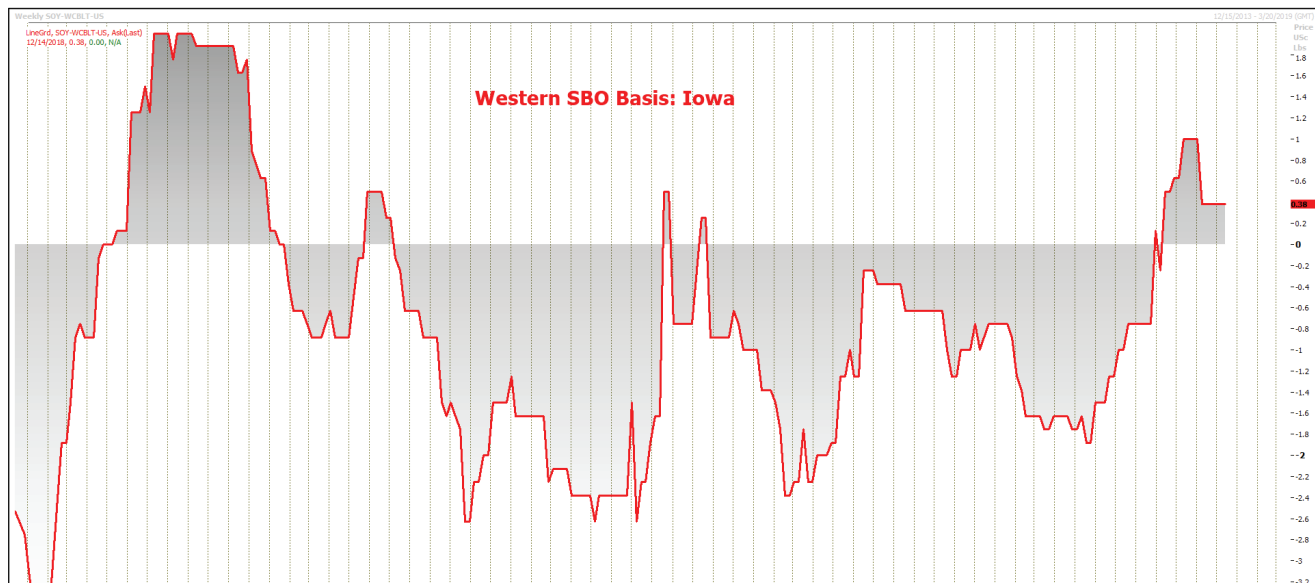
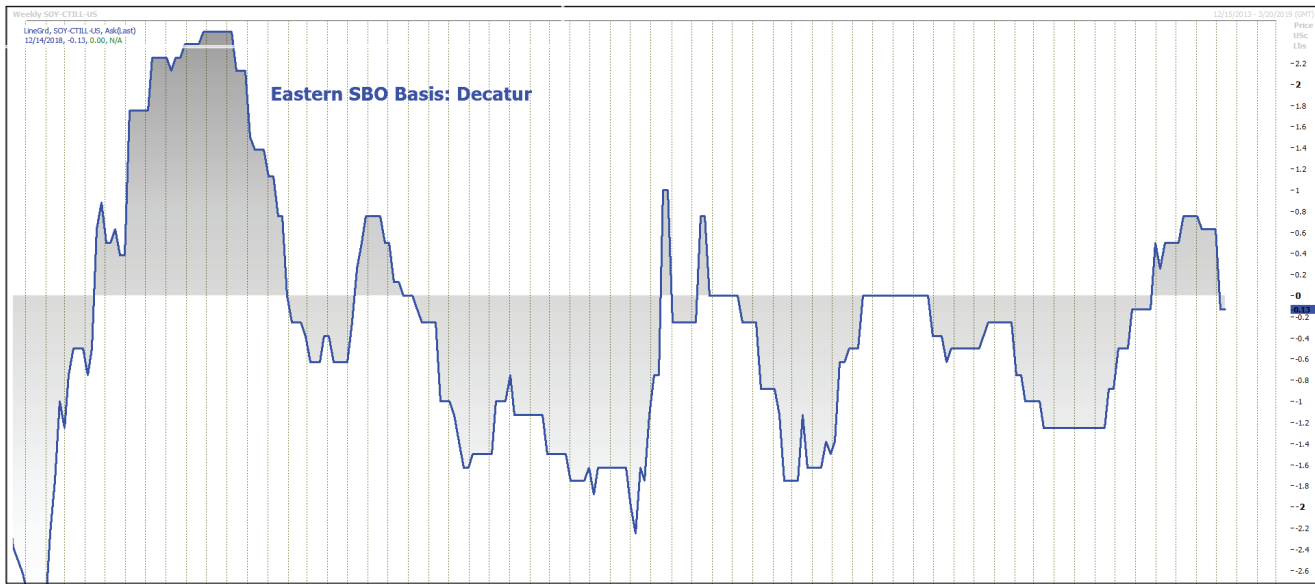


- Last week, with the recent impulsive move higher, labeled as wave **1**, we called wave **C** complete and expected for further upside following the completion of corrective wave **2**.
- As of today's trade, wave **2** has retraced a standard Fibonacci maximum 61.8% of wave **1**. I.e., prices need to turn sharply higher in wave **3** soon to sustain the current wave count.
- We will know the current wave count is wrong if critical support of 27.18 is penetrated.



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SBO Basis



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