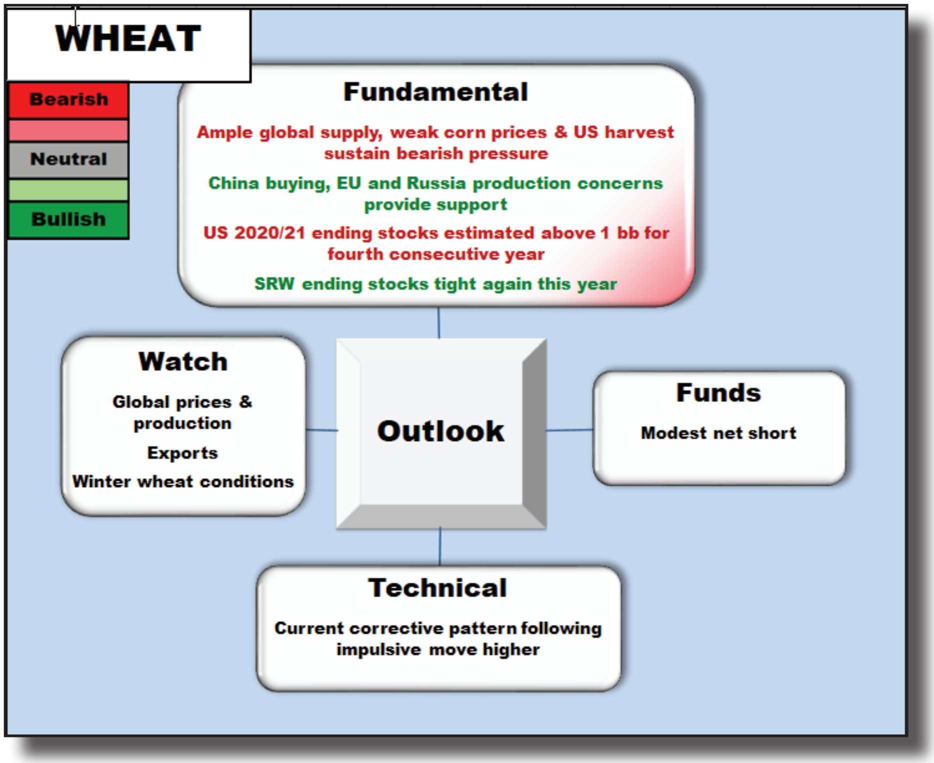
Trilateral Bakery Report

July 27, 2020

Recommendations

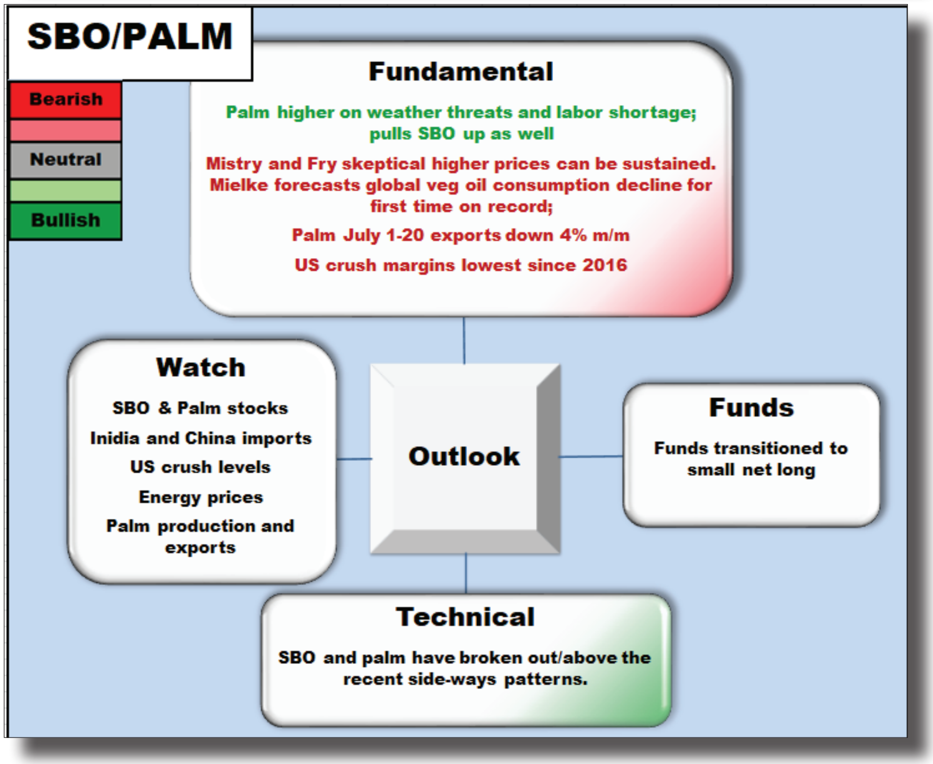
Wheat

Winter wheat harvest nearing completion—look for opportunities to extend coverage into Q4 and Q1 2021.



Edible Oils

Coverage through Q3. Initiate Q4 coverage with historically low prices.



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Market Recap

WHEAT

The main bearish influence on wheat prices continues to be the lack of significant threat to world wheat production.

For those who still have uncovered Q4 futures, we recommend waiting a bit longer. A combination of ample global supply, weak corn prices and the US harvest are all negative forces that should keep the trend to the downside.

The wheat markets saw an impressive rally off of the late June lows, but the market does not seem to have the supply fundamentals for an extended rally higher. In fact, managed money fund traders reduced their net short position by 25,000 contracts in just one week, which suggest that short-covering was a key factor for the recent rally—perhaps spurred by production concerns in Europe and the Black Sea regions. However, similar to last year the larger outlook for wheat prices in general remains bearish with both the International Grains Council and USDA estimating record world wheat production in 2020-21.

A mixed yield picture for wheat in Eastern Europe and Russia weighed on wheat futures. We are still in a situation where the pandemic has created ongoing uncertainty as to crop size in the Black Sea. Without free travel around the Russian and Ukrainian grain areas, very few comprehensive crop tours were made this year, making harvest results the main information about supply.

Among US markets, traders are watching SRW most closely. Last year's production fell from 286mb the previous year to 239mb in 2019. SRW wheat, in particular, has favorable qualities for crackers and pastries that end users were willing to pay up for. In fact, the market paid $1.30 over the March futures contract last winter when USDA was estimating ending SRW wheat supplies at 106mb. Just last Friday, July 10, USDA pegged 2020/21 ending SRW wheat supplies of 103mb, setting the stage for another year of tight supplies and higher Chicago wheat prices. USDA expects harvested acres to be up slightly from a year ago, but 280mb of expected SRW wheat production will fall short of 292mb of total use, leaving the lowest ending SRW wheat surplus since 2007-08 when cash SRW wheat prices peaked at $11.86 a bushel and finished the season at $6.13. It also doesn't help wheat prices that USDA is expecting a 2.65 billion-bushel U.S. corn surplus at the end of 2020-21 and cash prices are already near $3.00.

In this bearish macro/bullish micro type of wheat market environment, trading in Chicago wheat futures was choppy at times last year, and that will probably be true again this year. However, the underlying bullish support for spot Chicago prices should hold firm, given the lean supply situation in SRW wheat USDA expects.

Frequent rains in the Northern Plains spring wheat areas are creating some concern over spring wheat quality ahead of the harvest, although yields have certainly been helped.

Finally, the potential for a relatively strong La Nina is slowly increasing. We saw in 2012 how one drought in a major producing region of the world made for a tremendous price rally. If the La Nina predictions come true, that could potentially become a major global event later this year and into 2021.

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OILS

SBO and palm oil futures broke out of their month long sideways pattern last week to the upside.

The markets were driven by bullish supply news for palm that extended gains to the highest level since January 15. Also, China's palm and bean oil prices have escalated to the highest level in years.

First were heavy rains and flash floods in major producing areas of top producers Malaysia and Indonesia this month that fueled worries about disruption to harvesting.

Then the Malaysian Palm Oil Association announced that Malaysia is losing up to 25% of its potential palm oil yield due to a labor shortage that is expected to worsen in the coming months. The group, which represents plantation firms, said the government's decision to freeze the recruitment of new foreign workers until December could lead to the "demise" of the industry. "Pre-COVID, we were already short of 36,000 workers. This (shortage) has already resulted in us not realising our potential production by 10%-25%," MPOA Chief Executive Officer Nageeb Wahab said in a conference. Malaysia, the world's second-biggest palm oil producer, relies on workers from countries such as Indonesia and Bangladesh as they account for 84% of its plantation workforce.

While bullish sentiment has strongly set in due to supply concerns, it remains to be seen whether palm oil's demand fundamentals will continue to be supportive. Malaysia's palm oil exports for July 1-20 fell between 3.5% and 4.6% from the previous month, cargo surveyors said.

Analysts Dorab Mistry and James Fry are skeptical that higher palm prices can be sustained They see fundamentals as generally bearish for palm oil in the last quarter. Mistry said, "If Brent crude, on the other hand, remains around $42 per barrel and palm production follows its usual seasonal trend for Q4, then current palm prices are simply too high and will need to fall." Output peak has shifted to the fourth quarter due to heavy rains in Indonesia, said James Fry, chairman of consultancy LMC International, adding that he expected higher inventory towards the end of the year. "Unless you feel very bullish about Brent, current crude palm oil prices cannot be sustained going towards the fourth quarter, when stocks will be at their seasonal peak," Fry said.

Also bearish for soybeans, and potentially soybean oil, spot board crush margins have fallen to 60 cents, the weakest since 2016.

In the US the soybean crop is currently in good condition. But soybeans are made or lost in August and unlike corn, where stocks are burdensome under almost any scenario, it doesn't take much yield loss to make the U.S. soybean balance sheet bullish, especially with Brazil close to being sold out of soybeans and the Chinese trying to fulfill their phase one commitments. If yields fall 3% from trend to 48.3bpa, U.S. ending stocks could come in near 300mb vs. 620mb this year and 909mb in 2018/19.

Meanwhile, Brazilian farmers will increase the area they plant with soybeans in the 2020-2021 growing season by 1.8% from the recently finished season, according to agricultural consultant Safras & Mercado. It would be the 14th consecutive year that the area planted increased from the previous year, and the 12th consecutive record. If productivity is good, the harvest could reach a record 131.7mmt, Safras said.

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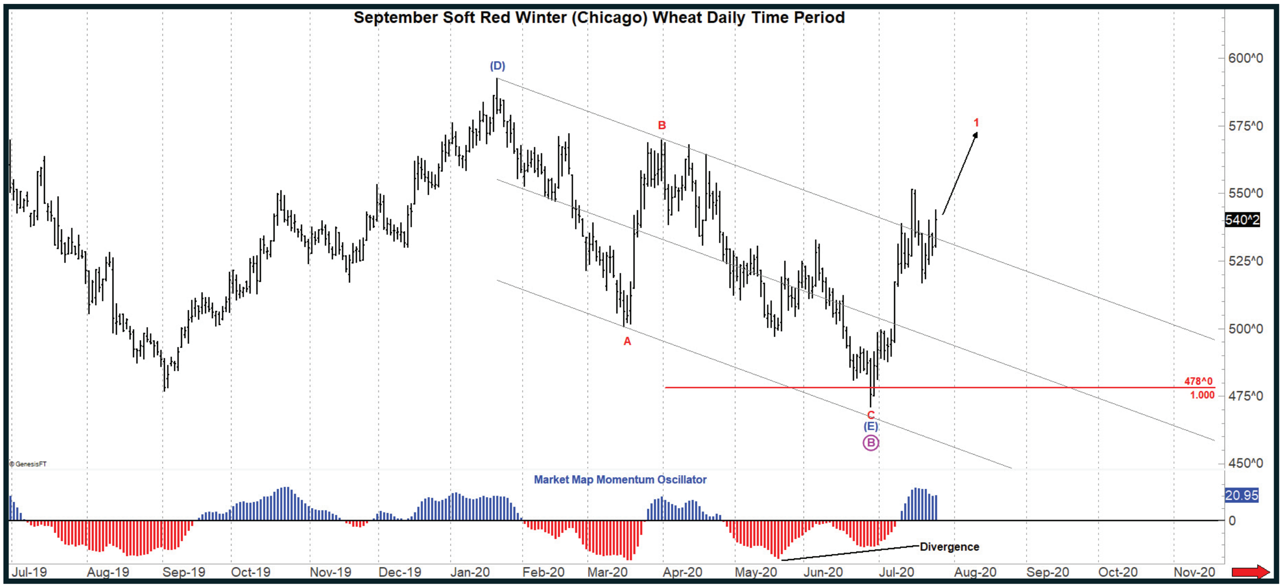
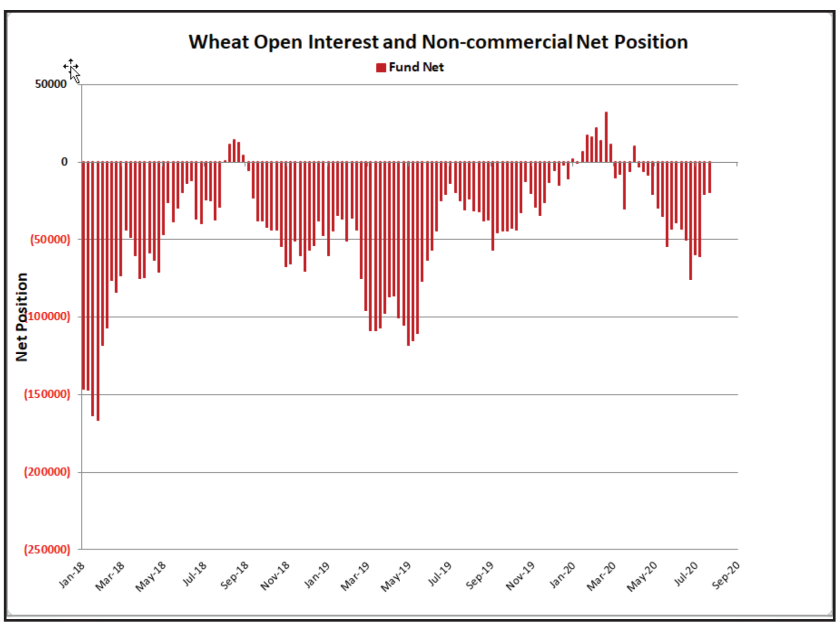
Wheat Charts and Tables

Technical Outlook



- There are no changes in the technical outlook for wheat.
- Seeing corrective pattern following impulsive upward price movement supports an uptrend interpretation.

Money Flow



Protein Premiums

Soft Red Winter: Alton area bids were up 5 cents 40 over Chicago Sep; St. Louis-area bids on soft red winter wheat were 35c over Chicago Sept.; Aug.-Sept., 30c over Sept. Toledo mill bids were 10c over Chicago Sept.; August- September, 10c over. Elevator bids were 10c over Chicago Sept. Cincinnati elevator bid was 8c over Chicago Sept. Michigan white wheat mill bids were 10@30c over Chicago Sept.; soft red winter wheat mill bids were ranged from 10c over Chicago Sept. to 25c under. Gulf bids on soft red winter wheat for nearby were 55c over Chicago Sept.

Hard Red Winter:
HRW premiums were mostly higher over the past week.

Despite basis beginning to rally as month-end approaches, there appeared to be no real sense of urgency to ship supplies, veteran trader said. Nascent spring wheat harvest was thought to dictate protein premium spreads in next couple weeks.

Hard Red Spring: HRS premiums slipped lower last week.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was $8.50 a bu. Minneapolis price was $8.20 a bu. Cash durum market remained stable at levels that have held for past several weeks.

As of JULY 24, 2020

KCBT Wheat Protein Premium Scale

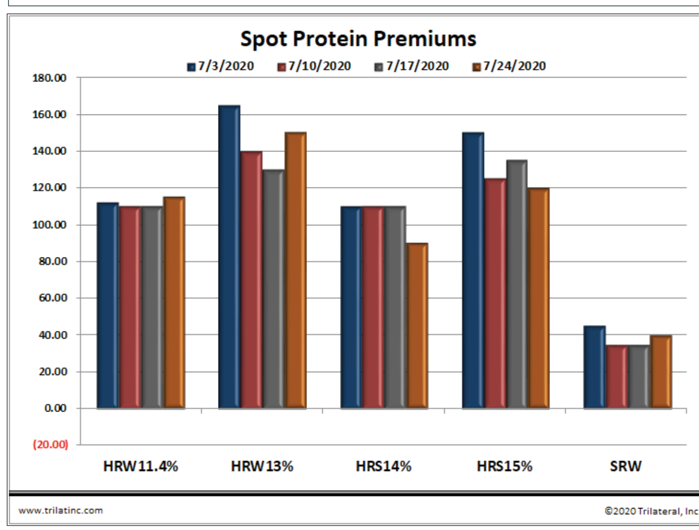
The following hard red/soft winter wheat scale is in cents per bushel, basis KCBT Mar futures, according to billing and quality. Source: KCBT Cash Grain Committee.

11.0%	95-105 U	....
11.2%	100-110 U	....
11.4%	105-115 U	+5
11.6%	110-120 U	+10
11.8%	110-120 U	+10
12.0%	120-130 U	+15
12.2%	120-130 U	+15
12.4%	120-130 U	+15
12.6%	120-130 U	+5
12.8%	120-130 U	....
13.0%	140-150 U	+20
13.2%	140-150 U	+20
13.4%	140-150 U	+20
13.6%	140-150 U	+20
13.8%	140-150 U	+20
14.0%	140-150 U	+20
SRW spot Alto	+40 U	+5

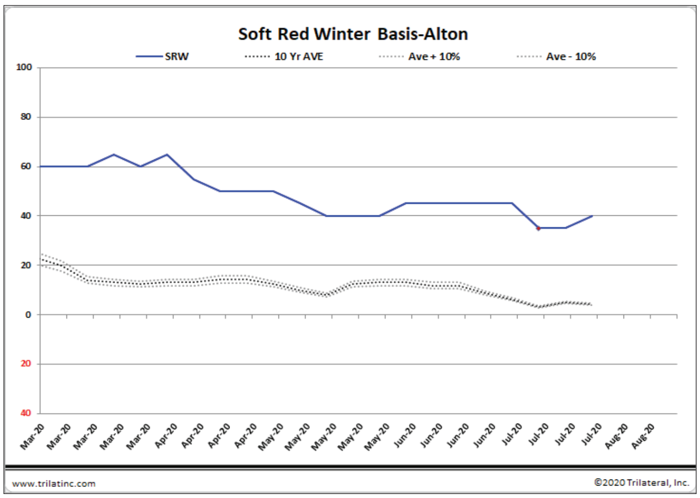
MWE Wheat Protein Premium

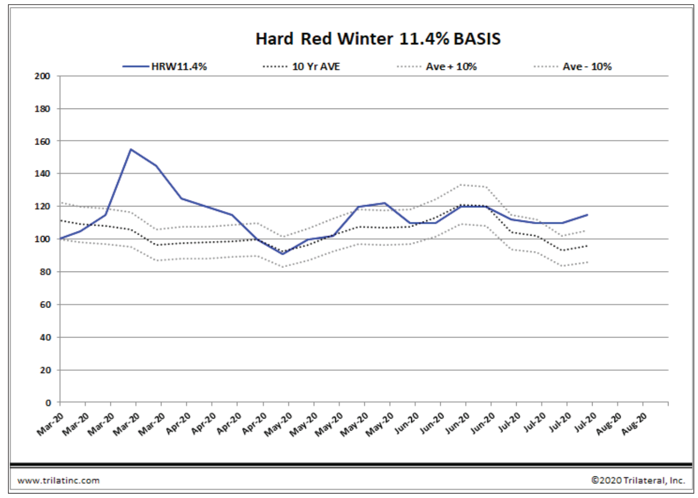
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

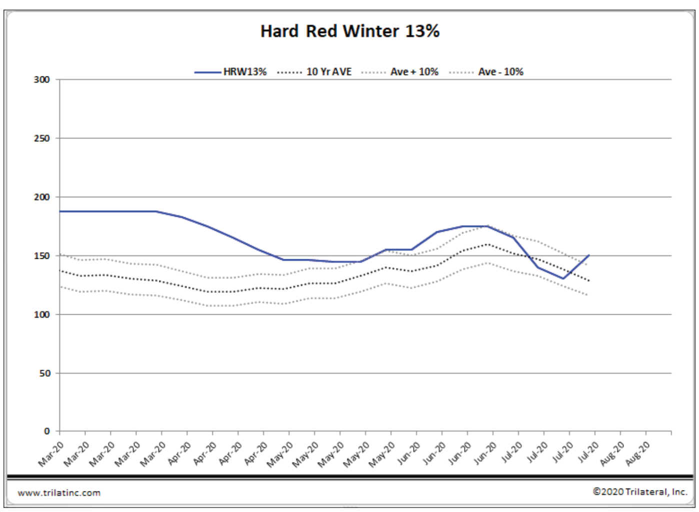
13.0%	No quote	.....
14.0%	90-90 U	-20
15.0%	120-120 U	-15

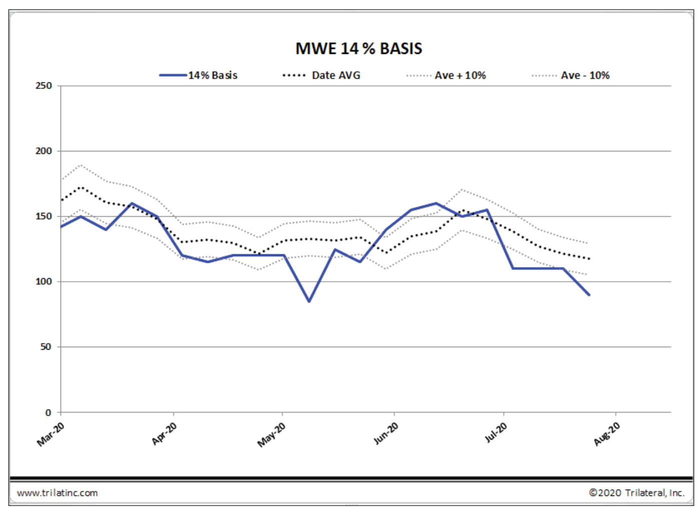


Protein Premiums cont.

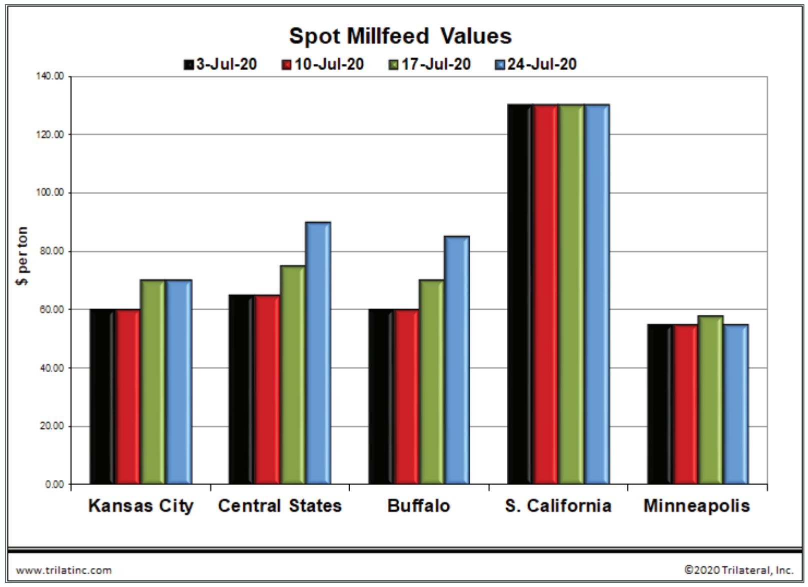








Millfeed



Prices were unchanged to higher last week. Principal support in select regions came from a pullback in flour mill grind that continued to tighten supply.

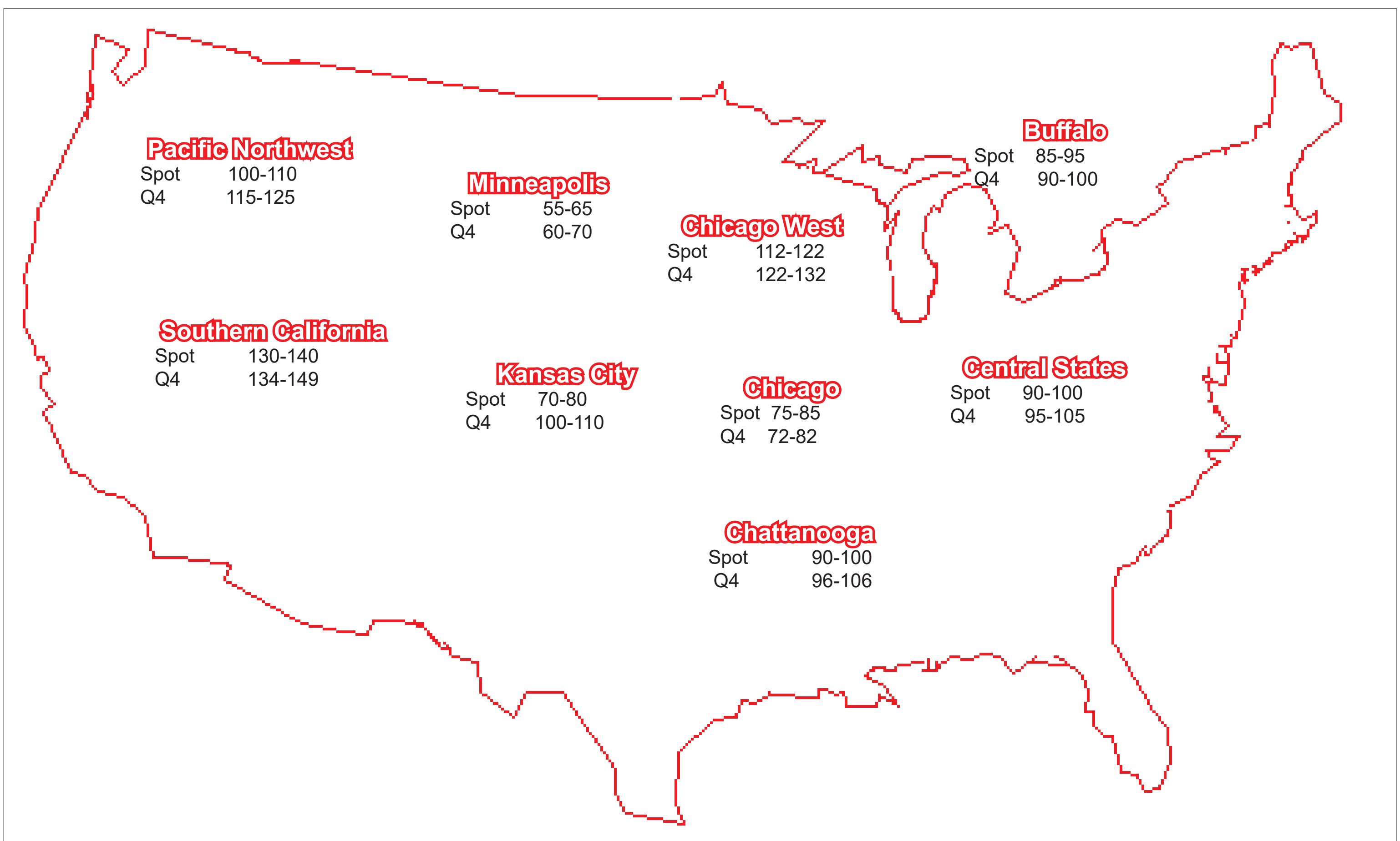
Some runtime was pulled on ideas that rising cases of COVID-19 may lead to additional lock-downs that could tamp down foodservice demand again.

While the weekend grind has lessened since 4th of July holiday, the situation is nowhere near as dire as late March- April, when feed was in some cases unavailable.

Northeast spot market values were firmer as two major mills trimmed grind. At same time, some buyers who had kicked midds from rations at start of third quarter were returning them to mix.

Southeast held a similar dynamic. Demand in Carolinas and Georgia has not improved much. But the market was firmer as excess midds that inevitably flowed south from Northeast dried up concurrent with local grind cutbacks.

Central states feed flowing east slowed to a trickle, but some was said to be making its way south to Gulf region to accommodate needs of catfish producers.



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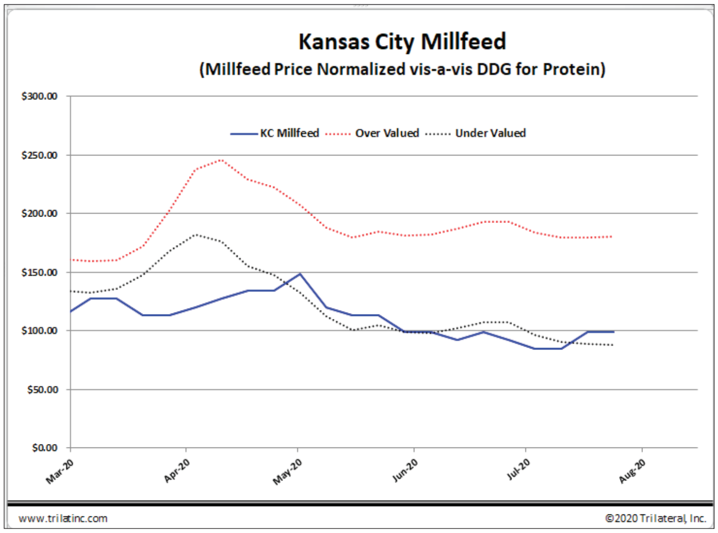
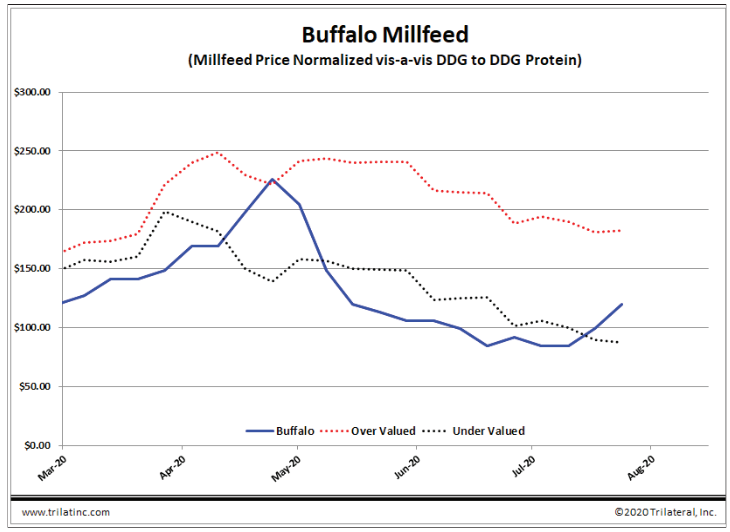
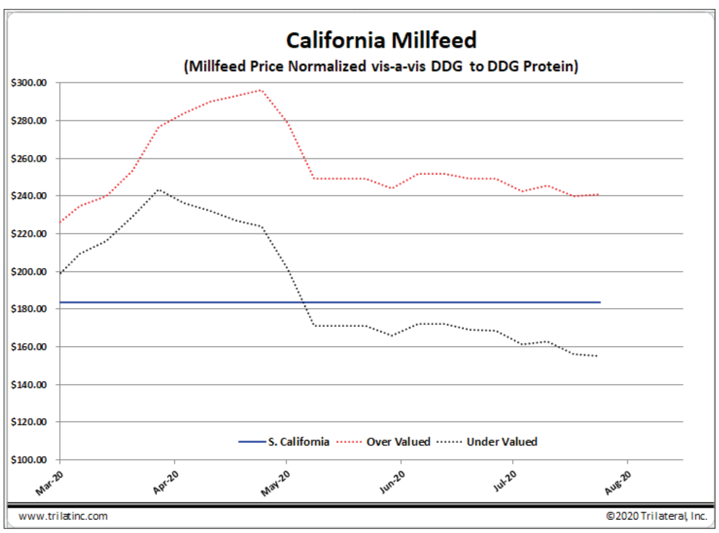
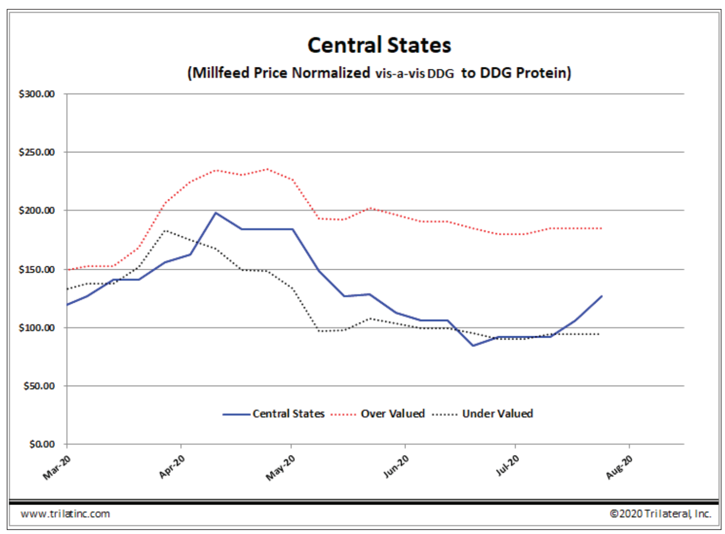
Millfeed cont.









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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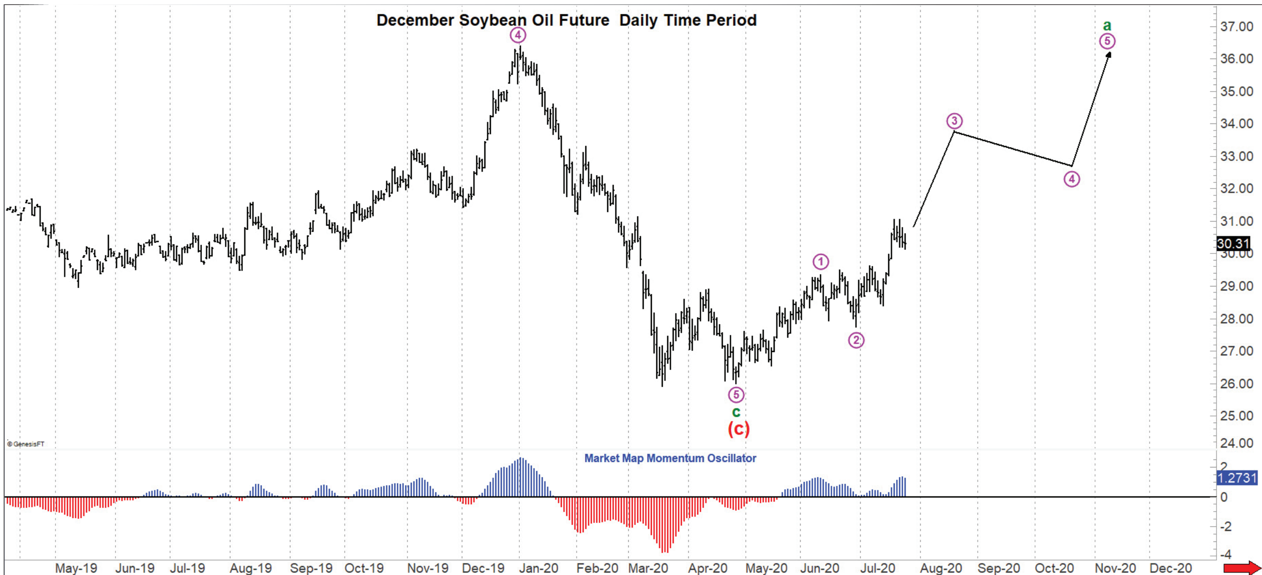
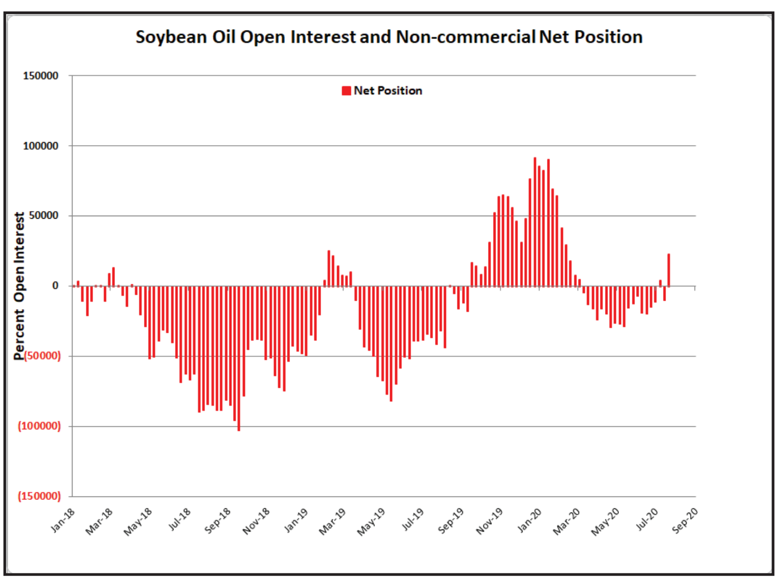
Oils Charts and Tables

Technical Outlook



- SBO and palm oil futures broke out of their long running sideways patterns at the end of last week.
- Looking for further upside in wave 3 of a

Money Flow



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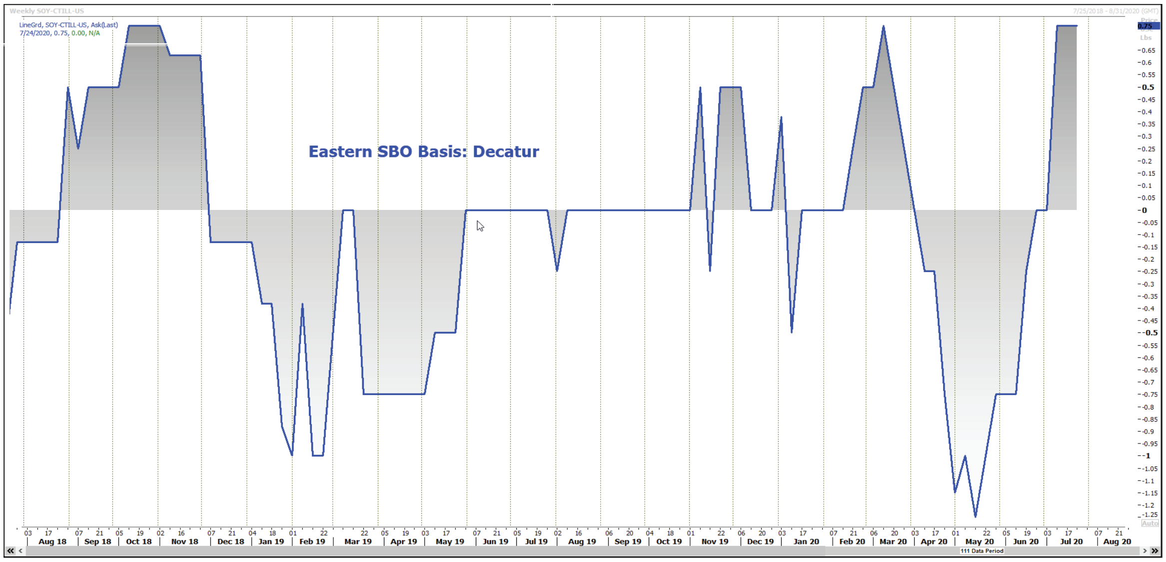
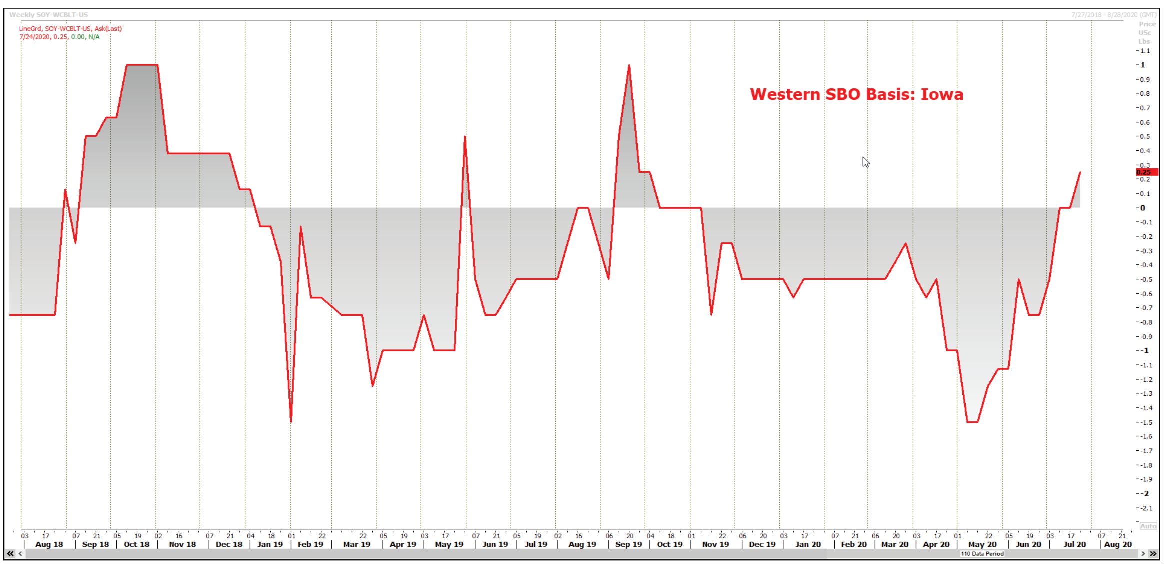
SBO Basis





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