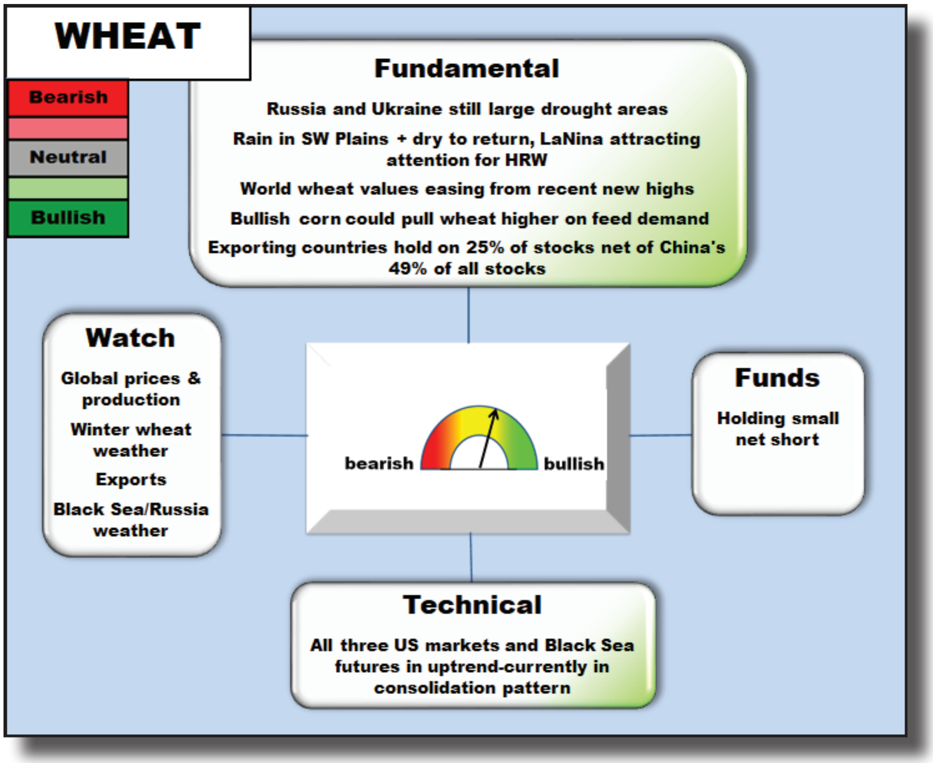
Trilateral Bakery Report

November 23, 2020

Recommendations

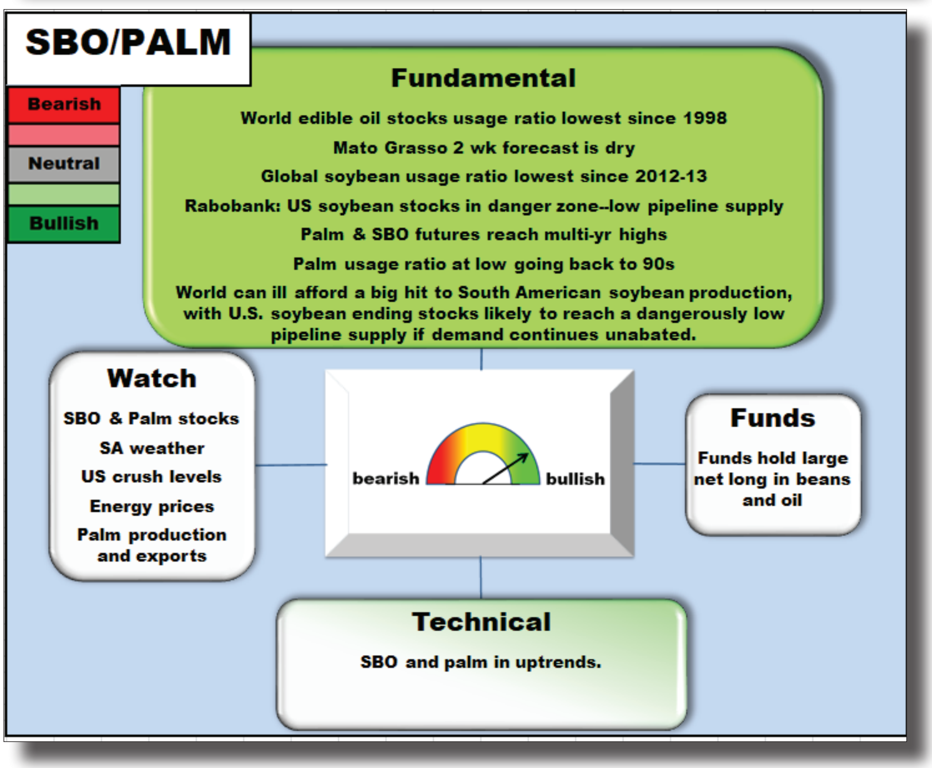
Wheat

Basis should be covered through Q1. Futures coverage should be through mid-Q2. Opportunity to extend coverage should be made on any corrective patterns. The market has not seen harvest pressure or corrections in corn or wheat. Record net long fund positions make corn vulnerable to profit-taking/correction, which will pull wheat lower as well.



Edible Oils

Coverage should be through Q3. Futures and basis expected to remain strong.



Market Recap

WHEAT

Wheat futures remain in a consolidating/corrective pattern, perhaps due in part to the divergent forces of plentiful wheat stocks now versus some new-crop weather issues.

In the US the new drought monitor shows expanding drought in Oklahoma and eastern Kansas. While near-term forecasted 1/4 to 1" rain totals for southwest Kansas and Oklahoma over the weekend, the extended forecast suggests a return to warm and dry conditions.

The International Climate and Research Institute released its updated forecasts for the next three- and six-month periods last Monday. The forecast kept the chances high for continued dryness and drought potential in the U.S. southern Plains. Dry conditions remain prominent in the IRI forecast with below-average precipitation in the southern Plains forecast leads to more concern about lower winter wheat output from this region in 2021.

The US drought (as well as dry condition in South America) is connected to the La Nina cooling of equatorial Pacific. Recent forecasts indicate the La Nina is firmly entrenched and even gaining momentum with some models suggesting it will become a strong event, with a 65% chance of lasting through spring, which could hinder HRW wheat development coming out of winter dormancy. Effects of the pattern could linger enough to create potential for weather scares during the summer of 2021

While the U.S. Southern Plains have some rains forecast over the weekend, a longer-term outlook features very warm temperatures and high winds, further sapping soil moisture.

Last week's winter wheat conditions rose by one percentage point to 46% good to excellent, but perhaps more significant the portion of the crop in poor to very poor condition also rose by two percentage points to 18%.

Major producing state Kansas is just 32% good to excellent and a huge 23% poor to very poor.

The primary driver of recent world wheat gains remains, with prices in Black Sea areas high and dryness a real concern in parts of Ukraine and southern Russia as those crops enter dormancy in poor condition.

Conditions for Russia's winter wheat remain tense despite some improvement seen in recent weeks, analysts said last week. Farmers in Russia, the world's largest exporters of the grain, have been sowing winter wheat in dry soil this year, increasing risks for the 2021 crop. "Despite some improvement in recent weeks, plants are still in a bad shape overall," Sovecon agriculture consultancy said in a note. "A lot will depend on how harsh this winter will be and how much precipitation we will see." The share of sowings in bad condition, which Russian officials usually estimate and release in late November, is likely to be close to a record high, Dmitry Rylko, the head of the IKAR consultancy, said.

OILS

As the world veg oil markets extend their bullish run, soybean oil hit a six year high and palm oil futures reached an eight year high last week.

Trilateral has cautioned for many months about the global edible oils usage ratio being at a low level extending back into the 1990s—this in the context of expanding production.

Compounding that bullish condition, a dry pattern from Argentina into southern and central Brazil threatens to severely compromise yields in both Argentina and parts of Brazil.

Weather models this morning are pointing to a continuation of dry weather the next two weeks in much of Brazil, especially the largest soybean production province of Mato Grosso. The world can ill afford a big hit to South American soybean production, with U.S. soybean ending stocks likely to reach a dangerously low pipeline supply if demand continues unabated.

This dry pattern is connected to the La Nina cooling of the equatorial Pacific that appears to be firmly entrenched and even gaining momentum with some models suggesting it will become a strong event, with a 65% chance of lasting through spring. Dryness is expected to extend for another few weeks in Argentina and southern Brazil.

Commodity Weather Group noted that the period Sept 1 to Nov 16 was the driest in Brazil in four decades: "there is no question that the very limited moisture reserves currently and the lack of much promise for a substantial turnaround moving into the start of the summer will leave the area more susceptible to potential issues. Normal summer rainfall is not needed to achieve a good soy yield either (last season tied for seventh driest in the past four decades), but any extended period of dryness will quickly and easily allow stress to build this season if rains falter. With that in mind, risks are at least elevated for a yield issue this season, even though such a result is far from certain."

Moreover, Brazil is out of beans until its next harvest. Brazil soy stocks as of Oct. 1 were the smallest in over 20 years and La Nina threatens to severely compromise yields in both Argentina and parts of Brazil.

Rains fell in northern Brazil late last week, but the center and south, including key producer area Mato Grosso, remain dry. Mato Grosso, continues to get shortchanged with rains and has received less than 50% of normal moisture in the past few weeks. After recent beneficial showers, Argentine dryness is expected to return to much of that country. Soil moisture continues to decline.

Meanwhile, robust exports that account for 84% of the USDA annual projection after just 10 weeks of the marketing year promise to draw down US soybean ending stocks to the lowest point in seven years.

U.S. soybean 2020/21 carryout is likely headed towards 100mb (2% stocks/use), which is below pipeline levels. Global soybean stocks-to-use for 2020-21 are seen at 16.1%, the lightest since 2012-13 and the smallest November projection in 13 years

A closely watched climate analysis and forecast agency, the International Climate and Research Institute (IRI), headquartered in New York City, released its updated forecasts for the next three- and six-month periods Monday. The forecast keeps the chances high for continued dryness and drought potential in the South America crop regions of southern Brazil and Argentina.

At the other end of the spectrum, La Nina is reducing palm supplies with "excessive rains disrupting harvesting work." Additionally, "reports of a reduced workforce amidst COVID-19 have depressed output," said Sathia Varqa, cofounder of Singapore-based Palm Oil Analytics. Border closures in Malaysia and a temporary order in key palm roducing state Sabah for plantations to work at half capacity to help contain the coronavirus outbreak have led to a shortage of workers for harvesting. FGV Holdings Bhd, the world's largest producer of crude palm oil, on Tuesday warned that its fourth-quarter output would be hit by uncertainties over the weather and COVID-19 curbs.

Malaysia's Meteorology Department said heavy rains, storms and strong winds are expected to persist across the country until the end of December, state media Bernama reported.

The growing emphasis on green energy is pushing policies around the world toward greater inclusion of biodiesel made from vegetable oils. Also, there's been a greater focus on unsavory palm oil plantation business practices that may push more buyers to other vegetable oils like soyoil to avoid being tied to the controversy. As a result, demand has grown strongly for soyoil.

In the US, soybean oil is buoyed by strong export sales that have been inflated by a falling crush level in top soyoil exporter Argentina where farmers continue to hold soybeans as an inflation hedge. With the reliability of Argentine soy oil in question U.S. bean oil basis has strengthened.

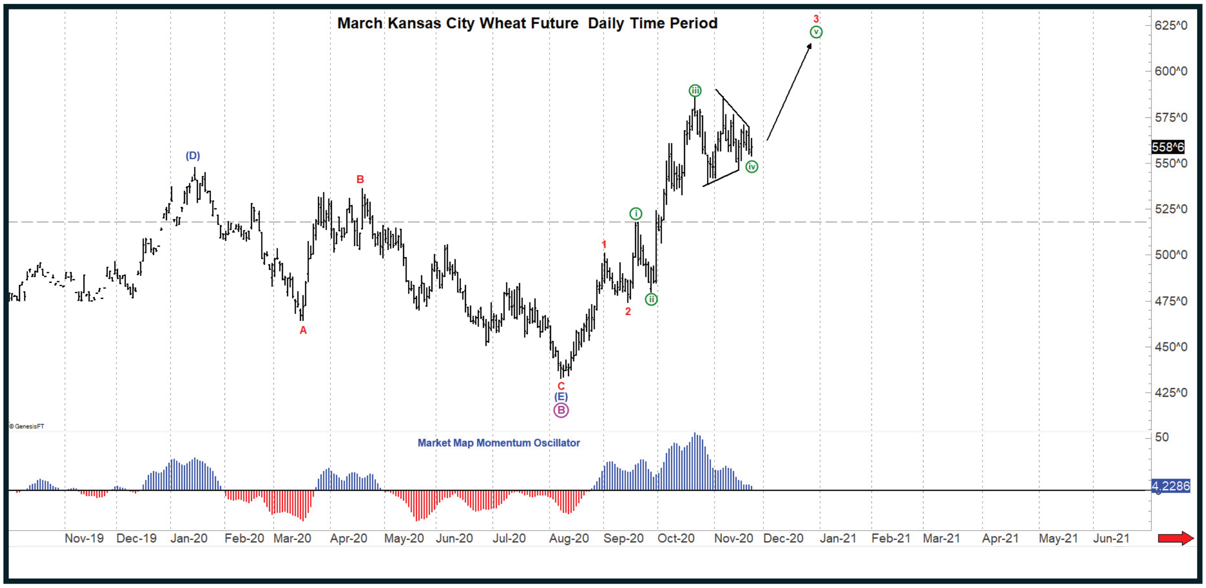
Also of benefit for the export market, soybean oil is the cheapest vegetable oil in the world. In Egypt's 30,000 mt tender last week, the cheapest offers were soy oil, with sunflower oil second.

Despite being the cheapest vegetable oil in the world, December soybean oil futures set another new contract high in last Friday's session—its highest level since 2014.

Finally, last week's NOPA report pegged U.S. soybean oil stocks at an 11-month low of 1.48 million pounds.

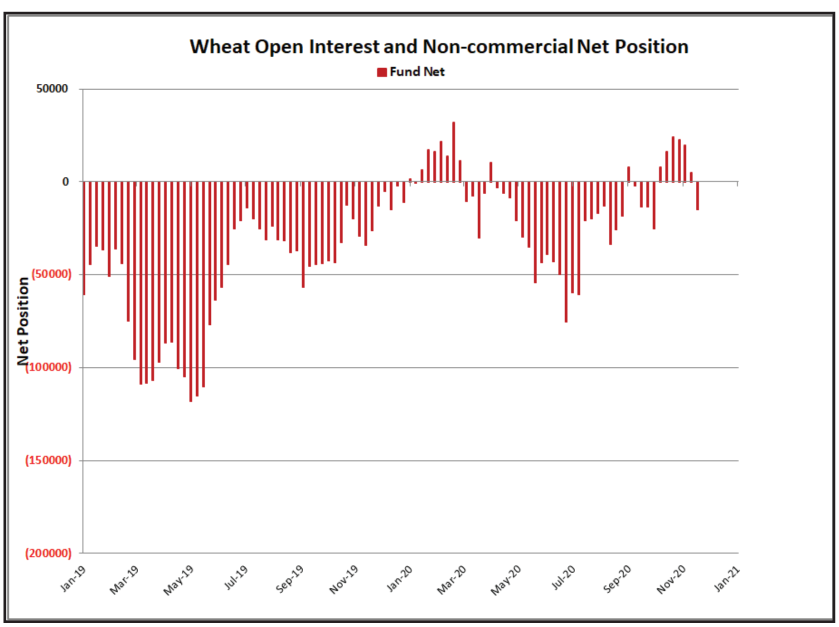
Wheat Charts and Tables

Technical Outlook



- Nothing has changed in the wheat wave count—this week showing SRW.
- Wave **iv** of **3** is considered complete
- Wave **v** of **3** must show expanding impulsive character in order for wave **iv** to be complete.

Money Flow



Protein Premiums

Soft Red Winter:

Alton area bids ended last week unchanged @ 50 over Chicago Dec; St. Louis-area bids on soft red winter wheat were 50c over Chicago Dec., although mill was not accepting wheat Nov. 23-27; December, 50c over. Toledo mill bids nearby were the Chicago Dec. price; December, 10c over. Elevator bids through December were 20c under Chicago Dec.; January, 15c under March. Cincinnati elevator was not accepting old crop, new crop bid at 3c under Chicago July. Michigan white wheat mill bids were 5c over Chicago Dec.; soft red winter wheat mill bids were 5c under Chicago Dec. Gulf bids on soft red winter wheat for nearby were 90c over Chicago Dec., unchanged.

Hard Red Winter:

HRW spot premiums move higher again last as rail transportation remains in high demand in addition to high demand from millers.

Hard Red Spring:

Premiums on milling quality hard red spring wheat in Minneapolis were unchanged higher for the 14%.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was $8.25 a bu, 5c higher.

KCBT Wheat Protein Premium Scale

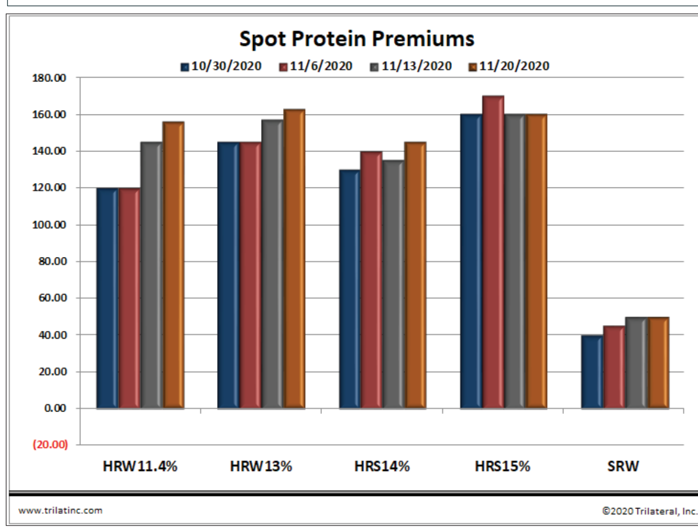
The following hard red/soft winter wheat scale is in cents per bushel, basis KCBT Mar futures, according to billing and quality. Source: KCBT Cash Grain Committee.

11.0%	107-117 Z	....
11.2%	110-120 Z	....
11.4%	146-156 Z	+11
11.6%	146-156 Z	+11
11.8%	146-156 Z	+9
12.0%	153-163 Z	+6
12.2%	153-163 Z	+6
12.4%	153-163 Z	+6
12.6%	153-163 Z	+6
12.8%	153-163 Z	+6
13.0%	153-163 Z	+6
13.2%	153-163 Z	+6
13.4%	153-163 Z	+6
13.6%	153-163 Z	+6
13.8%	153-163 Z	+6
14.0%	153-163 Z	+6
SRW spot Alton	+50 Z	....

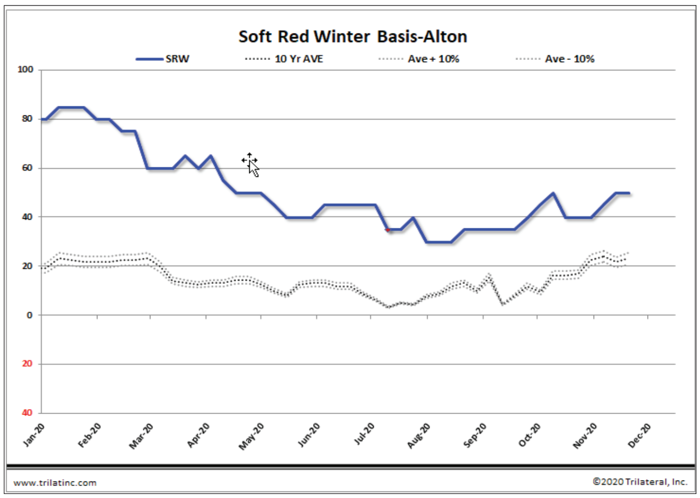
MWE Wheat Protein Premium

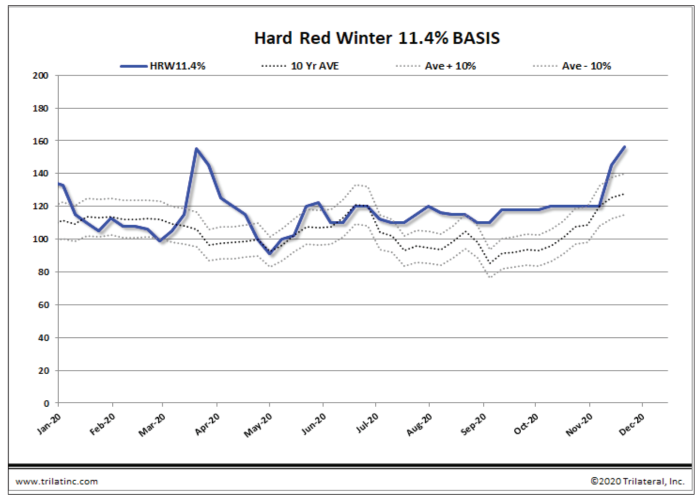
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

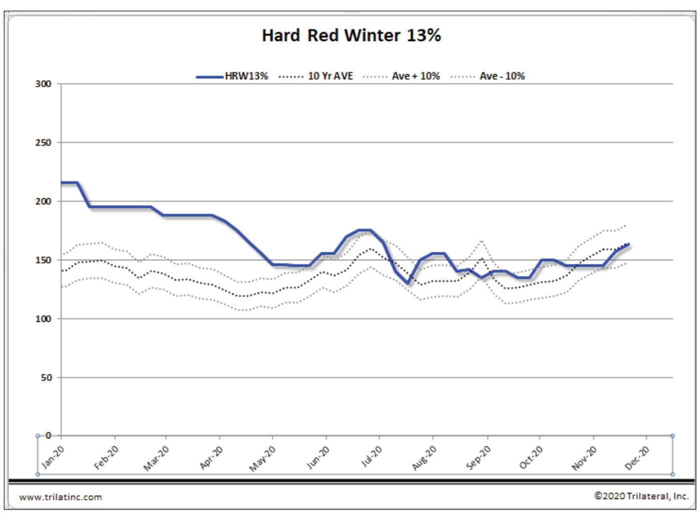
13.0%	No Quote	.....
14.0%	145-145 Z	+10
15.0%	145-160 Z	....

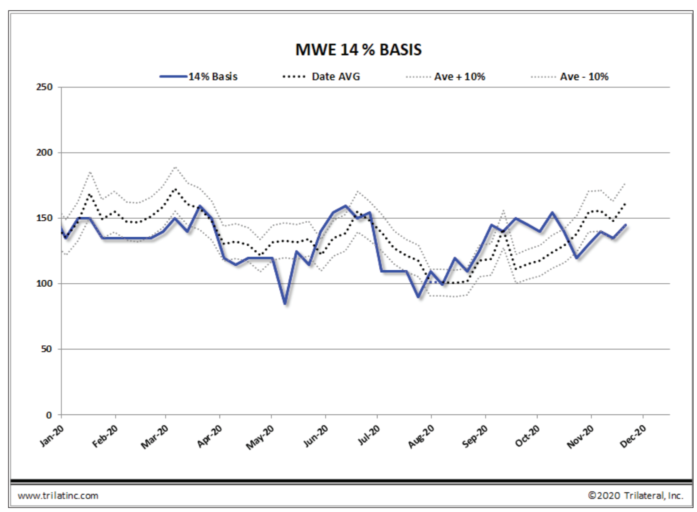


Protein Premiums cont.

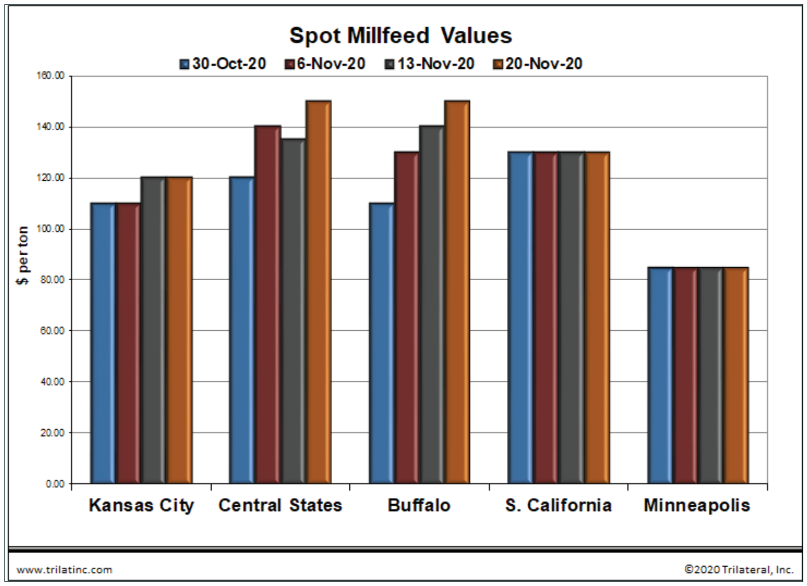








Millfeed

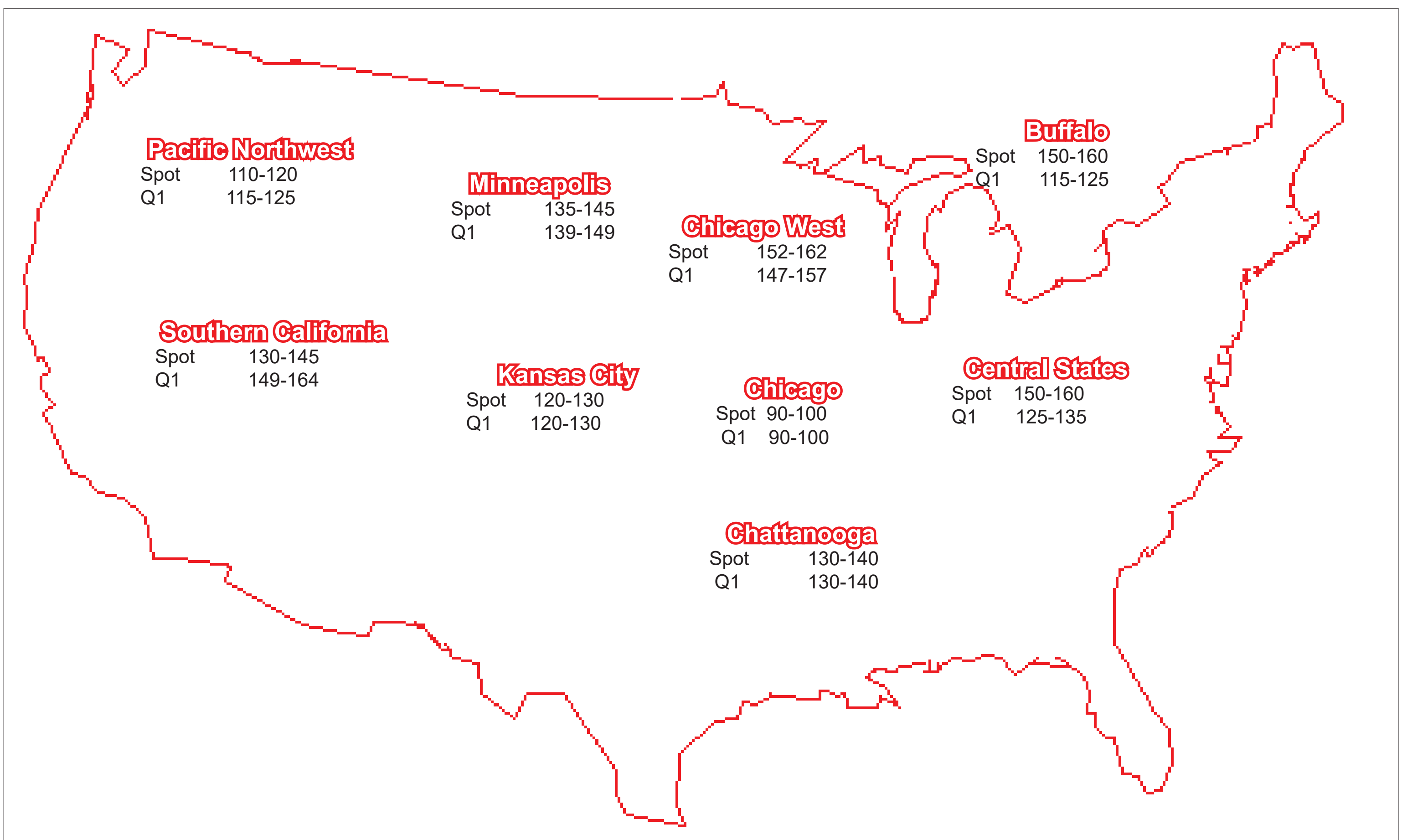


Prices were most steady on firm side of ranges.

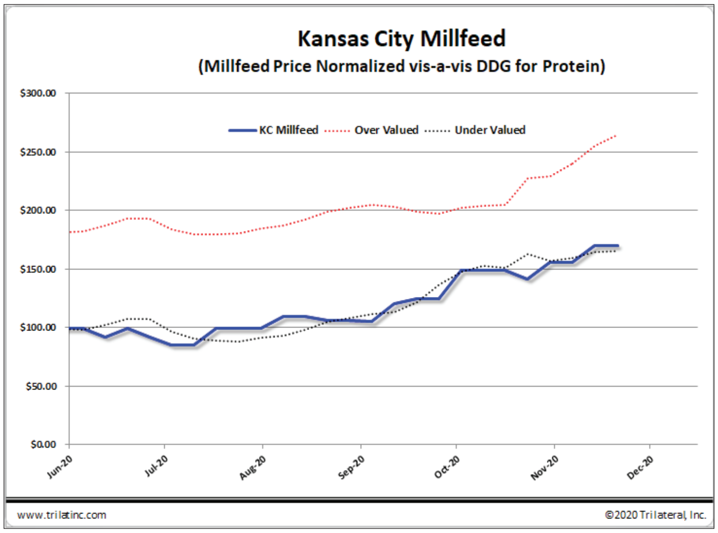
Supply and demand exerted equal influence on markets. But supply side was expected to be firmly in control at month's end if not next week when flour mills take from two days to a full week off surrounding holiday.

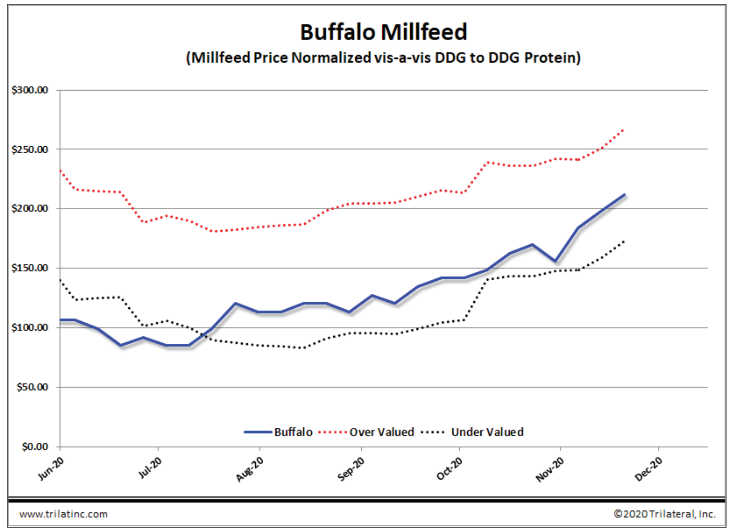
Supply shortages may "become a real issue in Northeast" as state and local lockdown measures grew more possible as coronavirus cases and hospitalizations increased. Public schools in New York City announced halt to in-person learning earlier in week and modifications to in-person dining regulations at restaurants were more frequent. Both would reduce nearby flour orders and, thus, wheat midds produced. "New York is under a code yellow, and it's going to go to a code orange, which is going to be a complete shutdown of restaurants except for takeout," trader said.

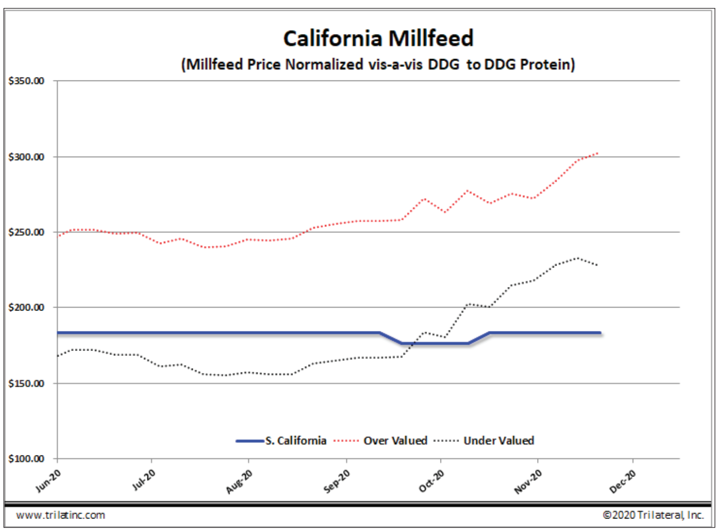
The situation looked less dire in other regions, but Michigan was seeing some partial shutdowns. Demand for millfeed remained strong enough via add-ons where last week's slight heaviness had turned to "a little bit short," a trader said.

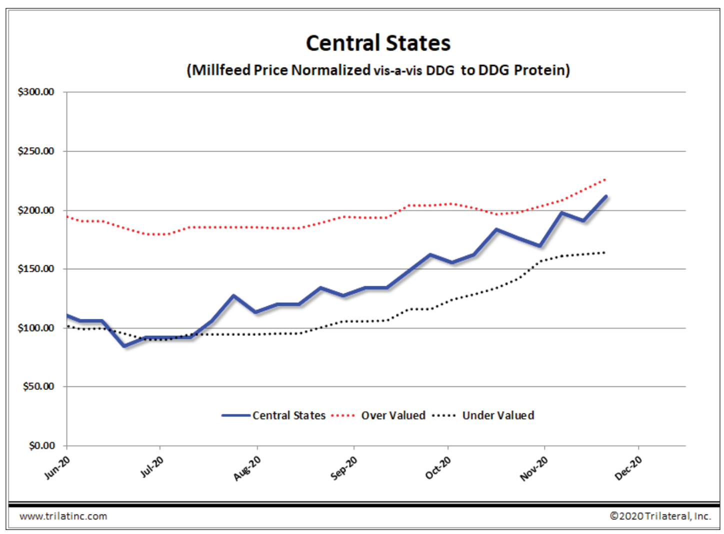


Millfeed cont.









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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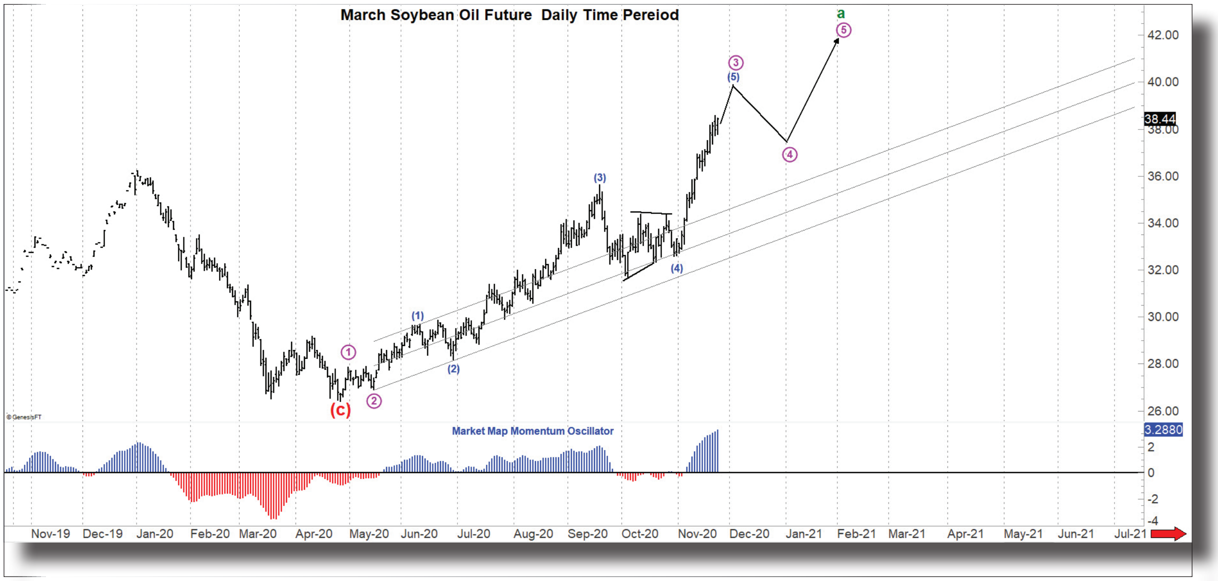
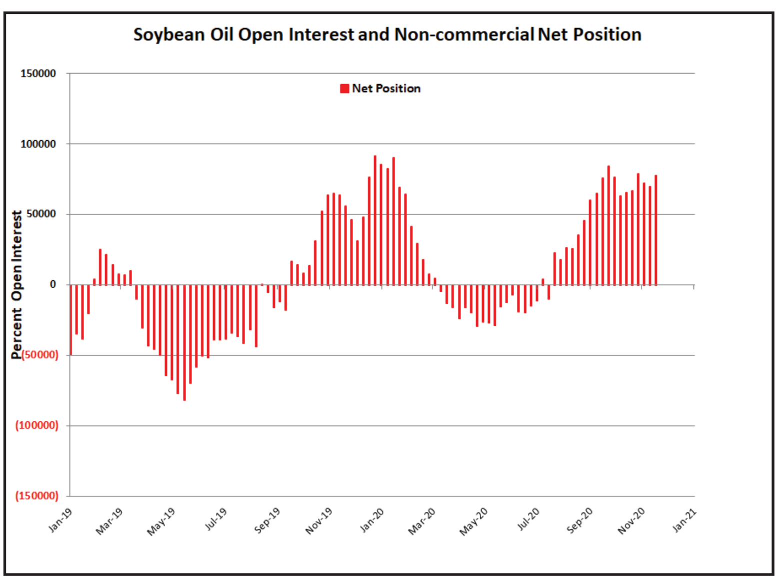
Oils Charts and Tables

Technical Outlook



- No changes this week in the SBO wave count.
- Impulsive wave **5** continues moving higher as expected, now with a target of 39.50 as wave **5**’s upside is expanded .

Money Flow



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SBO Basis