



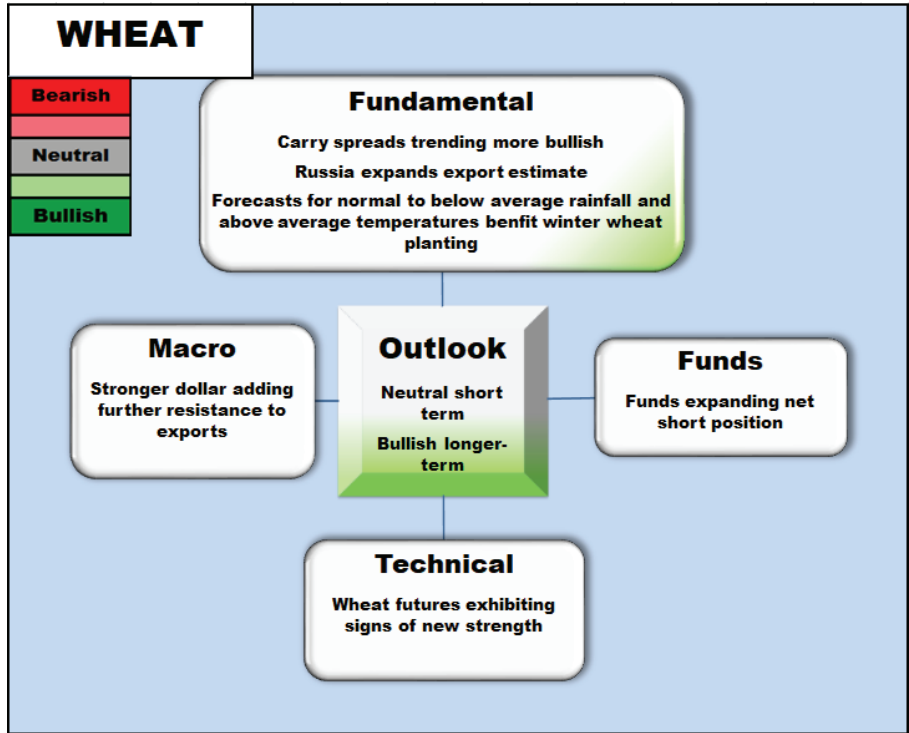
Trilateral Bakery Report

November 12, 2018

Recommendations

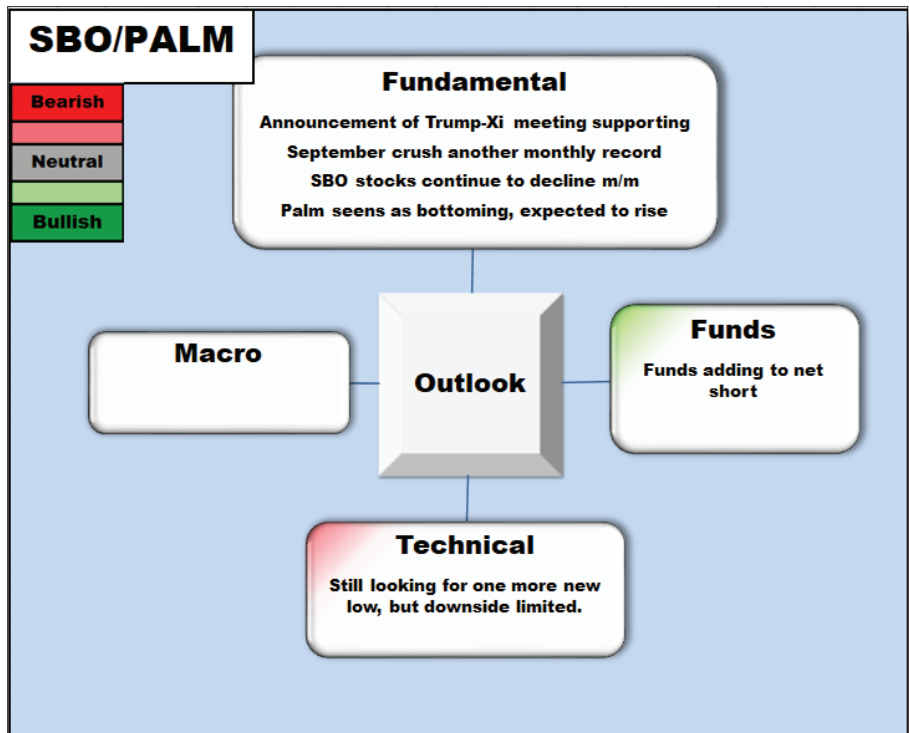
Wheat

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

- Carry spreads and gulf basis extending bullish trend.
- KS planting delays in focus.

[Read detailed recap](#)



Oils

- Bean oil stocks have declined 29% since April even as monthly crush levels were record volumes
- The crush margin has dropped 44% since July 13
- China believed to have sufficient supplies of beans, until the end of January when SA new crop becomes available.

[Read detailed recap](#)

Market Recap

Wheat

Analysts and traders are in a slight quandary over winter wheat planting that initially was expected to increase 10-15%. At current stocks levels an acreage reduction might have minimal impact. However, if the USDA is correct and strong export demand does indeed shift to the US in 2019, a supply reduction could gain in importance. The fact that stocks in exporting countries are forecast to fall to multi-year lows poses as an additional supporting role.

A good deal of the planting delay stems from delayed soybean harvest from acres on which wheat was to be planted. Looking at years in which soybean harvest was 75% or slower as of week 43 (end of October), nine out of 11 saw a drop in winter wheat planted acreage from the year before. The average change across all years was a decline of 2.708 million acres. Unwelcome rain in portions of the Midwest continue to plague harvest and is affecting the quality of mature soybeans still standing in wet fields.

Kansas is the real area of concern with the slowest planting pace on record. Since 1970, the change in winter wheat planted acreage nationally was in the same direction as Kansas planted acreage 73% of the time. "As goes Kansas, so goes the U.S."

Millfeed could see a bump in demand due to the occurrence of vomitoxin in corn. A demand increase would likely reinforce the seasonal pattern of higher millfeed prices as weather turns colder and pasture availability dwindles.

An anticipation of increasing export sales is perhaps being reflected in reduced carry spreads and increasing Gulf basis. The Dec-Mar carry spread narrowed from 21 $\frac{1}{4}$ on Oct 11 to 10 $\frac{3}{4}$ on November 9. The SRW Gulf basis has surged from 30 on September 13 to 75 as of November 9.



Of additional interest in the WZ/WH spread is the rolling average for the has been calculated at 49.8% over the last 35 sessions (a/o Nov 7). If this average is maintained through November 23, variable storage rates would be reduced from 11 cents/month to 8 cents/month and mark a major fundamental shift from the large carrying charge structure of the last several years.

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

Oils

The US-China tariff situation continues to plague the soybean complex. News last week said China's soybean imports jumped by nearly 50% y/y in October. It is assumed that buyers are stocking up on Brazilian beans amid worries over tight supply in the fourth quarter due to the Sino-U.S. trade war.

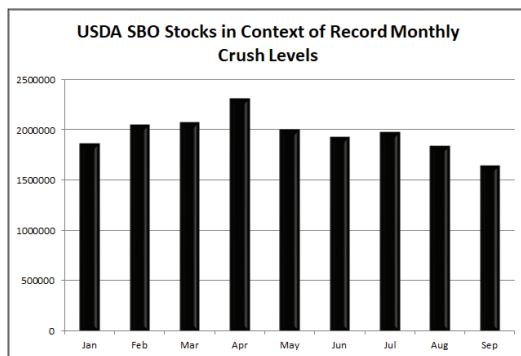
Rapid planting of soybeans in Brazil, meanwhile, has raised expectations China may continue to shun U.S. supplies if the trade battle with Washington drags on. "We have sufficient supplies of

Market Recap cont.

beans, at least until the end of January. Some of our plants had to suspend operations due to high (soymeal) stocks,” said a source with a major Chinese crusher. In similar statements, Bunge, ADM and Commerzbank also said that China has already stocked up with enough soybeans to cover needs until an anticipated early Brazilian harvest in late December/January.

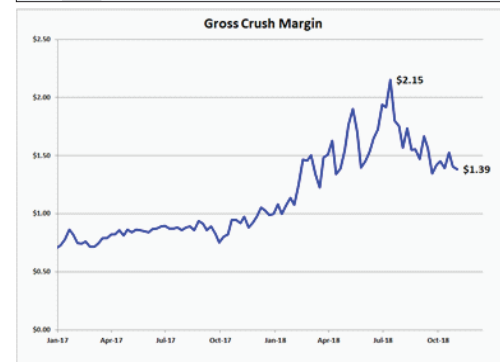
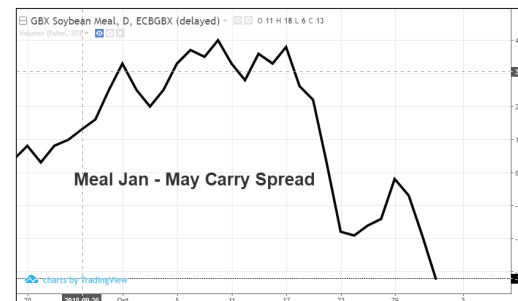
The Western Corn Belt and Southern Plains are experienced rain and snow late last week, which hindered the harvest of the soybean fields still waiting to be harvested in Kansas—and in turn delayed wheat planting on some acres. Nationwide soybean harvest progress was 6 percentage points behind its average pace in the latest Crop Progress report, and there have been rain delays just about everywhere at some point this year. In addition to afflicting harvest, excess moisture is also affecting the quality of mature soybeans still standing in wet fields.

As noted last week, declining SBO stocks could be accelerated if crush levels begin to drop from current lofty levels as the crush margin declines and meal demand weakens. Bean oil stocks have declined 29% since April even as monthly crush levels were record volumes—though still 17% above the year-ago level.



A symptomatic bearish indicator is meal’s Jan-May

carry spread that has widened from 45 on October 10 to -43 on November 9—an 88 tick swing in one month. The crush margin has dropped 44% since July 13.



Palm oil stocks expanded further in October to the highest level in three years—and prices have likewise dropped to three-year lows. The stocks growth is due to a combination of seasonally higher production and tepid export demand. Reflective of the export paucity, China imports of vegetable oils in October were down 18.8 percent from the previous month.

In Europe, France said last week that up to 30-35% of intended rapeseed planting will not occur due to last summer’s drought that has left a significant soil moisture deficit.

[See oils charts and tables](#)

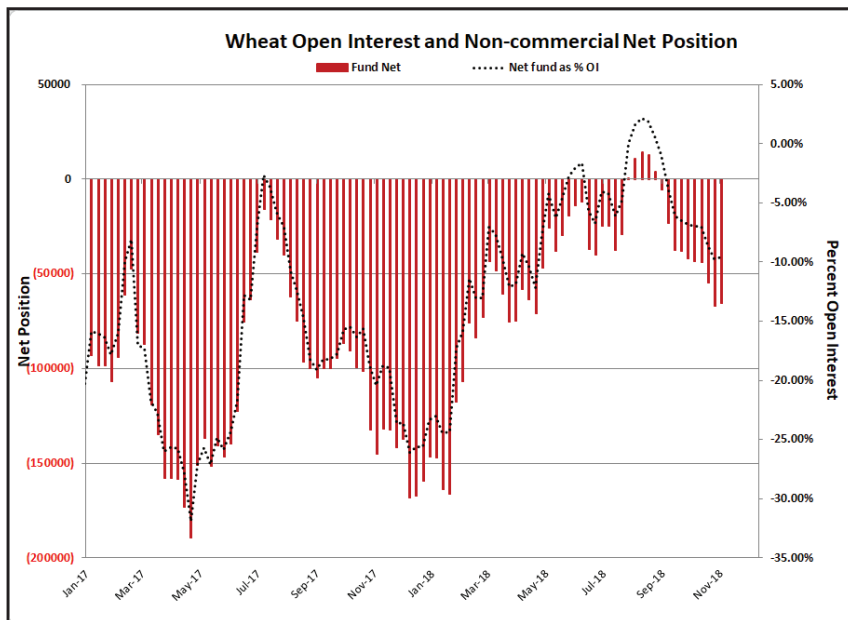
Wheat Charts and Tables

Technical Outlook



- We are calling wave **2** complete as minimum requirements have been met for the completion of wave **2**. We still need to see more aggressive upward price movement. Settlements above previous swing highs of 5.15 and 5.185 would give us greater confidence.

Money Flow



Protein Premiums

Soft Red Winter: St. Louis-area mill bids for nearby were 10@35c over Chicago December, unchanged. Chicago mill bids were 10c over Chicago December. Toledo mill bids for nearby were 15c over Chicago December; December, 15c over December, January-March, 10c over March. Elevator bids were 5c under Chicago December with elevator indicating it will not take in wheat until January. Cincinnati elevator bids were the Chicago December price, with elevator not accepting wheat. Michigan white wheat mill bids were Chicago December price with soft red bids also December price, according to one miller. Gulf bids on soft red winter wheat for November were 70c over Chicago December, 3c lower.

Hard Red Winter: Premiums on hard red winter wheat in Kansas City advanced at the lower third of the scale and saw very slight increase in the mid section over the past week.

The Gulf market has shown strength with strong trades involving 13%- protein wheat, which in most years is rarely traded there but is more common this season. .

Hard Red Spring: Premium changes for hard red spring wheat in Minneapolis were slightly higher last week.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.50 a bu, unchanged. Minneapolis price was \$7.20 a bu. U.S.D.A. left forecast durum carryover on June 1, 2019, unchanged at 44 million bus. Durum millers expected farmers to plant less area to durum in 2019.

As of November 9, 2018

KCBT Wheat Protein Premium Scale

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

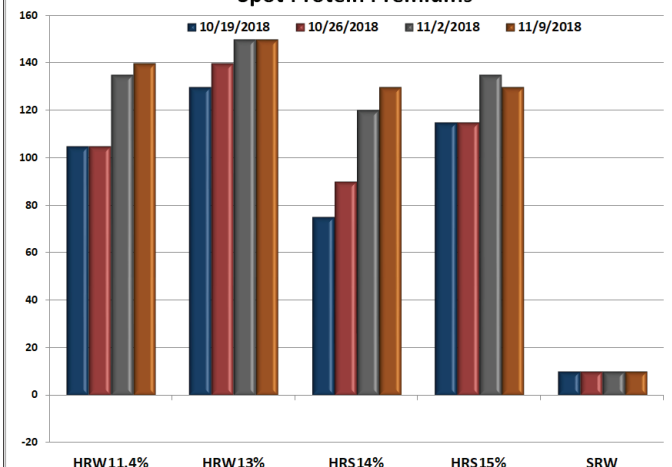
11.0%	125-140 Z	+10
11.2%	125-140 Z	+10
11.4%	125-140 Z	+10
11.6%	125-140 Z	+3
11.8%	125-140 Z	+3
12.0%	131-146 Z	+1
12.2%	131-146 Z	+1
12.4%	131-146 Z	+1
12.6%	131-146 Z	+1
12.8%	131-146 Z	+1
13.0%	135-150 Z
13.2%	135-150 Z
13.4%	135-150Z
13.6%	135-150 Z
13.8%	135-150 Z
14.0%	140-155 Z
SRW basis Chicago	+10 Z

MWE Wheat Protein Premium

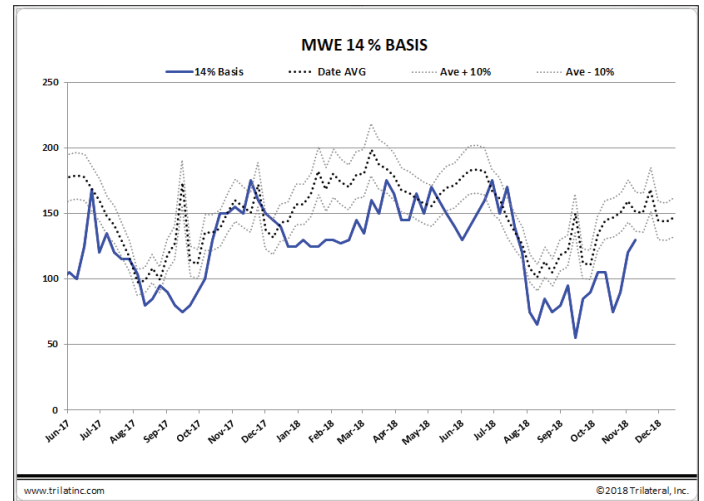
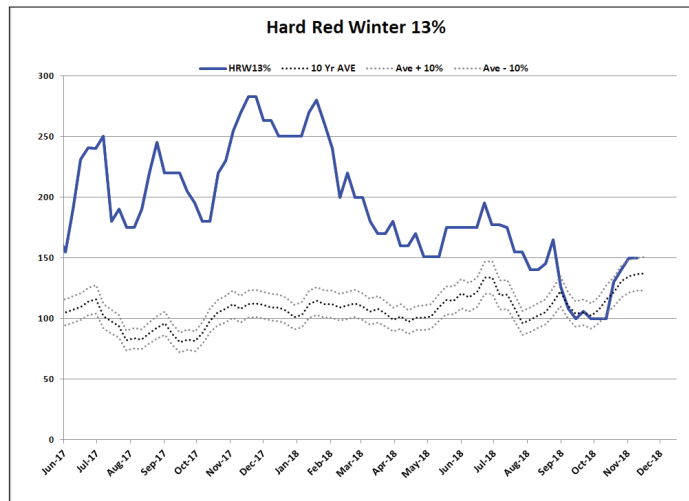
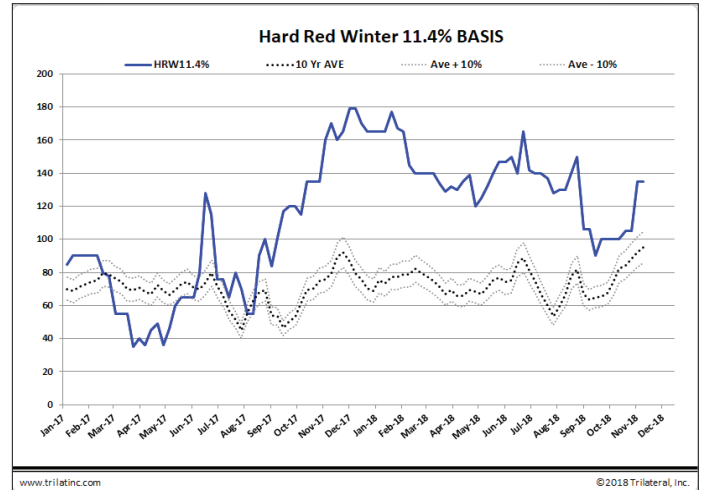
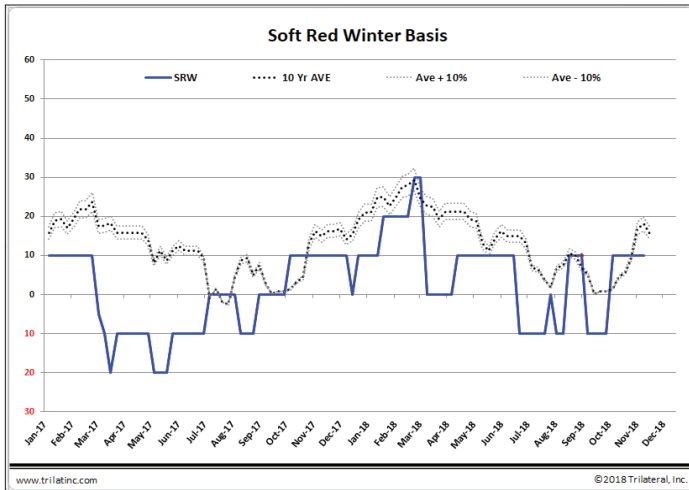
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

13.0%	70-70 Z
14.0%	130-130 Z	+10
15.0%	130-130 Z	-5

Spot Protein Premiums



Protein Premiums cont.

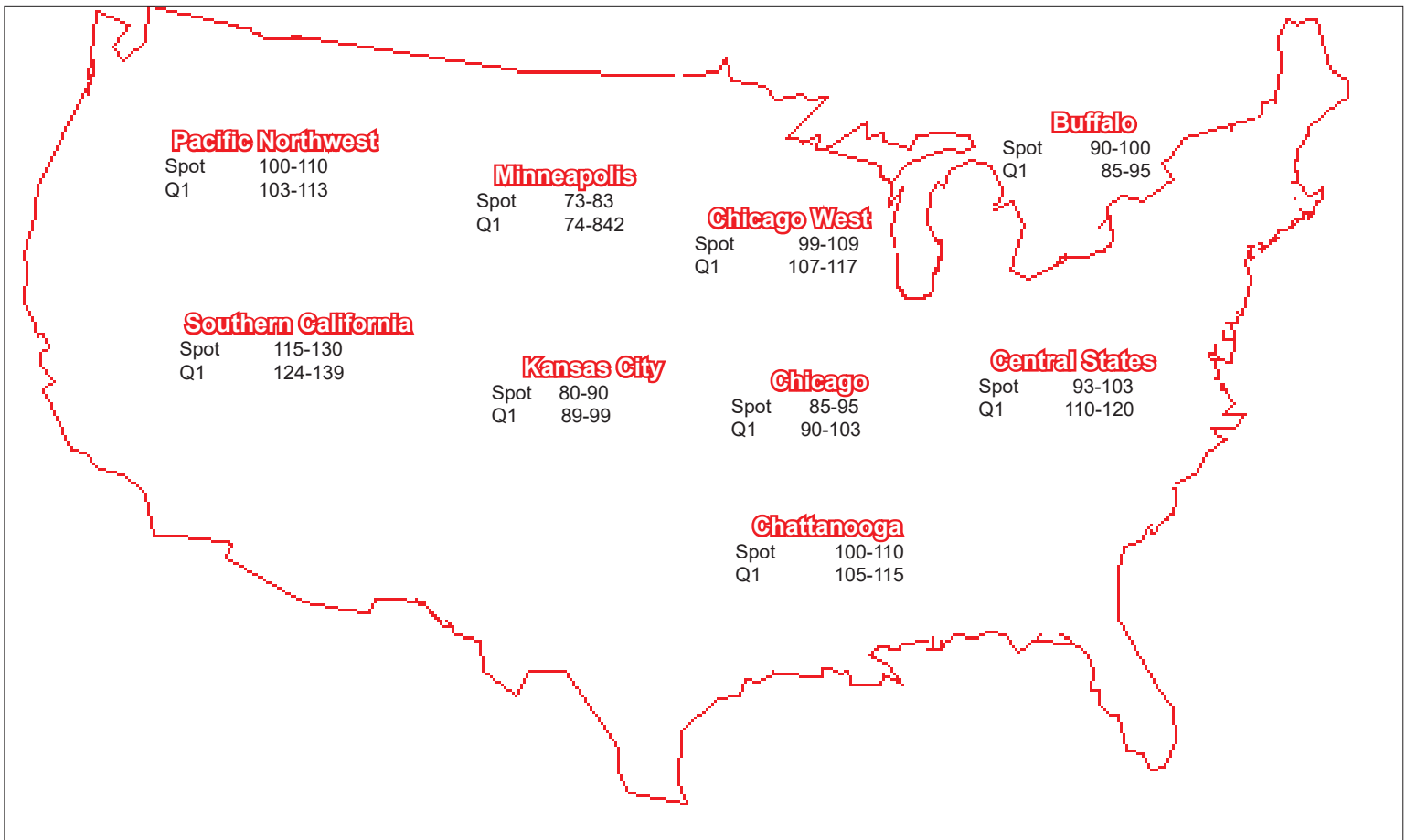
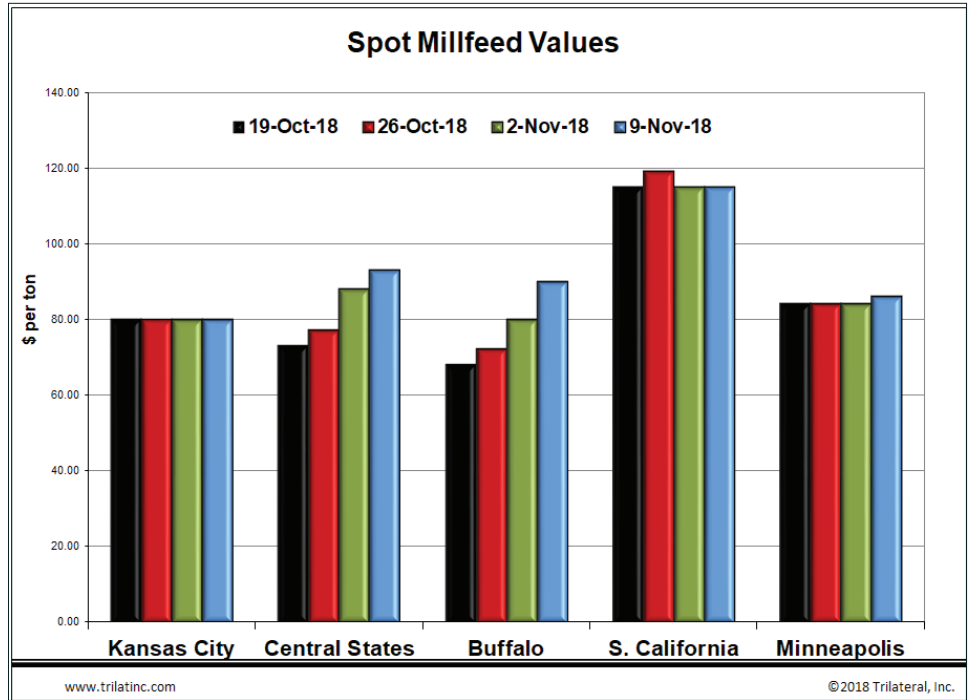


Millfeed

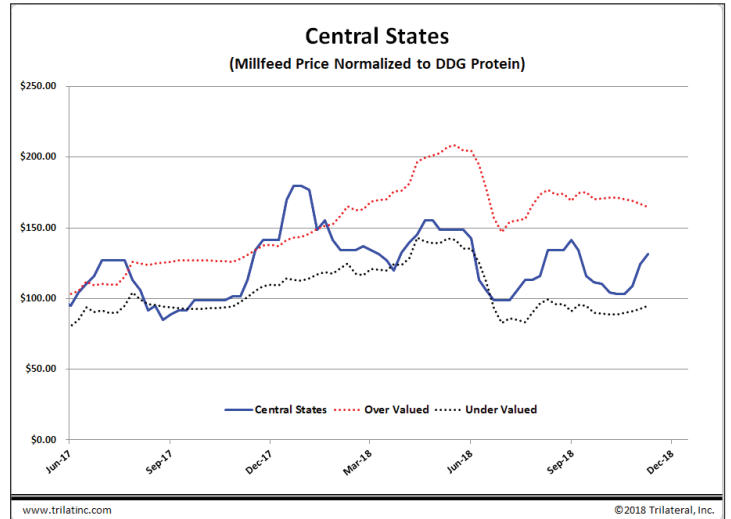
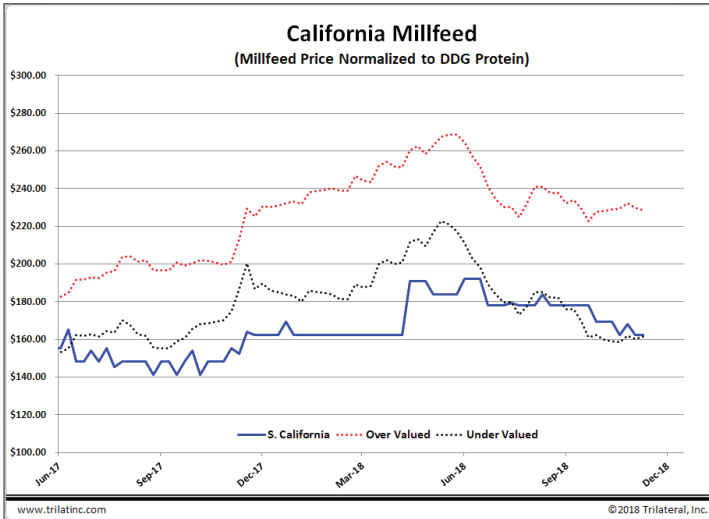
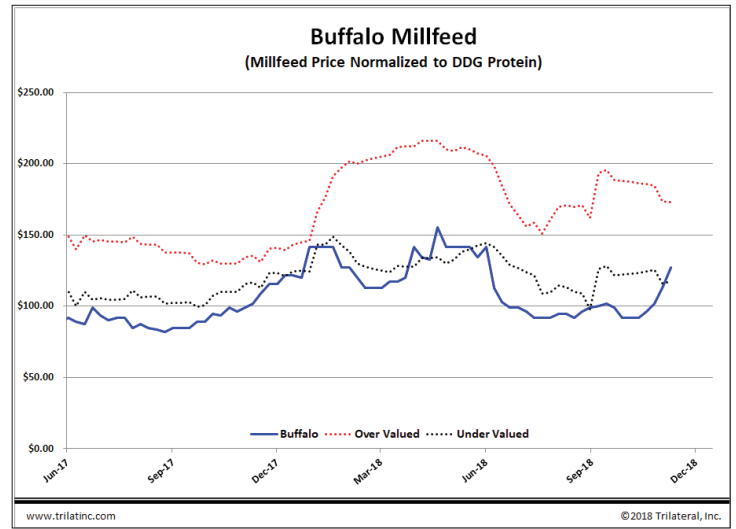
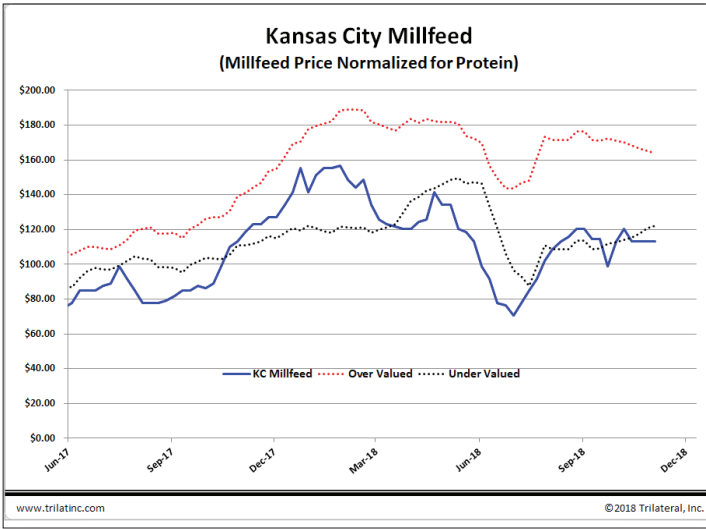
Nearby prices were mostly unchanged. Flour grind remained strong, though mills in Central states, Southeast and Northeast saw flour grind back off slightly. Latter area's average run time came down after an unexpected mechanical breakdown slowed production at Buffalo mill.

Fall feed demand remained in early stages in those regions and was moribund in Upper Midwest, where a post-creep-feed lull endured, and Southwest, where Oklahoma and Texas demand was victim of mild temperatures. Neither cancellations nor add-ons were common. "Nobody's beating down the door for feed," a trader said, and sellers had no incentive to sell lower than list price.

But, more optimistic tone abounded with offers trending closer to bids. One buyer likened negotiations to "throwing darts at board and seeing what sticks." Some buyers continued to seek offers for year's three remaining holiday weeks, though few if any millers or resellers were willing to offer this far in advance. Source said coming price hikes wouldn't be extensive enough to remove millfeed from formulas, but truck availability issues might.



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.

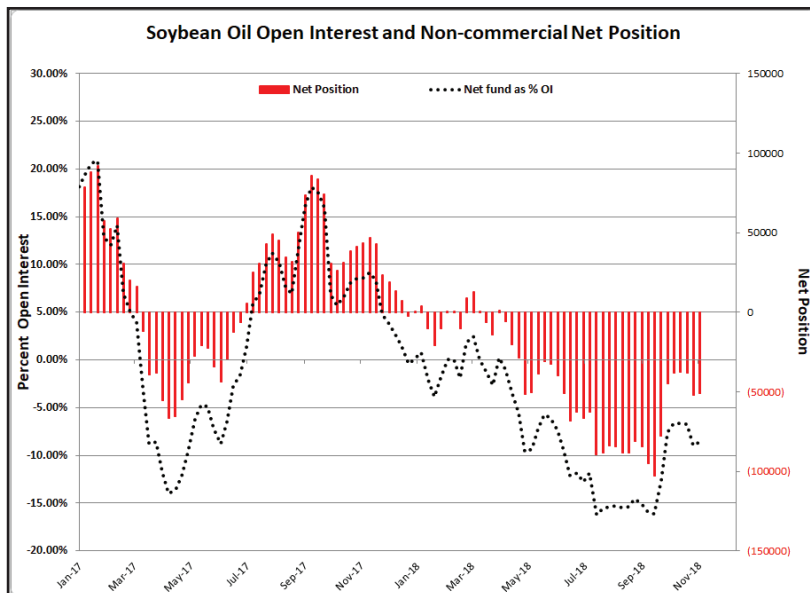
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Oils Charts and Tables

Technical Outlook

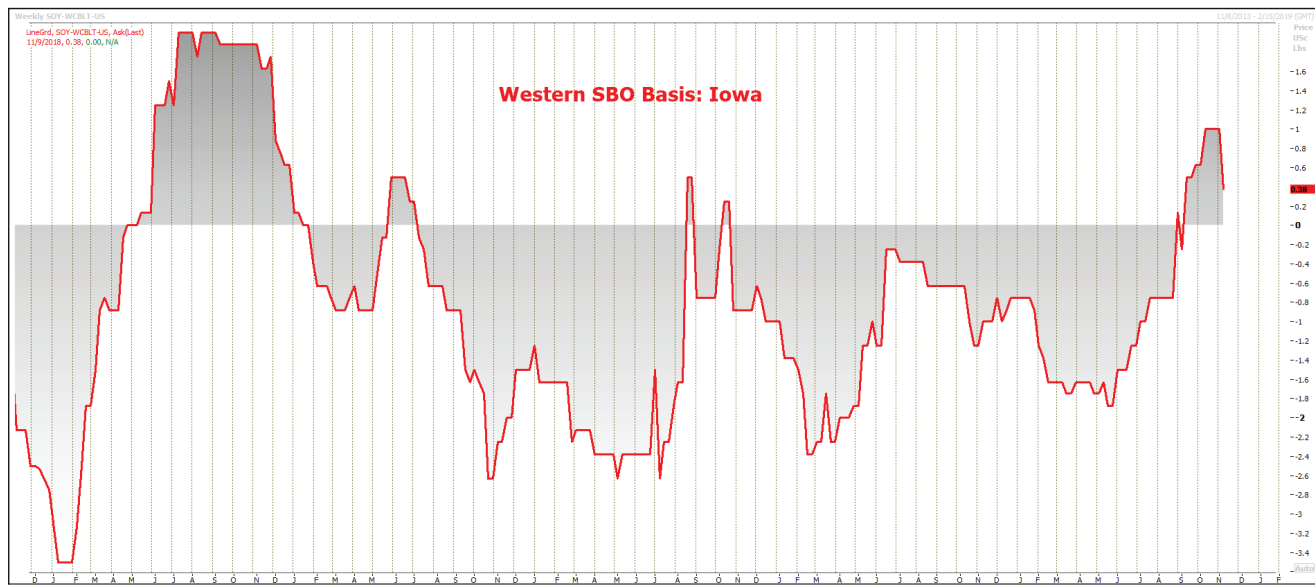
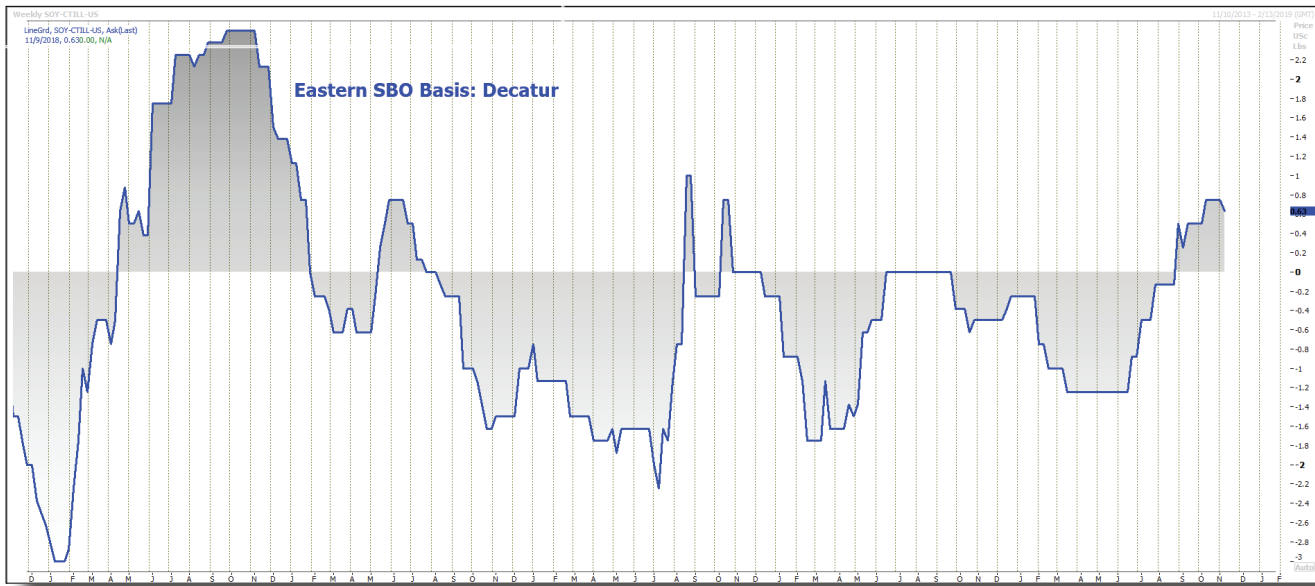


- The SBO market has been in a corrective mode, wave (4), since mid-September.
- We are calling wave **c** of **B** complete and are now looking for prices to rise in the final third wave **C** higher to complete wave (4)



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SBO Basis



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