

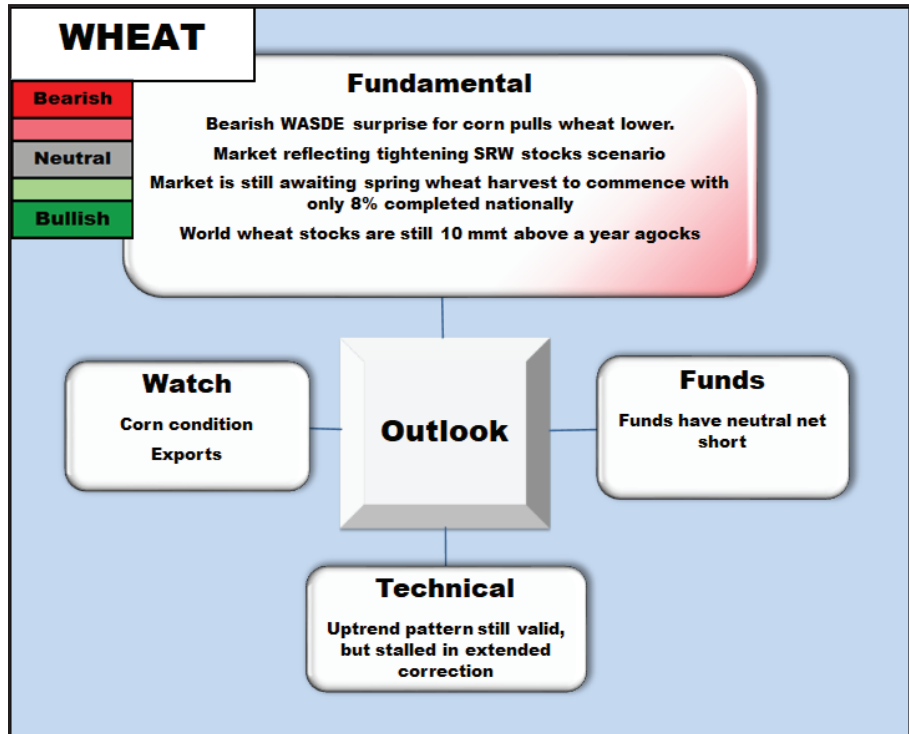
Trilateral Bakery Report

August 19, 2019

Recommendations

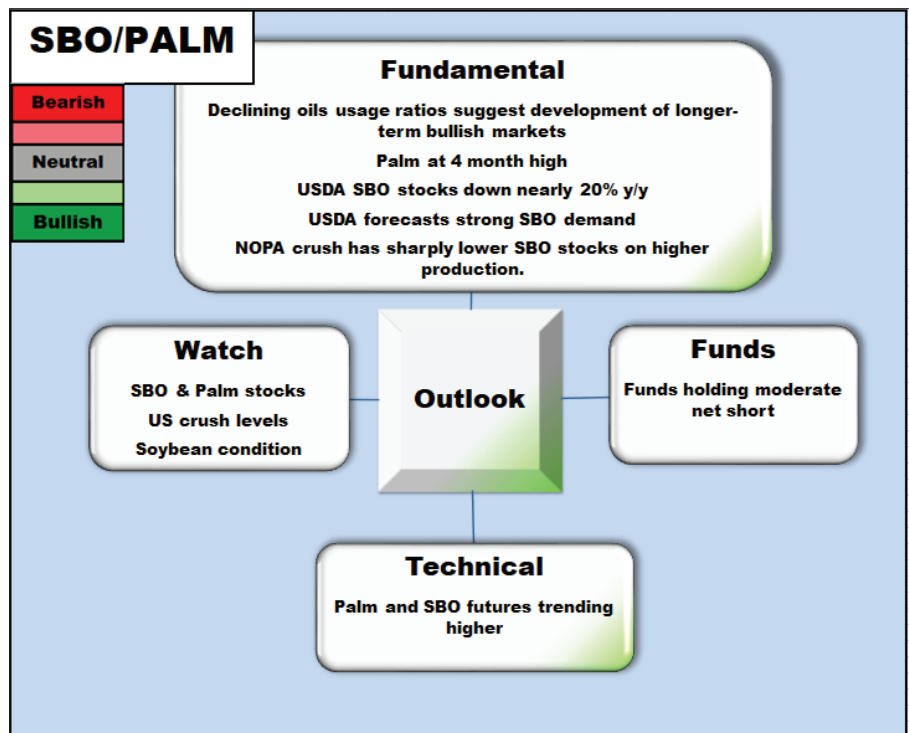
Wheat

Coverage should be through Q4. With wheat at a multi-year support range, extending futures into 2020 is encouraged.



Edible Oils

Recommend seeking opportunities to extend 2020 coverage for veg oils and veg oil products.



Market Highlights



Wheat

- Bearish WASDE surprise for corn pulls wheat lower.
- Market reflecting tightening SRW stocks scenario
- Market is still awaiting spring wheat harvest to commence with only 8% completed nationally
- World wheat stocks are still 10 mmt above a year ago

[Read detailed recap](#)



Oils

- World and domestic edible oils usage ratios continue to drop.
- NOPA crush has sharply lower SBO stocks on higher production.
- Markets are turning higher.

[Read detailed recap](#)

Market Recap

Wheat

Wheat futures were blind-sided once again by a second WASDE report in two months that was far more bearish for corn than were the trade's expectations. Following the report, Chicago SRW futures dropped 7.9% from Monday's high to Tuesday's low.

The report was viewed as slightly bearish for wheat versus expectations, but not near to the extent of the carry-over selling pressure from corn that dropped to lock-limit down following the report. HRW and total spring wheat production was raised vs. last month's estimates. SRW production was cut 1.5 million bushels from last month.

The production challenges this year for SRW are well known and supplies are viewed as tight. Deliverable stocks of SRW stand at 50.9 million bushels (mb), down 31.3 mb from last year and 2019/20 ending stocks projected at six-year lows. Aside from dry conditions in southeastern Australia, the SRW wheat crop in the eastern Midwest was probably the most tormented area this spring and early summer, losing 10% of last year's production.

A comparison to HRW wheat stocks puts the SRW scenario in perspective.

- Kansas City/Chicago spreads have dropped to all-time record lows. At 88 cents premium Chicago over Kansas City, the current spread is blowing the previous record low of 57 cents premium Chicago over Kansas City in 2007 out of the water.
- The relationship would appear justified as SRW faces its tightest ending stocks since 2013/14 while HRW ending stocks of 452 mb are just below the 5-yr average of 483 mb.

- SRW ending stocks as a percentage of HRW ending stocks are projected at 26.01%, the smallest ratio between the two classes since 2001/02.
- Total supplies of SRW as a percentage of HRW at 31.05% would be the smallest since 1987/88. Deliverable stocks of both classes remain well below year ago levels.

SRW basis levels are high in tandem with the bullish SRW WU/WZ calendar spread that shot up to a +2 1/4 inverse carry recently, a new contract high. The spread is now around a bullish 20% of full carry. (Spreads and basis work together to tell the market whether movement of grain is needed now- or if it will pay carry for the grain to be moved at a later time.)

In the end, however, U.S. total wheat projected ending stocks are above 1 billion bushels and world wheat stocks are 10 mmt above a year ago—portending some serious export competition in coming months. U.S. wheat continues to be challenged by both Black Sea and EU exporters aggressively seeking demand, but U.S. wheat sales and inspections remain the lone bullish input for U.S. export demand.

Strategie Grains late last week raised forecasts for EU wheat harvest and exports making a sharp increase to its forecasts for European Union production and exports of soft wheat this season. The French consultancy now sees 2019/20 soft wheat production in the EU 12% above last year's drought-hit crop.

Germany's 2019 wheat harvest will be 17.5% higher than last year at 23.81 million tonnes despite an early summer heatwave that stressed some crops, Germany's association of farm cooperatives said on Wednesday.

Also, Argentina was said to have boosted wheat acreage by 6% this year, and according to the Rosario Exchange, Argentine wheat production looks to be 21.5 million metric tons (mmt), and record large.

The market is still awaiting spring wheat harvest to commence with only 8% completed nationally vs. 30% average for this week.

[See Wheat Charts and Tables](#)

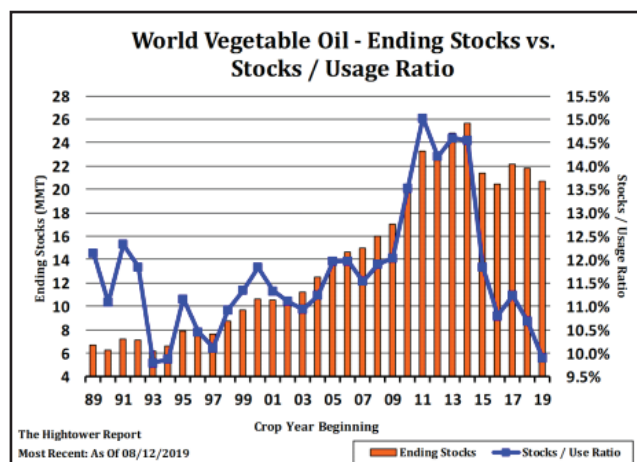
Oils

Last month we published a blog [A Case For A Developing Bullish Edible Oil Market](#). In mid-July we noted the steady decline in usage ratios—domestic and world—for soybean oil, palm oil and global edible oils in general. Moreover, the usage ratios had dropped against steadily increasing production; i.e., demand was outpacing higher production.

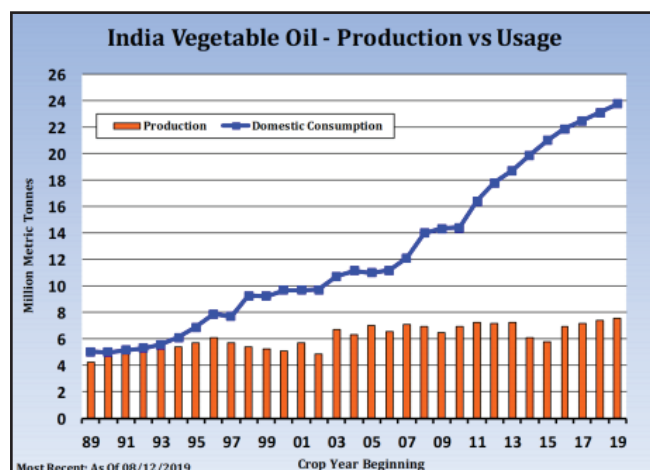
Market developments since that time have added support to that outlook.

The latest USDA 2019/20 global oilseed outlook painted a bullish picture that included lower production, trade, and stocks compared to last month:

- Global oilseed production was forecast 3.6% less than 2018/19. The net effect was global oilseed ending stocks projected 11% less than 2018/19. The world vegetable oil usage ratio is forecast to fall below 10% for the first time since 1994 (see chart below).



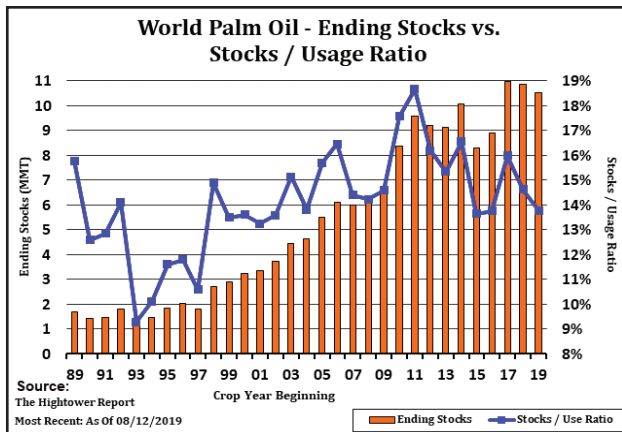
- Soybean production was projected down 5.8% y/y while world soybean oil usage was projected 2.7% higher and ending stocks 5.5 percent lower.
- Reductions were forecast for rapeseed, peanut, and cottonseed
- India's soybean and groundnut harvested area was reduced. Soybean production in India could fall 6.6%. This created an outlook for record edible oil imports to an estimated increase of 7.3% y/y. An India oil import increase of that magnitude would obviously be bullish for palm oil prices and, by extension, other edible oils. The steady rise in consumption vs. production illustrated in the chart below clearly expresses the impact of an oilseed production decline in India.



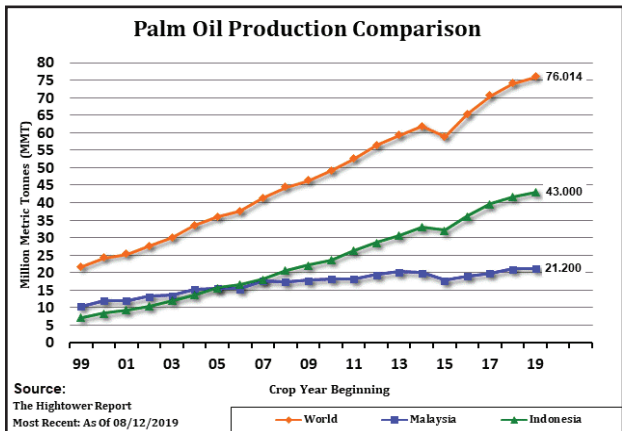
- Thomas Mielke editor of Hamburg, Germany-based newsletter Oil World said at a recent conference that “The combination of accelerating consumption for bio-fuels and food, and a slowdown in growth in palm oil production will keep palm oil prices higher for the rest of this year and in 2020.” He added that Indonesia’s consumption of palm oil for biodiesel will rise by more than 3 mmt this year even more next year as the mandatory level of bio-content in biodiesel will increase from 20% to 30%. The two charts below show shrinking usage ratio against rising production over the past three years.

resumed the monthly crush data reports in 2015 (a 21 month low).

The just published NOPA July crush report, however, showed a rebound in NOPA’s July crush level, surging from a 21-month low in June to the sixth-highest for any month on record and the highest-ever for the month and the largest monthly crush since March. However, pertinent to our concern of edible oils, while soybean oil production was up 13.5% m/m and 2.2% y/y, stocks dropped by more than expected to a 20-month low of 1.467 billion pounds, down 4.5% m/m and 16.8% lower y/y—substantiating our previous point that demand is outpacing higher production.



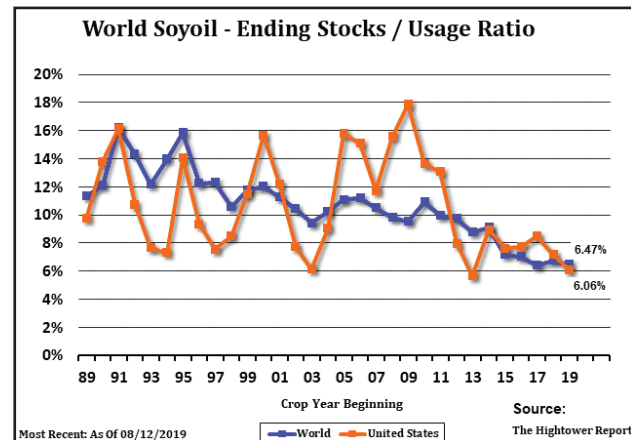
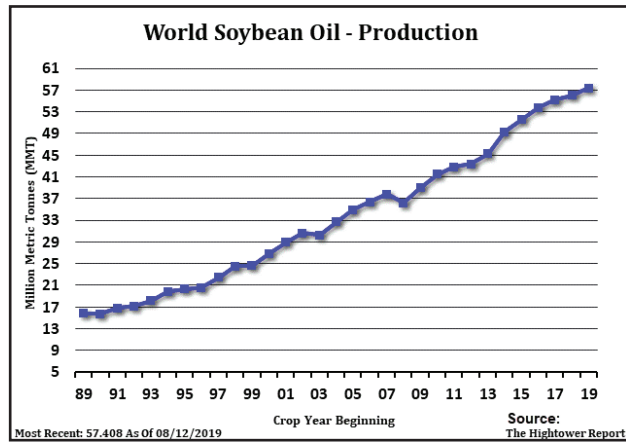
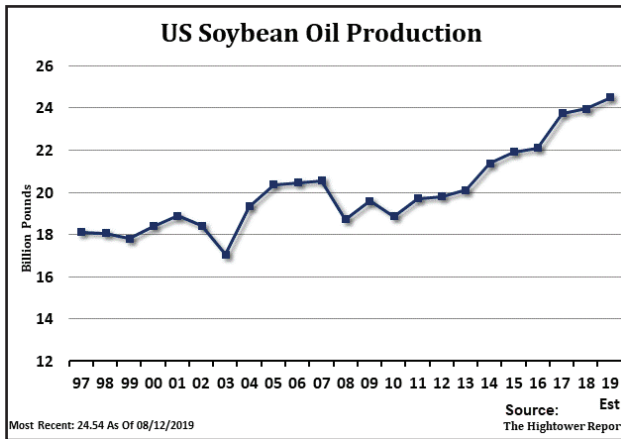
| SBO-NOPA June Crush | |
|-------------------------|-----------|
| SBO Production | 1,971,099 |
| M/M % production change | 13.5% |
| Y/Y % production change | 2.2% |
| SBO Stocks | 1,467,131 |
| M/M % stocks change | -4.5% |
| Y/Y % stocks change | -16.8% |



Regarding domestic soybean oil, following several months of consecutive US record crush levels, June’s USDA crush was down for the fifth consecutive m/m and y/y decline and was the largest downward deviation from the previous year since the USDA

Richard Feltes at RJO recently wrote that additional demand concern is mounting from the declining PRC crush that will increase China’s need for imported edible oils. Supporting that notion, the PRC just removed TRQ’s (tariff rate quotas) on soy/rape/palm oil.

The three charts below confirm domestic and world soybean oil usage ratios falling as both world and domestic production steadily increased over those years. The domestic usage ratio is at a seven-year low and the global usage ratio is at low going back to 1989.



Last month we said declining/smaller than expected crush levels undermined the notion that the US crush would remain large enough to preclude soy oil tightness in an environment of strong SBO demand. However, the July NOPA report echoed the larger and long-term point that stocks and are still experiencing sharp declines as production rises.

[See oils charts and tables](#)

Markets appear to have taken notice after several months of sideways and falling prices. Soy oil futures just reached the highest level since mid-April—taking out the 20/50/100/200 DMAs. Palm oil futures have climbed to a four month high.

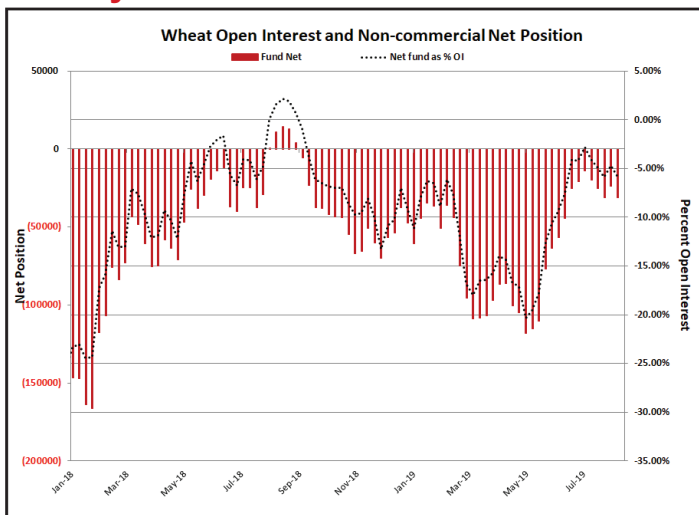
Wheat Charts and Tables

Technical Outlook



- Just when we thought the market was giving us confirming price action, the surprise WASDE report that sent corn down limit pulled wheat lower in tandem.
- The wave count remains valid however so long as prices remain above critical support of 4.4225
- Given the momentum of wave iii, we are looking for a target between 31 and 32 for wave iii.
- We need to see prices move above previous swing high resistance at 5.0625 and 5.15.

Money Flow



Protein Premiums

Soft Red Winter: St. Louis-area mill bids were 40c over Chicago Sept., unchanged; October-December, 45c over Dec. Toledo mill bids for nearby were 20c over Chicago Sept., unchanged; August-September, 20c over Sept. Elevator bids for nearby were 20c over Chicago Sept. Cincinnati elevator bid was 10c under Chicago Sept. Michigan white wheat mill bids were 35@40c over Chicago Sept.; soft red wheat mill bids were 25@30c over Sept. Gulf bids on soft red winter for nearby were 65c over Sept., unchanged.

Hard Red Winter: Premium changes for hard red winter wheat in Kansas City were mostly unchanged over the past week.

Hard Red Spring: Premiums on hard red spring wheat in Minneapolis were mixed over the past week.

Significant portion of late-seeded North Dakota spring wheat crop remains green with high moisture content, said Jim Peterson, policy and marketing director of North Dakota Wheat Commission. Producers were hoping for stretch of dry weather to allow crop to continue to cure, reach maturity and reduce to manageable moisture levels. Recent widespread rains have muddied fields in some areas, but wheat quality has not yet deteriorated.

Choice milling hard amber durum as quoted at the Chicago rail gateway for delivery beyond was nominal \$7.10 a bu, unchanged.

As of August 16, 2019

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.

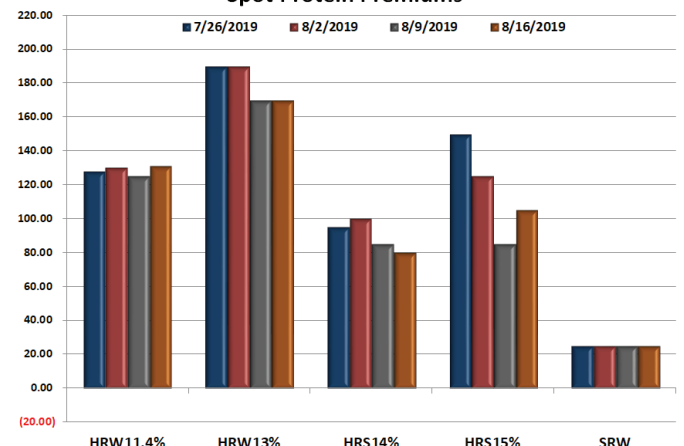
| | | |
|-------------------|-----------|------|
| 11.0% | 95-105 U | +1 |
| 11.2% | 105-115 U | -5 |
| 11.4% | 115-125 U | +6 |
| 11.6% | 115-125 U | +6 |
| 11.8% | 121-131 U | .... |
| 12.0% | 130-140 U | .... |
| 12.2% | 130-140 U | .... |
| 12.4% | 130-140 U | .... |
| 12.6% | 160-170 U | .... |
| 12.8% | 160-170 U | .... |
| 13.0% | 160-170 U | .... |
| 13.2% | 160-170 U | .... |
| 13.4% | 160-170 U | .... |
| 13.6% | 160-170 U | .... |
| 13.8% | 160-170 U | .... |
| 14.0% | 160-170 U | .... |
| SRW basis Chicago | +25 U | +5 |

MWE Wheat Protein Premium

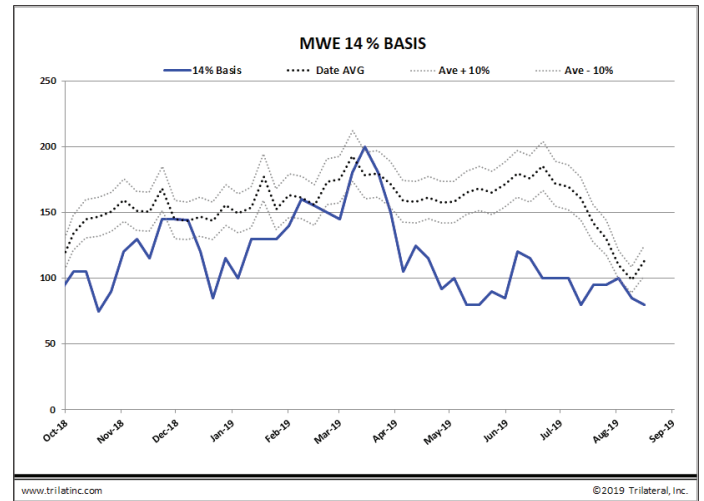
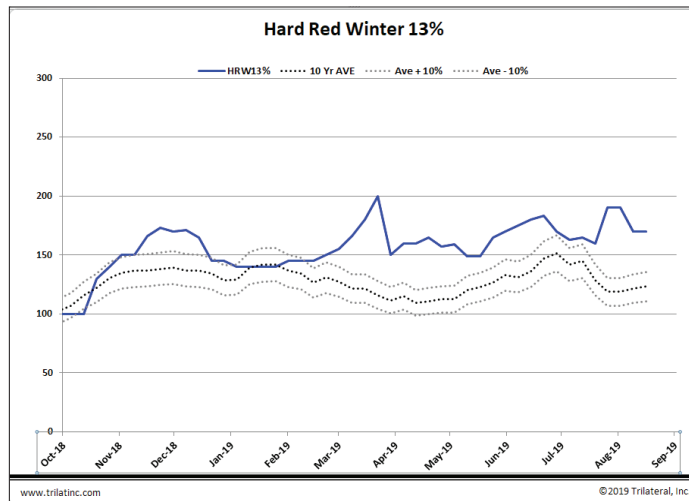
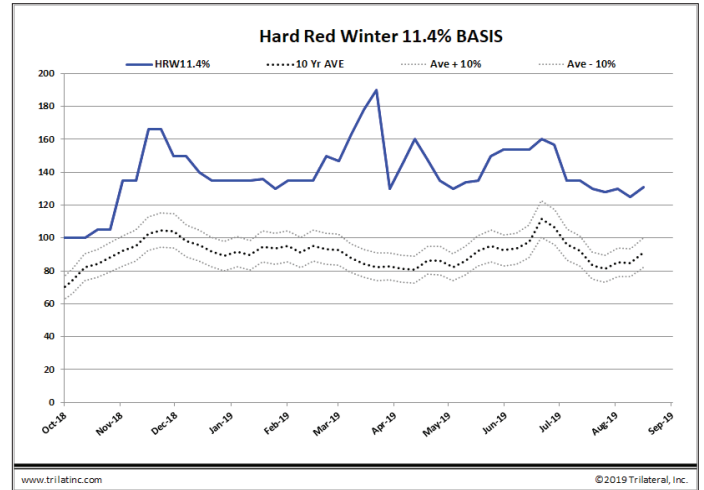
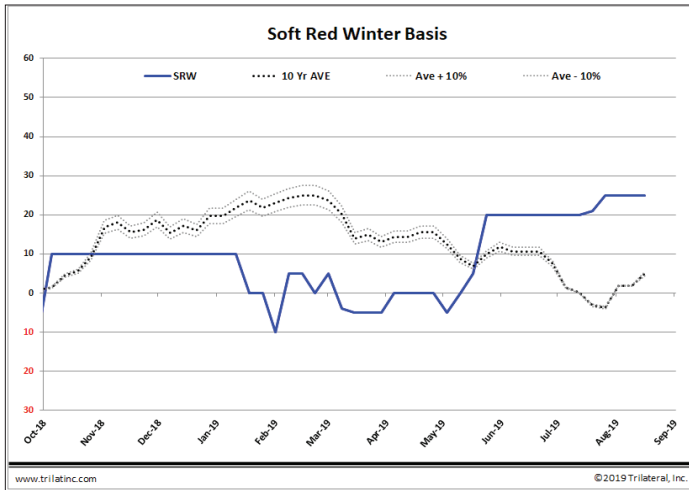
The basis is for US 1 Milling Quality Only. Milling Quality is defined as 300 or better Falling Numbers; 58 lbs or better test weight; 13.5 Pct or less moisture; 1.5 Pct or less Damage; 1.5 Pct or less Dockage and 2.0 ppm or less vomitoxin.

| | | |
|-------|----------|------|
| 13.0% | 60-60 U | .... |
| 14.0% | 80-80 U | -5 |
| 15.0% | 80-105 U | +20 |

Spot Protein Premiums



Protein Premiums cont.



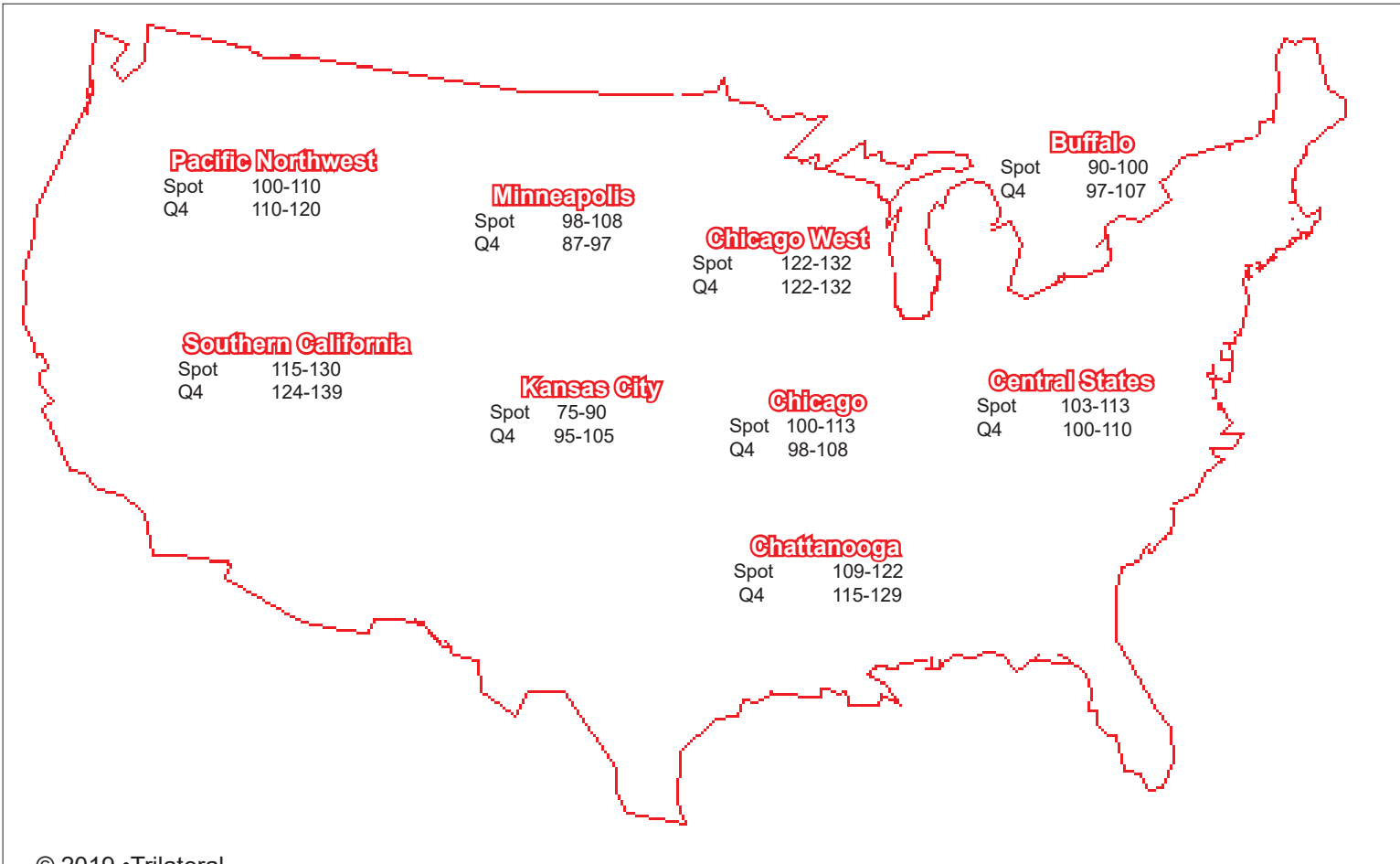
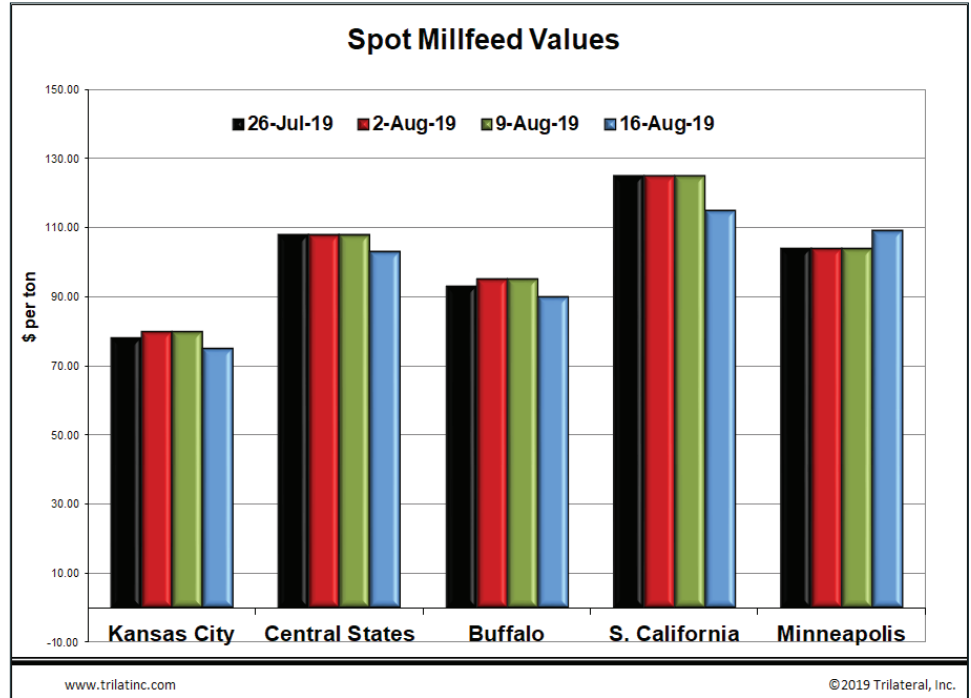
Millfeed

Values were mostly unchanged to lower.

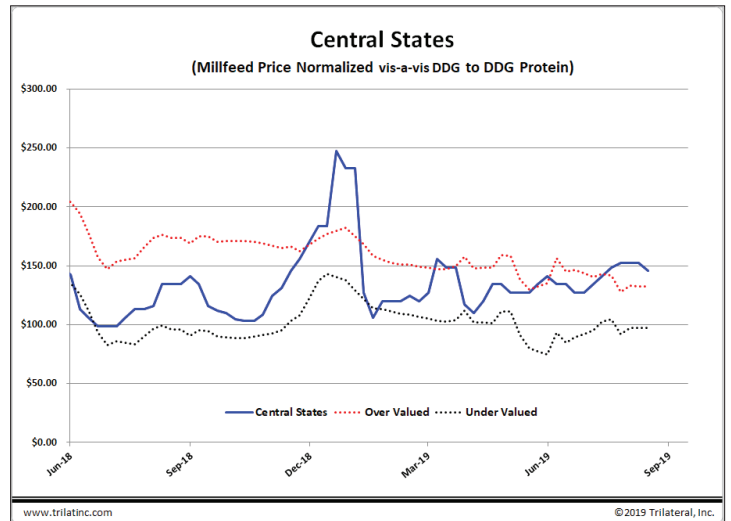
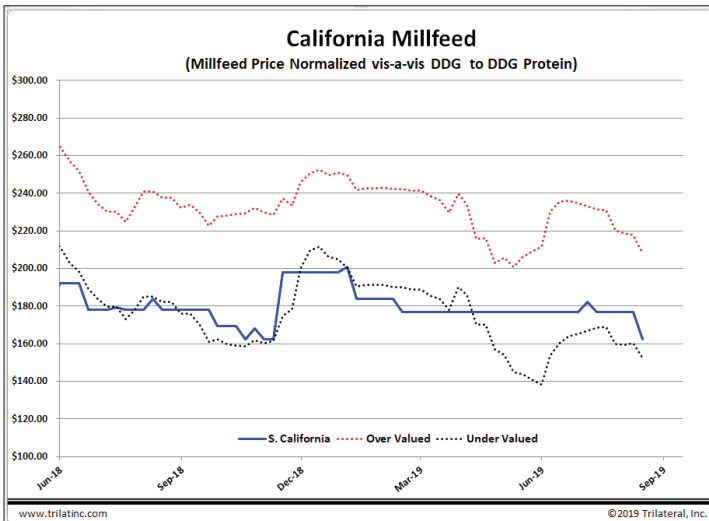
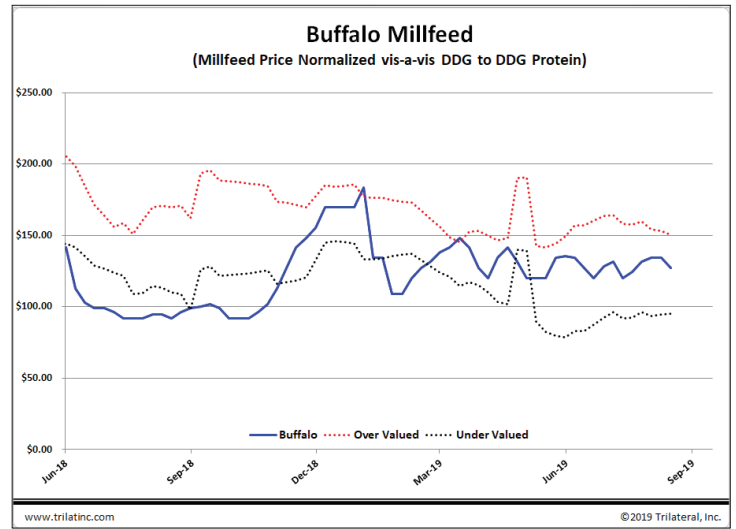
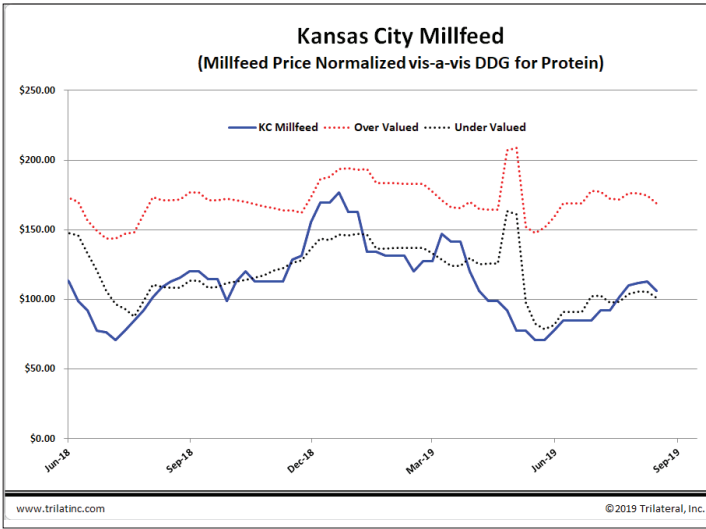
Traders believed the spread from August to fourth and first quarters had narrowed, but lacked definition due to near-total absence of trading for forward periods. "Since the reports, buyers have been in hiding, or at least no longer seeking offers" out forward, one said.

Feed mills and other end users who sought winter prices last week were now unwilling to pay premiums since "their fear of \$5 corn is gone," he said. Flour mills, lacking credits for winter grind, felt no desperation to make offers.

Corn price decline had more effect on eastern markets as Indiana and Ohio mills were primary origins for supplying corn to Carolinas- Georgia area, he said, while larger carry remained in place in West. Chicago mill was loading on stream. Reason wasn't apparent, but challenges were expected to last a week. Carolina mills periodically saw spot loads pop up on cancellations, perhaps as hotter temperatures reduced livestock appetites, and Southeast tone was flat to weaker. Central states held a weaker tone today, and Northeast followed suit.



Millfeed cont.

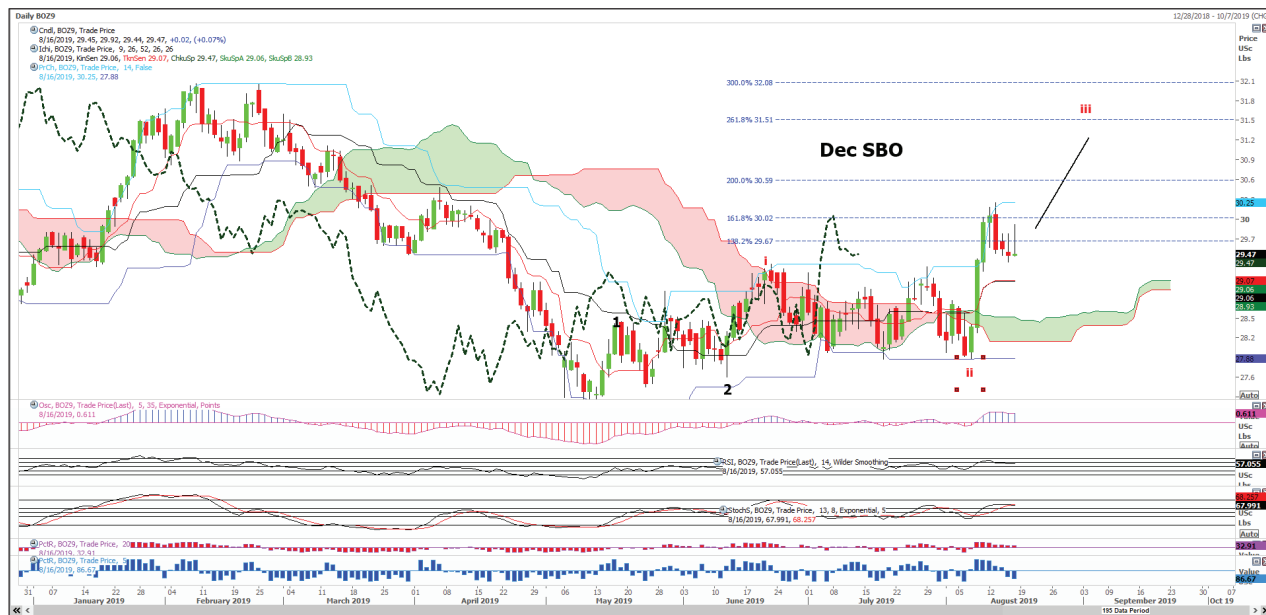


In the above charts the center line is the current millfeed price for the respective cities. The upper and lower lines are the range that millfeed prices trade between 80 and 90 percent of the time. One should avoid forward contracting millfeed when prices are near the lower boundary and wait to sell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

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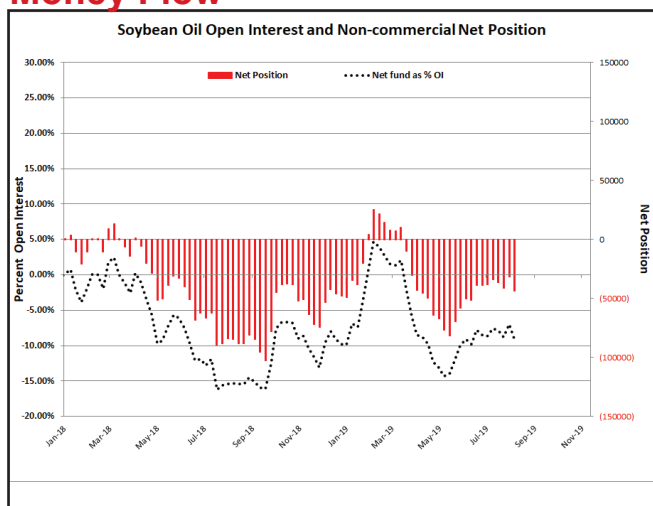
Oils Charts and Tables

Technical Outlook



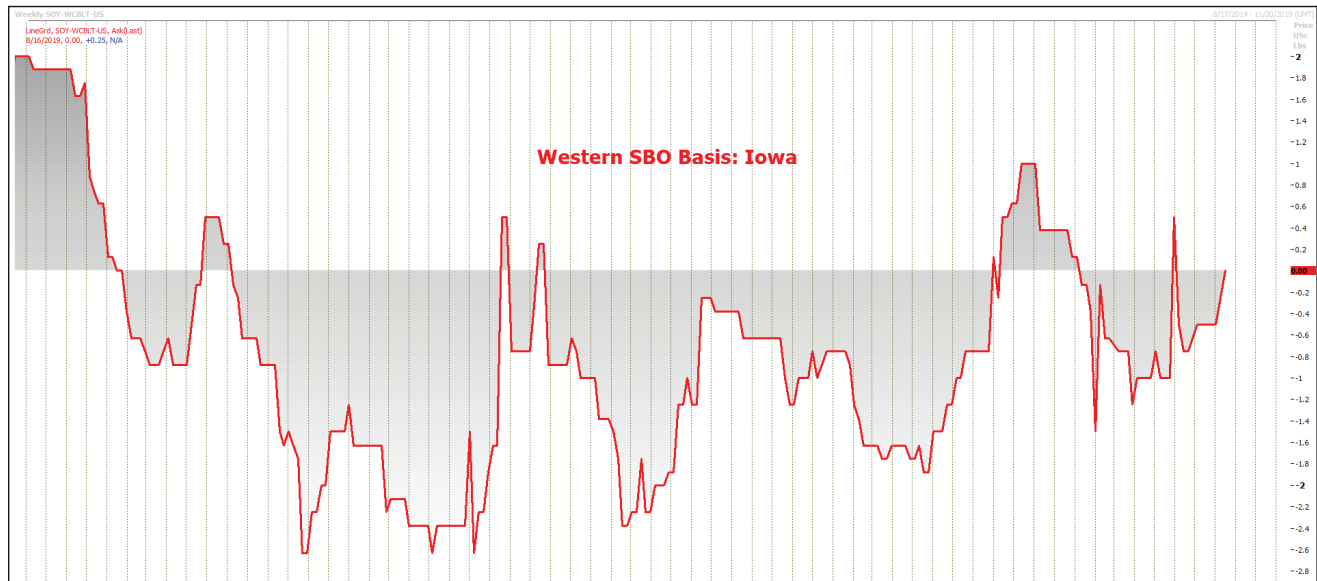
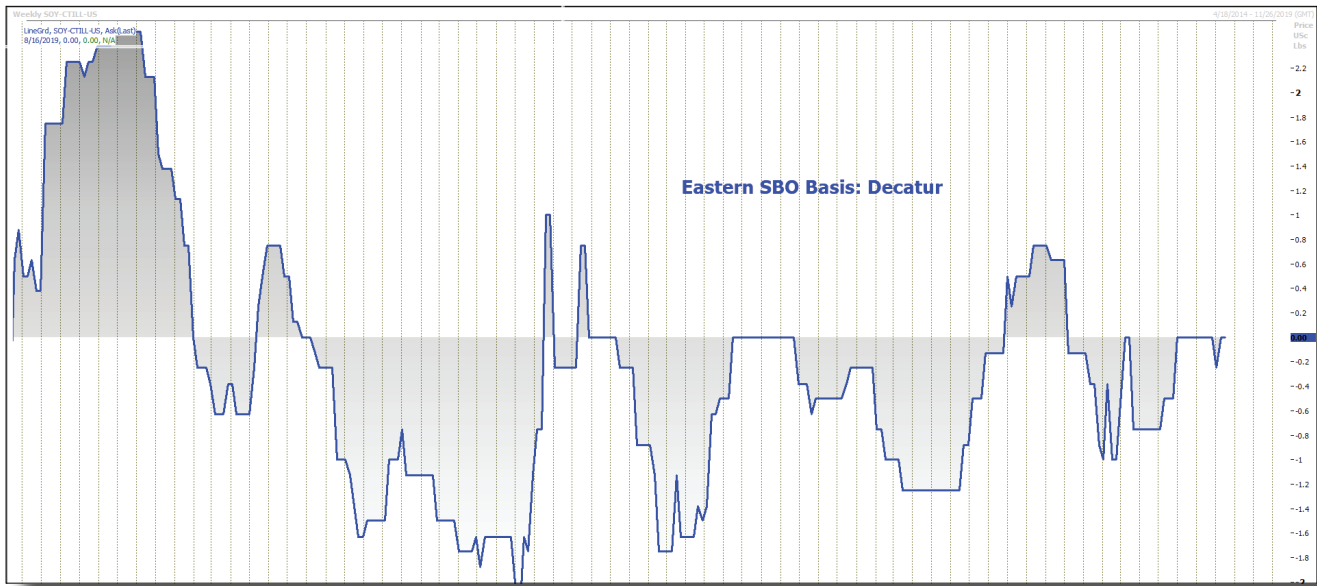
- Wave **iii** of **3** surged higher in exemplary wave 3 fashion late last week, giving confidence to call wave **ii** complete.
- This week we have seen corrective price action, but continue to look higher in wave **iii** with a target between 31 and 32 for wave **iii**.

Money Flow



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SBO Basis



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