

## 3 Key Messages

Below are the three main messages of this outlook report:

1. USDA's December crop report maintained a heavy supply outlook for US corn and soybeans in 2017-18.
2. Statistics Canada's December production update indicated the Ontario soybean crop in 2017 was the largest ever; corn the third largest. This doesn't matter to US futures but suggests there should be attractive buying opportunities for Ontario feed users now and then, particularly for corn.
3. Markets are under pressure. Corn futures slid to new lows on the USDA news and generally good crop conditions in Brazil. Soybeans and meal, which had rallied before the USDA report, dipped.

### Corn: US supply trimmed, still huge

The USDA monthly supply-demand update released Dec. 12 did not contain any adjustments to US corn production. It stayed at 14.58 billion bu, the second highest ever.

On the demand side, the USDA revised up the 2017-18 corn used for ethanol estimate by 50 million bu, resulting in a corresponding reduction in the ending stocks forecast to 2.44 billion bu. That's still well above 2.29 billion a year earlier and 1.74 billion in 2015-16.

The projected season-average farm price is unchanged this month at a midpoint of US\$3.20/bu but the range is narrowed 5 cents on each end to \$2.85 to \$3.55.

### World corn stocks up slightly

World corn ending stocks for 2017-18 were estimated at 204.08 million tonnes. That was up from 203.86 million in November, but still well below 227.34 million tonnes in 2016-17.

**SUPPLY-DEMAND US CORN**  
(billion bu unless otherwise specified)

	2014-15	2015-16	2016-17	2017-18 Nov	2017-18 Dec
Acres Planted (Mln)	90.60	88.00	94.00	90.40	90.40
Harvested	83.10	80.80	86.70	83.10	83.10
YIELD (Bu/A.)	171.00	168.40	174.60	175.40	175.40
Carryin	1.23	1.73	1.74	2.30	2.30
PRODUCTION	14.22	13.60	15.15	14.58	14.58
Imports	0.03	0.07	0.06	0.05	0.05
<b>TOTAL SUPPLY</b>	<b>15.48</b>	<b>15.40</b>	<b>16.94</b>	<b>16.92</b>	<b>16.92</b>
Feed/Residual	5.28	5.11	5.46	5.58	5.58
Food,Seed,Ind.*	6.60	6.65	6.89	6.94	6.99
Exports	1.87	1.90	2.29	1.93	1.93
<b>TOTAL USE</b>	<b>13.75</b>	<b>13.66</b>	<b>14.65</b>	<b>14.44</b>	<b>14.49</b>
<b>ENDING STOCKS</b>	<b>1.73</b>	<b>1.74</b>	<b>2.30</b>	<b>2.49</b>	<b>2.44</b>
<b>Stocks to use</b>	<b>12.6%</b>	<b>12.7%</b>	<b>15.7%</b>	<b>17.2%</b>	<b>16.8%</b>

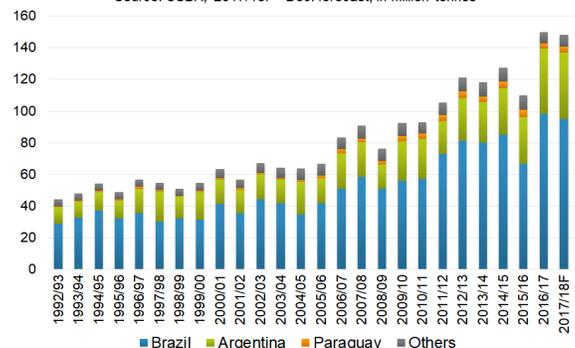
Source: USDA December 12, 2017

*The December USDA crop report trimmed ending stocks from last month but they remain heavy at over 2.4 billion bu. A favourable situation for feed buyers, all else equal!*

The USDA opted for a wait-and-see approach for South America, where the corn crop is still developing. Projected Argentina and Brazil corn output was left unchanged from November at 42.0 million and 95.0 million tonnes, respectively, versus 41.0 and 98.5 million the previous year.

**SOUTH AMERICAN CORN PRODUCTION**

Source: USDA, 2017/18F - Dec. forecast; in million tonnes



*South American corn output will be down from last year. The extent of the decline remains to be seen (and could have important implications for corn futures!)*

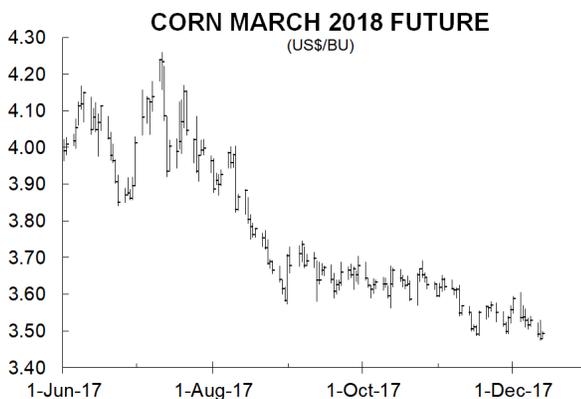
**Looking ahead:** Changes to South American production forecasts, and later harvest results, will be the most important factor to world markets between

now and March.

## Futures pushed to new lows by big supply

Leading up to the Dec.12 monthly crop report, the March corn future was stuck in a low-level trading range.

After the report came out, the December future fell out the bottom of that range, reaching a new low. This implies more time is needed to fully account for the size of this year's US output. It also is indicative of the lack of a serious threat to Brazil's crop.



*Futures made new lows on the USDA news*

**Outlook & seasonal tendencies:** Starting now, the market's attention will be focused on developments in South America. Many years there is at least a little strength in January based on some kind of crop scare there.

Other factors, such as the pace of US exports, domestic demand, etc. are important too but take a back seat to what's happening in South America.

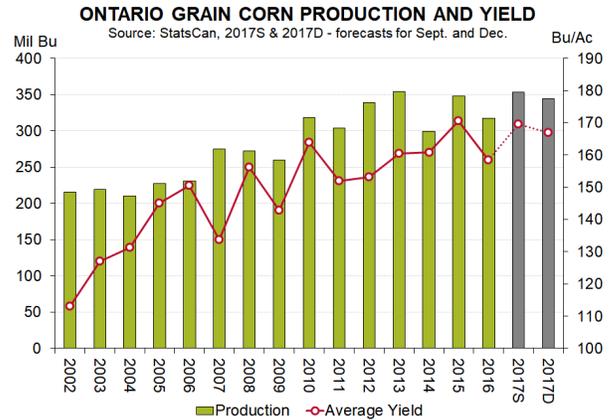
## Harvest wrapping up on large Ontario crop

A Statistics Canada production report released Dec. 6 trimmed the Ontario corn yield estimate but maintained a large overall crop size.

Ontario's corn crop is now seen at 344.0 million bu (8.7 million tonnes), down from 353.4 million bu (9.0 million tonnes) in September. That's still a lot of corn – up from last year's crop of 317.0 million bu.

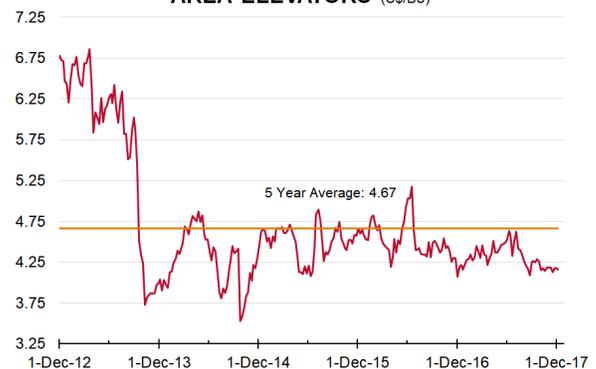
The average yield for 2017 dipped to 167 bu/acre from 169.5 bu in September, according to Stats Can.

Last year's average yield in the province was 158.5 bu/acre.



*Although there have been some reports of disappointing test weights, the sheer size of Ontario's crop should keep feed manufacturers well supplied. (In chart 2017S is Sept. estimate, 2017D is Dec.)*

**WEEKLY SPOT CORN PRICE AT LONDON AREA ELEVATORS (C\$/BU)**



*Even with a relatively strong basis, spot corn prices in Ontario are well below the five year average, as shown above. This is a response to the weak US futures market.*

## Soybeans: Lots to Go Around US export forecast down, ending stocks up

A more modest export forecast has pushed estimated 2017-18 US soybean ending stocks higher from last month.

The USDA trimmed its soybean export forecast for the current marketing year by 25 million bu from

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November to 2.23 billion bu. This was in response to what the USDA described as “stronger-than-expected” competition from Argentina and Brazil during the first quarter of the marketing year.

Factoring in a very small increase in expected seed usage, ending stocks for 2017-18 were bumped up 20 million bu from November to 445 million bu. If realized, that would be the highest since 2006-07.

### SUPPLY-DEMAND US SOYBEANS (billion bu unless otherwise specified)

	2014-15	2015-16	2016-17	2017-18 Nov	2017-18 Dec
Acres Planted (Mln)	83.30	82.70	83.40	90.20	90.20
Harvested	82.60	81.70	82.70	89.50	89.50
YIELD (Bu/ac)	47.50	48.00	52.00	49.50	49.50
Carryin	0.09	0.19	0.20	0.30	0.30
PRODUCTION	3.93	3.93	4.30	4.43	4.43
Imports	0.03	0.02	0.02	0.03	0.03
<b>TOTAL SUPPLY</b>	<b>4.05</b>	<b>4.14</b>	<b>4.52</b>	<b>4.75</b>	<b>4.75</b>
Crush	1.87	1.89	1.90	1.94	1.94
Exports	1.84	1.94	2.17	2.25	2.23
Seed	0.10	0.10	0.11	0.10	0.11
Residual	0.05	0.02	0.04	0.04	0.04
<b>TOTAL USE</b>	<b>3.86</b>	<b>3.94</b>	<b>4.21</b>	<b>4.33</b>	<b>4.31</b>
<b>ENDING STOCKS</b>	<b>0.19</b>	<b>0.20</b>	<b>0.30</b>	<b>0.43</b>	<b>0.45</b>
<b>Stocks to use</b>	<b>4.95%</b>	<b>4.99%</b>	<b>7.14%</b>	<b>9.82%</b>	<b>10.33%</b>

Source: USDA December 12, 2017

*In 2017-18, US ending stocks are expected to take another step up. The supply wave hasn't crested yet!*

The US season-average soybean price range for 2017-18 was narrowed to US\$8.60 to \$10/bu this month. The soybean meal price range was unchanged at \$295 to \$335/short ton.

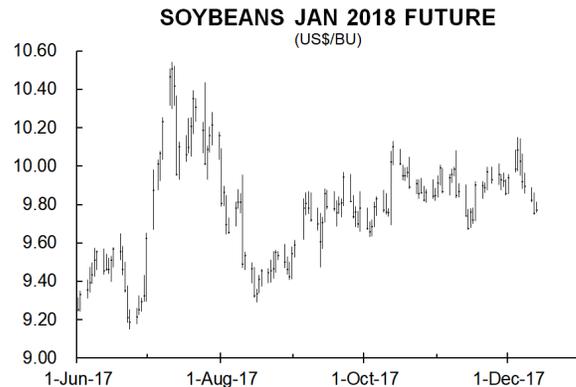
The second largest South American crop ever is in the works. The Brazil and Argentina soybean production estimates of 108.0 million and 57.0 million were unchanged from last month. Combined output of 165.0 million tonnes would be second only to last year's record of 172.0 million.

### Soybean futures strong, despite ongoing harvest

Soybean futures came into the November USDA report up about 60 cents US from the low made in mid August.

The market did not buckle under at all to US harvest pressure. However, with the market slipping after the USDA report came out, at least a little pressure may be ahead.

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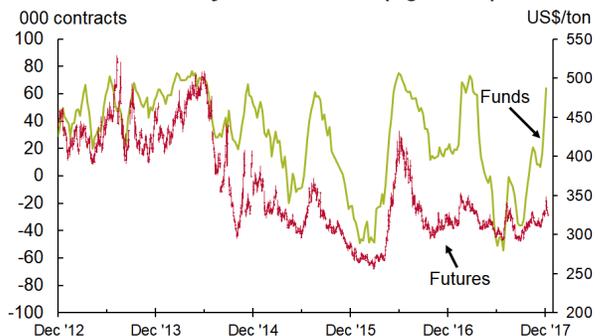
*After an impressive autumn rally, soybean futures are starting to look fatigued.*

Similar to soybeans, meal futures have started to slip following a sizable rally. The Jan future, for example, fell \$20 between Dec. 6 and Dec. 13. At around US\$325/short ton, it's still up about \$30 from the low made in August.

**Outlook & seasonal tendencies:** In late December and January, the outlook for soybeans and meal hinges primarily on the South American crop. Dryness caused a few early concerns in Argentina, but Brazil's soybean crop is in good shape and getting regular rain.

One very important factor in the outlook is the collective action of speculative (managed money) funds. These funds are currently holding a net long position in soybean and soy meal futures. If something happens to cause these funds to alter their position, futures could be jolted up or down.

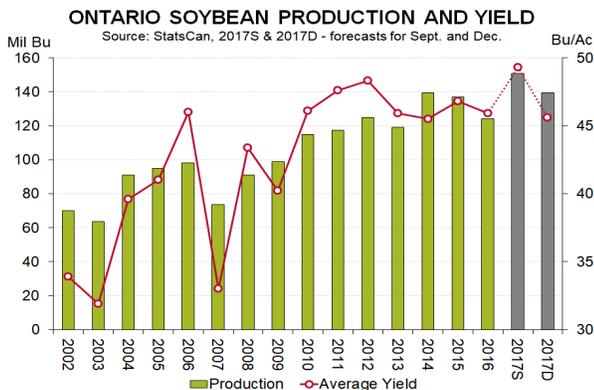
### Soybean Meal: Net Position by Spec Funds (left axis) vs. Nearby Futures Price (right axis)



## Ontario soybean crop down, still a record

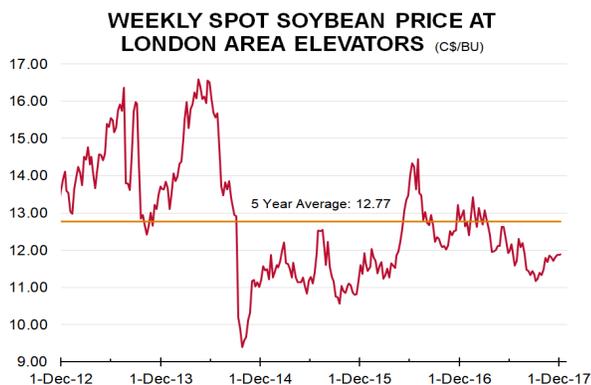
During harvest, highly variable Ontario soybean yields were reported. So, it was no surprise that the Dec. 6 Stats Can production report cut the average 2017 soybean yield for Ontario to 45.6 bu/acre from 49.3 bu in September and 45.6 bu the previous year.

In response, estimated soybean production came down to an estimated 139.5 million bu (3.8 million tonnes) from 150.8 million bu (4.1 million tonnes) in September. That's still record-large, above the 2016 crop of 124.0 million bu (3.4 million tonnes).



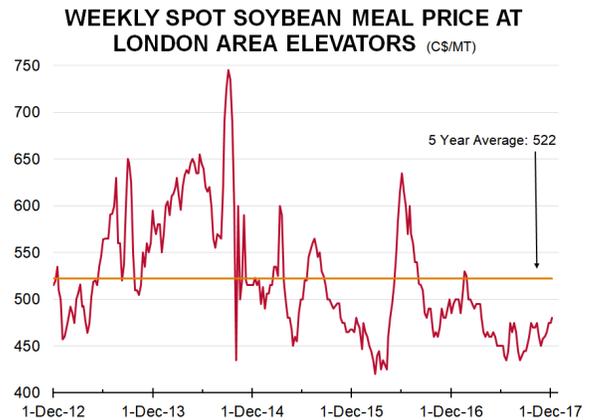
*It's not an major factor for prices but Ontario is well supplied with soybeans. (Note: In chart 2017S is September estimate. 2017D is December.)*

Ontario soybean prices have been trending generally higher since early September. Futures are up and the basis is up due to a lower Canadian dollar.



*Even with recent gains, Ontario soybean prices remain well below the 5-year average*

Similar to soybeans, Ontario bulk soybean meal prices have worked generally higher over the past few months.



*Bulk soybean meal prices have risen over the past few months but have remained well below the average of the past five years.*

## What about La Niña?

La Niña is a weather phenomenon related to the cooling of the tropical Pacific Ocean. It can be an important source of agricultural production and price volatility. At times in the past, La Niña has resulted in South American corn and soybean production losses.

The US National Oceanic and Atmospheric Administration reports La Niña is underway, with a 65 to 75% chance that it will continue at least through the first quarter of 2018. At this point, the event is predicted to be relatively weak (similar to last year), making meaningful South American crop losses unlikely.

**Warning:** If there are signs La Niña is strengthening, corn and soybean futures can be expected to respond with gains, perhaps sharp ones.

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