

3 Key Messages

Below are the three main messages of this outlook report:

1. USDA's February crop report confirmed a very heavy US soybean supply. U.S. corn supplies are ample, based on USDA's projections.
2. South America remains on track to produce its second largest corn and soybean crops ever. There is still some uncertainty relating to weather and getting the crop to world buyers smoothly.
3. Despite the ample supplies, corn and soybean meal prices are moving higher. This is an unfavourable development for feed buyers, all else equal.

Corn: U.S. exports revised up

On Feb. 8, the USDA raised its 2017-18 U.S. corn export forecast by 125 million bu from January to 2.05 billion bu. The U.S. is now expected to sell more because prices by U.S. exporters have become competitive with other suppliers, including Argentina.

With no other supply-demand changes, the higher U.S. export forecast resulted in a 125-million bu reduction in the 2017-18 ending stocks to 2.35 billion bu — still above the previous year's 2.29 billion bu.

The U.S. season-average corn price received by producers is projected at US\$3.30/bu this month. That's 5 cents from the midpoint from January.

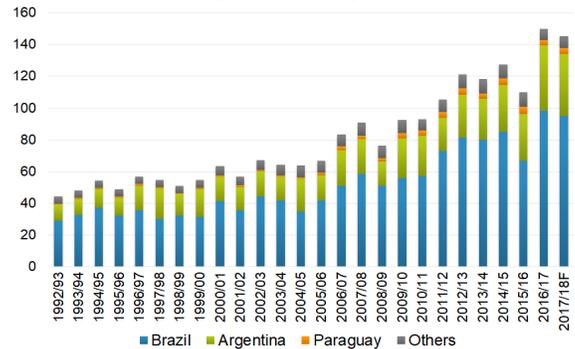
World corn production estimates dropping

Global corn production for 2017-18 was lowered 2.8 million tonnes from last month.

Argentina's crop was cut 3 million tonnes from January to 39 million tonnes, 2 million below the 2016-17 crop. Production for Ukraine was trimmed to 24.1 million tonnes from 25 million January, based on the latest official statistics. Brazil's corn crop was unchanged from last month at 95 million tonnes

SOUTH AMERICAN CORN PRODUCTION

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



Even with drought in parts of Argentina, South America could to produce its second biggest corn crop ever.

Note: Over the next six weeks world markets will remain sensitive to changes to South American production forecasts and harvest results.

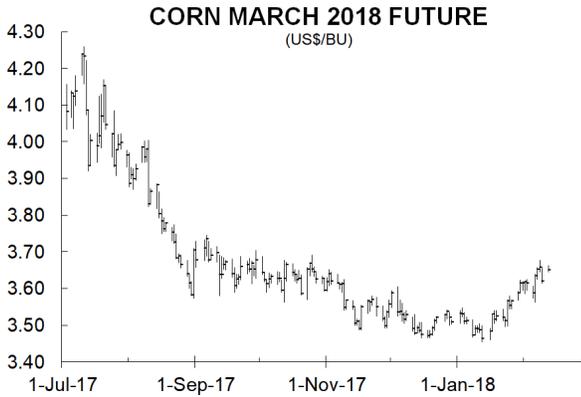
Futures up, despite comfortable corn supplies

Leading up to the Feb. 8 monthly crop report, the March corn future had come up 20 cents US from its life-of-contract low made in January.

After the report came out, the March future held the gains made over the previous month. This positive technical action indicates the market has been low enough to account for the large supply of corn on hand in the U.S. The focus now is on the potential for demand-related surprises for the U.S. corn market, along with lingering weather-related uncertainty in South America.

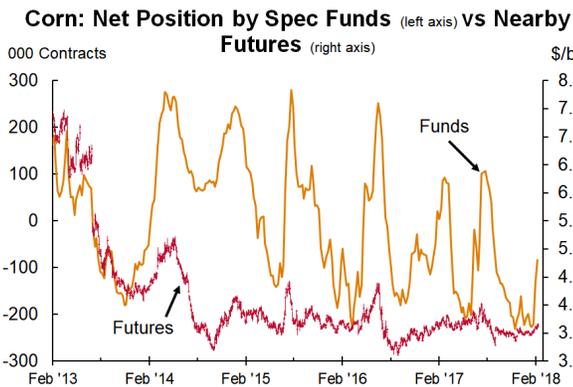
Outlook & seasonal tendencies: The market is focused on South America and will remain so until at least March. Other factors, such as the pace of U.S. exports, domestic demand, etc. are important too but are of secondary importance.

Seasonal odds allow for a setback in the current timeframe as farmer sales often increase in February to generate cash. March and April tend to see some strength as farmer sales slow down and the focus shifts to the upcoming spring planting period.



The March future has rallied over the past month.

The collective action of speculative funds may continue to move the futures market. These funds had a near-record large net short position in corn futures at the low in January. Since then, the funds have been paring their net short position (buying it back). This has been a supportive factor.

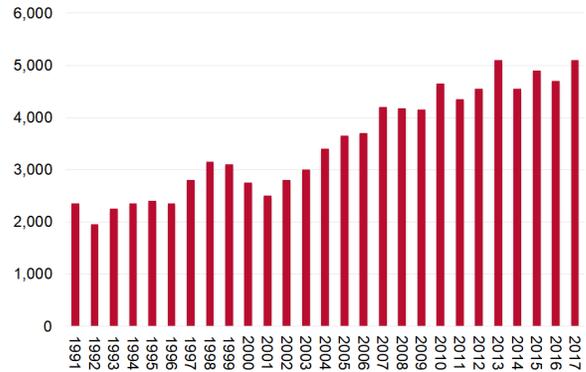


Funds have been covering some of their net short position in corn. This is supportive for futures prices.

Lots of corn in Ontario

A Statistics Canada stocks in all positions report released Feb. 5 indicated there were 5.1 million tonnes of corn being held on Ontario farms as of Dec. 31. That equals the record high for year-end stocks, set in 2013.

ONTARIO ON-FARM STOCKS OF CORN AT DEC. 31
Source: Statistics Canada, in thousand tonnes

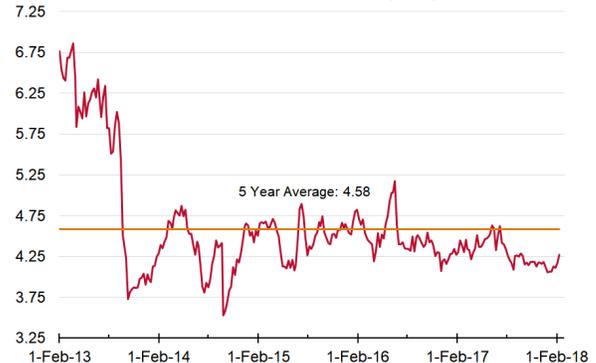


Ontario farms are flush with corn!

Not only did Ontario produce one of its largest corn crops ever in 2017, farmers were reluctant to sell it with local prices mired around \$4/bu at the elevator level after harvest.

Current prices are not high by the standards of the past five years. However, prices are up slightly from a month ago, due to a combination of higher corn futures and basis gains from a lower Canadian dollar.

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



Even with recent gains, spot corn prices in Ontario are below the five year average, as shown above.

Soybeans: Lots now, more ahead

U.S. export forecast down, ending stocks up

Based on the slow pace of exports to date and the expectation of stiff competition from South American soybeans ahead, the USDA reduced its 2017-18

U.S. export forecast by 60 million bu from last month to 2.1 billion bu.

As a result, 2017-18 U.S. soybean ending stocks were raised 60 million bu from January to 530 million bu. That is well above 302 million and 197 million bu the previous two years, as shown below.

Even with rising supply forecasts, the U.S. season-average soybean price range for 2017-18 is projected at US\$8.90 to \$9.70/bu this month, unchanged at the midpoint from January. Soybean meal prices are forecast at US\$305 to \$335/short ton, up \$5 at the midpoint.

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

	2014-15	2015-16	2016-17	2017-18 Jan	2017-18 Feb
Acres Planted (Mln)	83.30	82.70	83.40	90.10	90.10
Harvested	82.60	81.70	82.70	89.50	89.50
YIELD (Bu/ac)	47.50	48.00	52.00	49.10	49.10
Carryin	0.09	0.19	0.20	0.30	0.30
PRODUCTION	3.93	3.93	4.30	4.39	4.39
Imports	0.03	0.02	0.02	0.03	0.03
TOTAL SUPPLY	4.05	4.14	4.52	4.72	4.72
Crush	1.87	1.89	1.90	1.95	1.95
Exports	1.84	1.94	2.17	2.16	2.10
Seed	0.10	0.10	0.11	0.11	0.11
Residual	0.05	0.02	0.04	0.03	0.03
TOTAL USE	3.86	3.94	4.21	4.25	4.19
ENDING STOCKS	0.19	0.20	0.30	0.47	0.53
Stocks to use	4.95%	4.99%	7.17%	11.04%	12.66%

Source: USDA February 8, 2017

In 2017-18, U.S. ending stocks could top 500 million bu for the first time ever!

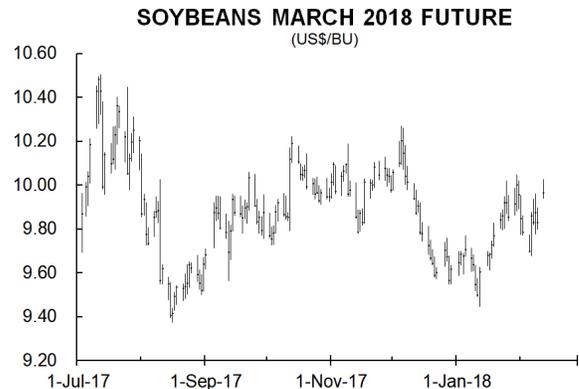
The second largest South American crop ever is on the way. The Brazil production forecast was raised 2 million tonnes from last month to 112 million – closer to the 2016-17 record of 114.1 million tonnes.

The increase in Brazil makes up for a smaller production forecast for Argentina, which has struggled with several weeks of hot, dry weather. Argentina's crop was cut 2 million tonnes from last month to 54 million tonnes. More downward revisions are expected in the future.

Soybean futures unfazed by heavy U.S. supply

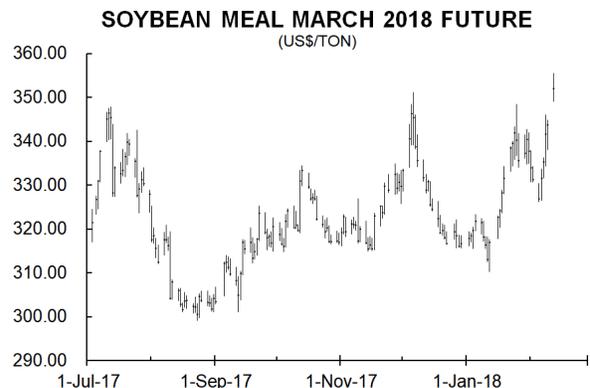
The market was rallying before the February USDA report was released. Futures stayed strong after the

report came out, seemingly unfazed by the slow pace of U.S. exports.



Soybean futures are up sharply since mid January.

Meal has been the strongest part of the soy complex.



Meal futures are at life-of-contract highs.

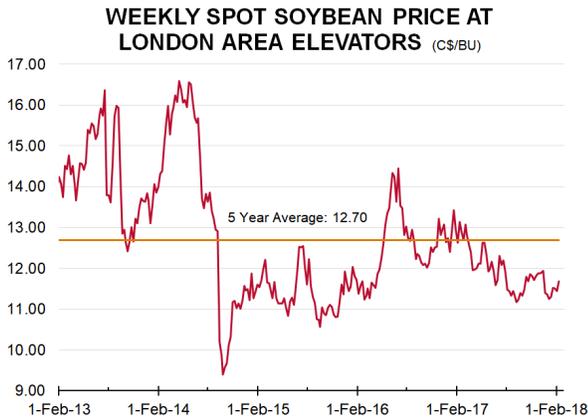
Outlook & seasonal tendencies: Soybean and meal futures will remain sensitive to the probability of further downsizing of Argentina's crop. Brazil's harvest is getting underway. The movement of soybeans to world buyers could be interrupted by periodic port and trucker strikes. Such strikes are common in March and April, when the need to get freshly harvested soybeans to world buyers gives workers leverage in negotiations.

In March, soybean futures will react to 2018 U.S. acreage estimates. Most analysts expect a record large area. The size of the increase is widely debated. This along with weather uncertainty will

create volatility—varying ups and downs.

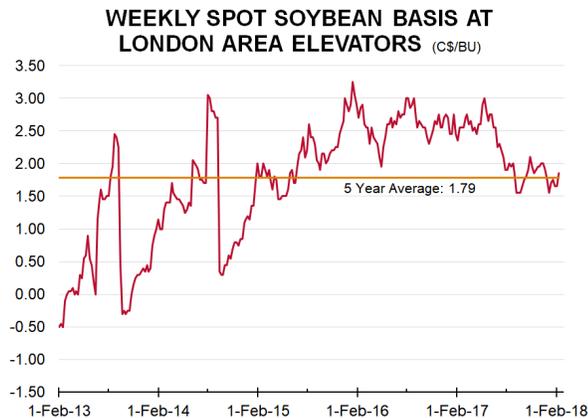
Ontario soybean prices up, basis too

Ontario prices are up moderately from mid January.



Ontario prices are rising but remain well below the 5-year average, as shown.

The basis has been supported by higher futures and a lower Canadian dollar over the past few weeks.



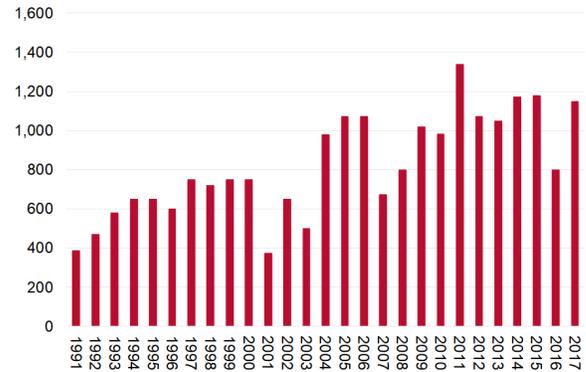
The Ontario basis has firmed in recent weeks.

Although Ontario prices are set primarily by movements by soybean futures and the Canadian dollar, it is worth mentioning that Ontario is currently comfortably supplied with soybeans.

On-farm Ontario soybean stocks were reported by StatsCan at 1.15 million tonnes. That's not a record, as shown on the chart above, but it is way above 800,000 a year earlier.

ONTARIO ON-FARM STOCKS OF SOYBEANS AT DEC. 31

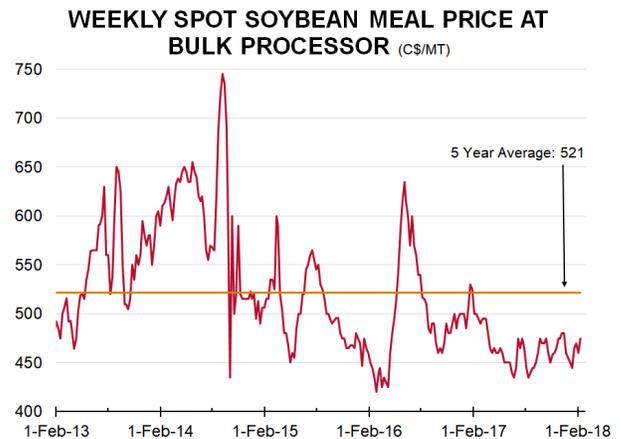
Source: Statistics Canada, in thousand tonnes



Ontario meal prices highest in nine months

Similar to soybeans, Ontario bulk soybean meal prices have been moved higher since mid December. Meal futures are currently very strong.

The basis has been supported by the lower Cdn \$, adding to the gains by bulk meal prices.



Bulk soybean meal prices have moved higher over the month. They remain well below the average of the past five years, as shown.

Final note: Parts of Ontario are dry as spring planting approaches. Approximately 1/3 of the province's cropping regions were listed as "abnormally dry" as of Jan. 31 by Agriculture and Agri-Food Canada. The weather will, as is often the case, have lots to say about prices and availability of local feed supplies in Ontario.

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