

3 Key Messages

Below are the three main messages from this outlook report:

1. The USDA's monthly report released June 12 did not contain any huge surprises. It confirmed somewhat tighter corn and soybean supplies ahead compared to expected demand.
2. Weather remains critically important. The past few weeks has seen nearly ideal weather in the Midwest for seeding and crop establishment. Ontario crops are off to a great start too.
3. Corn and soybean futures have fallen as some of the "weather premium" is removed. This is good news for feed buyers.

Corn: Some tightening in 2018-19

Pressure on for strong U.S. yields

In the June supply-demand update, the USDA trimmed its 2017-18 and 2018-19 U.S. corn ending stocks estimates from a month earlier. Old-crop ending stocks fell 80 million bu from last month to 2.102 billion bu, while new crop dropped to the lowest since 2013-14 at 1.577 billion bu.

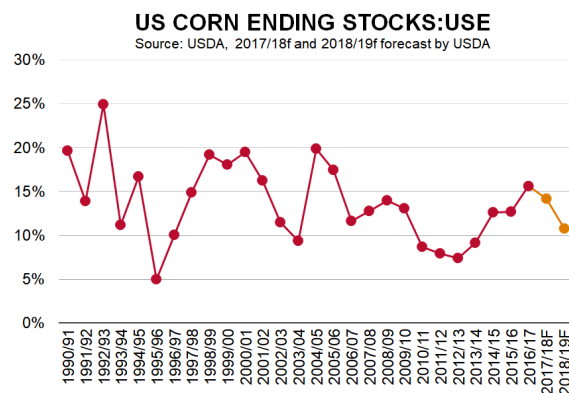
| SUPPLY-DEMAND US CORN (billion bu unless otherwise specified) | | | | | |
|--|--------------|--------------|--------------|-----------------|-----------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 June | 2018-19 June |
| Acres Planted (Mln) | 90.60 | 88.00 | 94.00 | 90.20 | 88.00 |
| Harvested | 83.10 | 80.80 | 86.70 | 82.70 | 80.70 |
| YIELD (Bu/A.) | 171.00 | 168.40 | 174.60 | 176.60 | 174.00 |
| Carryin | 1.23 | 1.73 | 1.74 | 2.29 | 2.10 |
| PRODUCTION | 14.22 | 13.60 | 15.15 | 14.60 | 14.04 |
| Imports | 0.03 | 0.07 | 0.06 | 0.05 | 0.05 |
| TOTAL SUPPLY | 15.48 | 15.40 | 16.94 | 16.94 | 16.19 |
| Feed/Residual | 5.28 | 5.11 | 5.47 | 5.50 | 5.35 |
| Food,Seed,Ind.* | 6.60 | 6.65 | 6.88 | 7.04 | 7.17 |
| Exports | 1.87 | 1.90 | 2.29 | 2.30 | 2.10 |
| TOTAL USE | 13.75 | 13.66 | 14.65 | 14.84 | 14.62 |
| ENDING STOCKS | 1.73 | 1.74 | 2.29 | 2.10 | 1.58 |
| Stocks to use | 12.6% | 12.7% | 15.7% | 14.2% | 10.8% |

Source: USDA June 12, 2018

With no changes on the supply side, the lower ending stocks estimates can be attributed to rising demand. For 2017-18, the USDA bumped up its

export forecast by 75 million bu to 2.3 billion – potentially the highest since 2007-08.

The drop in the 2018-19 ending stocks forecast is the result of a 50-million bu increase in projected corn for ethanol use, along with a smaller carryin from the 2017-18 marketing year. When expressed as a percentage of expected use, the 2018-19 corn supply is expected to be down compared to 2017-18.



The season-average U.S. farm price for corn was raised 10 cents at the midpoint this month with a range of US\$3.40 to \$4.40/bu.

Key point: The USDA will release a very important U.S. seeded acreage update on June 29. It will provide a *survey-based* estimate of corn area planted and a forecast of area harvested for grain.

World situation dominated by smaller South American corn crop estimates

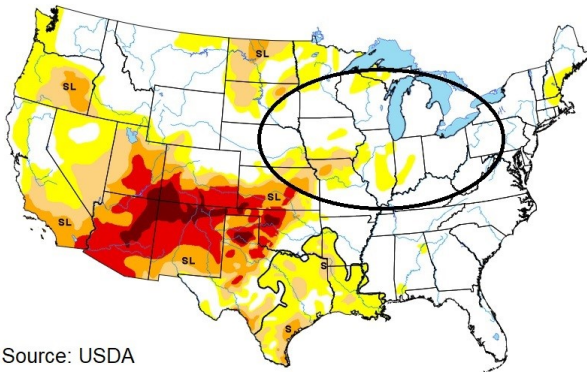
Globally, the USDA lowered its 2017-18 Brazil corn production estimate by 2 million tonnes from last month to 85 million due to drought. Argentine corn output held steady with last month at 33 million tonnes, well below 41 million a year ago.

At 154.69 million tonnes, 2018-19 world corn ending stocks are down from 159.15 million in May.

Few US weather concerns

The circle on the map on the next page roughly corresponds to the Corn Belt.

Although some areas of excessive dryness or moderate drought (shown by yellow and brown) exist, the affected area has not increased in recent weeks. Most areas have been getting just-in-time rain.

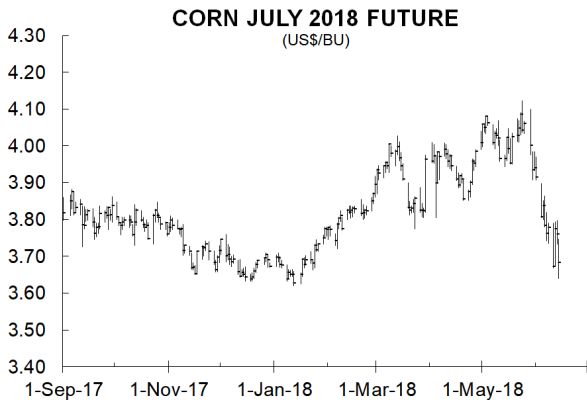


Source: USDA

Most of the Corn Belt has been getting enough rain to prevent the serious drought currently gripping the southwestern U.S. and shown in red from spreading to key U.S. corn and soybean growing states.

Futures down, watching US weather

In late May and early June, corn futures collapsed. The July future fell to its lowest since early 2018.



Futures trying to stabilize after a sudden drop. The outlook is highly dependent on weather.

Pressure came from liquidation of long positions by speculative funds and the lack of a weather premium in the market due to a strong start for the U.S. corn crop.

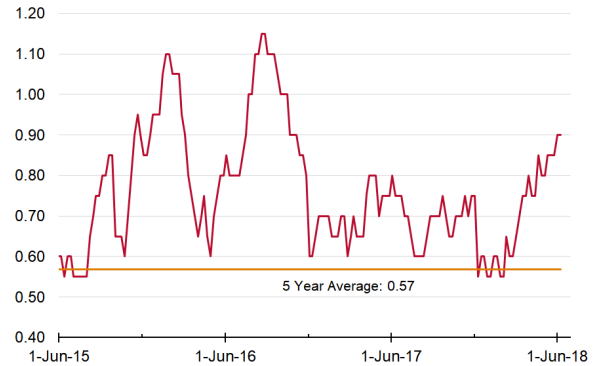
Across the U.S., the USDA rated 77% of corn in

good or excellent condition as of June 10. That was down from 78% the previous week, but well above the 67% good or excellent rating seen one year ago.

Ontario update

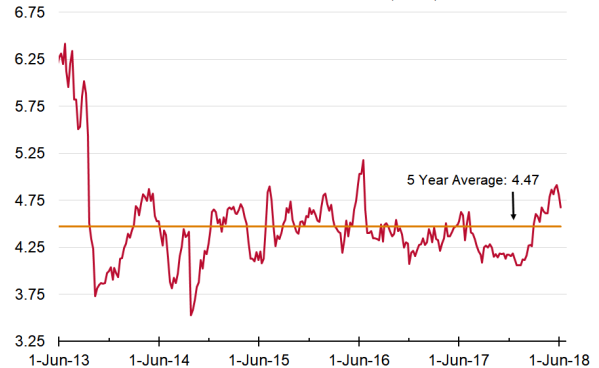
In Ontario, corn planting is virtually complete. Generally speaking, emergence has been strong and stands are looking good.

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



The Ontario spot basis is in the upper part of the range seen over the past three years.

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



With lower futures, spot corn prices in Ontario are just above the average of the past five years.

Soybeans: A very comfortable supply U.S. crop looks huge. Lots on hand in Brazil.

The USDA only tinkered with its 2017-18 and 2018-19 U.S. soybean numbers in its June update.

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With a upward revision in the domestic crush, expected 2017-18 ending stocks dipped to 505 million bu from 530 million in May. With smaller carryin stocks, 2018-19 ending stocks slipped to 385 million bu from 415 million.

The 2018-19 season-average price for soybeans was pegged at US\$8.75 to \$11.25/bu this month, unchanged from May. The projected range for soybean meal prices was also steady from last month at US\$330 to \$370/short ton.

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

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 June | 2018-19 June |
|----------------------|--------------|--------------|--------------|-----------------|-----------------|
| Acres Planted (Mln) | 83.30 | 82.70 | 83.40 | 90.10 | 89.00 |
| Harvested | 82.60 | 81.70 | 82.70 | 89.50 | 88.20 |
| YIELD (Bu/ac) | 47.50 | 48.00 | 52.00 | 49.10 | 48.50 |
| Carryin | 0.09 | 0.19 | 0.20 | 0.30 | 0.51 |
| PRODUCTION | 3.93 | 3.93 | 4.30 | 4.39 | 4.28 |
| Imports | 0.03 | 0.02 | 0.02 | 0.03 | 0.03 |
| TOTAL SUPPLY | 4.05 | 4.14 | 4.52 | 4.72 | 4.81 |
| Crush | 1.87 | 1.89 | 1.90 | 2.02 | 2.00 |
| Exports | 1.84 | 1.94 | 2.17 | 2.07 | 2.29 |
| Seed | 0.10 | 0.10 | 0.11 | 0.10 | 0.10 |
| Residual | 0.05 | 0.02 | 0.03 | 0.03 | 0.03 |
| TOTAL USE | 3.86 | 3.94 | 4.21 | 4.21 | 4.43 |
| ENDING STOCKS | 0.19 | 0.20 | 0.30 | 0.51 | 0.39 |
| Stocks to use | 4.95% | 4.99% | 7.17% | 11.99% | 8.70% |

Source: USDA June 12, 2018

The USDA's ending stocks forecast for 2018-19 is down from the forecast for 2017-18. However, when expressed as a percentage of expected use, 2018-19 U.S. ending stocks are still very comfortable.

Brazil's production revised up again

On the world soybean stage, an already small 2017-18 Argentine crop is getting lighter, while a big Brazil crop is getting heftier. Argentina soybean output was cut 2 million tonnes from last month to 37 million. On the other hand, Brazil's crop was revised 2 million tonnes higher to 117 million.

For 2018-19, Argentina's soybean crop is seen rebounding to 56 million tonnes. Output from Brazil - where seeding will begin in September - was raised 1 million tonnes from last month to 118 million.

World soybean ending stocks for 2018-19 are estimated at 87.02 million tonnes this month, up from 86.70 million in May.

Soybean and meal futures under pressure

Soybean and soybean meal futures have collapsed over the past few weeks.

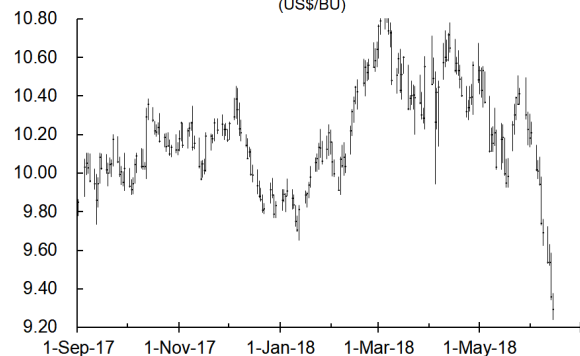
The U.S. soybean crop is off to a good start. Seeding is nearing completion and emergence is well ahead of normal. As of June 10, the crop nationwide was rated 74% good to excellent, down 1 percentage point from last week but 8 points ahead of last year.

In addition, speculative funds have been liquidating the larger net long positions accumulated in these markets during winter and early spring.

Lurking in the background is ongoing trade tension between the U.S. and China, the world's #1 importer of soybeans. There are concerns that if the U.S. follows through on its plans to slap tariffs on various Chinese products that China will eventually retaliate with an export-crimping tariff on U.S. soybeans.

As well as developments on trade, the outlook remains highly dependent on U.S. weather, particularly when yields are being determined in late July and early August.

SOYBEANS JULY 2018 FUTURE
(US\$/BU)

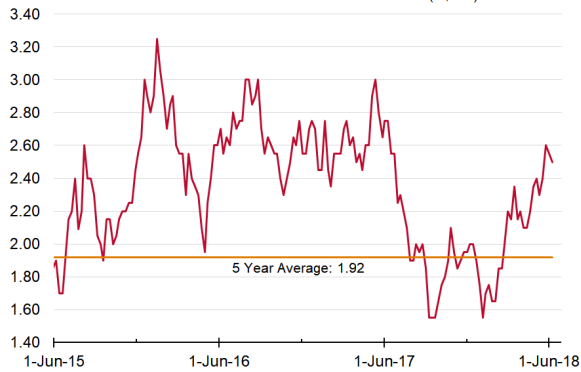


Down more than US\$1.15/bu since late May!

Ontario soybean situation

Ontario's soybean crop is off to a strong start. Seeding is complete except on heavy, clay soil. There are no concerns with early crop development, which bodes well for local meal supplies later on.

WEEKLY SPOT SOYBEAN BASIS AT LONDON AREA ELEVATORS (C\$/BU)



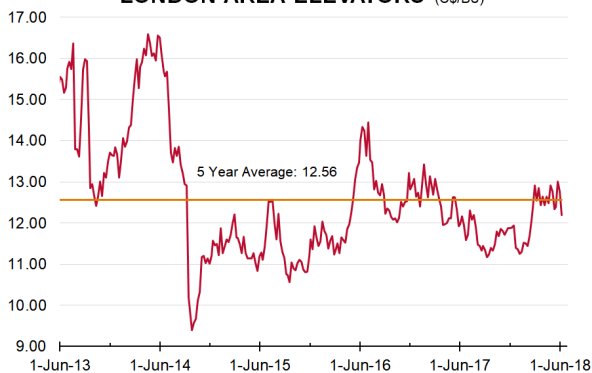
The Ontario basis is well above the 5 year average.

The Ontario spot soybean basis has dipped in recent weeks. Pressure has come from sharply lower soybean futures.

The Canadian dollar is not currently a huge factor for the basis as it has been chopping in a wide range bounded by 76 1/2 and 78 1/2 cents US since April.

Taking a longer-term view, the basis remains in the upper part of the range seen over the past five years, as shown above.

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



Similar to futures, spot soybeans in Ontario have collapsed over the past few weeks. They are now below the average of the previous five years.

SOYBEAN MEAL JULY 2018 FUTURE (US\$/TON)



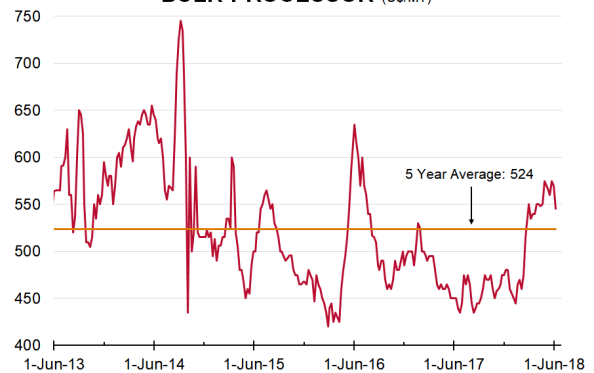
Meal futures are down but not as much as soybeans, due to robust domestic and export demand.

Ontario meal prices easing

Ontario meal prices have been sliding with futures over the past couple weeks.

Even so, this is not a cheap commodity. Today's bulk soybean meal price fob the rail in Hamilton is C\$530 per tonne. That's just above the five-year average price of \$524/tonne, as shown below.

WEEKLY SPOT SOYBEAN MEAL PRICE AT BULK PROCESSOR (C\$/MT)



Ontario meal prices are easing following a spring rally that took them to the highest in two years.

Parting shot: This time of year weather in key U.S. cropping regions is the most important factor driving corn and soybean futures prices. Volatility can be extremely high. Trends can change quickly. Fundamental factors take a back seat.