

3 Key Messages

Below are the three main messages from this outlook report:

- 1) US stocks on hand of corn and soybeans remained extremely high as of March 1, 2017, according to a report from the USDA.
- 2) Soybeans could see even larger supplies ahead. American farmers told the USDA they intend to seed the largest area ever.
- 3) Although there could be some market excitement related to Northern Hemisphere weather this summer, large stocks on hand provide a considerable buffer against a major supply problem for either crop.

Overview: USDA Confirms Record-Setting Soy Acreage

US corn acres down, still comfortable

After a lengthy run of high and profitable prices, the soybean market *may* finally be on the verge of producing its way into a major surplus.

The March 31 USDA prospective plantings report pegged US soybean acreage at a record 89.5 million, up 7% from last year.

This means that with average yields this summer, US soybean stockpiles will grow.

The situation differs for corn. The USDA reported that farmers surveyed intend to plant 90 million acres of corn, down 4% from last year.

It means that with average yields of corn this summer, US corn stocks will not expand much, if any and, depending on the demand side, could decline.

Stocks on hand ample

In addition to the acreage report, an important USDA stocks in all positions report was released

on March 31. Details follow but the main message is that corn and soybeans are in surplus positions today. Stocks on hand offer a measure of insurance against the market impact of any weather problems that might develop the coming growing season.

US Total Stocks as of March 1 (million bu)						
	2013	2014	2015	2016	2017	Change 2016 to 2017
Corn	5,399.9	7,008.1	7,749.8	7,822.2	8,616.0	+10%
Soybeans	998.0	993.8	1,326.6	1,530.9	1,735.0	+13%
Total of shown	6,397.9	8,002.0	9,076.4	9,353.1	10,351.0	+11%

Source: USDA - March 31, 2017

Deeper dive on corn

More room for error with yields

Based on the March 1 stocks estimate shown above, implied usage of corn during the three months of December 2016 and Jan/Feb 2017 was 3.77 billion bu, up from 3.41 billion last year. Increased usage is helping to chew through the huge 2016 corn crop in the US, although the process is moving slowly.

Acres will drop, but not too severely

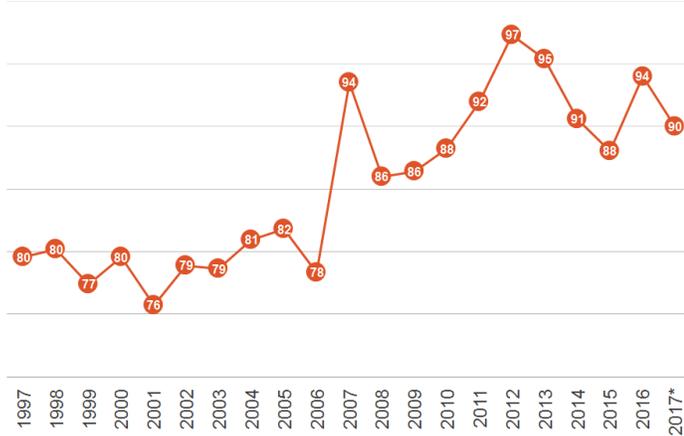
In the primary corn production state of Iowa, farmers said they'll plant 13.3 million acres to corn, a drop of 4% from the 13.9 million seeded in 2016. Illinois corn area is estimated at 11.3 million acres, a drop of 3%.

States with proximity to Ontario, which sometimes supply Ontario end users with a portion of their needs, will also cut acreage or hold just steady. Michigan intentions are down 4% to 2.3 million. Ohio intentions are steady at 3.55 million.

The smaller planted area does not mean the corn market is heading for a shortage, barring a major drought or other crop issue ahead. It does take some of the downside out of the corn futures market, particularly until the crop gets seeded and until traders have a look at the weather in May and June.

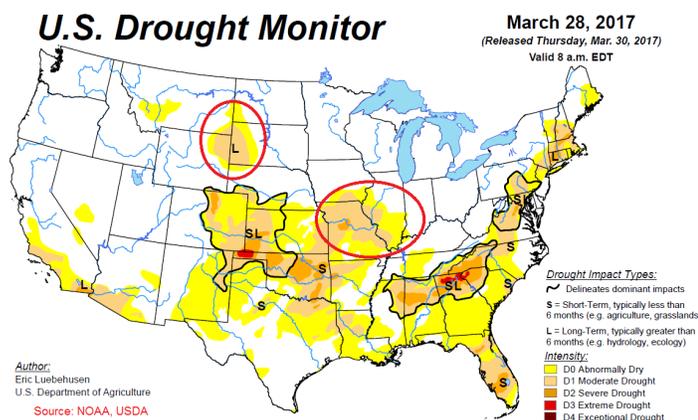
Warning: Acreage is a moving target! History shows actual plantings can vary widely from intentions. A wet spring can force cuts in corn acres while a dry spring can boost them. The acreage story is only just beginning.

US CORN ACREAGE
(million acres, Source: USDA, 2017* - March Intentions)



Another caveat: Weather still matters. If the US crop is threatened by hot, dry weather during pollination in July, futures will rally to some extent.

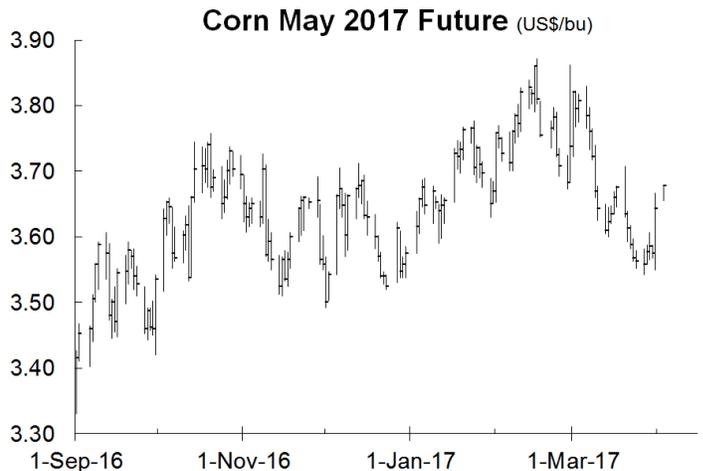
At this time there's no serious drought in the US Heartland but there are some areas of dryness, including in key corn and soybean states, as shown by the two red circles on the map below.



Summing up the USDA data & analysis for corn: The US corn supply is heavy at this time. A smaller seeded acreage means the supply is unlikely to build in the new-crop marketing year. The market will be sensitive to any weather threat that could cause stocks to decline in the new-crop marketing year.

Futures: Spring rally possible, not assured

Corn futures fell sharply during most of March. Early indications are that April could be a different month. Corn moved higher immediately after the USDA data came out March 31. The seasonal tendency is for corn futures to move higher more often in April and May than to move lower.

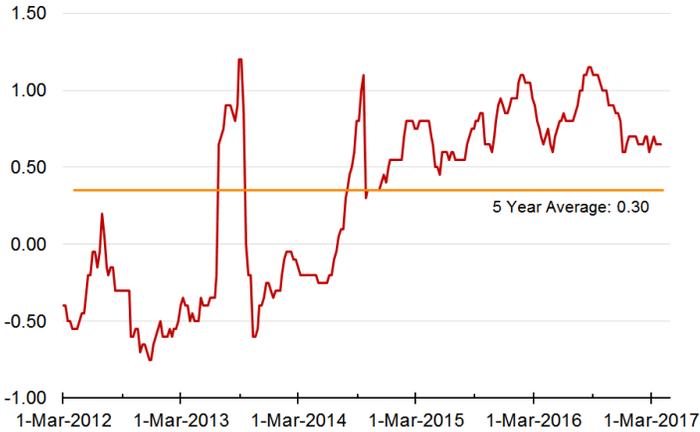


Still vomitoxin issues in Ontario

In Ontario, corn buyers remain aware of potential vomitoxin issues, although this is more of an issue for sows than for poultry.

At the Ontario elevator level, the spot basis has slipped from the high seen in the winter. It remains high compared to the five-year average, as shown on the chart on the next page. This is largely a function of a weak Canadian dollar. In the event the Canadian/US exchange rate stays in the area of 74 to 75 cents (currently 74.70), no major basis shifts should be expected.

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



Soybeans under pressure

Meal down too

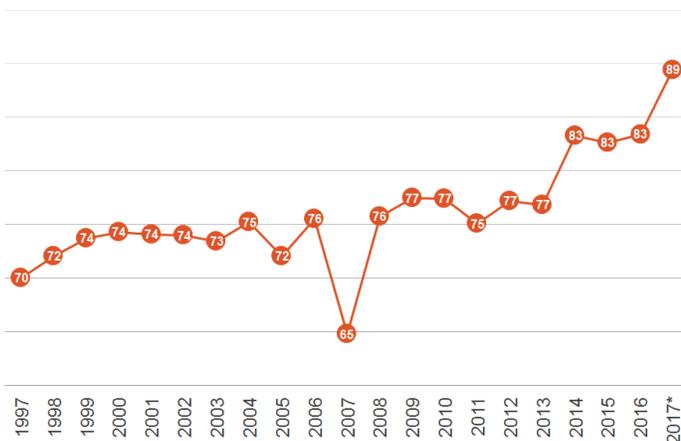
At 1.735 billion bu, US soybean stocks as of March 1 were up 13% from the previous year.

More important, and far more negative for the market: US soybean intentions came in at 89.48 million acres, up just over 6 million from last year.

Reminder: Actual acreage could be a lot different from what's indicated in the March 31 report. What it does tell us is that high prices are encouraging lots of US farmers to expand soybean acres.

US SOYBEAN ACREAGE

(million acres, Source: USDA, 2017* - March Intentions)



In the background, a monster soybean crop being harvested in South America hangs over the market. It should provide stiff competition to US beans in global export markets, starting now.

Bottom line on USDA: Big supply on hand today. Likelihood of another huge US crop in 2017.

Ontario soybean basis down

While still in the upper part of the range seen since 2012, the bean basis has eased since February. Pressure has come primarily from lower futures.

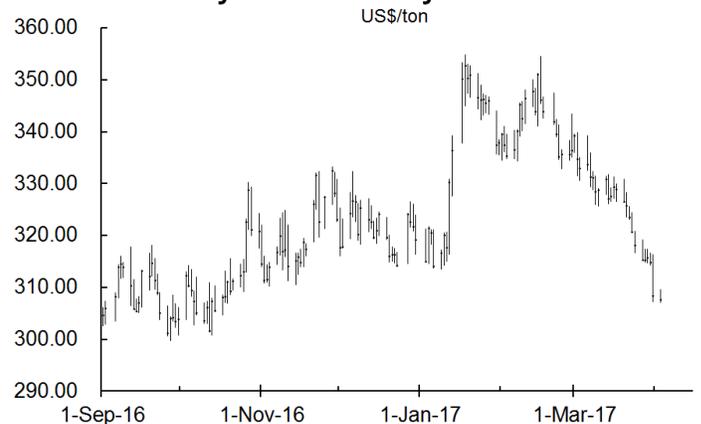
WEEKLY SPOT SOYBEAN BASIS AT LONDON AREA ELEVATORS (C\$/BU)



Meal futures in freefall

Meal futures have plunged since February, as shown below.

Soybean Meal May 2017 Future



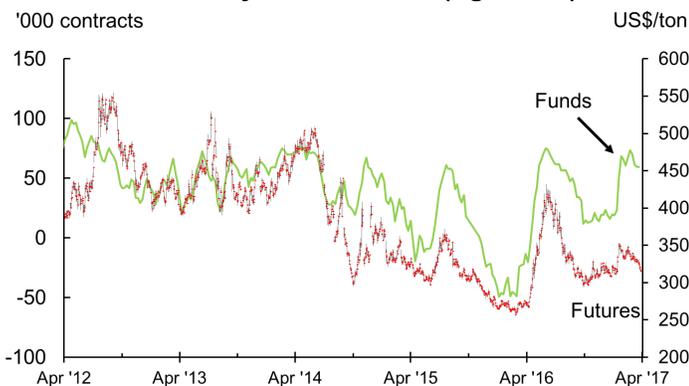
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Often when a market falls so far, so fast some type of correction takes hold.

However, the overall outlook is such that any rallies will be tempered by heavy US stocks of soybeans on hand, and the prospect of another large crop set to be seeded soon.

Another factor in the outlook for meal futures: The collective buying and selling patterns of speculative funds. At this time spec funds remain heavily long meal futures. If they decide to start liquidating their position, we could see meal futures get driven down more than would seem justified based on the fundamentals alone.

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



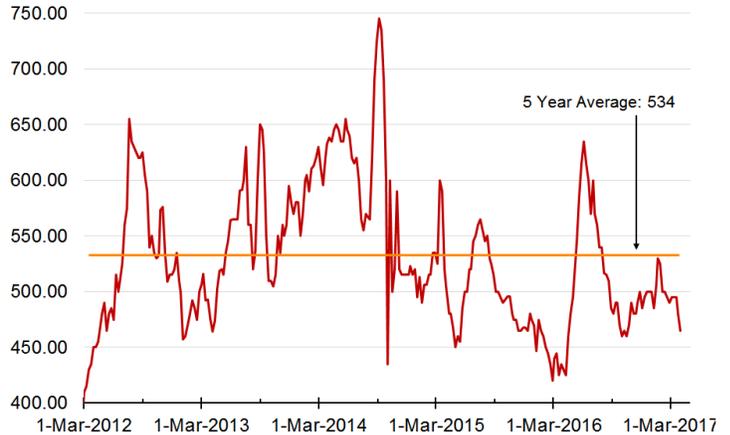
Bottom line on soybean meal futures: Enduring heavy pressure following bearish USDA data.

Ontario meal prices weak

Ontario meal prices have been sliding with futures. As with corn, some strength is often seen moving from early spring to summer. Something to watch for, in the weeks ahead.

Today's bulk soybean meal price fob the rail in Hamilton is around C\$465/tonne. That's well below the five-year average price of \$534, as shown on the chart above right.

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



Weather watch

Corn planting in key Midwest states is still a few weeks away. There is some patchy rain in the 6-10 day forecast. Although some areas will remain dry, the precipitation should improve pre-planting soil moisture levels where it falls.

In Ontario, most areas have lots of soil moisture but much warmer soil temperatures are required before corn can be planted.

Shifting to the Southern Hemisphere, warm and sunny weather is prevailing across most of Argentina, spurring rapid growth of corn and soybean crops. The favourable conditions are also allowing producers to make some early soybean harvest progress, with an estimated 2-3% of the soybean crop in the bin as of March 30.

Conditions are mixed in Brazil, with the central and northeastern production areas wet, and mostly drier weather to the south. The dryness is benefiting late-planted soybeans and harvest progress, while the wetness farther north is aiding corn development.