

3 Key Messages

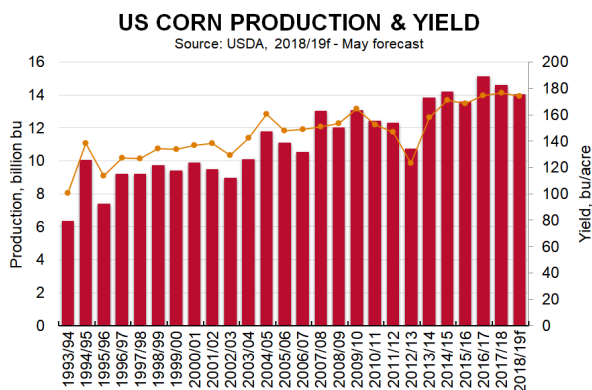
Below are the three main messages from this outlook report:

- 1) The USDA's first take on the 2018-19 supply-demand situation points to some tightening for corn and soybeans.
- 2) Weather remains critically important. In the U.S. and Ontario, planting got off to a slow start. Still, the odds favour corn and soybeans getting seeded in a timely fashion.
- 3) Corn and soybean futures rallied for most of the winter and spring. More recently they have been volatile, which is normal for this time of year.

Corn: Tightening in 2018-19

Still looking like a comfortable supply ahead

In its first 2018-19 supply-demand estimates released May 10, the USDA forecast this year's American corn crop at 14.04 billion bu, well below 14.60 billion in 2017. Farmers are expected to reduce planted area and the average yield based on a weather-adjusted trend is seen falling to 174.0 bu/acre from 176.6 bu in 2017.



Big crop expected - but not as big as the previous two years

With an old-crop carryin of 2.18 billion bu, this year's production drop is expected to result in a total 2018-19 corn supply of 16.27 billion bu. That would be 675 million below the previous year.

SUPPLY-DEMAND US CORN (billion bu unless otherwise specified)					
	2014-15	2015-16	2016-17	2017-18 May	2018-19 May
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	2.18
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	16.95	16.27
Feed/Residual	5.28	5.11	5.47	5.50	5.38
Food, Seed, Ind.*	6.60	6.65	6.88	7.04	7.12
Exports	1.87	1.90	2.29	2.23	2.10
TOTAL USE	13.75	13.66	14.65	14.77	14.59
ENDING STOCKS	1.73	1.74	2.29	2.18	1.68
Stocks to use	12.6%	12.7%	15.7%	14.8%	11.5%

Source: USDA May 10, 2018

A smaller 2018 crop is expected to result in the lowest ending stocks since 2013-14.

On the demand side, the USDA is forecasting fewer exports and less domestic use.

2018-19 corn exports are seen down 125 million bu year-over-year, due to expected greater competition from a surplus of corn in the Black Sea region.

Corn used to produce ethanol is estimated up 50 million bu to 5.63 billion bu, mostly reflecting expectations of gasoline consumption growth, the USDA said.

2018-19 U.S. corn ending stocks are projected at 1.68 billion bu, down 500 million bu from last year.

The 2018-19 season-average farm price for corn is forecast at US\$3.30 to \$4.30/bu, up 40 cents at the midpoint from 2017-18.

World outlook in for some tightening too.

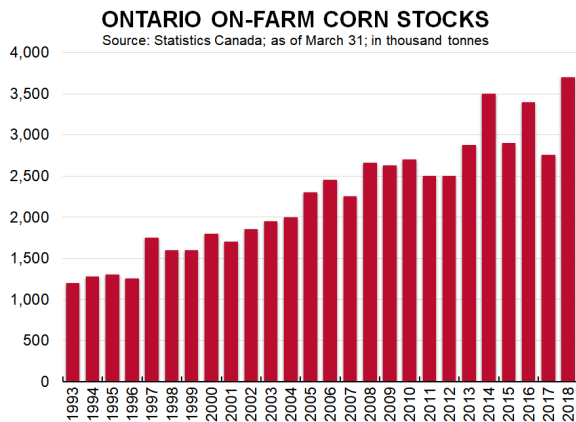
Global corn ending stocks for 2018-19 were estimated at 159.15 million tonnes, well down from the revised 2017-18 level of 194.85 million.

Ontario well stocked with corn

It doesn't matter to world markets but Ontario had lots of corn on hand as of March 31.

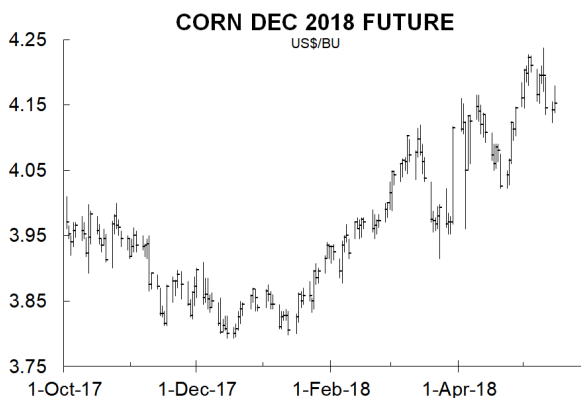
A Statistics Canada stocks report estimated on-farm stocks in the province at 3.7 million tonnes, up 940,000 from a year ago and a new record high for the end of March.

Implication: Ontario should not require imports of corn prior to the 2018 harvest. In fact, it is likely prices will be low enough to allow for some exports. This is a favourable situation for feed buyers, all else equal.



Futures in a trading range

Corn futures have been trending generally higher since early 2018.

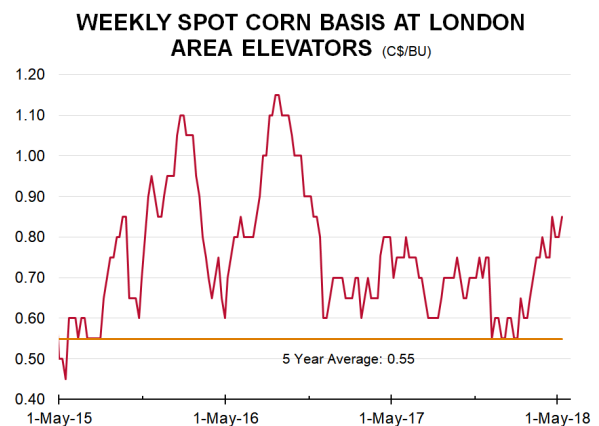


Seasonal odds are positive at this time. However, the need to maintain a weather premium has been reduced over the past 10 days as huge gains have been made in U.S. seeding and emergence.

Corn basis up slightly

In Ontario, most farmers are trying to get fieldwork done and have little interest in making corn sales. On the other hand, demand from industrial plants and feed mills is only sporadic. The result has been a relatively quiet (stable) spot basis the past couple of weeks.

In the bigger picture, the corn basis is in the middle of the range seen over the past three years, as shown below. Recent gains by the Canadian dollar have acted as a drag on the basis. So too have large supplies of 2017-18 corn still on hand in Ontario.



Soybeans: Supply wave cresting?

U.S. crop to be smaller. Exports a wildcard.

A rebound in export demand is expected to help provide some relief from heavy U.S. soybean ending stocks in 2018-19.

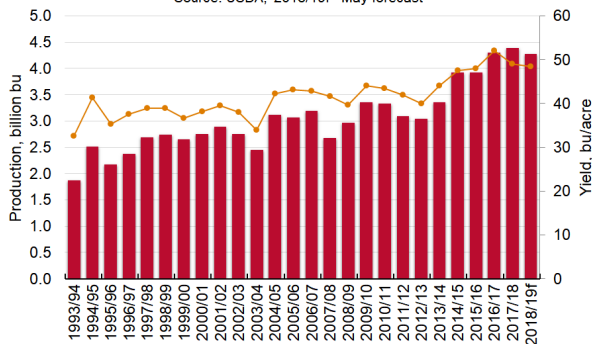
Supply-demand estimates released by the USDA on May 10 pegged new-crop soybean ending stocks at 415 million bu, down from 530 million a

year earlier. If accurate, this would be the first decrease in U.S. ending stocks since 2013-14.

On the supply side, the USDA sees this year's U.S. soy crop at 4.28 billion bu. That's down 112 million from a year earlier based on a lower harvested area of 88.20 million acres and a trend yield of 48.50 bu/acre (versus 49.10 bu the previous year). However, adding a heavy 2017-18 carryin total new-crop supplies are set at 4.84 billion bu, up 2% year-over-year.

US SOYBEAN PRODUCTION & YIELD

Source: USDA, 2018/19f - May forecast



With a smaller acreage and lower assumed yields, the U.S. is looking at a slightly smaller 2018 soybean crop!

In terms of demand, the export forecast was most notable. It was estimated up a major 225 million bu from 2017-18, as crop losses in Argentina due to drought are expected to divert more global buyers to the U.S.

The 2018-19 U.S. season-average soybean price range is forecast at US\$8.75 to \$11.25/bu compared with \$9.35 per bushel in 2017-18. The average soybean meal price is projected at \$330 to \$370/short ton, versus \$360 per ton for 2017-18.

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

	2014-15	2015-16	2016-17	2017-18 May	2018-19 May
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	0.53
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	4.84
Crush	1.87	1.89	1.90	1.99	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	4.19	4.42
ENDING STOCKS	0.19	0.20	0.30	0.53	0.42
Stocks to use	4.95%	4.99%	7.17%	12.66%	9.39%

Source: USDA May 10, 2018

Even plugging in lower yields, the U.S. is looking at another monster soybean crop in 2017!

Some tightening in world ending stocks too

Larger South American output in 2018-19 is expected to offset some of the effects of lower U.S. production.

The USDA sees Argentina production rising to 56.0 million tonnes from 39.0 million this year, while Brazil holds steady at a sky-high 117 million.

Global soybean ending stocks for 2018-19 are forecast at 86.70 million tonnes, down from the revised 2017-18 estimate of 92.16 million.

Soybean futures down from spring high

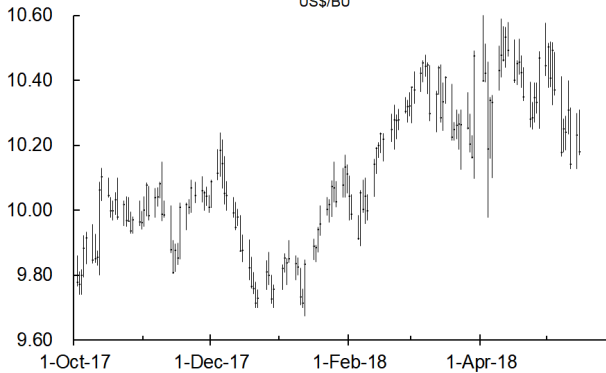
Soybean futures have dropped 70-80 cents US from the high made in early March.

Over the past few weeks, futures have felt the pressure of increased movement of this year's huge Brazilian soybean crop to world buyers.

In addition, the market is jittery about ongoing trade tension between the U.S. and China, the world's #1 importer of soybeans.

Finally, the need for a weather premium has been reduced in May. U.S. soybean planting progress is ahead of normal and pushing towards 40% done.

SOYBEANS NOV 2018 FUTURE
US\$/BU

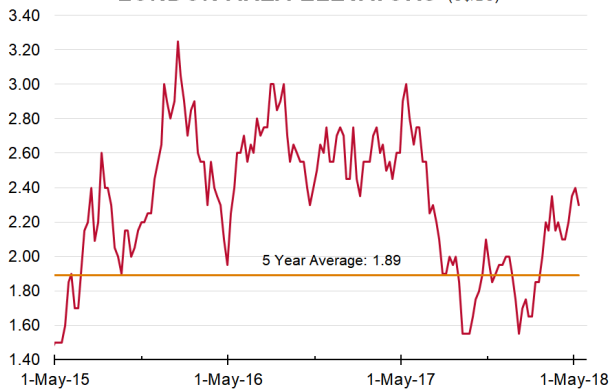


Soybean futures are nervous about the possibility of a trade war between the U.S. and China.

Ontario soybean basis strong

Over the past few weeks, the Ontario soybean basis has dipped due to the combination of lower soybean futures and slightly higher Canadian dollar.

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



The basis remains above the five-year average

Downturn by meal much shallower

Meal futures remain much closer to the spring highs.

Larger U.S. livestock and poultry numbers are resulting in robust demand for meal.

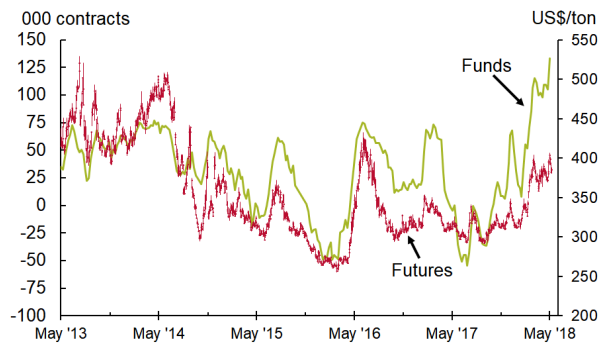
As well, there is stronger than normal world demand for U.S. meal as a result of this year's

drought in Argentina. Traditionally, Argentina is the world's leading exporter of meal.

Take note: Spec funds are loaded up on meal

Speculative funds have been aggressive buyers of meal futures in recent months, as shown below. The funds now hold the largest collective net long position ever. Should something happen to cause the funds to alter their collective position, futures could fall, perhaps much harder than would seem justified based on the fundamentals alone.

SOYBEAN MEAL: NET POSITION BY SPEC FUNDS (LEFT AXIS) VS NEARBY FUTURES PRICE (RIGHT AXIS)

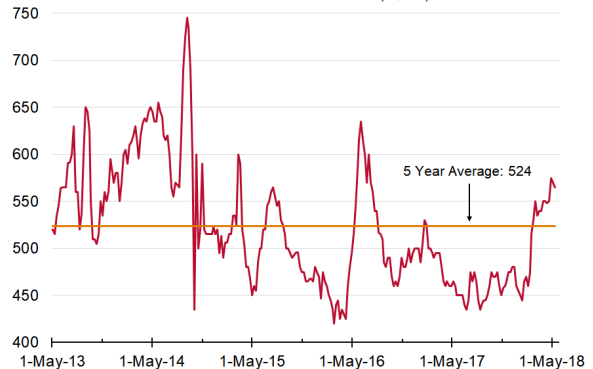


Spec funds are "all in" on meal

Ontario meal expensive

Today's bulk soybean meal price fob the rail in Hamilton is C\$575.00/tonne. That's well above the five-year average price of \$524.00/tonne.

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



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