

### 3 Key Messages

Below are the three main messages of this outlook report:

1. USDA's January crop report confirmed a heavy supply of US corn and soybeans.
2. Markets were down on the news, but not heavily. This may be an indication much of the heavy supply is already reflected in futures prices.
3. South America is on track to produce its second largest corn and soybean crops ever. But there is still the chance of a weather scare.

### Corn: US production revised up

Thanks to a higher average yield, the 2017 American corn crop has gotten even bigger.

In updated supply-demand estimates released Jan. 12, the USDA bumped the average yield to 176.6 bu/acre, up from 175.4 bu in December and a new record high.

Although the higher yield was partially offset by a small reduction in harvested area, corn production was still up 26 million bu from last month to 14.60 billion bu.

Not surprisingly, the increase in the production estimate was the major factor behind a slightly higher than expected US corn stocks estimate.

In a separate report also released Jan. 12, the USDA pegged corn stored in all positions on Dec. 1, 2017 at 12.5 billion bu, up 1% from a year earlier.

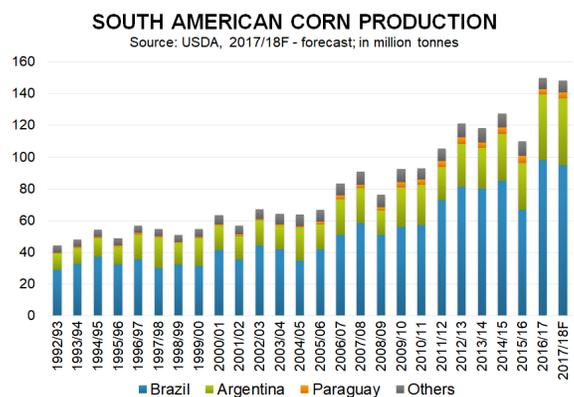
The demand side was little changed, with only a small increase in food, seed and industrial use.

The season-average corn price received by US producers is projected at US\$3.25/bu this month, up 5 cents at the midpoint from last month.

### World corn stocks up slightly

World corn ending stocks for 2017-18 are pegged at 206.6 million tonnes this month. That's up from 204.1 million in December but down from 228.8 million a year earlier.

Estimated Brazil and Argentina corn production were left steady from last month at 95.0 million and 42.0 million tonnes, respectively, versus 41.0 and 98.5 million the previous year.



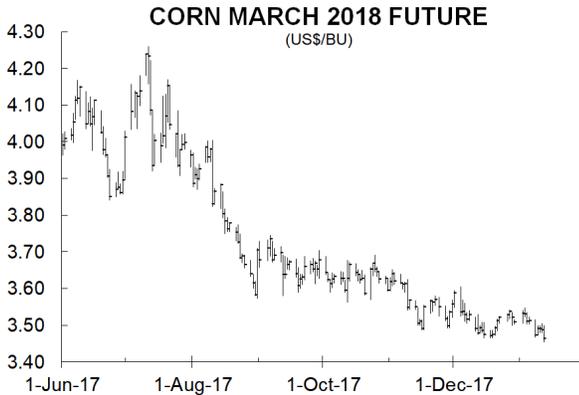
*Weather to date has not been ideal but South America is still on track to produce its second largest corn crop ever.*

**Heads up:** Changes to South American production forecasts, and later harvest results, are the most important factor to world markets between now and March.

### Futures pushed to new lows by big supply

Leading up to the Jan. 12 monthly crop report, the March corn future was grinding along near its life-of-contract low.

After the report came out, the March future slipped to a new low. This negative technical action indicates 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 the crop in Brazil and Argentina.

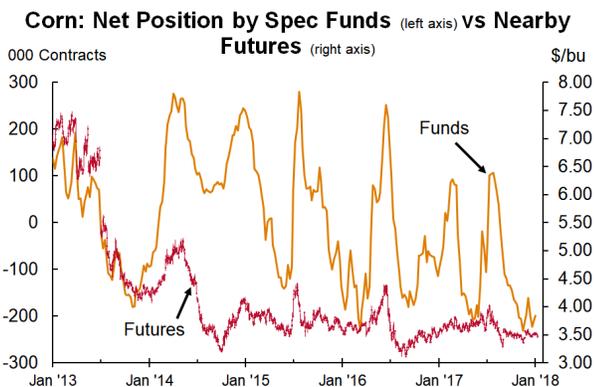


*The March future made a new low on the USDA news*

**Outlook & seasonal tendencies:** For now, the market is focused on South America and will remain so until at least March. 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.

Seasonal odds tilt down between mid January and mid February. Often the market will experience what’s known as the “John Deere” slump in February when farmers sell some corn to generate cash to pay for spring inputs and equipment upgrades.

**One wild card worth considering:** The collective action of speculative (managed money) funds. These funds are currently holding a large net short position in corn futures. If something happens to cause these funds to alter their position, futures could be jolted up. If they keep adding to the net short, more slow but steady losses are possible.



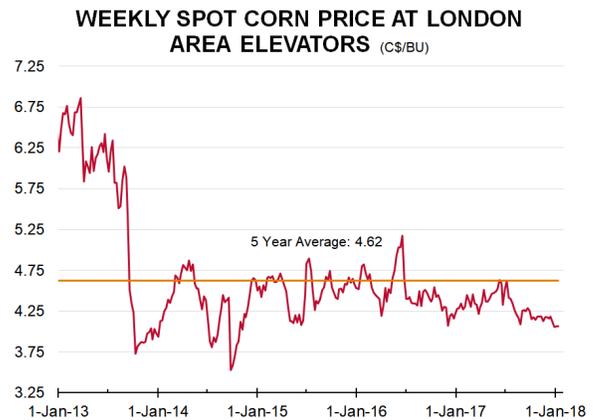
*Funds have built up a large net short position in corn.*

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## Deep freeze in Ontario

Ontario corn growers seem reluctant to sell much corn at current spot prices around \$4/bu at the elevator level, and only slightly more fob farm. With demand limited, the basis is quiet.

Cash prices are instead being driven mainly by futures, and are at the bottom of the range seen over the past year—a favourable situation for corn buyers.



*Due to weak futures, spot corn prices in Ontario are mired below the five year average, as shown above.*

## Soybeans: Lots on hand, more ahead US export forecast down, ending stocks up

The end result of the USDA’s various supply-demand adjustments on Jan. 12 was confirmation of an ongoing heavy supply situation.

With a small reduction in the average yield, the USDA trimmed the 2017 US soybean crop by 33 million bu from last month to 4.39 billion bu.

On the demand side, the USDA cut its 2017-18 export forecast by 65 million bu to 2.16 billion, a reflection of slow sales and ideas of increased competition from South American soybeans in international markets moving forward.

Bottom line: A 25-million bu increase in estimated 2017-18 soybean ending stocks to 470 million. That is way up from 301 million bu the previous year, as shown in the table on the next page.

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

	2014-15	2015-16	2016-17	2017-18 Dec	2017-18 Jan
Acres Planted (Mln)	83.30	82.70	83.40	90.20	90.10
Harvested	82.60	81.70	82.70	89.50	89.50
YIELD (Bu/ac)	47.50	48.00	52.00	49.50	49.10
Carryin	0.09	0.19	0.20	0.30	0.30
PRODUCTION	3.93	3.93	4.30	4.43	4.39
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>4.72</b>
Crush	1.87	1.89	1.90	1.94	1.95
Exports	1.84	1.94	2.17	2.23	2.16
Seed	0.10	0.10	0.11	0.11	0.11
Residual	0.05	0.02	0.04	0.04	0.03
<b>TOTAL USE</b>	<b>3.86</b>	<b>3.94</b>	<b>4.21</b>	<b>4.31</b>	<b>4.25</b>
<b>ENDING STOCKS</b>	<b>0.19</b>	<b>0.20</b>	<b>0.30</b>	<b>0.45</b>	<b>0.47</b>
<b>Stocks to use</b>	<b>4.95%</b>	<b>4.99%</b>	<b>7.17%</b>	<b>10.33%</b>	<b>11.06%</b>

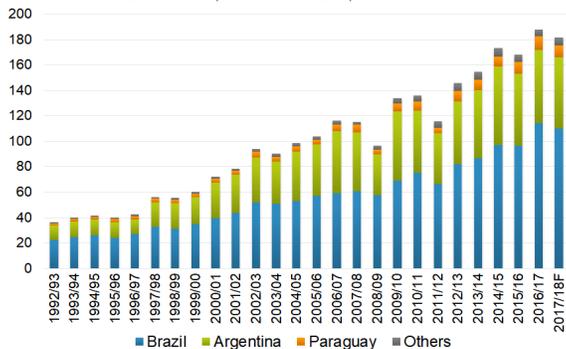
Source: USDA January 12, 2017

In 2017-18, US ending stocks are expected to step up to the highest since 2006-07 (not shown).

The 2017-18 U.S. season-average farm price for soybeans is projected at US\$8.80 to \$9.80/bu this month, unchanged at the midpoint from December. The soybean meal price forecast is unchanged at \$295 to \$335/short ton.

## SOUTH AMERICAN SOYBEAN PRODUCTION

Source: USDA, 2016/17F - forecast; in million tonnes



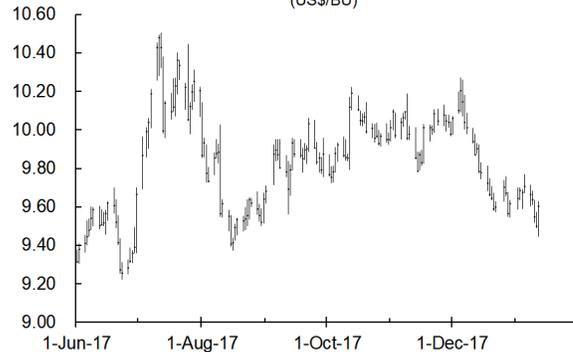
The second largest South American crop ever remains on track. The USDA raised projected 2017-18 Brazilian soybean output by 2 million tonnes from last month to 110 million. Argentina production was reduced 1 million tonnes. Combined output of 166 million tonnes would be second only to last year's record of 172 million.

### Soybean futures down, waiting on weather

The market was under pressure before the January

USDA reports were released. Futures had retraced most of the gains made between the low made in mid August and the high made in early December.

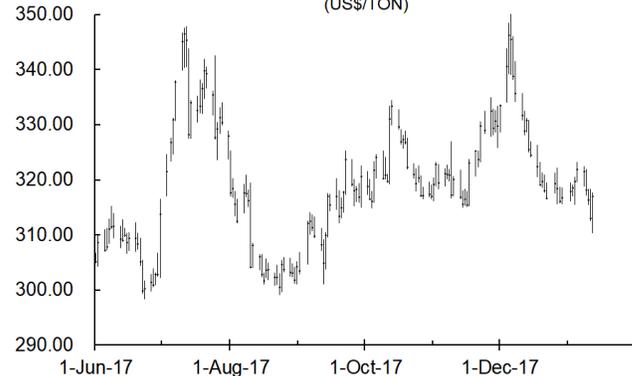
## SOYBEANS MARCH 2018 FUTURE (US\$/BU)



Soybean futures have surrendered almost all of the gains made in late 2017.

Meal futures have also been under pressure since early December. The March future, for example, slid \$40 between Dec. 6 and its low on Jan. 12. At around US\$317/short ton, it's still up about \$17 from the low made in August.

## SOYBEAN MEAL MARCH 2018 FUTURE (US\$/TON)



**Outlook & seasonal tendencies:** Dryness caused a few early concerns in Argentina, but some just-in-time rain has been falling the past couple of weeks. Brazil's soybean crop is in good shape and getting regular rain.

One factor in the outlook for 2018-19 is the amount

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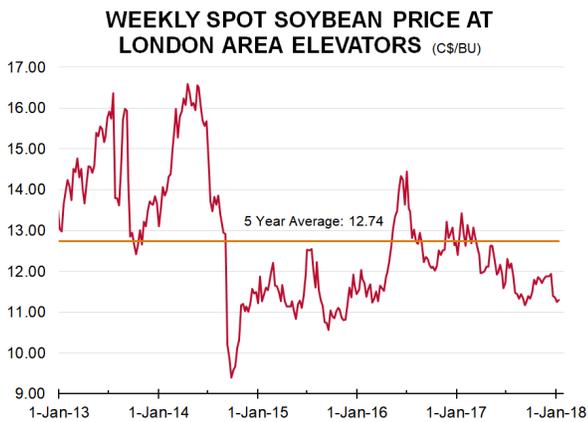
of winter wheat in the ground, meaning less “open” acres for soybeans and other spring-seeded crops.

On Jan. 12, the USDA said US farmers seeded 32.6 million acres of winter wheat, historically low but still 1.2 million acres higher than expected.

*Implication:* There’s 1.2 million fewer acres available for soybeans, corn and other row crops compared to earlier expectations. While not a huge compared to total US seeded area, it’s a mildly supportive factor for soybean and corn prices heading into spring.

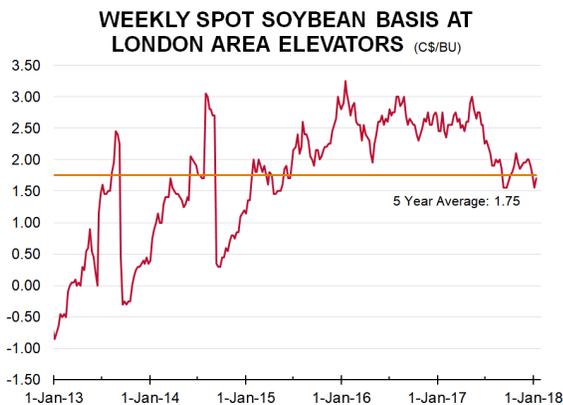
### Ontario soybean prices down, basis too

Ontario soybean prices have been trending generally lower since early December.



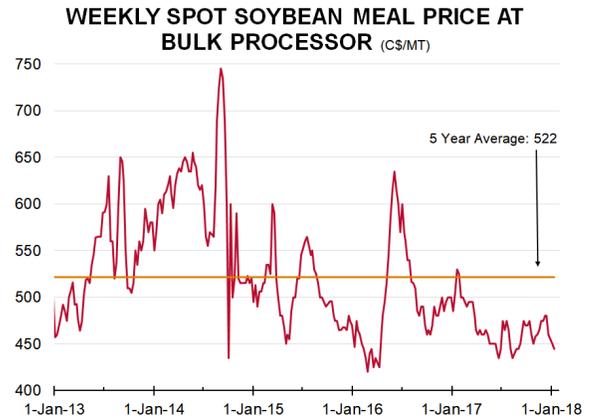
*Ontario prices are far below the 5-year average*

The basis has been under pressure, due to lower futures and a higher Canadian dollar.



### Ontario meal prices down from December high

Similar to soybeans, Ontario bulk soybean meal prices have been grinding generally lower since early December.



*Bulk soybean meal prices have fallen over the past six weeks. Today they are well below the average of the past five years, as shown.*

### Latest on La Niña

La Niña is a weather pattern related to the cooling of the tropical Pacific Ocean. It can be an important influence on agricultural production and price volatility. 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 and has an 85 to 95% chance of continuing through the first quarter of 2018. However, the event is predicted to be relatively weak (similar to last year), making meaningful South American crop losses unlikely.

The lack of evidence pointing towards a strong La Niña weather event is one factor that helps explain recent declines by corn and soybean futures.

**Caveat:** If there are signs La Niña is strengthening again, corn and soybean futures can be expected to respond with gains, perhaps sharp ones. The full story of this year’s South American crop is not yet known.