

3 Key Messages

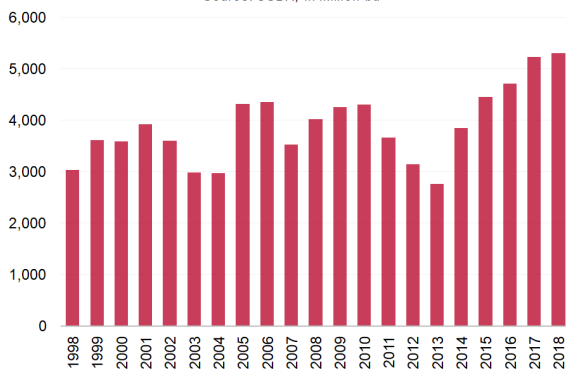
Below are the three main messages of this outlook report:

1. USDA nudged up estimated 2018 US corn and soybean seeded acreage from its March Intentions report. Old-crop stocks on hand of both crops as of June 1 were reported high, offering a buffer against any new-crop yield reductions.
2. Weather remains the dominant force influencing US crop futures markets, and therefore Ontario prices too. There are only small pockets of drought in the Midwest but the potential for excess heat later this month is offering some support to corn futures. It is too early for yield concerns for soybeans.
3. Statistics Canada confirmed large Ontario acreages for corn and soybeans. Crops currently look good but yields are yet to be determined.

Corn: Lots on hand today, less ahead US yields main wild card

A USDA quarterly stocks report released on June 29 estimated US corn stocks in all positions on June 1, 2018 at 5.31 billion bu. That was up slightly from a year earlier and the highest June 1 stocks estimate since the 1980s.

US CORN STOCKS AS OF JUNE 1
Source: USDA; in million bu



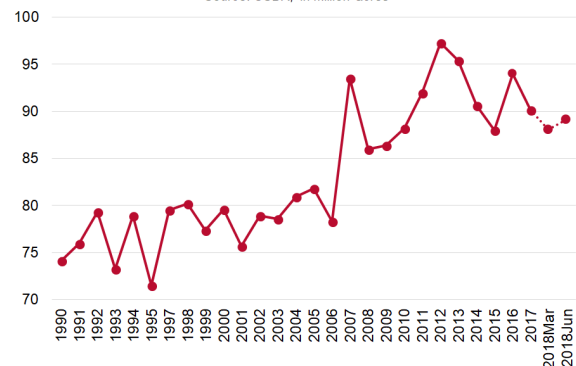
March - May 2018 indicated disappearance was 3.59 billion bu. That's up from 3.39 billion bu last year, due mainly to higher poultry and livestock inventories.

Implication of stocks estimate: The massive US corn crop produced in 2017 is being consumed, but slowly. What was left on hand as of June 1 provides some buffer against a problem with new crop.

Speaking of new-crop production, a USDA acreage report also released June 29 placed US corn planted area at 89.12 million acres. That was up from March intentions of 88.02 million acres, but still down 1% compared to 2017.

US CORN ACREAGE

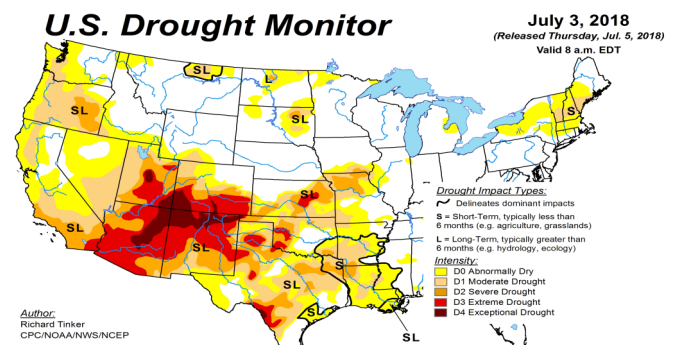
Source: USDA; in million acres



Two dots on far right show March and June estimates for 2018.

Key idea: With acreage set, the focus is squarely on yields. Across the US, 17% of corn was silking as of July 1. The critical weather period is underway!

US weather concerns limited

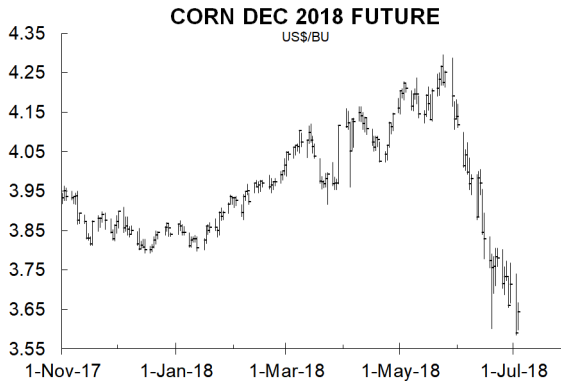


There's little drought, shown by red and orange, in key Midwest corn/soy areas. (Source: NOAA)

Futures stabilizing, monitoring US weather

After falling 70 to 75 cents/bu US during June, corn futures have levelled out in early July.

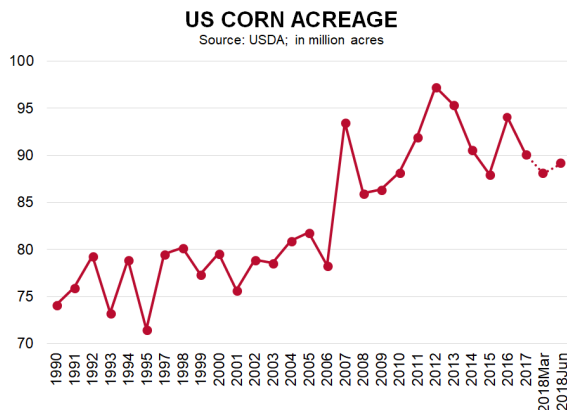
The market is unwilling to totally remove a risk premium due to the potential for stress when US yields are being determined.



Down hard! Outlook hinges on Midwest weather.

Ontario on track for a big crop

In Ontario, corn planted area was 2.15 million acres, according to a Statistics Canada report released June 29. That's up slightly from the spring intentions and similar to the 2.12 million acres seeded in the province in 2017.



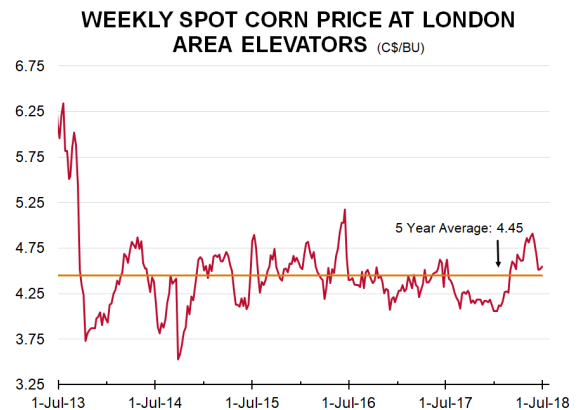
In 2018 Ontario farmers seeded one of the largest corn acreages ever.

Note: The two dots on the far right of the chart above show March and June estimates.

No major concerns in Ontario

In Ontario, exports of old-crop corn have been taking place as producers clear bin space for the impending new-crop winter wheat harvest.

Most new-crop corn has been getting adequate rain. Extreme heat in early July is resulting in rapid development. Temperatures are expected to moderate soon, which bodes well for the critical yield-determining phase in mid-July.

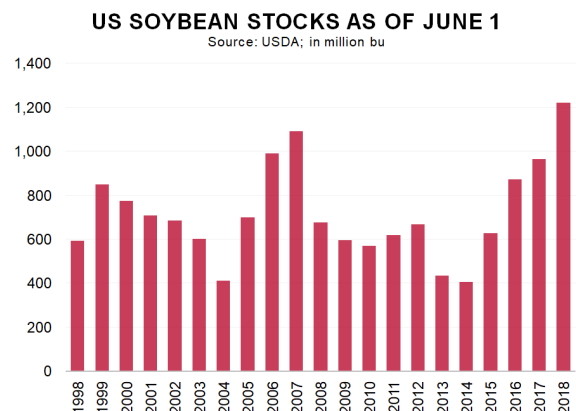


Spot corn prices in Ontario slammed lower in June and are now near the five-year average, as shown.

Soybeans: Heavy supply situation

US old-crop stocks record high

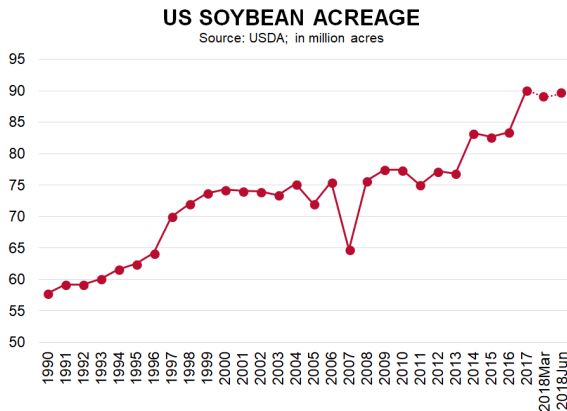
Soybeans stored in all positions on June 1, 2018 totaled 1.22 billion bu, said the USDA. That was up 26% from last year and the highest ever.



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US new-crop seeded acres record high

The June 29 US acreage report estimated US soybean planted area at 89.56 million acres in 2018, down “just” 580,000 from 2017’s record high.



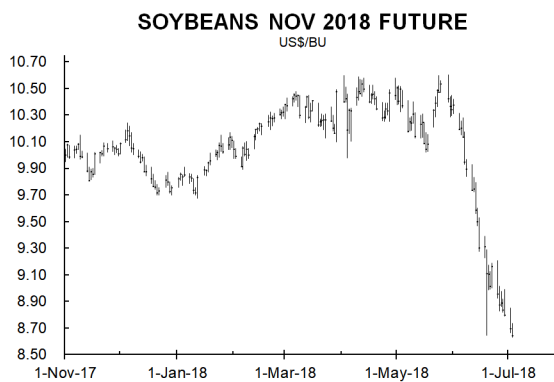
Second largest area ever seeded to soybeans!
Note: Two dots on right show March/June estimates.

Nationwide, US soybeans were in very good shape as of July 1. The USDA rated 71% of the crop good or excellent, down 3 percentage points on the week but up 7 points from a year ago.

Most of the crop is still 3-4 weeks from setting pods and determining yields. Nationwide, 27% of soys were blooming as of July 1, ahead of 13% normally.

Soybean and meal futures weak

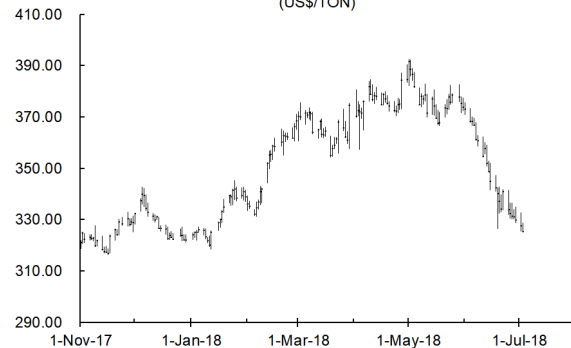
Soybean and soybean meal futures crashed in June and stayed weak at the start of July.



Down \$2 since late May!

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



Meal futures are sliding with soybeans

Some of the weakness can be attributed to the ongoing trade war between China and the US which is expected to see China impose a 25% tariff on imports of American beans effective July 6.

Also, speculative funds are holding an unusually large net short position in soybeans for this time of year. Fund selling is helping to drive futures lower.

In addition, even though yields won't be set until late July/early August, the lack of widespread drought stress in the Midwest is removing the need for futures to build in a big weather premium at this time.

The longer-term outlook is such that any rallies will be dulled by heavy US soybean stocks on hand, and indications that new-crop soybean production will ultimately prove to be plentiful.

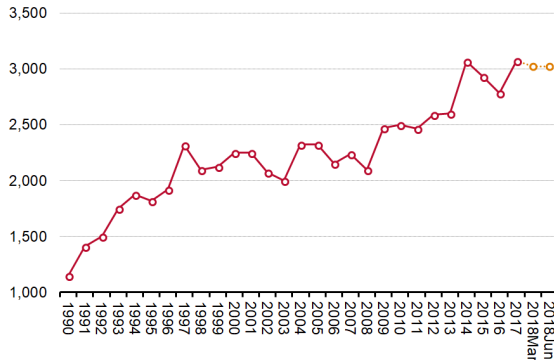
No serious concerns in Ontario

Over the past few weeks, Ontario's soybean crop has been developing rapidly due to intense heat. Crop stress is evident in some areas due to a lack of soil moisture but the province's crop as a whole is in good shape.

The large seeded acreage provides some cushion against a production shortfall. The June 29 Statistics Canada acreage report pegged new-crop soybean seeded area in Ontario at 3.02 million acres. That was down very slightly from StatsCan's spring forecast and just shy of the record 3.075 million acres seeded in 2017.

ONTARIO SEEDED ACREAGE OF SOYBEANS

Source: StatsCan with Intentions/Estimates for 2018; in thousands



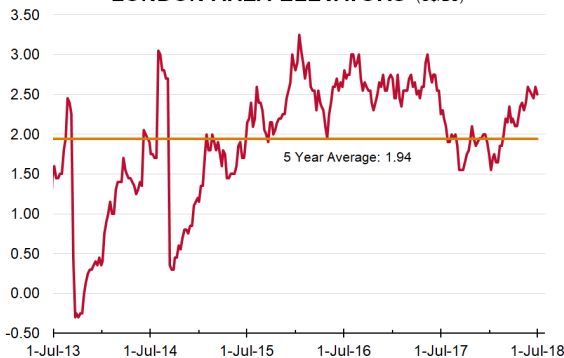
It's not a factor for futures but Ontario crushers should be well supplied with soybeans this fall.

More on Ontario

The Ontario soybean basis remains in the upper third of the range seen since the summer of 2013, as shown below.

That said, basis gains have stalled over the past couple of weeks. This pressure has come from a combination of much lower soybean futures and a slightly stronger Canadian dollar, currently around 76 1/2 cents US, up about 1 1/2 cents since late June.

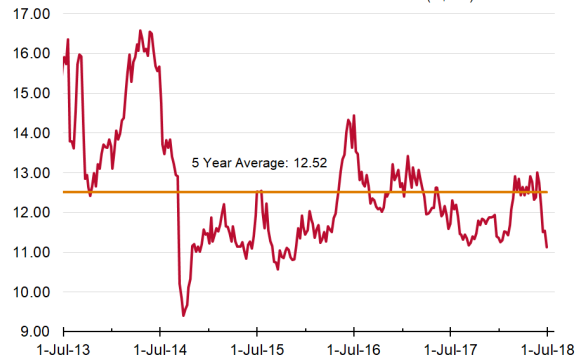
WEEKLY SPOT SOYBEAN BASIS AT LONDON AREA ELEVATORS (C\$/BU)



Spot soybean prices in Ontario have plummeted from around \$13/bu at the end of May to under \$11 in early July. Prices at crushers and ports have also seen massive declines.

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



Ontario soybean prices have dropped far below the average seen since the summer of 2013.

Ontario meal prices under pressure

Ontario meal prices fell over the past 6-8 weeks, although not quite as much as US futures. That's because the weak Canadian dollar supported the basis. With the dollar now showing signs of firming, there is the potential for this source of basis support to be removed.

Although this can be an extremely volatile time of year for meal futures, liquidating of a previously record-large collective net long position in meal futures by speculative funds continues to weigh on the market in early July.

Today's bulk soybean meal price fob the rail in Hamilton is C\$520/tonne. That's similar to the five-year average price, as shown above.

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

