

3 Key Messages

Below are the three main messages from this outlook report:

- 1) The USDA continues to increase its corn and soybean production forecasts for South America.
- 2) The extra production from South America provides an added buffer against a production problem in North America this year.
- 3) Generally heavy supplies of corn and soybeans won't prevent rallies by those futures markets now and then. However, they should limit whatever rallies do occur. This is a favourable situation for feed buyers.

World corn stocks step up

USDA ramps up guesses for Brazil, Argentina

Updated supply-demand estimates released by the USDA on April 11 placed estimated worldwide corn ending stocks for the current marketing year at 222.98 million tonnes, up from 220.68 million last month and roughly 11 million above the previous year.

The USDA once again raised its estimate of this year's Brazilian crop, which is now seen at a whopping 93.5 million tonnes. That's up from 91.5 million in March and represents an increase of 7 million tonnes from just two months ago. The latest Brazilian government data indicates "a higher than expected" increase in planted area in both the centre-west and northern production regions, the USDA said.

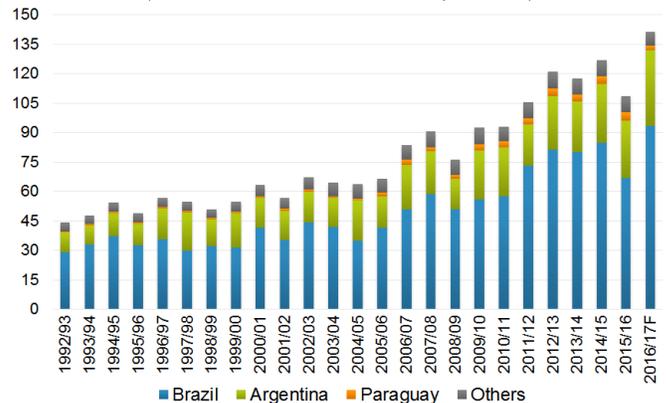
If accurate, the latest Brazilian corn production estimate puts this year's crop almost 40% above last year's drought-reduced output of just 67 million.

At the same time, the USDA also lifted its estimate

of the 2016-17 corn crop in Argentina, bumping it 1 million tonnes higher from March to 38.5 million, based on reports of higher yields. Last year's crop in Argentina amounted to only 29 million tonnes.

SOUTH AMERICAN CORN PRODUCTION

(Million MT; Source: USDA, 2016/17F - April forecast)



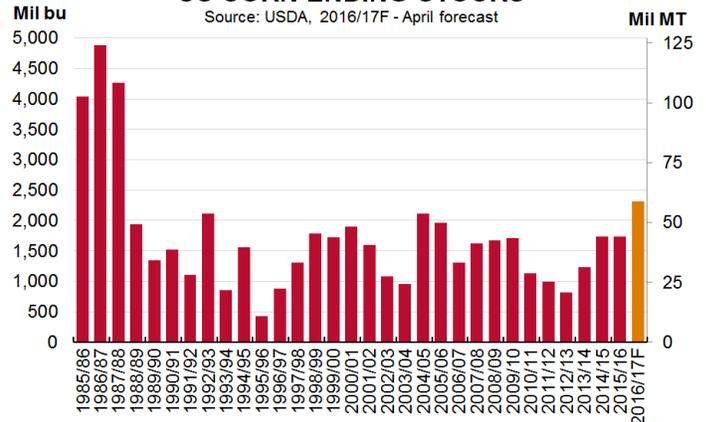
A record-smashing crop is being harvested

US ending stocks unchanged, still very high

As for the US, the USDA held its 2016-17 corn ending stocks estimate steady from March at 2.32 billion bu – up from 1.73 billion a year earlier - as an increase in expected corn for ethanol use was offset by a reduction in feed and residual use.

US CORN ENDING STOCKS

Source: USDA, 2016/17F - April forecast



At over 2.3 billion bu, US ending stocks for 2016/17 are the heaviest since the 1980s.

The amount of corn estimated to produce ethanol is up 50 million bu this month to 5.45 billion, based on the most recent data from the Grain Crushings and Co-Products Production report which estimated the amount of corn used to produce ethanol to be record high during December-February. However, offsetting is a 50-million bu reduction in projected feed and residual use to 5.5 billion bu.

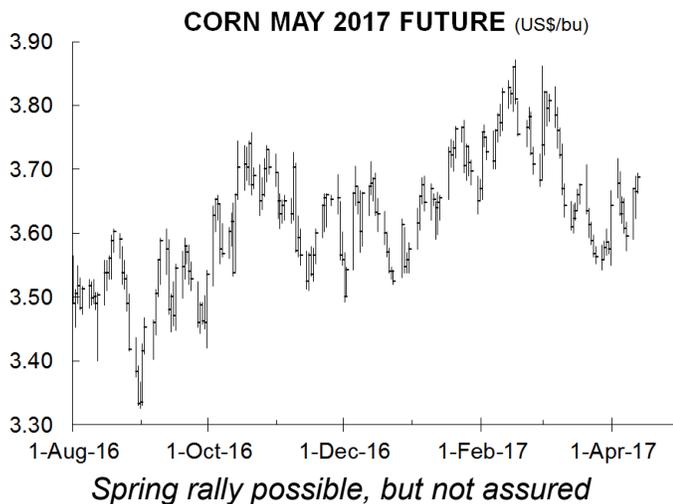
The estimated season-average corn price received by producers is unchanged at the midpoint this month, with the range narrowed to US\$3.25 to \$3.55/bu.

Note: The USDA did not release any data for 2017/18. Those forecasts will begin on May 10.

Futures still at a low level

Corn futures remain down from the highs seen in the winter. However, the market absorbed the latest news about heavy US and world corn supplies without suffering significant losses.

Seasonal odds suggest the market is likely to be well supported at least until a good portion of the US crop is seeded. If seeding doesn't get off to a smooth start, futures could be buoyant.



Weather still matters

Parts of Argentina are getting far too much rain at the wrong time. In fact, some southwestern areas

have been hit with as much as 14 inches of rain over the past two weeks, raising fears about harvest delays and quality downgrading.

Conditions in Brazil remain favourable for crops, with widespread rain benefiting second-crop corn in key central and northeastern production areas. Things are drier farther south, allowing harvest to proceed.

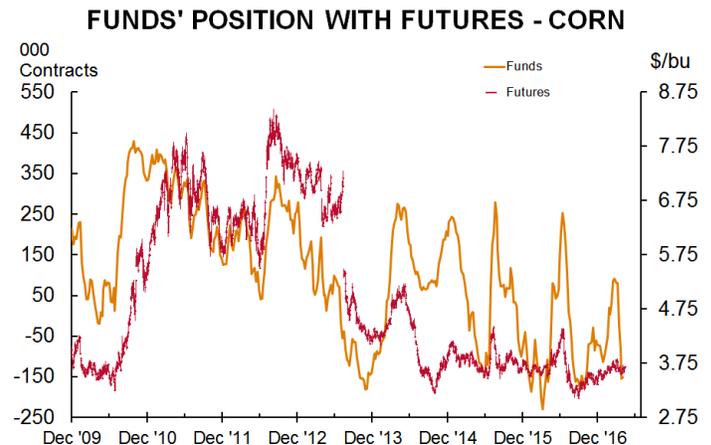
In general, South American crops are far enough along that the USDA's latest production forecasts seem reasonable. Untimely rain could slow harvest activity and cause some quality issues, but major production losses are not likely.

US corn seeding is just getting started, which is normal for mid-April. The USDA pegged it at 3% complete, as of April 9.

Recent rains have eased some dryness concerns in the heart of the Corn Belt, but have not removed them altogether.

Will funds be comfortable staying short?

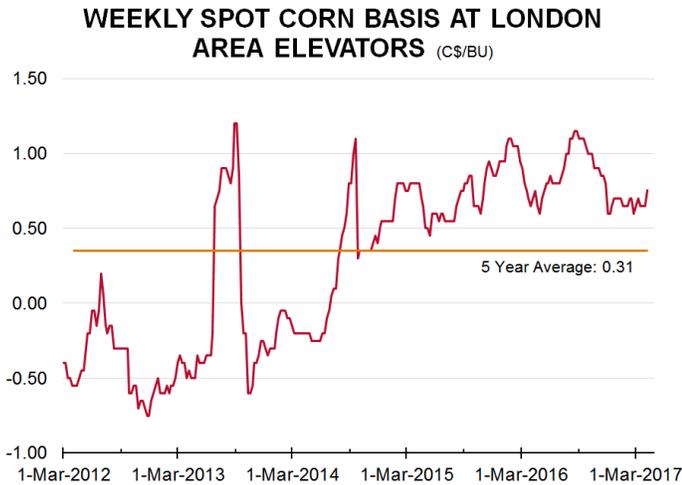
Another factor in the outlook for corn futures: The buying and selling patterns of managed money funds. At this time funds are collectively short corn futures. If they decide to start covering some of their position (by buying it back), we could see corn futures get a lift that's greater than would seem justified based on the fundamentals alone.



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Corn basis up slightly

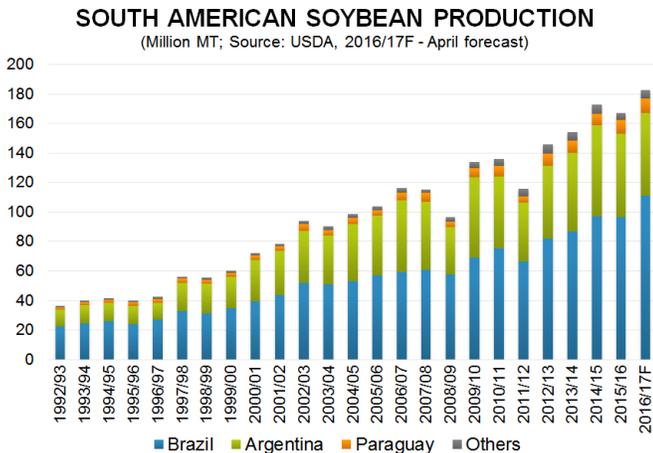
In Ontario, most farmers are making preparations for spring field work and have little interest in making sales of corn and other crops. The result has been some mild gains in the spot basis, as shown on the chart below.



World swimming in soybeans

South American production forecasts up again

Global and U.S. soybean ending stocks are continuing to trend higher, with the world estimate



seeing a sharp increase this month.

The huge South American crop will provide fierce competition to US soybean in export markets

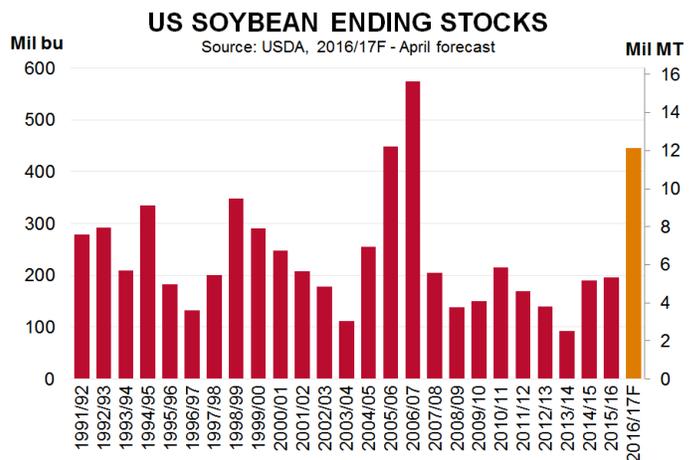
Globally, the USDA increased projected 2016-17 oilseed production 5.4 million tonnes from last month to 563.4 million, mainly on a combined 5-million tonne increase in soybean output for Brazil, Paraguay, Uruguay, and Argentina. The Brazilian 2016-17 soybean crop is now seen at 111 million tonnes, compared to 108 million in March and 96.5 million last year, while Argentina's crop was increased 500,000 tonnes from March to 56 million – still below last year's 56.8-million tonne crop.

With production taking a step up, global soybean ending stocks are projected at a record 87.4 million tonnes this month, up from 82.82 million in March and 10.3 million above a year earlier.

US ending stocks keep climbing

The USDA bumped expected soybean seed use higher, up 9 million bu to 104 million, to account for the record-large US soybean planted area expected this spring. However, that increase in use was more than offset by a reduction in projected residual disappearance, which fell all the way to just 14 million bu from 33 million in March and 25 million a year earlier.

The end result was a 10-million bu increase in estimated 2016-17 US soybean ending stocks to 445 million, versus just 197 million the previous year.



Sky-high old-crop ending stocks offer a cushion against a crop scare for new-crop soybeans

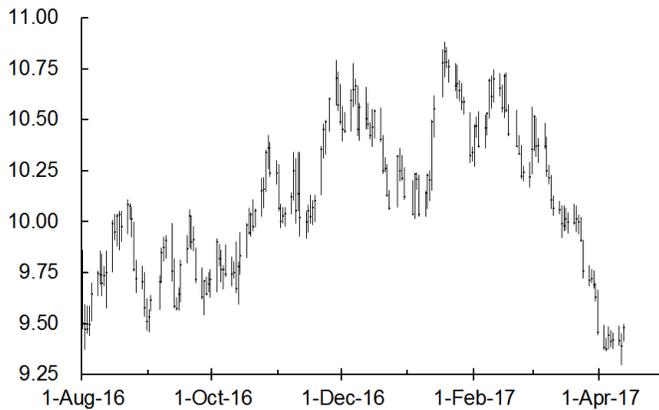
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The US season average soybean price is lowered 5 cents at the midpoint this month to US\$9.55/bu, based on marketings to date and lower expected prices for the second half of the marketing year. Soybean meal prices are pegged by the USDA at \$310 to \$330/short ton, down \$5 at the midpoint.

Soybean and meal futures in a deep hole

Soybean futures continue to endure heavy pressure from data confirming a generally bearish supply-demand situation.

SOYBEANS MAY 2017 FUTURE (US\$/bu)



Meal futures have also plunged since February.

Often when markets fall so far, so fast some type of correction takes hold.

Seasonal odds also point up at this time, with the need for the market to build in some type of weather-related premium heading into planting.

However, the overall outlook is such that any rallies will be tempered by heavy US stocks of soybeans on hand, and expectations that when all is said and done, total US soybean seeded area this spring will set a new record.

Ontario soybean basis drifting lower

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. The Canadian dollar has been moving in a narrow range over the past few weeks, and is therefore not causing significant basis changes.

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



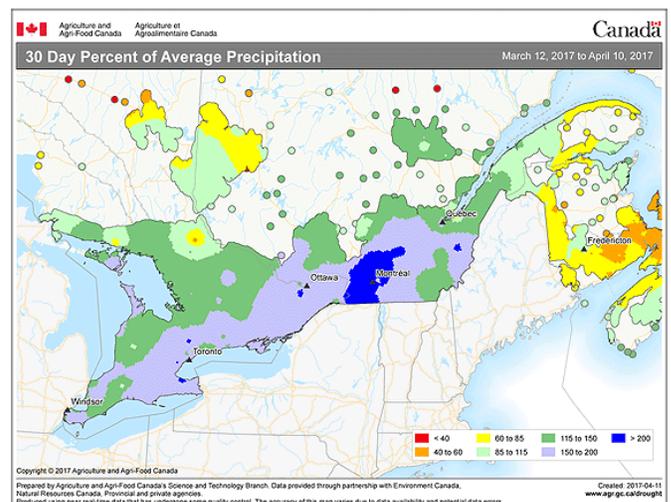
Ontario meal prices weak

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 C\$460/tonne. That's well below the five-year average price of \$534.

Ontario well watered

Ontario's main farming areas have been getting lots of rain over the past month. While this could slow seeding, ample soil moisture should provide some protection against drought later on.



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