

3 Key Messages

Below are the three main messages from this outlook report:

- 1) The USDA's first take on 2017-18 supply-demand situation points to some gradual tightening for corn and a continued heavy supply situation for soybeans.
- 2) Weather remains critically important. US planting got off to a slow start, but odds favour corn and soybeans getting seeded in a timely fashion. Ontario needs warmer, drier weather.
- 3) Corn and soybean futures are not showing much strength. This is a favourable situation for feed buyers. However, it is offset somewhat by a continuing weak Canadian dollar.

Corn: Gradual tightening in 2017-18

Still looking like a comfortable supply ahead

On May 10, the USDA released its first supply-demand estimates for the 2017-18 marketing year, forecasting US new-crop corn ending stocks at 2.11 billion bu. That's down just slightly from the year-prior level of 2.29 billion bu, and still well above 2015-16 ending stocks of 1.73 billion bu.

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

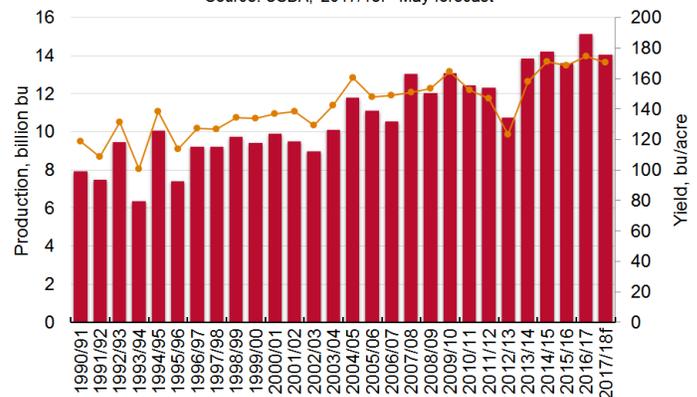
	2013-14	2014-15	2015-16	2016-17	2017-18
Acres Planted (Mln)	95.40	90.60	88.00	94.00	90.00
Harvested	87.50	83.10	80.80	86.70	82.40
YIELD (Bu/A.)	158.10	171.00	168.40	174.60	170.70
Carryin	0.82	1.23	1.73	1.74	2.30
PRODUCTION	13.83	14.22	13.60	15.15	14.07
Imports	0.04	0.03	0.07	0.06	0.05
TOTAL SUPPLY	14.69	15.48	15.40	16.94	16.41
Feed/Residual	5.04	5.28	5.12	5.50	5.43
Food,Seed,Ind.*	6.49	6.60	6.64	6.92	7.00
Exports	1.92	1.87	1.90	2.23	1.88
TOTAL USE	13.45	13.75	13.66	14.65	14.30
ENDING STOCKS	1.23	1.73	1.74	2.30	2.11
Stocks to use	9.16%	12.59%	12.71%	15.67%	14.76%

Source: USDA May, 10, 2017

The USDA estimated the 2017 US crop at 14.06 billion bu. That's about 7% below last year's record high 15.14 billion bu, as harvested area is projected to fall to 82.4 million acres versus 86.70 million acres in 2016. At 170.70 bu/acre, the average yield projection - based on a weather-adjusted trend - is down slightly from 174.60 bu/acre last year.

US CORN PRODUCTION & YIELD

Source: USDA, 2017/18f - May forecast



Production & yields seen modestly lower from the records set in 2016

On the demand side, the USDA is forecasting a slight increase in domestic use to be more than offset by lower exports.

US corn exports are expected to be down 350.00 million bu from 2016-17 at 1.87 billion bu, as a 1-billion bu year-over-year increase in the combined corn exports of Brazil and Argentina during 2016-17 is expected to cut into the 2017-18 US shipping season.

World outlook for some tightening too.

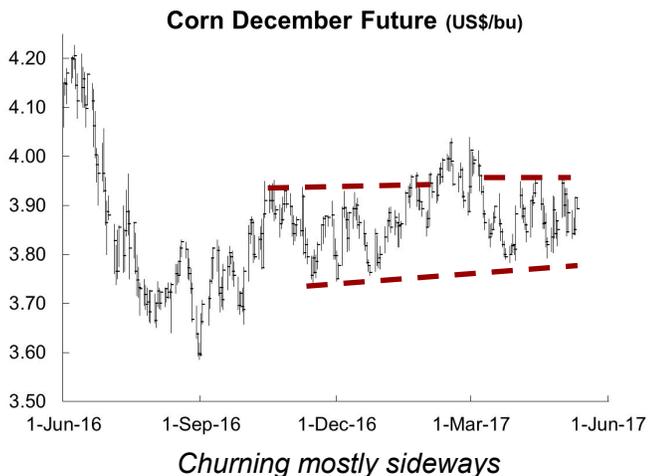
Global corn production for 2017-18 is forecast down about 3% from a year ago at 1.03 billion tonnes. The largest declines are expected in China and the US.

New-crop world ending stocks are expected to dip to 195.27 million tonnes from 223.90 million tonnes. That's the smallest since 2013-14 but far from a shortage.

Futures in a trading range

Corn futures have been in a trading range since late 2016.

Seasonal odds are positive at this time. There is still a need to maintain a weather premium with a few lingering concerns about US seeding and emergence.



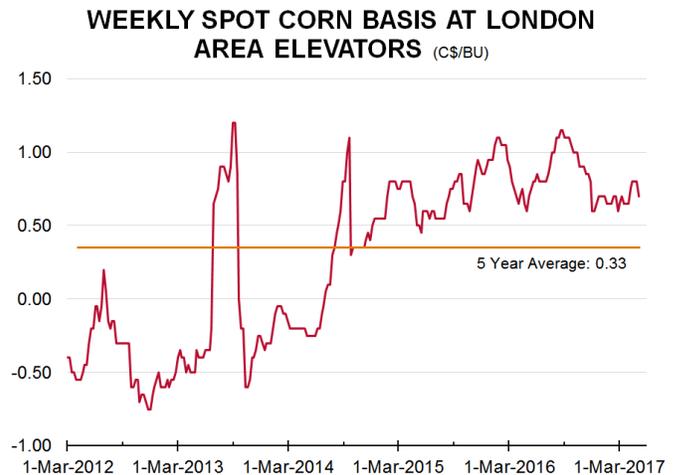
Spec funds an important wild card

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. This is unusual so early in the growing season. If the funds decide to start covering some of their position (by buying it back), we could see corn futures get a lift greater than what would seem justified based on the fundamentals alone.

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 is a relatively quiet spot basis, as shown below.



Soybeans: Still a rising tide of supply

US crop to be huge. Can demand keep up?

In 2017-18, US ending stocks are seen rising to 480.00 million bu, up from 435.00 million bu in 2016-17.

For 2017, US soybean production is estimated at 4.25 billion bu. That would be down a minor 52.00 million bu from a year earlier as a lower average yield offsets a larger expected acreage. New-crop

SUPPLY-DEMAND US SOYBEANS (billion bu unless otherwise specified)					
	2013-14	2014-15	2015-16	2016-17	2017-18
Acres Planted (Min)	76.80	83.30	82.70	83.40	89.50
Harvested	76.30	82.60	81.70	82.70	88.60
YIELD (Bu/ac)	44.00	47.50	48.00	52.10	48.00
Carryin	0.14	0.09	0.19	0.20	0.44
PRODUCTION	3.36	3.93	3.93	4.31	4.25
Imports	0.07	0.03	0.02	0.03	0.03
TOTAL SUPPLY	3.57	4.05	4.14	4.53	4.71
Crush	1.73	1.87	1.89	1.93	1.95
Exports	1.64	1.84	1.94	2.05	2.15
Seed	0.10	0.10	0.10	0.10	0.10
Residual	0.01	0.05	0.03	0.01	0.03
TOTAL USE	3.48	3.86	3.94	4.09	4.24
ENDING STOCKS	0.09	0.19	0.20	0.44	0.48
Stocks to use	2.65%	4.95%	4.99%	10.63%	11.33%

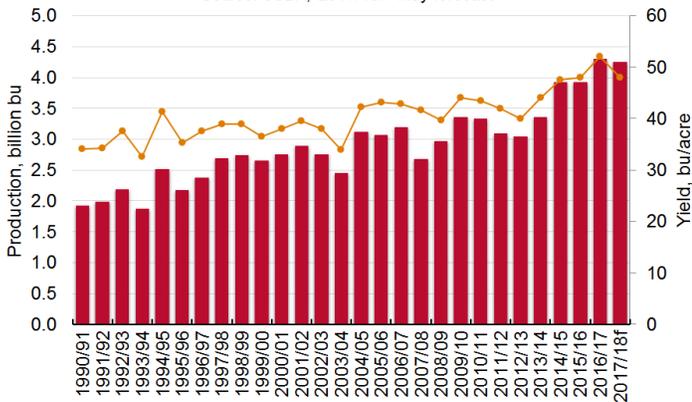
Source: USDA May, 10, 2017

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soybean harvested area is pegged at 88.60 million acres, versus 82.70 million a year earlier, while the average projected yield, at 48.00 bu/acre, is down from the 2016 record high of 52.10 bu/acre.

US SOYBEAN PRODUCTION & YIELD

Source: USDA, 2017/18f - May forecast



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

On the demand side, the USDA sees the new-crop soybean crush at 1.95 billion bu, up 25.00 million bu from a year earlier, while exports are forecast to increase 100.00 million bu from the previous year to 2.15 billion bu. Although the USDA acknowledged that the large 2016-17 South American soybean crops will compete against American supplies in international markets, it contends smaller crops in Brazil and Argentina next year will limit projected gains for South American soybean exports.

The 2017-18 US season-average soybean meal price is projected at US\$295.00 to \$335.00/short ton, versus \$320.00 for 2016-17.

World very well supplied with soybeans

Global soybean production for 2017-18 is projected down 3.40 million tonnes from a year earlier to 344.70 million tonnes.

However, with some slippage in consumption anticipated, new-crop world soybean ending stocks

are seen rising to 88.81 million tonnes. That's up 1.40 million tonnes from the current marketing year.

Soybean and meal futures up, but only slightly

Soybean futures have come up 30-40 cents US from the low made in April.

Meal futures have edged higher too.

These markets have received some support from an uneven start to US soybean seeding. Some credit for the bounce also goes to a correction of heavy losses in late winter and early spring, which left technical indicators looking very oversold.

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

Soybeans November Future (US\$/bu)



Ontario soybean basis strong

The Ontario spot soybean basis has surged toward the top of the range seen over the past five years, as shown on the chart on the next page. Support has primarily come from a lower Canadian dollar. It recently dipped under 73 cents US, down from 75 1/2 cents in mid April.

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

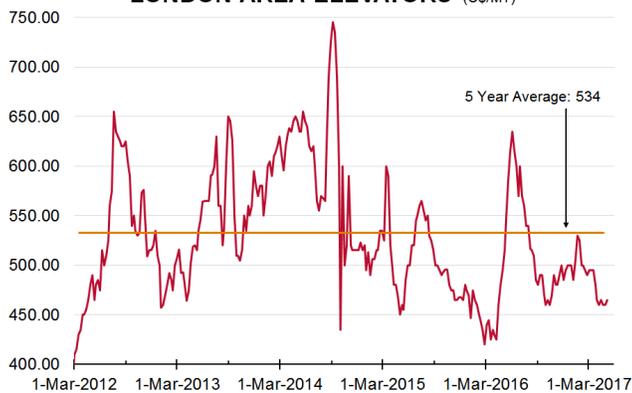


Ontario meal prices chopping sideways

Ontario meal prices have not been quite as weak as soybean meal futures. The lower Canadian dollar has been supporting the meal basis.

Today's bulk soybean meal price fob the rail in Hamilton is C\$465.00/tonne. That's well below the five-year average price of \$534.00/tonne, as shown below.

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



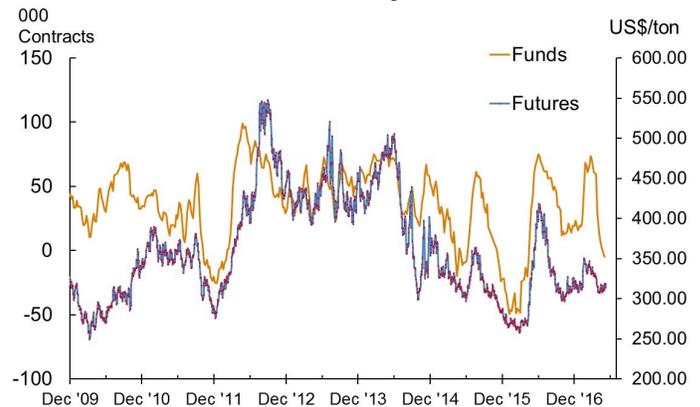
Warning: Sentiment towards soybean meal futures is very negative.

Even though the long-term fundamentals are negative, meal futures could see rallies now and then. This is especially true because sentiment towards the market, as measured by indicators

such as the Bullish Consensus compiled by Market Vane Corp, is highly negative.

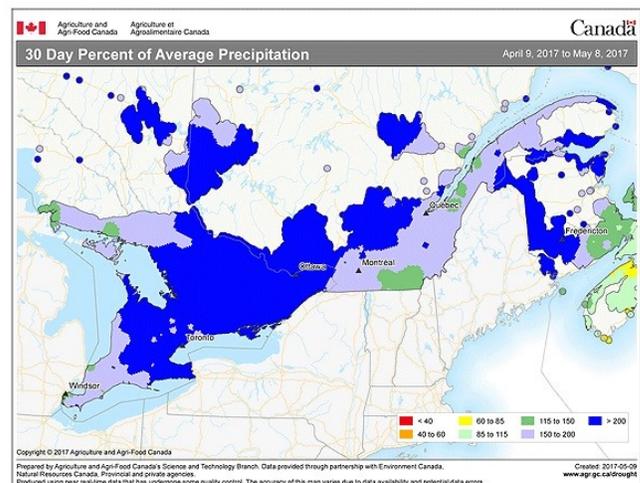
Speculative funds have acted on their negative view of the market by building up a net short position, as shown on the chart below. Should something happen to cause the funds to alter their collective position, futures could be jolted higher.

Fund Position- Soybean Meal



Ontario received substantial rain

Most areas has received at least twice the normal amount of rain over the past month, with serious flooding reported in parts of Eastern Ontario and neighboring Quebec. Fieldwork has been limited.



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