DavisCommodities LLC

August 2022 Market Commentary

The volatility that was seen in July continued into the month of August. The majority of the rally in the last half of the month was spurred by the first objective yield work of the year done by Pro-Farmer. Their yield counts came in significantly below our weather model. While their corn yield of ~168 bushels per acre (bpa) is probably low, it is difficult to dismiss it out of hand considering the size of their sample. Conversely, the objective yield counts for soybeans support the latest USDA yield at 51.9 bpa and also confirms our weather model.

While the market is still obsessing over yields, the attention will quickly turn to demand as we move toward the end of the month. Corn demand has been slipping lately due to competition from Brazil and Ukraine. With the opening of the export corridor from the Ukraine, USDA has plenty of room to increase exports. Despite what appears to be a smaller crop, they could lower US export demand to offset. The biggest corn demand issue will be China. USDA estimated Chinese corn imports at 18mmt for 2022/23. With their ongoing zero-Covid policy, aging population, and what appears to be a very good corn crop, those demand numbers could prove to be suspect. In short, supply led rallies should be short-lived as we make the transition to new crop supplies and sluggish demand.

Regarding soybeans, the first quarter of the marketing year (Sep-Nov) is always the biggest demand period as the South American supplies diminish and the US becomes the main supplier to the world. This year will be no different. Brazilian supplies are quickly dwindling and US export demand is picking up. However, the world's largest importer of soybeans, China, has been conspicuously quiet. While demand has been picking up of late, the current pace of sales has been far from stellar. A large amount of the market action for the next 12 months will be set by the demand we see in the first quarter of the marketing year. As stated previously, the Chinese zero-Covid policy and resulting slow economic growth could weigh on overall demand. In addition, South American supplies are currently projected to be record large with harvest starting in January. Many end-users will try to stay hand-to-mouth until we get a better feel for South American production.

Currently the program has a small cattle position in the back month contracts. The female slaughter continues at elevated rates which is further diminishing the size of the upcoming calf crop. With fewer calves available in the upcoming year, supplies of fed cattle will tighten and push cash prices higher. While the outlook is sharply positive in the longer term, we still have to deal with record large cattle on feed in the near term. Weakness stemming from front end supplies will be used to add to the position in further out contracts.

Sincerely,

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