October 2022 Market Commentary

The month of October was filled with mostly choppy action that went almost nowhere. There are still logistical issues in the US with the Mississippi River water levels near record lows and not enough rainfall in the current forecast to significantly help. While shipments out of the Gulf of Mexico have lagged seasonal norms, other ports (especially in the Pacific Northwest) have really picked up the pace. Despite a slower than normal start to US exports, the futures market did not react. It was mainly the basis that took the brunt of the weaker exports out of the Gulf. Now that harvest has peaked in the US, the market's attention will be on ongoing export pace and South American weather.

The export pace for soybeans has been strong, but corn has been weak. The soybean export program got off to a slow start but has really picked up over the past two weeks. If the large commercial exporters can keep up this pace, the demand for cash soybeans should allow for a buying dips mentality. In addition to strong export demand, the soybean crush margin is record large. With record incentive to crush, processors will be strong bidders under the market as well. For corn, the export pace has had a sluggish start due to the strong exports out of South America and Ukraine. As we move into the new year, South American exports of corn will slow as they focus on new crop soybeans. Ukrainian exports will continue into Feb/Mar, but will also tail off. That will leave the US as the dominant origin for late winter/spring. In addition to a "regular" shift in export origins, there is still a large amount of geopolitical risk associated with Ukraine exports. As we saw over the past couple of days, a change in opinion by Putin is all that's needed to shut down the current export corridor to Russia/Ukraine corn and wheat. Until the war ends, that geopolitical risk will have to be figured into any equation.

The second key factor right now is weather in South America as planting for both corn and soybeans is currently underway. Brazilian weather has been fine for the most part. Some areas are running below normal on rainfall, but the crop is simply germinating and doesn't need the copious amounts of rain that Brazil normally receives in order to grow into a vegetative state. As the crop nears its reproductive phase a more normal pattern of rainfall will be necessary. For Argentina, they have been in a drought and subsoil moisture is lacking. The did recently receive a good rain that will allow for widespread planting efforts and moisture should be enough to germinate the crop. However, with a lack of subsoil moisture, ongoing rains will be critical. With US soybean supplies already tight due to the sub-trend crop, any shortfall in South American production will lead to demand rationing levels for prices.

Last, but not least, the cattle market continues to be a long-term focus of the trading program. Cow culls continue at an elevated rate which should translate into a smaller calf crop next year. That smaller calf crop will equate to lower numbers of cattle on feed and less production of beef as we move into the second half of next year. Current expectations are for cash cattle to top out in the near term and then get a setback into the beginning of next year. At that point, long positions will be added to capitalize on what should be a large rally into the end of 2023.

Sincerely,

Stephen Davis

Stephen Davis
November 2, 2022

9047 Poplar Ave; Suite 101
Germantown, TN 38138
sdavis@daviscomllc.com
T: 901-766-4446
F: 901-766-4406