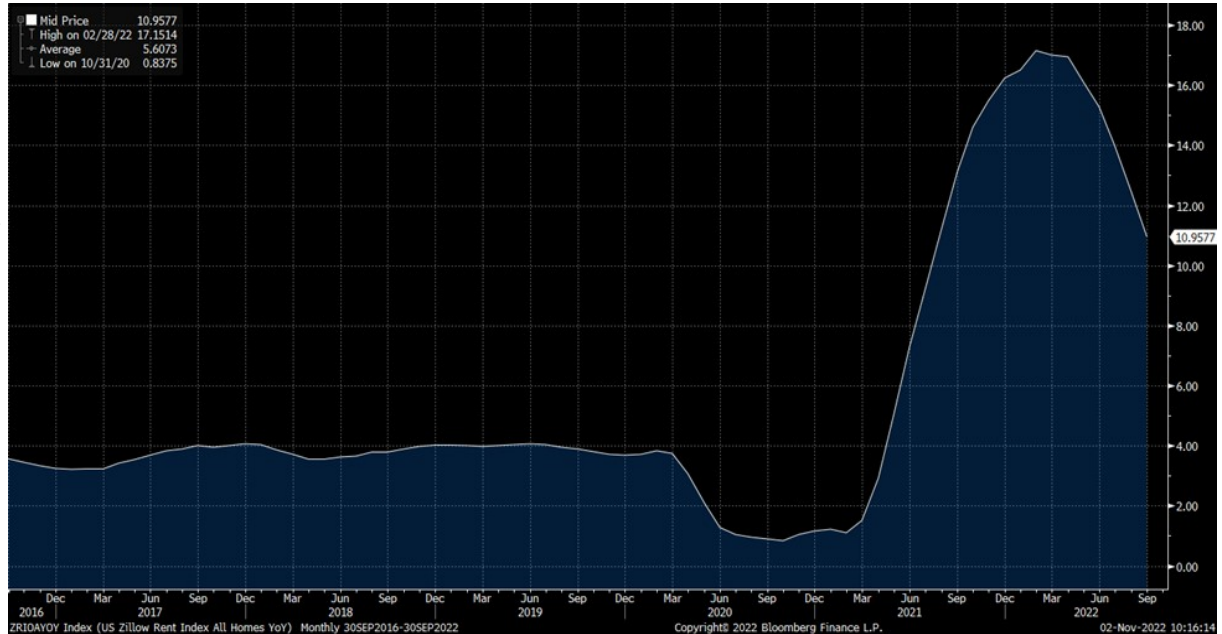


While many of the themes in the program are still intact, some have been jettisoned as we move into a period of transition. Quite a few macro-economic indicators are pointing toward a slowing economy in the US. Regional Purchasing Manager Indexes (PMI) have already rolled over into contraction while the aggregate PMI is still showing positive growth (barely). As we have talked about in prior commentary, one of the largest drivers of inflation/deflation is rental prices. The interesting thing about Owners Equivalent Rent is that it lags the Zillow Rent Index by about 7 months. As you can see in the chart below, rents on the Zillow index topped in February. If the normal lag holds, we should start seeing some signs of weakening inflation in future reports.

In addition to rent, energy prices have been a drag on inflation for the past couple of months. If energy manages to go sideways, it will also help to ameliorate the inflation trend. Later this week we will get the latest unemployment report from the US government. Labor has been strong and looks to continue that way based on the latest reports from ADP and the JOLTs survey. While the positioning in the yield curve might be a bit early, when labor finally softens, look for a Fed pivot to steady rates. The odds of easing are low at this point, but simply transitioning to a “wait and see” mentality should move the yield curve in favor of the portfolio.



Currency trades have been highly profitable for the portfolio year to date, but those have been removed for the time being. If the thesis is correct that inflation is slowing and the Fed is going to pause, the dollar could fall against world currencies in the near term. While the interest rate differential is only one aspect in exchange rates, it has been the focus of the markets for some time. Throw in a slowing US economy and a simple lessening of dollar longs could lead to an outsized move. This, however, does not change the overall thesis that Europe is painting itself into a corner on its energy policy or Japan painting itself into a corner on its use of yield curve control (YCC). This move to the sidelines is tactical in nature and will allow for the ability to return to the trades at a more advantageous time.

Finally, regarding energy, we remain structurally bullish over a long time horizon. With the risk of sounding repetitious, governmental energy policies around the world continue to hinder the needed investment in fossil fuels. With the US and Europe leading the charge into green energy, both continue to shun new investment. Due to the large geopolitical risk, energy firms are harvesting profits and paying those out to shareholders in lieu of increased exploration and refining capacity. While the transition to green energy should eventually lessen use of hydrocarbons, the runway to that future appears much longer than most governments are willing to admit.

Sincerely,



Stephen Davis  
November 2, 2022

The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. Davis Commodities, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of Davis Commodities, LLC. No one has been authorized to distribute this for sale.