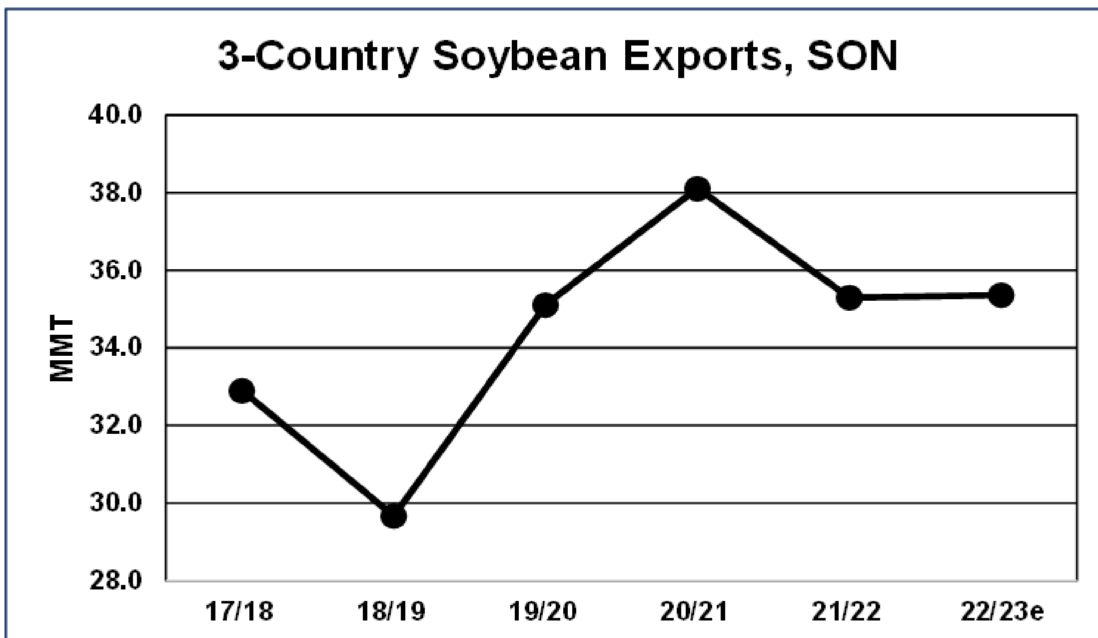
The month of November was primarily a choppy, range-trading affair with neither breaks nor rallies able to hold. With quite a few different themes at work, the chop made sense.

For soybeans, the bear case is quite simple: overall demand for soybeans has been failing to achieve levels that were expected as we ended the year. One reason is that Chinese demand has not been as large as expected. With the ongoing (at least until recently) lockdowns for Covid, Chinese consumers have been kept in check. The second reason is increased competition from Argentina. The Argentine government granted a special exchange rate to farmers that is substantially weaker than the prevailing rate. The Argentine farmer grabbed this bonus money and sold somewhere around 10 million metric tonnes (mmt) of soybeans. The rapid pace of selling allowed some of those beans to go directly into the export channel. As soybeans are a fungible commodity, one of the most important things to watch is the overall pace of the main exporters. In their November report, USDA anticipated worldwide demand to grow ~10% this crop year. As you can see in the chart below, demand is basically unchanged. Without a surge as we roll the calendar, USDA's estimates will prove to be hugely overstated.




On the bull side of soybeans, weather in Southern Brazil and, especially, Argentina has not been good and appears to be getting worse. Southern Brazil has been getting some showers, but they are falling further behind normal for the year (chart next page). Meanwhile, Argentina has been getting spotty showers and hot temperatures. With the Argentina/S Brazil crops just being planted, growth is not at the critical reproductive cycle. However, if the current pattern continues, we could be looking at tighter total supplies for the world. Until this weather pattern changes, soybeans should be supported on dips. This market is viewed as a trading affair. Unless South American production ends up being a disaster, this market will end up substantially lower than it is today.

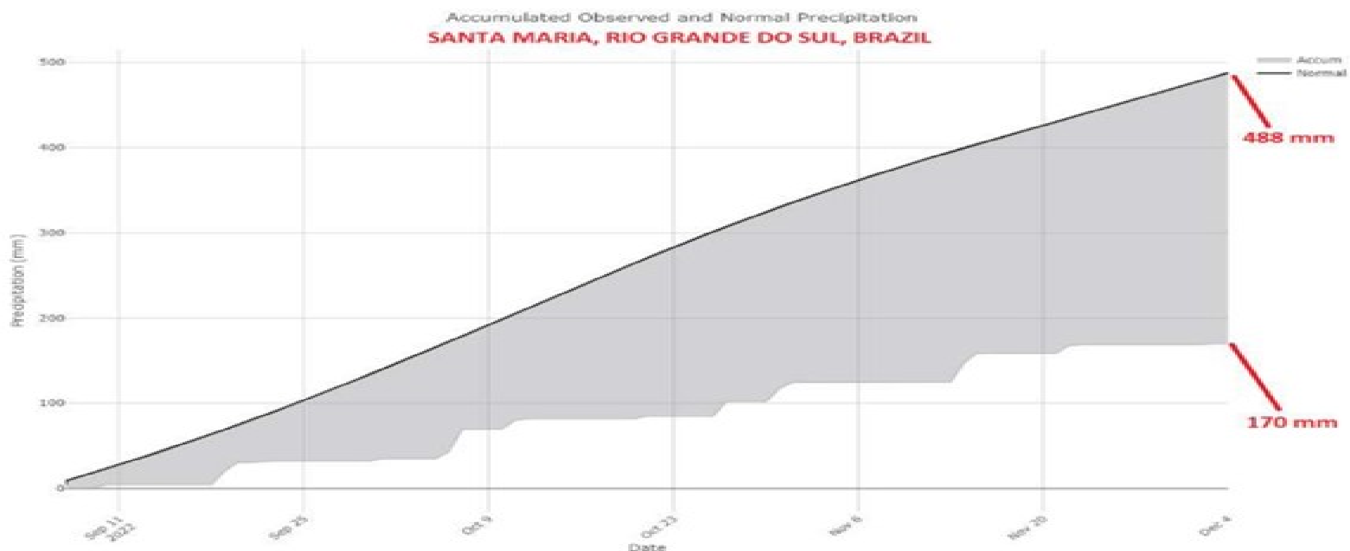
The corn market started off the month with a slide and then chopped around for the rest of the month. As we have started December, the market has slid again. The basic bull case rests on tight ending stocks that should support corn prices at a relatively high level and dryness in Argentina. The bear case is two-fold: US is not competitive in the export market and domestic demand appears to be slowing. The export corridor from Ukraine is allowing for ongoing shipments from the war zone. Brazil had a big crop last year and continues to undercut US prices with large quantities. Argentina, despite having a sub-par crop last season, has been metering out their sales and continues to

9047 Poplar Ave; Suite 101
Germantown, TN 38138

sdavis@daviscomllc.com

T: 901-766-4446
F: 901-766-4406

export. Regarding domestic demand, cattle placements have been lagging which could put some pressure on total feed demand. In addition, gasoline prices have been slipping along with sluggish demand which could pressure corn use for ethanol. With corn prices near record high for this time of year, rallies will need to be sold barring a disaster in South American production.




Last but certainly not least is the cattle market. Everything that has been said in previous updates continues to be confirmed. Feeder cattle supplies are shrinking. Female slaughter continues to run at record levels. Cattle on feed have finally moved under year ago levels and should stay that way for the foreseeable future. This market continues to show all the signs of significantly higher prices as we move into the new year. With relatively low demand in the dead of winter, prices should set back. That dip will be used to accumulate further length.

Sincerely,

Stephen Davis
December 6, 2022

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