December 2022 Market Commentary

The month of December was marked by a steady climb in both corn and soybean prices. The majority of the rally has been predicated upon adverse weather primarily in Argentina, but also to a lesser extent in southern Brazil. While Argentina is struggling, the majority of the Brazilian crops are in good to excellent condition.

Brazilian soybean production looks to be up ~22 million metric tonnes (mmt) while Argentina could fall up to 5mmt. While the Argentina comment may sound cagey, there is simply a LOT of time left in the growing cycle there. If weather continues in its current manner, production there will end up at the lower end of the range. If it takes a sharp turn for the better, production will improve similarly. When you throw all of the pieces into the hopper, world soybean stocks will be down at the end of February, but rebound with South American production to up about 5-6mmt by the end of May (in the worst-case scenario). US soybean exports will slow seasonally due to the sharp increase in Brazilian production. With a slowdown in exports from the US, there is room to the downside for the soybean price barring a further worsening of conditions in Argentina.

The most interesting part of the soybean complex due to the Argentine drought is the products. Argentina is the largest exporter of soybean meal in the world. As their production slips, so does their ability to crush soybeans into soybean meal and soybean oil. With soybean production in Argentina in the low-mid 40mmt range, the world will find a way to skate by on available supplies. However, if their production were to slip into the upper 30's, things would get dicey. With the large speculator already record long soybean meal, our propensity to buy is limited. However, if the market were to flush out a bit, our interest would certainly be piqued.

For corn, there is simply too much of the growing season left in South America to say anything definitive. While the Argentine crop is being hurt today, the elephant in the room is the late planted safrinha corn crop in Brazil. A smaller Argentine crop will certainly help US exports during the March-May timeframe. But, with ~80% of Brazil's production coming late in the year, the true impact on corn prices will not be known for some time. As it stands today, corn prices are historically high. After the crop shortfall in the US last fall and the current drought in Argentina, those prices are justified. The US balance sheet is tight and will continue to be that way for the rest of this crop year. However, in order to get fireworks to the upside, the market will need to see a problem brewing for the Brazilian safrinha corn crop. While the market may not have the ammunition to rally sharply right now, dips should be relatively shallow with the ongoing tightness in the US balance sheet. We are accumulating corn on dips until spring weather becomes clearer.

Finally, the cattle market continues its inexorable grind higher. Female slaughter continues to run at historically high rates indicating further liquidation of the cattle herd. Due to ongoing drought in the US southwest, there simply isn't enough grass/hay to keep feeding cows. The calf crop will be down again this year which will further tighten the available fed supply as we move later into the calendar year. We remain friendly to the back end of cattle and bullish on the front end spreads.

Sincerely,

Stephen Davis

Stephen Davis
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9047 Poplar Ave; Suite 101
Germantown, TN 38138

sdavis@daviscomllc.com

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