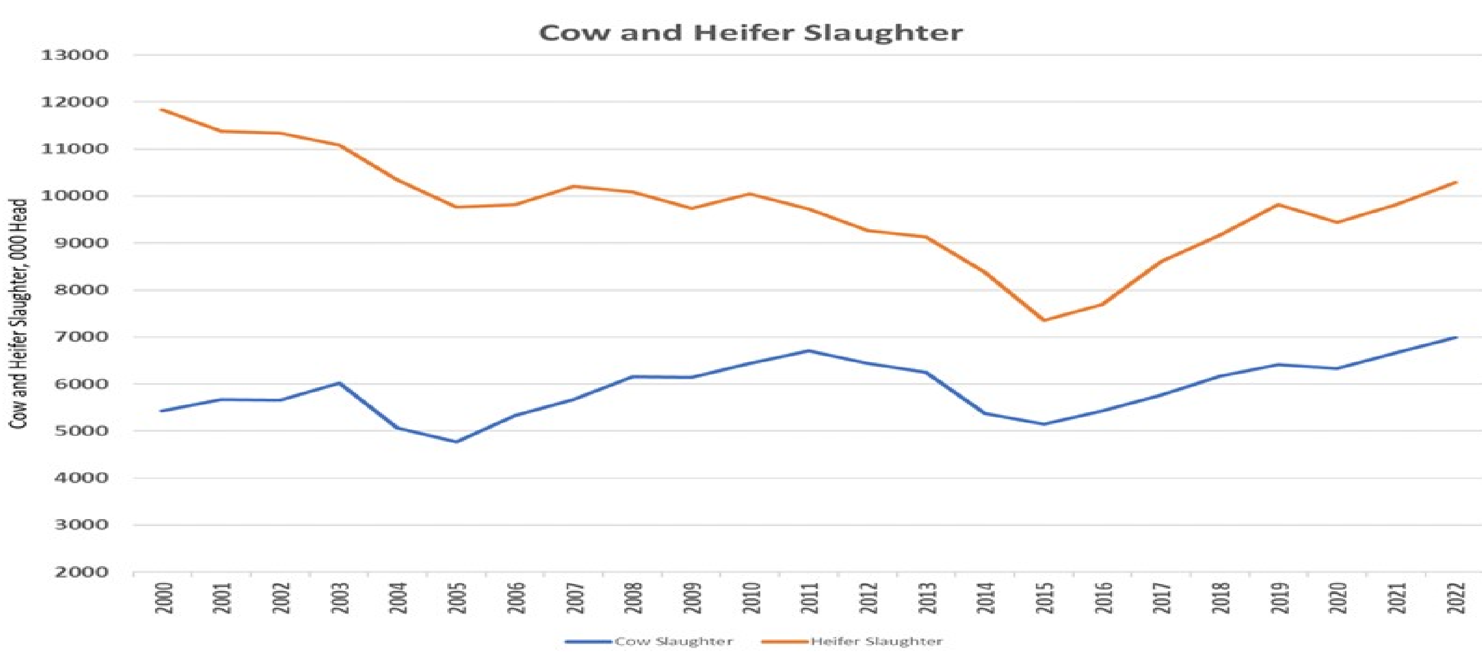
Davis Commodities LLC

January 2023 Market Commentary

The soybean market spent the month of January in a broad trading range as it tried to digest what appears to be a large Brazilian crop, yet a sub-trend Argentine crop. The transition from old crop US supplies to new crop South American supplies is rarely seamless and this year has been no exception. The harvest in Brazil is running about 9% of total production vs. 16% last year. While certainly in the range of normal, the slower harvest has pushed the transition from US to Brazil by a couple of weeks. As the transition was slowed, US exports remained large leading some (including us) to increase exports from the US slightly. Even with the slower transition, our ending stocks of soybeans are ~100 million bushels (mb) larger than USDA. Despite the damage done to the Argentina crop, it certainly appears that there are plenty of soybeans in the world and prices will decline as the Brazilian harvest accelerates. In addition to harvest pressure, Argentina and Southern Brazil have received some good rain recently to stabilize their crops. If normal weather continues for the next couple of months, the market will most likely increase crop estimates at the same time that harvest is ongoing. When you throw in the pressure of harvest and larger crops alongside a relatively large speculative long, the market is prime for a sharp decline.

Like soybeans, the corn market was range-bound during the month of January. While the expectation is for a decline in the soybean market, the corn market appears to be range bound for the near future. Brazil will be focusing on soybean exports for the next several months, Argentina available supplies are low, and Ukraine is hampered by the logistics of the corridor and required inspections in order to move their crop. In sum, competition will be small for the next several months and imports will be primarily sourced from the US. The return of decent exports from the US should continue to support the market. Any big decline is most likely going to be delayed until more is known about the main crop of corn in Brazil. With that crop being primarily a June/July harvest, there is a long time before the corn market can relax.

The cattle market has been interesting for the past year, but it is about to move directly front and center. On January 31, USDA issued their Cattle Inventory Report. While this report is issued twice per year, the January report is by far the most comprehensive. Cattle trade differently than the grain and oilseed markets primarily due to the fact that the world has two main seasons for corn and soybeans, and wheat is grown year round somewhere in the world. Those balance sheets can (and do) shift massively as each crop is grown and harvested. Cattle, however, are more like turning an aircraft carrier. Each move happens slowly. Over the past several years, the cattle herd has been liquidating due to drought in the plains and high cost of feed. This liquidation is now reaching its critical point. As you can see in the chart below, cow slaughter (think mama cows) was the highest on the chart. In addition, heifer slaughter (female, but not mamas) was the highest since the early 2000's.



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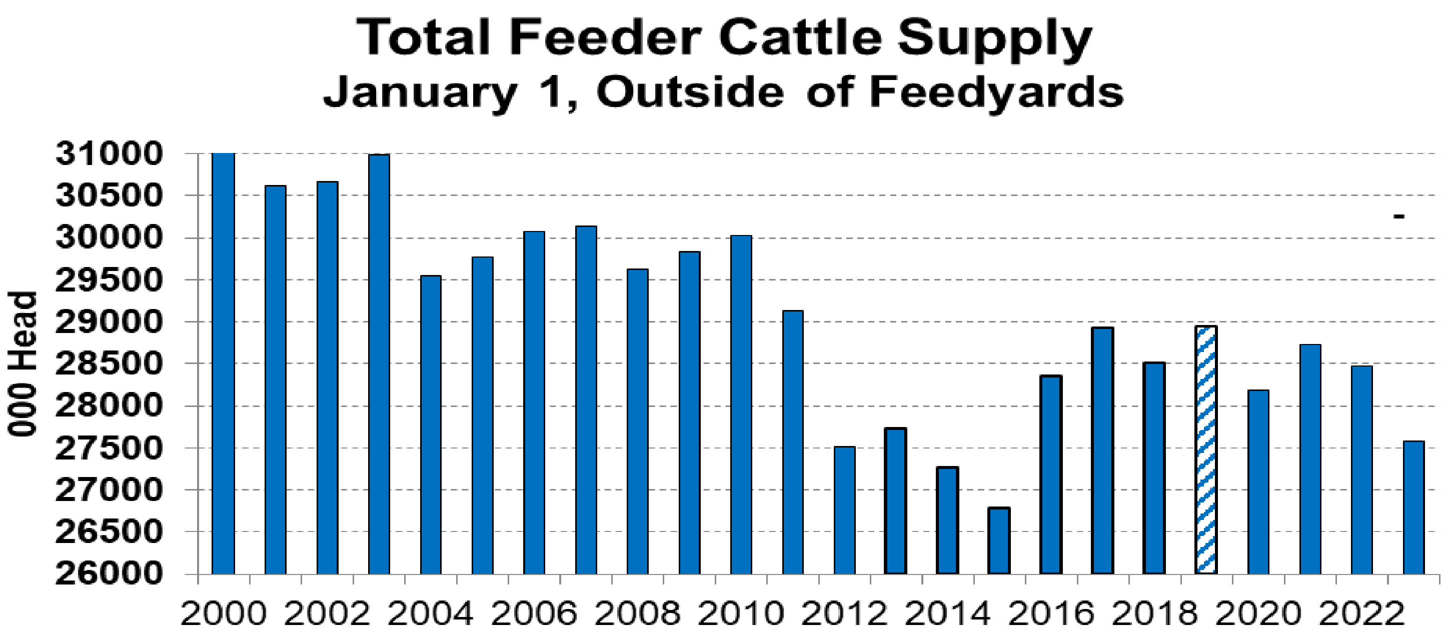
The reduction in the amount of cows and high heifer slaughter continues to shrink the number of calves available to be placed into feed yards. As can be seen in the chart below, the available supply of feeder cattle outside of feed yards is the lowest since 2015.



What makes the chart above extremely bullish to cattle over the coming years is in 2014-2015, heifers were being held back to become cows. We are nearing a record low supply of feeder cattle and haven't even entered the heifer hold-back period. All of this data points to low and declining supplies of feeder cattle for the next couple of years. The smaller feeder cattle supply will lead to lower placements into feed yards which should translate into higher prices for live cattle.

Sincerely,

Stephen Davis
February 7, 2023

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