DAVIS COMMODITIES LLC

February 2023 Market Commentary

The corn and soybean markets basically traded sideways for the majority of February and then slid to close out the month. The timing of the break seemed a bit strange as the news out of South America seemed to get worse by the day. While most of Brazil has been treated well for their summer growing season, Argentina is nothing short of a disaster. Not only has precipitation been running about 50% of normal for the growing season, temperatures have been well above normal on a regular basis.

While the base case for soybeans had been for world stocks to increase year over year, that is no longer the case. With the disaster in Argentina, it now appears that the major exporter supply of soybeans will be lower than year ago at the end of the crop year in September. While the tighter overall supply will support soybean prices, the biggest impact will be felt in soybean meal. Argentina is the largest exporter of soybean meal and soybean oil. While there are many competing vegetable oils, soybean meal has few substitutes. The tighter supplies of meal will also lead to increased crushing in the US and Brazil, but that will not be enough to satisfy overall demand. Crush can also be increased at destination. At this time, it appears that the only solution to the meal shortage is to ration demand which will require elevated prices of meal for the next year or more.

The corn market is trading a strange dichotomy right now. US export demand has been sluggish which is keeping the market from moving higher. In contrast, worldwide production has been shrinking due to the drought in Argentina. Like soybeans, the worldwide ending stocks held by major exporters will shrink year over year. One main risk for corn is that the main corn crop in Brazil is just now being planted. With the majority of production risk still in front of us, it will be hard to break corn meaningfully from these levels. In addition to the risks of growing the Brazilian crop, these price levels have finally brought out some demand. The program will be an accumulator of corn on dips until more is known about Brazil and US growing weather as we transition into the late spring.

Not much has changed on the cattle front since the last update. Total female slaughter continues at elevated levels which points to ongoing liquidation of the herd. Cash cattle should remain elevated through the spring months. With larger production coming in the summer, prices are expected to ease back before surging again as we move into late fall and winter. The bottom line is that the surge in beef prices is really just starting. The most bullish shorter-term event would be for the Southern Plains to receive steady rains to support the pasture conditions. Better pasture conditions would lead to retention of heifers for cow replacement. That retention would further tighten the availability of feeder cattle to go into the feed yards. With or without heifer retention, the outlook for higher prices will continue for at least the next two years.

Sincerely,

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