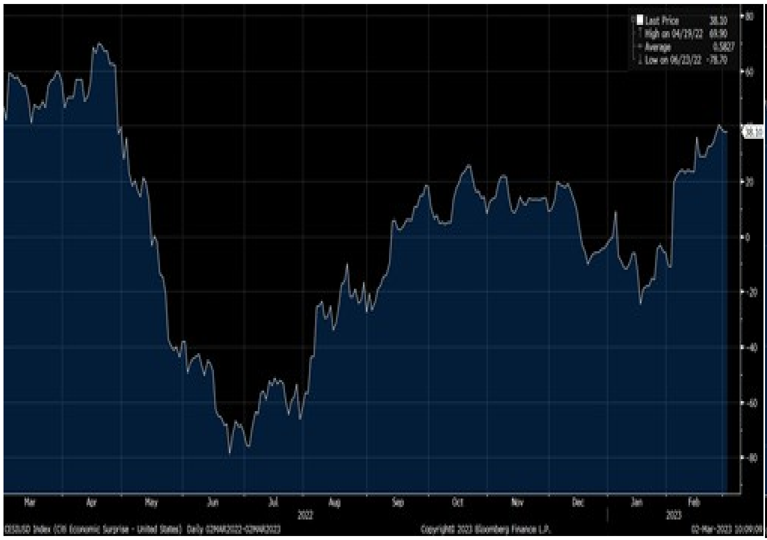
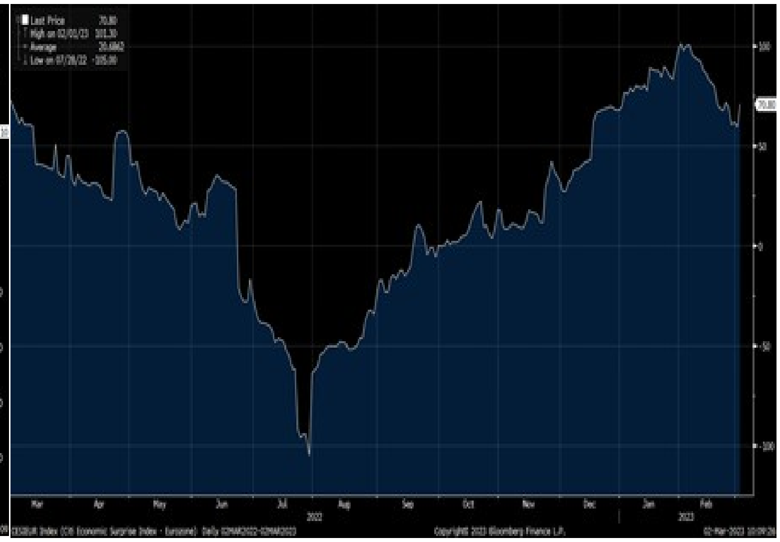
DAVIS COMMODITIES LLC

February 2023 Macro Commentary

Since the middle of January, the economic indicators from the US have been surprisingly strong. Due to the stronger economic data, interest rates have moved higher and the stock market lower. Interestingly, the recent economic data out of Europe has been strong as well. The charts below are the Citi Economic surprise indexes for the US (left) and Europe (right).





With the relative strength in economic data from the US, the dollar has risen by ~4%. With inflation still sticky around the world, look for Central Banks to continue raising rates. This should make the major currencies start to ebb and flow as the market tries to ascertain the terminal rates for each individual region.

Looking forward, with economic data staying strong and China reopening from the Covid lockdowns, all signs point to Central Banks going higher and staying at those levels longer. That is until something breaks. While there are certainly cracks in certain sectors (manufacturing being the primary one), there doesn't appear to be a "Lehman moment" on the horizon. With no clear cut problem apparent, it is pure speculation as to what could happen. However, one thing is certainly apparent. Public sector debt has been growing at a rapid pace. With these higher rates, paying the interest becomes an increasingly difficult prospect for the federal government, states, and municipalities. If public sector debt becomes an issue, it begs the question of whether the Fed will preserve financial stability or fight inflation? If history is any judge, financial stability will win that battle. The most likely outcome would be a weaker dollar, lower short term interest rates, and a high probability that longer term interest rates stay steady at best. While pure speculation at this point, it is certainly something that will be monitored closely.

With a mild winter in the US and Europe, crude oil prices have basically gone nowhere for months. As we move into the spring and summer months, demand should increase and keep a firm bid under the market. In addition, with the Chinese reopening underway, their import demand should increase and tighten world supplies right as the Northern Hemisphere is moving into peak travelling season. The combination of these two factors should tighten inventories through the fall months and push crude oil closer to the $100 area.

Sincerely,

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