DavisCommodities LLC

March 2023
Market Commentary

The month of March was marked by high volatility as the grain markets plunged early in the month only to rally back close to unchanged by the end. While part of the pressure was the weight of Brazilian soybean harvest, the markets in general were hit by the failure of Silicon Valley Bank and Signature Bank. The fear of contagion forced a liquidation of positions across all markets. The Fed's actions to shore up the balance sheets of the US banks has certainly led to the stabilization/rally of most markets. However, the markets feel like they are trying to price in lower growth or outright demand destruction.

The soybean market will continue to trade what appear to be sharply diverging fundamental outlooks. The old crop ending stocks will be tight which should support flat price and bull spreads. The new crop outlook is for more abundant ending stocks and an overall relaxation in prices. We have to keep in mind that the market has endured three consecutive poor crops in Argentina and one in Brazil (two years ago). A return to trend yields in the US and South America will lead to a large increase in available supplies. With la niña coming to an end and el niño looking to begin, odds are increasing for a good growing season. We do not like trading the long-term forecasts, but history indicates a higher likelihood of good crops. As the world moves from relative tightness to abundance, rallies in soybeans will be sold unless the weather forecast turns dire.

Regarding corn, the fundamentals look similar to soybeans. Old crop US supplies look to remain tight while a normal growing season this summer will lead to a nice expansion in available supplies. Also like soybeans, the front end of the corn market should stay well-supported on dips while rallies in the new crop months will be used as selling opportunities. In addition to supplies expanding in the US, the growing season for the larger corn crop in Brazil is off to a superb start. In a very similar style to last year, the US corn exports this fall should be small. The lack of export demand on the front end should allow for a further erosion in prices as we move into the harvest months of September- October.

The cattle market is unfolding as expected as liquidation of the herd is pretty much done. While the liquidation is largely over, the expansion of the herd has not started yet. The cow/calf operator will need to see two things before they move into expansion mode: 1. Better precipitation in the Southern Plains, and 2. Higher profit margins for their calves. So far, the drought in the S Plains is continuing. Without an expansion in the amount of available grass, the cow/calf operator has little incentive to expand their herd. Profit margins have improved, but after several turns of little to no profit, it might be one more calf cycle before they want to truly expand. The biggest impact of expanding the herd will be heifer retention for the calving cycle. With fewer heifers available to put on feed, the fat cattle market should continue to tighten and prices will move even higher. Right now, the bias is that we don't see that happen until next year, but are monitoring the situation for signs of a more rapid start.

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