DAVIS COMMODITIES LLC

April 2023
Market Commentary

After a choppy start to the month, both the corn and soybean markets broke sharply as waning export demand and heightened competition drove price discovery. While one month does not make a trend, odds are increasing that lower prices are in the offing for the grain and oilseed sectors.

In late March and early April, some business surfaced in corn which allowed for a short-term rally, but faded in the last half of April. In particular, China reemerged as a large buyer of US grain. While initially friendly, the breadth of the purchases simply is not large enough to offset lagging export interest to other destinations. As of the week ending April 20, total export commitments from the US are running approximately 67% of year ago. Current estimates from the USDA are for total exports to be 75% of year ago levels. If this level of export commitments holds, USDA could end up lowering US exports by ~200 million bushels (mb). With USDA's latest estimate for ending stocks at ~1,350 mb, odds are high that we see those ending stocks expand closer to 1,500mb. In addition to the lagging export sales from the US, the corn crop in Brazil continues to get larger. Initial estimates for their corn crop had been running at 126 million metric tonnes (mmt). After a great growing season thus far, estimates are climbing to over 130mmt. As of now, cash offers out of Brazil are undercutting US prices for the summer months. With those cheaper prices, odds are increasing that US export commitments will not improve and the ending stocks will continue to increase. In addition to the old crop, new crop planting is off to a good start. Assuming a normal growing season, odds are high that we will shift from relatively tight ending stocks into abundance. With that abundance, prices should continue to drift lower over the summer.

Like corn, the soybean market is facing increased competition from Brazil while worldwide demand has been less than expected. Current pricing in Brazil is ~$1 per bushel cheaper than US. While this is partly due to their large crop and farmer selling, it is also due to reluctant US farmer sales. Outside of captive customers, the US export season is coming to a rapid end. USDA is projecting exports at 2,015mb. With the current price differential to Brazil, odds are high that they will need to lower exports by ~90mb. That shift should allow for the expansion of the ending stocks to ~300mb. As we transition to new crop, continued competition from Brazil and a trend US crop will balloon ending stocks even further to over 500mb. Absent adverse summer growing conditions, the longer-term trajectory for soybeans is lower.

For the last half of March through all of April, cattle rallied sharply as supplies tightened and cash prices led the futures. During that rally, positioning was taken from long to a delta neutral position. Typically, supplies of fed cattle expand as we move from spring into summer and this year appears to be no different. With those larger supplies, prices should relax. More than anything, a break in cash cattle prices will allow end users to contract beef at lower prices which will help to spur demand. While positions are currently neutral, the longer-term outlook for cattle is unchanged. With the continued liquidation of the female supplies, total cattle on feed will contract and prices will continue to push higher. While prices should rally as we move into this fall, the truly big move may hold off until next year. If weather in the plains is good, we should start to see an increase in grass available for heifers to be held and turned into cows. That heifer holdback will decrease the available supply of feeder cattle and lead to sharply higher cattle prices. The outlook for higher prices looks to last for the next two years at least.

Sincerely,

Stephen Davis
May 3, 2023

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