

The month of May could easily be split into two halves for corn, the break in the first half and rally in the second. In the end, the market really didn't close much different from the beginning prices. The break to start the month was on a rapid planting pace as the relatively dry spring allowed for well above average completion. The rally ensued as the dry weather has persisted and caused concern for the eventual supply side of the equation. While it has certainly been dry over the past 30 days, the corn crop is not made in May or even June. The critical growing phase for corn is in July with pollination. However, one always has to respect the simple fact that weather trends. As of today, the forecast appears to be changing to one that is much more conducive to normal-above normal precipitation. If weather indeed normalizes over the next weeks, the price of corn will be significantly lower. In addition to the important production side of the equation, export demand so far this year has been awful. Unfortunately, that does not appear to be changing anytime soon. While Argentina had a dreadful crop, the corn crop in Brazil appears to be record large. Cash corn prices in Brazil are cheaper than the US from today all the way through February, 2024. Export demand will be lackluster until we get to new crop soybean harvest in Brazil in Feb. Assuming normal weather and production in the US, prices will eventually fall over \$1 from here.

As for the soybean market, it broke for the majority of the month and rallied back lightly at the end. Like corn, planting pace has been rapid. Also, like corn, the recent dryness has allowed for a rally, but of a significantly smaller magnitude. The critical growing period for soybeans is in August, so there is plenty of time to help/hurt the recently planted crop. If the change to better weather verifies, the condition of the crop will improve over the course of the month and prices should push lower. Currently, Brazilian prices are under the US through October. Normally, the US export program picks up sharply in September, but that appears to be delayed due to the competitive nature from Brazil. The bottom line, assuming trend yields, the soybean market is overpriced close to \$2. With ample supply and lagging demand, the market will have a hard time holding these price levels.

The cattle market has simply been on fire for the past month. A mild setback started the month, but that break was short-lived. While the program has benefitted from the rally, positioning was not nearly as aggressive as it should have been. Very simply, I thought the market had more downside and failed to get on board at the turn. That said, over the course of the next year or more, the supply of cattle will remain constrained. The cattle herd has seen liquidation over the past two years and it takes a long time to turn that around. The true blow off will happen when cow/calf operators start holding back heifers to rebuild the cow herd. The recent precipitation in the Southern Plains has certainly helped to end the drought and increased the grass availability. At the earliest, heifers could start being held back at the end of this year, but more likely next spring. That would indicate that the tightest supplies of fed cattle wouldn't hit until late in 2024.

Sincerely,



Stephen Davis

June 6, 2023

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