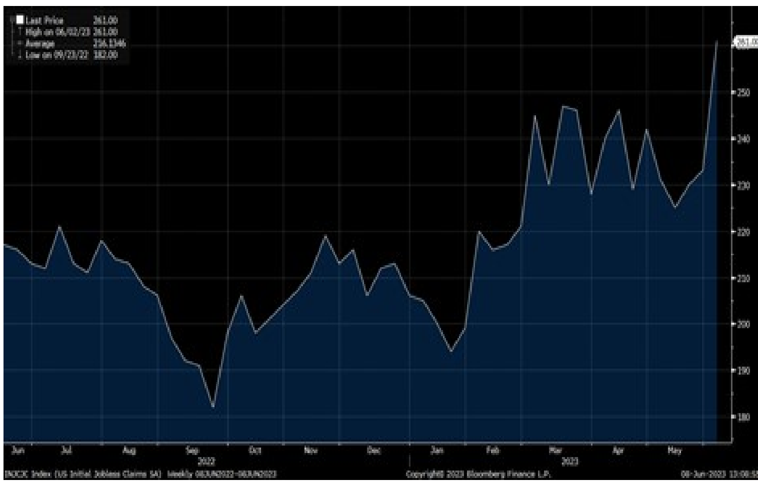
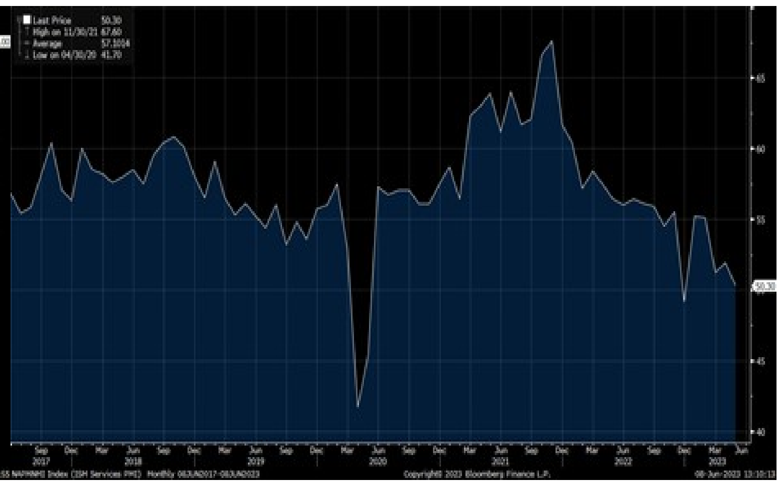
DAVIS COMMODITIES LLC

May 2023 Macro Commentary

The month of May was disappointing for the program. With the onslaught of poor banking news, the thought process that "something" in the economy was breaking that would cause the Fed to pause their rate hike regime seemed right on target. Unfortunately, that is not the way that events transpired. With the FDIC taking control of the banks and liquidating assets, the market shrugged and went back to further inverting the yield curve. In addition, fears over the debt ceiling were overblown as Congress was able to pass the extension out to 2025. The 2/10 steepening is going to be a theme for a long while, the entry was simply premature.

Looking around at the rest of the markets, things still feel like they are in a state of flux. Growth has been declining, but the economy is still growing. Inflation is becoming more subdued, but still not under control. The biggest question regarding the economy is the long, but uncertain lag between raising interest rates and the eventual effect. While growth still appears to be present, there are some small cracks developing. While certainly not elevated, you can see in the chart below (left) that jobless claims are starting to rise. In addition, services PMI is declining (right).





Neither are screaming recession as of now, but the change is important. Data will continue to be monitored for further confirmation of a slowing US economy.

One area of relative strength so far this year has been the precious metals markets, especially gold. If the thesis of a Fed pivot proves true, gold will be another opportunity for the program. As rates move lower to stimulate the economy and liquidity increases, that should support gold directly.

The currency markets are another area of interest right now. With the raising of the debt ceiling, Treasury needs to issue in excess of $600 billion to bring its cash balance to their stated level. In addition to the $600 billion, government issues had been limited in order to avoid hitting the debt ceiling. The Fed is going to have to issue in excess of $1 trillion in debt in relatively short order. With the abundance of dollars being moved into the pipeline, that will suck liquidity out of the system. Coupled with the massive twin deficit in the US, odds appear high that the dollar could move lower. Opportunities for entry into a short dollar position are being monitored.

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