June 2023 Market Commentary

At the end of June, USDA releases updates on acreage and grain stocks. These reports typically have at least one surprise and these did not disappoint. The average estimate had corn acres down slightly from the March report. Corn acres actually came in 2.1mm acres higher. Conversely, the average estimate for soybeans was for acreage to be up slightly. Soybean acres actually came in down 4mm from the March estimate. Needless to say, the reaction to those numbers was extreme. As for the quarterly stocks report, soybeans came in close to expectations while corn was about 150 million bushels (mb) smaller than the average guess. While the corn stocks imply slightly larger use for feed and residual, it is not a large enough difference to change the overall trajectory.

Regarding the corn market, the increase in planted acres makes having a sustained bull market extremely difficult. Using USDA's demand estimates, the US corn yield can drop by about 8 bushels per acre and still show a 2 billion bushel (bb) ending stocks for the 2023/2024 crop year. That said, it appears that USDA is taking an optimistic view of export demand. With Brazil growing a record crop, their prices are under US values through February 2024. With the discount to US, Brazil should take the lion's share of world import business. The US will then have a short window from February through April for exports before Argentina harvests their new crop. Assuming a normal growing season there, Argentina will begin their export program and eat into the US demand starting in late April. After a dry June, rain has returned to the corn belt which has stabilized yield potential. With the current forecast of mostly normal to below normal temperatures and normal to above normal rainfall, we are keeping this market in a sell rallies mode.

For soybeans, the decrease in planted acreage substantially tightened the new crop balance sheet. Taken at face value with the most recent demand projections from USDA, the soybean market would be in demand rationing mode. However, like corn, USDA's current demand estimates look optimistic. First, their demand for old crop beans looks too high. Exports have not been keeping pace with their estimates and should be lowered on the upcoming crop report. As we turn to new crop, their usage for crush and exports both look too high. Despite the disastrous growing season in Argentina, South American production is over 10mmt higher than last year. Those supplies will compete with US exports as we transition into the fall which should keep US exports smaller than the current crop year. In addition to the increased competition, we also have to keep in mind that a dry June does not correlate well with final yields for soybeans. The critical growing period is August. We obviously still have a lot of the calendar left in the growing season which allows the soybean crop to recover nicely assuming Mother Nature cooperates through the end of the summer. With the lost planted area, weather will need to be better than normal to allow for surplus supplies to accumulate. Assuming normal weather, the soybean balance sheet will be snug until South American supplies arrive in February.

The cattle market has remained far stronger than anticipated as packers have failed to procure enough cattle to break the cash market. In addition, it appears that end users did not extend coverage as much as anticipated and have had to bid the beef market as well. Odds are high that we will see some erosion in price as we move later into July and August. Further dips will be used to accumulate a long position in cattle as the supplies will get tighter year over year. That is especially true as we turn the calendar into 2024. With the cow herd still shrinking, supplies of feeder cattle will get smaller as the year progresses. At this point in time, we are still not seeing any holdback of heifers to add to the cow herd. However, when that happens, the prices of both feeder cattle and fat cattle should move sharply higher.

Sincerely,

Stephen Davis
July 6, 2023

9047 Poplar Ave; Suite 101
Germantown, TN 38138

sdavis@daviscomllc.com

T: 901-766-4446
F: 901-766-4406