DAVIS COMMODITIES LLC

# July 2023 Market Commentary

July was another month of extremes as relatively benign weather was briefly trumped by the ongoing war between Russia and Ukraine. While there is still quite a bit of growing weather in front of us, the main risk period for corn is in the past and the forecast looks beneficial for improvement. For soybeans, August is the critical growing phase. With a good forecast in front of us, trend yields certainly look highly likely.

With a good forecast in front of us and supply side risk leaking daily, the market's eye will quickly shift to demand for corn. Currently, Brazil and Argentina prices are under US. Line-ups at Brazil's public ports are out to ~40 days for loading. With a record corn crop there, Brazil has been aggressively selling their corn supplies. Private estimates for their production continue to ratchet higher which will mean a longer tail to their exports. As of now, it appears that Brazil will continue to export aggressively into February. This will mean that the window for US exports has gotten smaller. Good US exports will be (most likely) contained to the March-April timeframe. By May, Argentina will be harvesting their new crop corn and competing with US for business. This will limit the US corn business to the domestic market. The slow exports should push carrying charges wider (deferred futures higher than spot). Historically, funds tend to be large shorts when carrying charges are wide. While estimates for this year's yield are under trend, the balance sheet still appears to be amply supplied. Barring a drastic change to the weather and, thus, yield, corn prices should continue to fall.

Unlike corn, soybeans are in their critical growing phase and there is still a wide range of yield possibilities. Seemingly small changes to the soybean yield from here forward will yield wildly disparate prices. With a 50 bushel yield, prices will stay elevated until we get into Brazilian exports in February. If we get above trend at 53-54, prices will move sharply lower. With a beneficial forecast currently, our bias is that rallies are meant to be sold. The key fundamental that will make soybeans a difficult long-term short is simply the small crop that Argentina harvested this past spring. Seeing as they are the largest exporter of soybean meal, products could remain strong until we see South American harvest begin in earnest. The strength in products will make trading soybeans a back-and-forth affair. The market will trade total supply into the early fall and then trade the demand for products. Between a tight soybean meal supply and strong demand from renewable energy for soybean oil, product margins should stay strong to relatively support soybeans as we move post-harvest.

The cattle market is becoming increasingly difficult to trade in the near term, thus positions have been cut to minimal levels. On one hand, we know that the supply of cattle will continue to shrink over the coming years which keeps us long-term bulls. However, the packer currently has negative margins and the retailer is reluctant to extend coverage with prices of beef near record levels. Odds point to some kind of a pullback in the near term before the bull market comes snapping back. At this point, the program is long feeder cattle on continuing tight supplies, but short fat cattle looking for a drop in cash prices as we move into fall. Nothing has changed longer term. Dips will be used to accumulate long positions.

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**