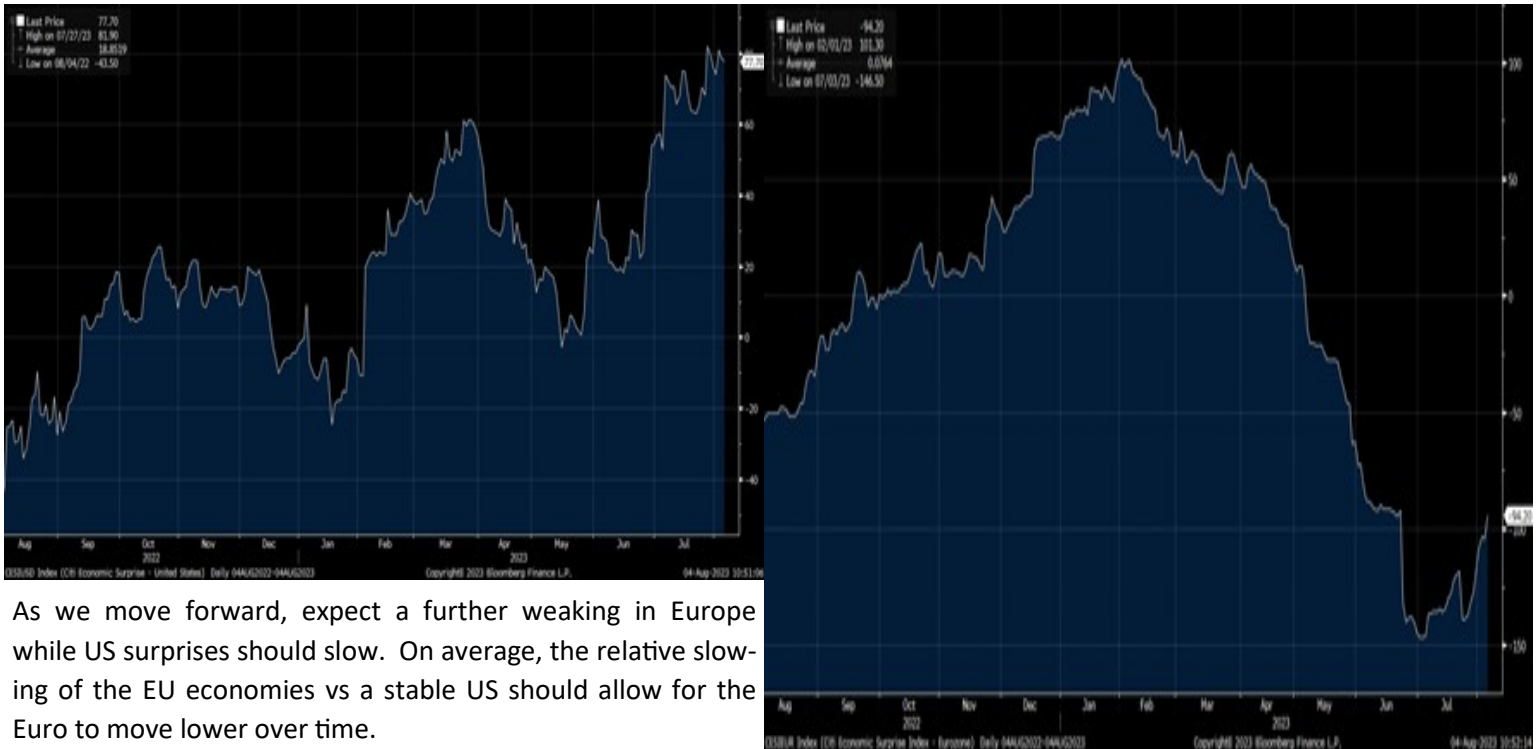


The macro environment continues to be in flux; however, things are getting clearer. As shown in the chart below, US economic activity has been surprising to the upside. Europe has been weak, but improved slightly of late (bottom right).



As we move forward, expect a further weakening in Europe while US surprises should slow. On average, the relative slowing of the EU economies vs a stable US should allow for the Euro to move lower over time.

Regarding the yen position, the Bank of Japan (BOJ) moved close to expectations. The market reaction was not expected. Despite a lessening of yield curve control (YCC), the market sold the yen off. While most likely a function of positioning, nonetheless, the magnitude was surprising. The main change to monetary policy was the BOJ allowing the 10-year yield to move up to a maximum of 1% yield from 0.5%. With inflation running at 4.2% (ex-food and energy), one would expect further revisions to the upper end of the yield band over time. With Japanese yields finally allowed to rise, the differential between US and Japanese yields should narrow which should further support the Japanese yen.

At the risk of sounding like a broken drum, the yield curve here in the US is finally starting to move. Earlier this week, US Treasury announced that they will need to sell \$1 trillion in debt this quarter. That estimate was raised from earlier projections of ~\$733 billion. The extra debt issuance is weighing on the longer end of the curve leading to a bear steepening of the yield curve (long rates going up faster than shorter-term). As shown in earlier market comments, when the curve finally stops inverting, the yield curve normalizes going to the 10-year yield at least 150 basis points over the 2-year yield (quite often going to 250 over). Needless to say, this is a massive trade opportunity. The program currently has a small core position that will be upsized over time.

Sincerely,



Stephen Davis
August 4, 2023

The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. Davis Commodities, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of Davis Commodities, LLC. No one has been authorized to distribute this for sale.