DAVIS COMMODITIES LLC

# August 2023 Market Commentary

The extreme back and forth price action for the majority of the summer didn't take a back seat in August. The month started off cool and wet and then turned hot/dry as we moved into the last half of the month. With August being the critical month for soybean development, it was the market with the most volatility. As we move into September, the forecast is for more moderate temperatures, but still light moisture.

The soybean market had a wild range in August as the forecast shifted. In early August traders were thinking that yields had a chance to move toward trend. As the forecast shifted hotter and drier, those estimates were trimmed with most sitting near 50 (about 2 bushels below trend). Taken at face value with USDA's demand estimates, it would be bullish. However, Brazil soybeans are offered under US values for most of the next 12 months. After the record crop this spring, Brazil has about 7 million metric tonnes (mmt) more soybeans than last year. Those supplies are being offered through the main US export period of September-December. With the extra competition, USDA export estimates appear to be ~125 million bushels (mb) too high. Assuming a 50 bushel yield, that would leave ending stocks very close to the previous crop year. While that level of ending stocks is not bearish, it isn't bullish either. With slack export demand, yet tight ending stocks, the soybean market should be range bound and choppy until a better understanding of South American production this spring.

While soybeans had a large range in August, the corn market was relatively subdued. With the critical month of July in the rearview mirror, corn chopped around in a narrow range. Despite the high likelihood that corn yields fall well under trend, demand appears to be low enough to increase ending stocks to near burdensome levels. Competing supplies are priced well under US prices for the foreseeable future which should limit exports. USDA's estimate of 2,050mb appears highly optimistic. Using a still optimistic figure of closer to 1,900mb, yields would have to decline by more than 5 bushels per acre to move ending stocks under 2 billion bushels (which is up ~500mb YOY). In addition to slack export demand, animal numbers in the US have dropped. Cattle on feed, dairy cattle, chickens, and hog numbers are all declining YOY. With ample supplies and slack demand, corn prices should fall as we move into harvest later in September and especially October.

In the cattle market, the program currently holds a small short position. While the longer-term outlook for cattle is still bullish, the short-term is negative. Packers have reduced slaughter numbers as their margins have gone negative. These reduced kills are backing up cattle which will need to get marketed in the near term as weights move higher and cost of gains increase. The larger front-end supplies should weigh on cash prices and push futures lower through the month of October. However, as we transition into late winter/early spring, numbers should tighten and move prices higher again. As such, the program is tilted slightly negative in the short run, but looking for opportunities to own spring cattle on the dip.

Sincerely,

Stephen Davis
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