Davis Commodities LLC

September 2023 Market Commentary

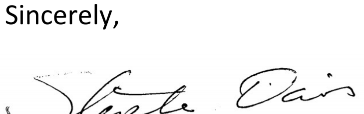
September was marked by soybeans dropping markedly while corn basically just chopped for the entire month. We are in the heart of the timeframe where all of the summer weather hopes and fears are realized. With harvest moving into full swing, the daily reports of yields from individual farms are flowing. At this point, the majority of the data is pointing to little change in yields for both corn and soybeans from the last USDA report in September (50.1 bushels per acre (bpa) for soybeans and 173.8 bpa for corn).

As the yield risk from the growing season falls away, the market shifts its gaze to demand. For soybeans, it looks like the USDA estimate of a new record use for crush is completely inline. However, export business has been slow with little indication that USDA's estimate for 1,790 million bushels (mb) will be achieved. As of last week, export total commitments equaled a little under 70% of year ago exports. Taken at face value, a continuation of this pace would only get total exports to about 1,400 mb. That said, the pace of exports should increase somewhat as we move into November and December. For that reason, our balance sheets are estimating total exports at 1,600 mb. With basically unchanged production and crush usage, the smaller exports take the balance sheet from tight to ample. USDA balance sheets currently indicate ~238 mb ending stocks vs. our estimate closer to 425 mb. Without a severe weather issue in South America this coming winter, odds are high that our estimate is closer to correct. Based on historical relationships, our estimate of ending stocks would put a high likelihood of soybean prices falling toward the $11.50 area (more than $1 down from here).

Similar to soybeans, corn demand is also in question. There are a couple of line items that stick out in the USDA balance sheet that look optimistic. First, USDA is expecting 100mb increase in demand for ethanol. Looking at recent demand for gasoline, that projection is optimistic. Demand for gasoline in the US has dropped significantly over the past 3 weeks to levels that are near or under demand from 2020 during the heart of Covid shutdowns. While we are using an increase in demand year over year, it is about 50mb smaller than USDA (and that projection could prove optimistic). Second, USDA is projecting an increase in corn exports by ~23% YOY. While total export commitments are running over year ago at this point, they are up 10%. The biggest increases of US corn so far this year are captive destinations like Mexico and Canada. Our working estimate for corn exports is up ~8% YOY at 1,800mb. Even at USDA demand figures, there is plenty of corn. Our working numbers simply point to an even larger ending stocks and more pressure on futures. With our ending stocks near 2,400mb, prices should eventually push into the low $4 area.

Regarding the cattle market, the long-term bull story remains intact and will probably stay that way for the next 2 years. The cow herd is still being liquidated (albeit at a slower pace) which continues to point to a smaller calf crop. While the longer term is intact, there are signs that the cattle market could move lower over the next few months. Supplies against the fall months should be close to last year while demand has been slowing due to the high price of beef. So, while there could be a short-term setback, we continue to believe that the big dips are meant to be owned. The late winter and early spring months should bounce back nicely as the market transitions from near year ago supplies to smaller in the late winter.

Sincerely,



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