DAVIS COMMODITIES LLC

October 2023 Market Commentary

October was another choppy month with ebbs and flows in both corn and beans. Beans broke to start the month due to harvest pressure and then rallied to end the month on dryness in N Brazil. Corn was the polar opposite as it rallied early with farmers focused on harvesting soybeans and then failed as they switched to corn.

The soybean market has been on a sharp rally over the past week or so as the forecast for N Brazil trended drier. With N Brazil producing ~40% of the crop, a lack of moisture during planting is concerning. What the market could be missing is very simply that the soybean crop doesn't need normal precipitation to grow a trend yield crop. With average precipitation of ~9" per month in Nov-Jan, even getting ~60% of normal precipitation should be enough to generate trend yields. However, the drier than normal accumulated rainfall so far this month along with above normal temperatures has the market on edge. In addition, an El Niño event is currently underway which typically results in lower crops in N Brazil and larger in the south. Until the pattern in N Brazil changes, the market will most likely stay on edge. Longer-term, the path of soybeans is most likely lower. Without a true disaster to Brazilian production, the aggregate world supply of soybeans on September 1 should be record large. Argentina looks good for their start of the year. Southern Brazil has been wet, but with their sandy soils, getting the crop planted in a timely manner should not be a problem. In sum, while the short-term rally makes some sense, as we move into the spring, prices should move sharply lower.

While the soybean market has rallied recently, the corn market has barely budged at all. This makes sense from the simple standpoint that US and world ending stocks appear to be ample. Northern Brazil is growing almost zero corn at this point in the season. The vast majority of corn grown at this time is in the south where abundant moisture has been prevalent. In addition, with Argentina off to a good start, there is just about zero damage being done to South American corn production. One interesting anomaly for the El Niño is that despite the tendency for production to lag for soybeans, 75% of the time Brazil grows above trend corn crops. If "normal" holds true for this South American production cycle, the corn market will be dealing with abundant supplies for the next year or more. A bearish bias will continue to be expressed in the program.

The cattle market is transitioning from relative tightness in available fat cattle to a short-term abundant supply issue. The cattle feeder has been reticent to part with fed cattle supplies over recent months as the price of replacement feeder cattle has exceeded the cost of feeding cattle for longer. The recent break in feeder cattle prices and lower corn price have helped to change that calculation. While there should be abundant supplies for the next 2-3 months, the placement pattern indicates that supplies will get tighter again as we move into late winter and early spring. As we move into summer, supplies should become more ample again. For this reason, the program is long February cattle and short June. This spread is historically cheap and could have significant upside with limited downside. The long-term outlook is unchanged. The cow herd continues to show liquidation which will lead to a smaller amount of calves being born. As the calf crop shrinks, fed prices should move higher over time. The bull market in cattle should have at least 18 months more, but probably longer than that.

Sincerely,

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