DAVIS COMMODITIES LLC

November 2023 Market Commentary

The grain markets continue to trade mostly as expected with further declines expected over the next several months. Weather in Northern Brazil is a bit troubling, but those problems are mostly being offset by good weather in Southern Brazil and Argentina. While corn is not being currently grown in the north, the crops in S Brazil and Argentina should be doing well. Overall, the current weather pattern should point to record production of soybeans in South America.

The price action over the past month in soybeans is indicative of the less than normal rainfall in N Brazil. The market has had large breaks and large rallies as the forecast has fluctuated. The one thing that needs to be top of mind when dealing with growing conditions in N Brazil is that they don't need normal rainfall to produce a good crop. With normal in December and January at ~10", getting 60-70% of normal should still produce a good crop. Current estimates show a small drop in total production in Brazil from 163 million metric tonnes (mmt) to ~160mmt. When coupled with a normalization of the soybean crop in Argentina after last years drought and good growing conditions in Paraguay and Uruguay, we are still staring at record soybean production. As the crops get closer to harvest, the market should continue to leak lower. Eventually, if crops are realized, soybeans could start moving toward the $12 level.

The corn market leaked lower for most of November and there doesn't appear to be any shift in that overall theme. The sharp moves are probably done for the time being as long as weather stays beneficial in South America. Cash markets have firmed from harvest lows, but continue to trade at weak levels. This cash weakness is reflected in the large carries in the futures market. The most likely pattern for corn will be for the 2nd contract to eventually trade down to the levels where the front month expires. Instead of being a quick move, the most probable action will be lower in dribs and drabs until cash gets a little tight. Then we will see a rally to buy more from the farmer and then relax all over again. Longer term, as we move into summer, prices could slump into the low $4 range, but that will take a long time.

The cattle market has been in an absolute freefall for the past couple of weeks. While nothing has changed in the long-term, the front end of the cattle market has ample supplies and the high price of beef has been hampering demand to a small extent. As this market weakness is unfolding, the female slaughter continues at elevated rates which will ensure a further tightening in the feeder cattle market. As the supplies of feeders get tighter, the deferred futures should catch a bid. When this market finally shows signs of bottoming, the program will engage in the back end of the cattle market.

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