DAVIS COMMODITIES LLC

December 2023 Market Commentary

The month of December was marked by declines in both corn and soybeans as a more conducive weather pattern moved into the drier areas of Northern Brazil. With the more normal precipitation in N Brazil, Argentina and S Brazil continue to look like a garden. Even with a reduced crop in N Brazil, South America is still looking at record production of soybeans.

The soybean market continues to decline in price with the stabilization of the crop in Brazil and the likelihood that the crops get bigger in neighboring countries. As a sum, it appears that South American production should increase to a record level of ~220 million metric tonnes (mmt). As the increased production gets processed through the balance sheet, USDA has an increase in world ending stocks in excess of 12mmt. Where it gets really interesting is that USDA is estimating crush usage to increase by over 5% during this crop year. While not unprecedented to see that big of an increase, it is certainly on the large side. Our analysis would indicate that USDA is optimistic on their usage of soybeans for the crop year, thus there will be even more supply available. With a continuation of the weather in South America, prices should continue to fall as the record supply will overwhelm ongoing demand.

The corn market has also continued to fall as a large US and world supply weigh on prices globally. US ending stocks are rising by ~800 million bushels (mb) year over year while world ending stocks are up ~15mmt. The big question facing the corn market over the next 45 days is; how much corn area will Brazil plant? While area could contract slightly year over year, the yield will be the major determining factor for crop size. With a sharp increase in production in Argentina, up 21mmt from last year, there is quite a bit of wiggle room for a slightly smaller Brazilian crop. Over time, the weight of the amply-supplied US and world markets should allow for the price of corn to continue to relax.

Following the sharp contraction in prices for both live and feeder cattle in October-November, prices have stabilized and started to move slightly higher. While supplies of live cattle continue to be large on the front end of the curve, the still-shrinking feeder cattle supply should start to support the back end of the market. With the structure of supplies in mind, long positions have been initiated in the October contract. In addition, a long position exists in the March feeder cattle. As cattle feeders look to replace existing inventory of cattle on feed, the shrinking availability of feeder cattle should underpin prices and could move sharply higher throughout the year. Absent a massive recession, the prices for both appear to be well below fair-value. The ongoing supply driven bull-market should persist for at least the next 18 months.

Sincerely,

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