DavisCommodities LLC

# January 2024 Market Commentary

The corn and soybean markets continued to fall during January as the market comes to grips with the underlying fundamentals of increasing supplies and slowing demand growth. While both have fallen sharply over the past 2 months, there should be more downside left.

The soybean market has fallen ~$2 over the past couple of months as concerns regarding growing conditions have eased and US demand remains well under year ago levels. After a dry start to the growing season in South America, rain amounts and coverage have become more normal. The relatively benign pattern should allow for record total production. As harvest has begun in Brazil, the cash market is already reflecting the increase in available supplies with prices there running ~$2 per bushel under US values. With that large of a spread, export business will be directed there for the foreseeable future. In addition, Argentina prices for March through summer months are under US as well even though their harvest has not commenced. Business out of the US for the remainder of the crop year should be relegated to captive importers and the numbers small. Currently, export commitments out of the US are running ~80% of year ago. With prospects of low export demand going forward, USDA's export estimate of 1755 million bushels (mb) looks wildly too large. Davis Commodities is using an export number of 1650mb with risk to the downside. The export differential flows directly to ending stocks and erases the tightness that USDA is currently indicating. Looking forward to new crop, with worldwide demand almost stagnating, the US and world ending stocks will increase sharply barring a massive crop problem. Based on current and forward-looking fundamentals, the soybean market should remain under pressure.

Like soybeans, the corn market has fallen as the fundamental outlook continues to weaken. Unlike soybeans, the corn bear market started back in October and should continue as we move into harvest for the Argentine crop in March/April. Also, like soybeans, Argentina prices are already under the US and competition for export business is heating up. While the world balance sheet doesn't grow as rapidly as soy, there is plenty of corn available. In addition, importers bought large sums of last year's record Brazilian crop to ensure ample supplies to bridge the gap to new crop South American harvest. While the magnitude of the drop in corn should lag that of soy, the direction should continue to be lower.

Last, the cattle market continues to unfold in a long-term bullish manner. In January, USDA issued their cattle inventory report. It confirmed the ongoing trend of continued cow liquidation and smaller YOY calf crop. As we look forward for the coming 12 months, it appears that the available number of calves outside of feedyards is down ~1mm head. That smaller amount of available feeder cattle should push the prices of feeder cattle higher as the cattle feedyards continue chasing a shrinking supply of available inventory. That lower inventory will also show up in the live cattle market as the smaller supply of beef will push the price for live cattle up as well. Barring a large recession, the cattle market should be looking at tight supplies and high prices for the next two years.

Sincerely,

Stephen Davis
February 7, 2024

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