DAVIS COMMODITIES LLC

March 2024 Market Commentary

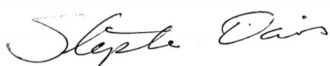
The month of March was a bit frustrating as the cash markets were indicating further weakness while futures rallied. As things sit today, not much has changed. The markets are well-supplied with a good possibility that supplies become burdensome over the next 12 months.

Regarding corn specifically, the balance sheet shows ample supplies for the rest of this crop year and odds that ending stocks for the new crop (2024/2025) will grow year over year. USDA did issue their prospective plantings report on March 29 which caught the market off guard as planted area was almost 2mm acres smaller than expected and down 4.5mm from last year. While the smaller planted area does make the ending stocks next year less burdensome, it is simply magnitude of big; nothing remotely close to tight. In addition, the grain stocks report on March 29 showed smaller than expected stocks by ~100 million bushels (mb). While the kneejerk reaction is to immediately lower the ending stocks by the same amount, there are some caveats. First, census exports for corn came in sharply higher than expected, so there is a case to be made that USDA should raise exports by ~25mb. The remaining 75mb could be added to the feed/residual use. The counter-argument to raising corn exports is simply that outstanding sales as of last week are almost exactly the same as last year. If that pace holds due to large supplies in South America, the end result could be 150mb smaller than USDA is currently using. While that is not the base case today, it certainly merits consideration and is the reason why our balance sheets are indicating a small drop from the current USDA estimate of 2,100 mb. When looking at the feed/residual use, our internal number has been slightly higher than USDA for most of this growing season. That said, the stocks report showed the largest percentage of corn on farm in the past 20 years. Commercial storage is counted meticulously while on-farm storage is a bit harder to judge. Based on historical norms, the on-farm storage number might be understated slightly which would eventually lead to a feed/residual use that is close to the current USDA number. That was a lot of verbiage to simply state that supplies for this year are more than ample and the high percentage of on-farm supplies means that the producers will have a lot of corn to market as we move into late spring and early summer. Those supplies will try to compete with the fresh supplies out of South America. Barring adverse weather, the overall trend to corn should remain down.

Through the month of March, soybeans rallied by about 75 cents with no change to the fundamental outlook. We are still looking at record production in South America. USDA's estimate for US exports remains too large and should be cut to some degree this month. The expanding crush capacity due to expanded use of soybean oil into bio-fuels is certainly the bright spot this year. That said, with current supplies, there is absolutely no shortage of soybeans for crushing. The soybean balance sheet continues to loosen and grows next year to burdensome (assuming normal weather and trend yields). To put it into perspective, the US yields could come in ~3.5 bushels under trend and still end up with the same ending stocks that we have this year. That leaves quite a bit of room for adverse weather before the balance sheet becomes truly "tight." The program's positioning continues to favor shorts in soybean meal as the annual increase to crush increases the available supply and the normalization of the Argentine crop allows for the largest soybean meal exporter to resume their role. Supplies of meal should become heavier as we move into summer and Argentine crush ramps up. The competing supplies should weigh on flat price of meal and spreads. In sum, both soybeans and soybean meal are still bearish from these price levels. If trend yields are achieved this summer, look for the November contract to trade with a $9 in front.

The cattle market has once again stumbled as the combination of slow marketings, heavy weight cattle, and now bird flu being found in herds in a diverse geographical area. The long-term outlook for cattle still hasn't changed, but we are certainly at a speed bump right now. We came into 2024 with more cattle on feed than last year. Over the past three months, nothing has changed. The packer has slowed slaughter rates due to poor margins which is keeping cattle on feed for longer. More days in a feedyard equals more pounds per animal. These heavier animals don't convert feed to pounds as readily which raises the cost of gains. At some point in the near future, we look for cash prices to move lower to help expand packer margins and push beef prices lower at the same time. This combination should spur demand for beef at the consumer level and help to bring the numbers on feed down year over year. The other potential catalyst for a further decline in cattle prices is finding bird flu in especially dairy cattle. The thought process is that if dairy cattle have it, why not cattle in the feedyards? The disease could cause importers to ban US beef until more is known. While that hasn't happened yet, the market is wary of the potentiality. While everything so far is doom and gloom, the longer-term picture really hasn't changed. The calf crop continues to shrink which will eventually lead to less cattle on feed and tighter beef supplies. Of course, there are two ways to handle smaller beef supply: increase prices or slow demand. With the economy continuing to hum along, higher prices as we move into year end seem the likely outcome for now.

Sincerely,



Stephen Davis
April 5, 2024

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