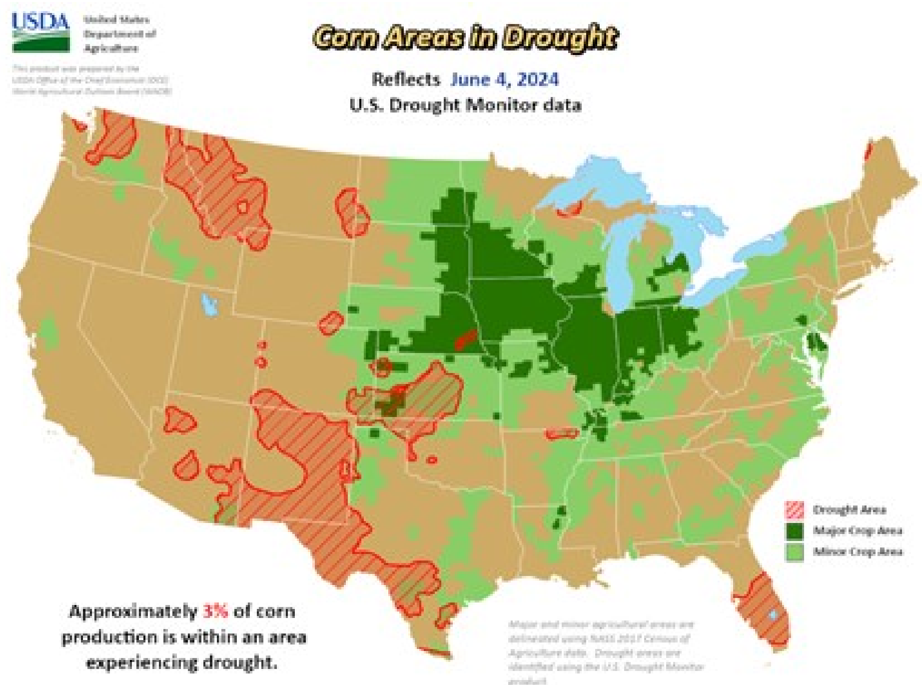
DAVIS COMMODITIES LLC

May 2024 Market Commentary

The month of May was extremely frustrating for the bear agriculture camp. There seemed to be an endless stream of headlines that forced shorts to cover and prices to rally. While none of that was fun for anyone involved, we finally rallied prices to a point where it was highly advantageous to press the short side once again.

The beginnings of the rally were actually formed in late April. The wheat market started to get concerned regarding production prospects in both the EU and Former Soviet Union (FSU). While the EU is too wet, FSU is hot and dry. Just goes to show you that too much of anything can be bad. With Russia being the dominant player in the world wheat export market, shortfalls in production there will lead to more exports from competing countries. A continued drop in production prospects there could lead to some demand shifting into US hard red winter wheat. With US wheat production rebounding from last year's drought, there is certainly the availability to ship some of those supplies into the export market. In addition to wheat directly, the shortfall in production (especially in the EU) should lead to more corn imports there as feed wheat gets replaced in the ration.

Regarding corn, the rally was driven by two main items: as discussed above, the decrease in wheat feeding should lead to more corn being used; and, the fear of too wet to plant in the US. Despite fears that weather would not be conducive to planting being completed, for the most part, the rain has been highly beneficial. As you can see in the map below, the amount of corn in drought is minimal. With plenty of moisture in the soil and a good-looking forecast, it is hard to find a catalyst for corn to rally right now. In addition, the areas currently in drought are more minor producing regions.



While there is little reason for corn to rally today, with the world ending stocks basically predicted to be unchanged over the next year, there is little reason for it to fall precipitously. Corn futures look properly priced based on current fundamentals. As the calendar flips to July, a continuation of normal rainfall and temperatures will allow the crop to germinate under good conditions and risk premium will leak out.

As for the soybean complex, prospects are still high that the world balance sheet is still transitioning from tight, to adequate, to surplus. The market has already made the transition to adequate. Assuming normal weather, the shift to surplus will happen over the next 15 months. The main catalyst for the soybean market to rally in May was due to soybean meal. First, the April crush came in smaller than expected which helped to tighten the cash meal market. Second, southern Brazil experienced historic rainfall which not only flooded the remaining crop in the field, but also destroyed bridges and roadways making operation of some of their crushing facilities impossible. The shortfall in Brazil's crush further exacerbated the tight cash supplies. While the US is still undergoing normal seasonal maintenance downtime, crushers in South America have good margins and are pushing to plug the shortfall. As we move through the rest of the calendar year, US crushing capacity will increase as there are five new plants coming online. Once the seasonal maintenance season is over in August, the US will be poised to crush a record amount of soybeans. The large increase during Oct-Dec should push meal futures sharply lower which will also weigh on soybeans. Most important for this time of year is weather. As shown above, the US corn belt is in incredible shape to start the season. With the forecast for the rest of June currently indicating a continuation of good growing conditions, the price of soybeans should continue to fall.

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The cattle market has been frustrating as well. For the summer months, the supply of cattle looks to be ample while weights are historically high leading to greater supply of beef available to the market. Despite the ample supplies, cattle futures have rallied as the cattle feeder doesn't feel the need to sell at lower prices. Surprisingly, the meat packer has been unwilling to trim slaughter rates to increase their poor operating margins. All that said, beef prices are nearing their seasonal peak and should start to move lower. As beef prices weaken, the cash cattle market should follow suit. The seasonal low for cash usually comes in late July into August. This year should follow that pattern and allow our shorts to pay off.

Sincerely,

Stephen Davis
June 7, 2024

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