DavisCommodities LLC

June 2024 Market Commentary

The month of June was mostly favorable for crop development in corn and soybeans which led to the erosion of risk premium in the market. While there are some spots that are too wet and some too dry, overall, the crops are developing favorably. Crop conditions are historically high indicating the overall favorable conditions. July is the critical reproductive month for corn while August is key for soybeans. Looking out over the forecast for the next 15 days, everything looks beneficial for continuing the mostly favorable development we have seen so far this year.

On June 28, USDA issued their updated estimates for acreage and quarterly stocks reports. The corn acreage came in 1.5 million acres over the March estimate and above the average trade guess. In addition to the larger planted area, USDA's estimate of corn stocks came in ~100 million bushels (mb) over the average guess. The implications from those reports are that the ending stocks should be rising for both old crop and new crop balance sheets. In addition to the larger old crop supplies, the stocks report showed that the percentage of corn still held on farm is the largest in my database. The main implication of the large amount of corn on farm is that there should be a large amount of corn moved into commercial hands once the crop has pollinated by around the third week of July. Looking through the CFTC reports, it appears that farmers are mostly unhedged on those supplies which will lead to overall commercial selling when it moves. With continued favorable growing conditions, odds are rising that trend yields can be surpassed leading to even more production and larger ending stocks. While the current forecast only gets us through the 15th of July, the overall pattern appears to stay in a state that is conducive to further rainfall and mostly benign temperatures. As corn is a cool season crop, temperatures will be the most important to watch. With the added area, favorable weather, and larger supplies from the old crop balance sheet, odds are growing that there is still continued downside to the corn market.

For soybeans, the June 28 reports were minorly supportive. The quarterly stocks came in close to the average guess while the planted area estimate was 700,000 acres smaller than the average guess and 400,000 acres smaller than the March estimate. The smaller acreage lent support to soybeans initially, but the overall favorable weather pattern allowed for the rally to be sold and the market settled close to unchanged. Like corn, the stocks report showed a historically large percentage of supplies in farmer hands. With August being the critical reproductive month for soybeans, farmer selling can still be 45+ days away. However, with the continued favorable forecast, pressure will remain high for the farmers to liquidate their holdings to clear out bin space for the new crop harvest. Even with the slightly lower acreage, ending stocks for soybeans are still forecast to swell in both the US and the rest of the world. The continuing competition from South America on top of new crop supplies should push soybeans to new lows over time (barring a massive change in the forecast).

The cattle market has completely refuted my view of the near-term fundamentals. As such, positions have been pared to limit future risk. On paper, there is still a large supply of cattle coming at the market. In addition, it does appear that the consumer is backing away from beef in favor of pork and chicken due to the high prices. At odds with the negative consumer, the packer continues to pay higher cash prices for live cattle and has not cut back kills aggressively. Until either the packer cuts kills or more live cattle become available, futures should stay supported. In the longer term, nothing has changed. The cow herd has been liquidated which should keep feeder cattle at a premium. If the cow/calf operator ever decides to start holding heifers to rebuild the cow herd, prices will truly explode. However, to date there has been no indication of intentions to rebuild.

Sincerely,

Stephen Davis

Stephen Davis
July 1, 2024

9047 Poplar Ave; Suite 101
Germantown, TN 38138

sdavis@daviscomllc.com

T: 901-766-4446
F: 901-766-4406