DAVIS COMMODITIES LLC

December 2024 Market Commentary

While the soybean market has been trading mostly sideways in a choppy fashion since August and corn has been grinding slowly higher, the table is being set for a bigger move to the downside. After near record yields in the US, South America has seen a mostly benign growing season thus far. While it has turned dry in southern Brazil and Argentina over the past week or so, rain is forecast to move back in as we head into the last 10 days of the month. Even with 2+ weeks of dry and above normal temps, odds are high that we are still staring at record South American soybean production.

With soybean prices basically where they were back in August, there is substantial downside risk to both soybeans and soybean meal as Brazil kicks off their harvest in earnest over the next few weeks. With USDA's assumption of trend yields in South America, world ending stocks of soybeans are expected to grow by ~18% to 132 million metric tonnes (mmt). With the weather thus far, thoughts are quickly shifting to above trend in Brazil (even with a small decline to yields in the south). With record production quickly becoming available, the US export window is almost closed. Brazil prices for February on are sharply under US. With such a large crop, competition will be great all the way into the fall of 2025 and should hinder US exports for the new crop year. In addition to the bearishness of soybeans, soybean meal is also under pressure. Crush levels have been running at a record pace for the first three months of the year. While domestic demand has been solid, it is not nearly enough to consume the extra meal produced with record crush. That extra tonnage has to be sold into the export market. With Brazil's crush set to ramp up with their new crop supplies in February, selling the extra to the world is becoming increasingly difficult. Absent a prolonged hot/dry period in South America, the prices of both commodities are headed sharply lower.

Regarding corn specifically, prices have risen by almost $1 since the pre-harvest sell-off in August. Ending stocks are certainly tighter than forecast back in September, but far from being tight. At nearly $4.60 for spot corn futures, the market is pricing in a substantially tighter ending stocks than USDA is currently forecasting. In order to maintain prices near this level, weather needs to turn more problematic in South America and stay that way. Unlike soybeans, corn is not abjectly bearish, it is simply overpriced. In addition, speculative funds have loaded up long corn. Without a further bullish catalyst, the market is susceptible to a liquidation event that should lead prices lower by at least 5% but as much as 10%. The flip side of the old crop situation will be acreage intentions for new crop. With the projected soybean ending stocks being outright burdensome for the 25/26 crop year, corn needs to take some acres away from soybeans to get to relatively large stocks of both. With that in mind, positions have been taken to benefit from a relative rise in prices of new crop corn to new crop soybeans.

Regarding cattle, the rally in both cash and futures has been nothing short of jaw-dropping. With supplies appearing to be large for the next two months (at least) and weights running at record levels for this time of year, it would have made sense to see a pullback in prices. However, the two short kill weeks for Christmas and the New Year has left retailers short of physical beef. The strength in the beef has led to higher cash and futures for the live cattle. Over the next two months, a setback is expected, but probably not anything overly meaningful. With deferred futures running a discount to spot, the dip will be viewed positively as a means to get long the back end of the curve.

Sincerely,

Stephen Davis

January 7, 2025

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