DAVIS COMMODITIES LLC

March 2025 Market Commentary

The month of March saw both the corn and soybean markets move in a broad sideways band. With the normally bone-jarring end-of-the-month reports of Grain Stocks and Prospective Plantings, most participants got positions smaller to avoid being whipsawed. In addition to the normal month end volatility, traders have been concerned about US tariffs and potential port fees.

The March 31 reports normally give the market a potential reset as the first survey data for planting intentions is released along with the second quarter stocks reports. This report normally has at least one large surprise in it, but this year proved to be quite the opposite. Both planting intentions and stocks came in relatively close to the average guess. While corn acres were a bit larger and soybean acres a bit smaller, there was fear of a larger increase in corn acres. With both acreage and stocks largely in-line, the market has now focused its attention on the tariffs.

On April 2, President Trump announced broad retaliatory tariffs against most countries. These tariffs certainly have the potential to impact grain trade if there is retaliation. In the case of China, they have already retaliated and soybean exports from the US will most likely be impacted. I look for China to focus more on Brazilian soybeans for immediate crushing needs and Argentine soybeans for reserve supplies. If the tariff battle continues into the fall, US soybean exports will be curtailed to China and ending stocks should grow accordingly. Unlike soybeans, the corn market appears to be relatively insulated from the tariff shock. Mexico, the largest corn importer from the US, has been spared any further tariffs to date. Also, other large destinations appear to be willing to negotiate instead of further elevating the dispute.

As we look at the remainder of this crop year and into the next crop year, the old crop corn balance sheet is tightening while new crop should be well-supplied assuming a trend yield. So far this year, US exports have exceeded my expectations. With total commitments running over 400 million bushels (mb) higher than last year and USDA forecasting an increase of ~160mb, it is highly likely that USDA will increase exports on the upcoming report on April 10. There could be a partial offset with smaller feed/residual use, but overall ending stocks should be smaller than the March estimate. Outside of recent inundating rain in the northern MS Delta and SE corn belt, the forecast looks largely conducive to a great overall start to planting. Based on tightening old crop balance sheet, I remain friendly to old crop corn prices while new crop is properly priced for this early in the growing season. Program positioning reflects the bias with longs in old crop and bull spreads.

With harvest in Brazil mostly completed and Argentina ramping up, the current supply of soybeans is ample. Brazil is capturing the majority of the export business which is quite normal. One slight difference is that the Brazilian farmer is getting better at holding new crop supplies off the market at harvest. This has allowed their basis levels to stay higher than normal which has pushed some extra business back to the US. This is simply moving deck chairs around, not truly shifting demand. Unsold Brazilian soybeans in the spring will move either into the summer or fall. The US gains some old crop demand, but loses some new crop. Overall, world supplies of soybeans are near record large. Assuming trend yield for the US this growing season, US ending stocks should move to burdensome levels and prices will trend lower. As the market sits today, both old and new crop contracts appear to be close to properly priced. With the growing season weather still a major unknown, this will be a trading affair for the near term.

Regarding the cattle market, the long-term outlook is still for tighter supplies and higher prices (barring a massive recession). The program was positioned in a small short, but I moved to the sidelines as futures rallied to a new high. Unfortunately, I was one day too soon. With the announcement of tariffs, cattle imploded, giving the break that I thought was coming. With no current position, I am now looking out to the fall and winter for the next opportunity. Feeder cattle supplies are still shrinking which will mean fewer fat cattle as we move through the year. This break is coming at an opportune time. Look for a structural long position to be added as the market works off this recent rally.

Sincerely,

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