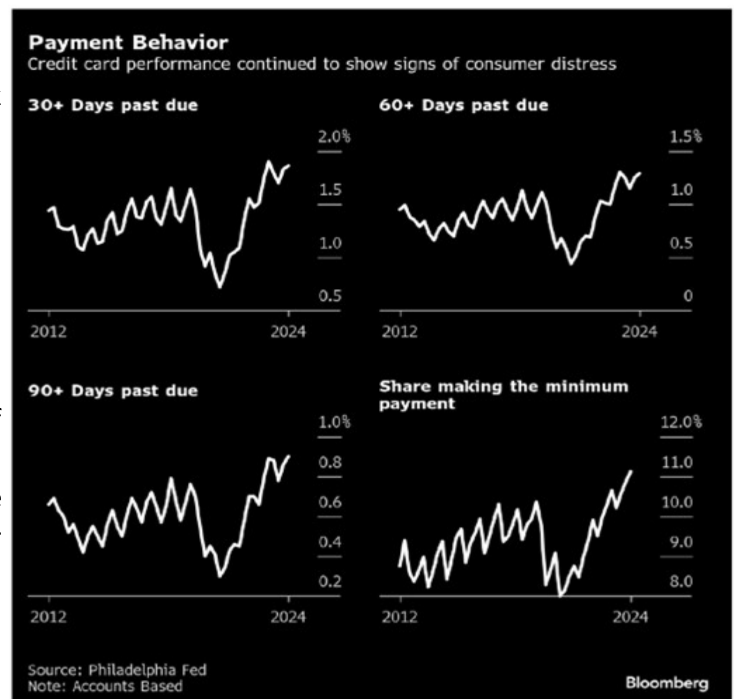
DAVIS COMMODITIES LLC

April 2025
Macro Commentary

The volatility that has been seen since "Liberation Day" is still high and doesn't appear likely to abate soon. The headlines have been fast and furious, but there has been little of substance yet. Not that I was expecting any trade deals to happen in 45 days, but the talking heads have been dismayed. My greatest concern at this point is that negotiations with China appear to be slow to non-existent. Sec. Bessent came out last week stating that a deal with China could take 2-3 years. With the US reliant on China for a great many products, my bias is that things will get worse before they get better.

While the hard data has stayed resilient, much of the soft data (consumer confidence surveys and purchasing manager readings) are starting to show a downturn. The last time this happened (2022-2023), it was a head fake mainly due to the massive spending from the Inflation Reduction Act. This time, it doesn't appear that there is any stimulus on the table. In addition, you have the federal government tightening its belt while the Federal Reserve is still in a tightening mode between interest rates and quantitative tightening reducing the overall money supply. In addition, there have been some recent articles citing the surge in "buy now, pay later" (BNPL) purchases. According to one article, an astonishing 60% of all tickets to Coachella (not that I am old, but I sure had to look up exactly what that is) were bought using BNPL. More concerning is that 25% of respondents in a recent survey have been using BNPL for groceries. While none of this is concrete data, it is certainly concerning. Please pardon the crude charts here, but I felt they are important to share:



In addition to the anecdotal data, the MSCI US large and midcap stocks are still trading at a p/e of 25. It is unusual to see p/e ratios hold above that level for an extended period of time. Of course, a correction the p/e ratio doesn't have to come from price, but an over-extended consumer, price increasing tariffs, and a weakening dollar don't bode well for a massive increase in demand or profitability at the corporate level.

None of the above is friendly to the dollar. Asian currencies have already broken out against the dollar and the eurocurrency is on the verge of doing so as well. If the soft data translates into hard data, the Fed will need to lower US interest rates which should further weaken the dollar as well as push the yield curve wider. I had been looking for a bigger correction to the 2/10 spread, but that does not appear to be in the cards at this point in time. As for positioning, an overall dollar short on rallies, stock market short on rallies, and 2/10 steepening trade on dips is the goal.

Thank you for your continued support.

Sincerely,

Stephen Davis
May 6, 2025

The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. Davis Commodities, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of Davis Commodities, LLC. No one has been authorized to distribute this for sale.

9047 Poplar Ave; Suite 101
Germantown, TN 38138
sdavis@daviscomllc.com
T: 901-766-4446
F: 901-766-4406