DAVIS COMMODITIES LLC

May 2025 Market Commentary

The market was trying during May as USDA put out their official initial look at the supply and demand for the 2025/2026 growing season and the planting season had a couple of hiccups. In addition, the continued back and forth on trade policy has made the day to day more rambunctious. Performance was certainly not what is expected, but the setup is now looking great for better returns as the year unfolds.

Regarding corn, USDA surprised the market with estimating new crop corn exports a rather sharp 275 million bushels (mb) above their guess made in February at the Outlook Conference. Using their number of 2,675 mb would indicate that the exports will be larger than the current crop year by 75mb. While it is far too early in the season to completely discount that possibility (crops are still being planted all over the N hemisphere), the assumption of a normal growing season certainly makes their estimate highly ambitious. Not only are competing supplies larger YOY, the world wheat crop is also larger which can compete with feed grains. The South American growing season has been kind to the corn crops with estimates still getting larger for their production (especially Brazil). Using an average of current commercial estimates, Brazil's production appears to be ~16 million metric tonnes (mmt) larger than year ago or ~630mb. That equates to ~8.5% of the world's estimated import needs. Even USDA is using an 11mmt increase YOY. In addition to a great growing season in SA, the US is also off to a great start. The western corn belt has seen near record planting pace and is now forecast to see good rain over the next two weeks. The eastern corn belt has been on the wet side which slowed planting progress, but their relatively late first frost date makes their planting date less important. When you couple auspicious export demand out of the US and a great start to the growing season, the overall price trend continues to be lower.

Like corn, the soybean market was similarly surprised at the ambitious demand estimates that USDA is using to start the crop year. Despite record supplies of soybeans and increasing competing supplies, USDA decided to increase US exports YOY. Without even digging into the problems that the trade war with China is causing, it is easy to see that their estimate of 1865mb (+15mb YOY) is ambitious. Basically, USDA is assuming that South America will carry the majority of the world soybean supplies. While I am not saying that it can't happen, I will simply point out that it has never happened before. The US is typically the residual supplier to the world. When SA runs out of soybeans, the US gets the business. In addition to the US export demand, USDA was also optimistic on the world import needs. With growing world ending stocks, import demand the past 2 years has been stable at ~178mmt. Their estimate for new crop indicates an 8mmt increase YOY. Barring some large losses in the N hemisphere during the summer, that appears to be ambitious as well. In addition to the demand inconsistencies, like corn, the planting season has started off extremely well. The WCB areas that need to get planted early have done just that. The ECB, with a bigger planting window, is lagging to a small degree, but they still have lots of time. Overall, the US crop is off to an excellent start and demand forecasts appear to be inflated. Barring a significant change to the weather pattern the price trend should continue down.

The cattle market continues trucking higher and to say that I have missed out would be a massive understatement. The seasonal tendency to cattle prices is for them to top out in late spring and then fall throughout the summer months. Contrary to that trend, we have yet to see cattle or beef prices top. Despite rising credit card debt, the US consumer continues to buy beef despite its large premium to pork and poultry. As we move deeper into summer, demand tends to wain a bit as Americans are less likely to go outside to grill in high temperatures. With seasonal tendencies already being challenged, it will be a wait and see game. Based on current feeder cattle placement patterns, the end of 2025 and early 2026 contracts appear to be underpriced. If and when there is a solid correction, I will look to establish long positions in that part of the curve.

Sincerely,

Stephen Davis

Stephen Davis
June 3, 2025

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