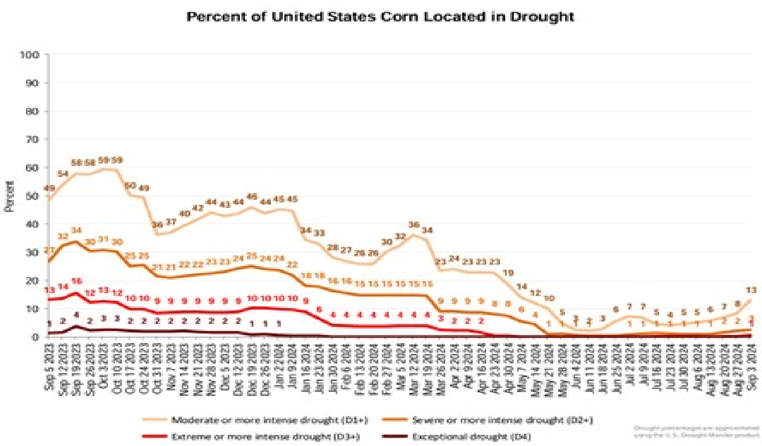
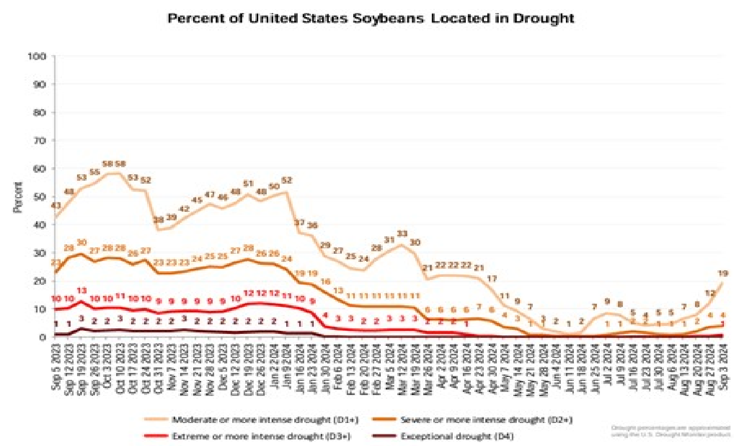
DavisCommodities LLC

August 2024 Market Commentary

The corn and soybean markets declined for most of August followed by a rally to end the month. Typically, both markets will move lower (or higher) until the biggest (or smallest) crop is realized. While most of the summer weather has been highly beneficial, the finishing weather in late August and forecast for the first 20 days of September has been less than ideal. Temperatures remain conducive, however, the rainfall to put the finishing touches on the crop are not forecast currently. Despite the lack of desired rainfall taking the top end off the crop, yields should still be record large. As you can see in the charts below, the percentage of crops in drought is well under last year which should allow the majority of the area to finish with most of its potential intact.





As the growing season is finishing, it is time to take a harder look at demand.

Regarding corn, overall competing supplies from exporters are projected to be flat year over year. Brazil, Europe, Ukraine, and Russia all look to have declining production from year ago while Argentina made a sizeable rebound from their drought two seasons ago. USDA is projecting worldwide ending stocks to be about flat year over year. For the US specifically, USDA's estimated exports are projected to grow by about 50 million bushels (mb) year over year. With the current pace of sales, that projection looks to be inline with historical norms. Even with a slightly smaller crop (but still record yield), ending stocks should be ample but not burdensome. As such, it appears that corn is close to properly priced over the next 3-4 months. The one caveat on price is simply that the American farmers have hedged a relatively small percentage of their new crop production. As harvest moves into full swing later this month, there could be some pressure as they move product directly off the combine and into commercial hands.

As for the soybean market, it appears that the USDA estimates for demand (especially export demand) are inflated. Outstanding sales for new crop soybeans are running under year ago by ~5 million metric tonnes (mmt) which is about 33% less. World ending stocks increased by ~12mmt over the past crop cycle which went mostly into Chinese stocks. With normal production, ending stocks are projected to increase another 22mmt. With competing supplies staying large and end users with ample stocks, the US demand forecast looks inflated. USDA exports at 1850mb (up ~150mb yoy) look inflated by at least 100mb (and more likely 150mb). Even if a slightly smaller yield is realized in the US, ending stocks of soybeans are on a path to doubling from last year. In addition to the larger supply in the US, early estimates for South American planted area are increasing. Assuming a normal growing season for South America, the world will be oversupplied and prices should move lower. In addition, like corn, the US farmer is woefully undersold for the upcoming harvest. With cash forced to move into commercial hands, the next leg of the break should be coming in the near future.

Sincerely,

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