

U.S. Commodities Markets

The 3 C's: Cattle, Corn and Cotton. Three Commodities Possessing Fundamental Upside

- Looking into Q4-22 and H1-23 we believe that the structural supply imbalances of U.S. and global corn, cattle, and cotton will persist which can limit downside price risks.
- After contracting for the last 10 months, the domestic beef cattle herd is displaying nascent signals that upstream female animals, heifers, are being retained for future breeding stock. We see these greenshoots signaling that tighter cattle and beef supplies are imminent.
- The USDA's September World Agricultural Supply and Demand Estimates (WASDE) report showed precipitously contracting corn production in the northern hemisphere. In the U.S., an expanding drought in the western corn belt (WCB) is compressing corn yields and pushing ending stocks to their lowest level since the 2015/16 marketing year (MY).
- U.S. and global cotton supplies continue to contract. The WASDE report showed that for the third consecutive year, global cotton demand exceeds supplies. We believe that the U.S. crop remains vulnerable to downside production risks and that supply pressures from China, India, and Pakistan persist.
- Despite the bullish supply narrative, we view the Fed's commitment of leveraging "restrictive" monetary policy to achieve domestic price stability and suppress acute inflationary tendencies can create downside price risks and fundamental headwinds by slacking downstream consumer demand for cattle (beef) corn (ethanol), and cotton (apparel).

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Walter Kunisch

Senior Commodities Strategist

612.439.6111

walter.kunisch@hilltopsecurities.com