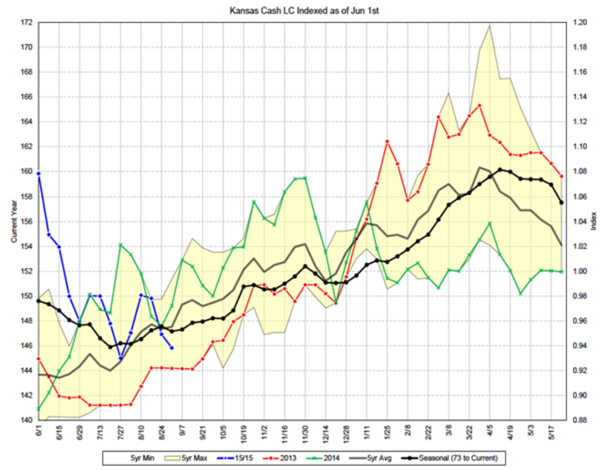
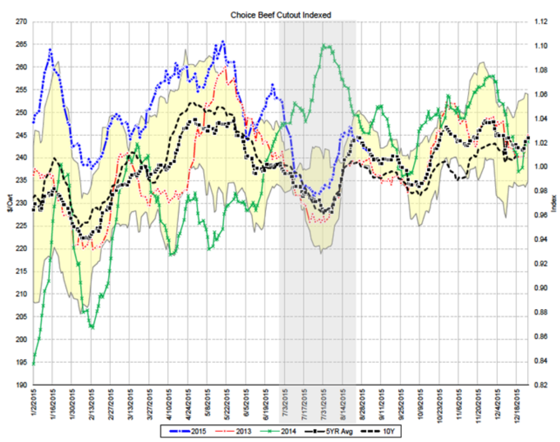
M & R Capital LLC

August 2015 Monthly Commentary

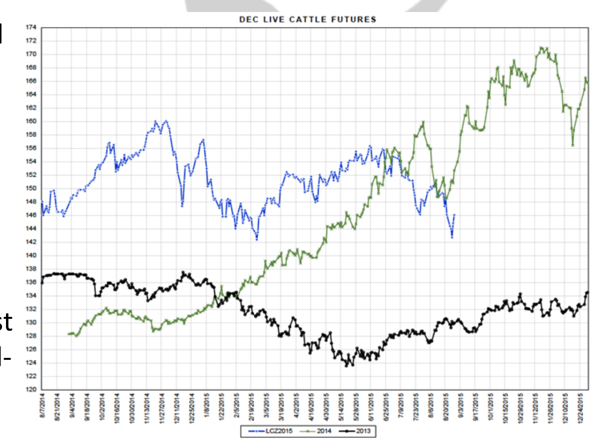
In the wake of everyone thinking that July hammered out the cash lows at $145, the month of August started out strong but ended with disappointment. Cash prices moved from $232 ($145 live) up to $240 ($152 live) mid-month as the cutout value surged $7-$8 in anticipation of Labor Day demand. However, by month end prices were back down to a new low at $228 ($144 live). Retail interest didn't measure up to expectations at those higher prices and a larger degree of big cattle began to show up. Packers started to discount these big cattle, which prompted feeders to sell them before they move into this pricing window. If you recall, this is a change in desire from the past months of carrying them and making them bigger. Prices have continued to fall into early September with trade as low as $140 seen this week in the northern part of the country.





Beef prices generally erode in September, which usually leads to better demand into the later part of the year. Beef prices ended the month at roughly $238 and are expected to test the $232 area rather quickly. Normally packer margins would absorb this move in beef prices but this year, amid all the big cattle that are around it seems that they might be able to force this pricing back on to the cattle feeder. Tyson announced they were closing their Dennison, Iowa plant and while they have plans to make up the capacity in their Dakota City, NE plant the timing of this change is not immediate. This leaves producers with one less choice in that region for now. Consumer reports published an article on ground beef during the month and this may be affecting the psychology of the trade as well.

Futures prices were flat for August starting the month at $146 and ending the month at $146 while the October contract fell from $146 to $143. This secondary push into another seasonal bottom for cash prices is not surprising and happens more times than not as false starts like July are common in livestock markets. Funds continue to press more and more into new short positions as the market breaks important support levels, most recently being the $142 area. What is interesting is the commercial category of the trade as these players continue to carry a noticeably small number of shorts (hedges) against their long cash positions. This is most likely because of fears surrounding limited supplies that might come during the 4th quarter—specifically the month of November.



It is important to recognize that there is a strong tendency for 4th quarter cash prices to exceed that of the 3rd quarter. However, in the years when this was not true it was associated with some type of economic weakness. The recent weakness in the outside markets, led by China, is very contagious as we can see in most world currency markets. The outside markets had a noticeable effect on trade this past month as traders fear that continued troubles will mean less and less export trade flows for the US.

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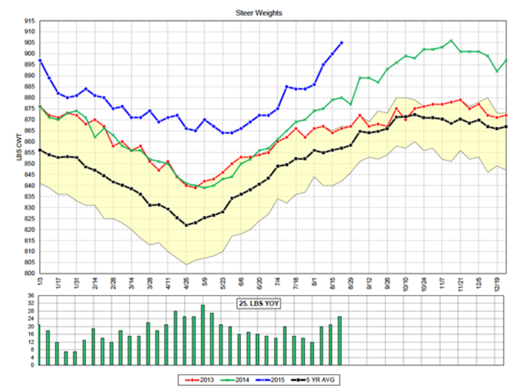
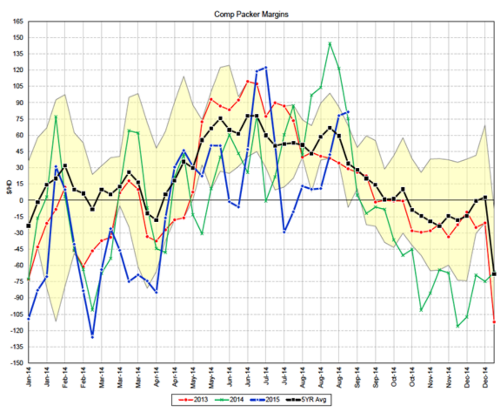
When we look at placement rates we need to be reminded about how wet May and June were in Colorado, northern KS, and throughout Nebraska. The wetness kept placements down in those months. These cattle will affect the November time period mostly. That said August placements were more or less flat. Seasonally we should see a trend for more placements in August, September, and October but rates are not growing as much as we would like to see considering how small they were last year. However, turnover rates should start to change as cattle feeders move away from lighter weight placements into heavy weight placements over these past 4-5 months.

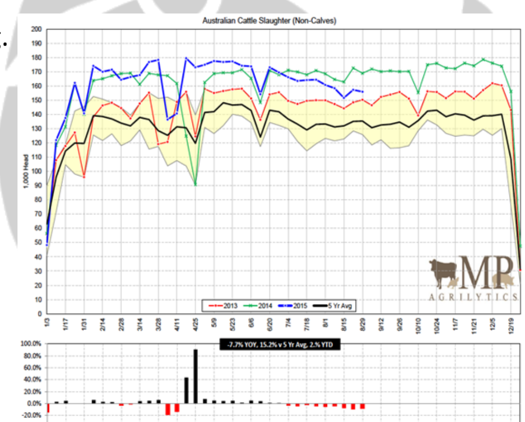
Weights are at an all time high at 905 lbs for steers, +25 pounds year over year. While this has been expected to come true since early this summer, the question moving forward is how long this will affect trade. Can we move these big cattle and be done with it right now or will it labor on through the fall? Typically this is something that is not easily fixed.





Packer margins amid all these moving parts are contra-seasonally very good. So now it is a matter of finding some demand. Prices are moving lower as packers attempt to find answers to this question. However, without a solid export handle to lift trade this maybe a greater task than we expect it to be. Futures are certainly pricing in that trade will be lower and maybe a worse situation than we will likely experience. Pork prices have been holding up much better than expected. While still a big concern for later this year, it would seem that this demand curve remains strong for the moment. Unfortunately it also tells us that retailers are still in this space and not into beef relatively speaking.

Australian harvest rates have peaked and are expected to keep declining. We should not be surprised to see rates move under that of 2013. This may affect the imports of lean into the balance of this year. Australia has also hit their export quota tariff trigger now that they are at 85% of their annual allotment. This means higher costs (additional tariff's) for the remainder of this year.



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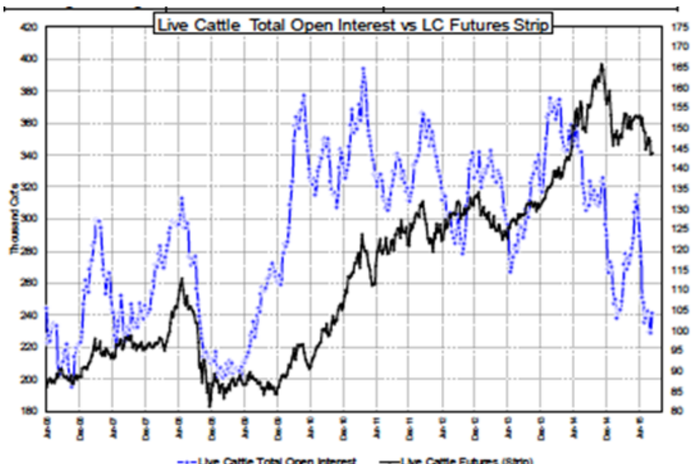
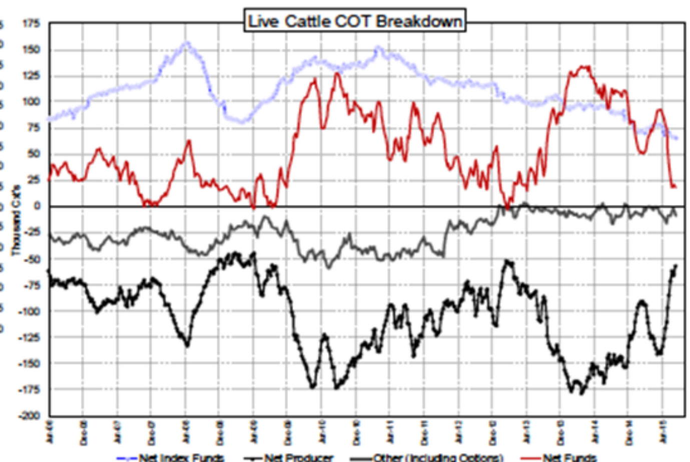
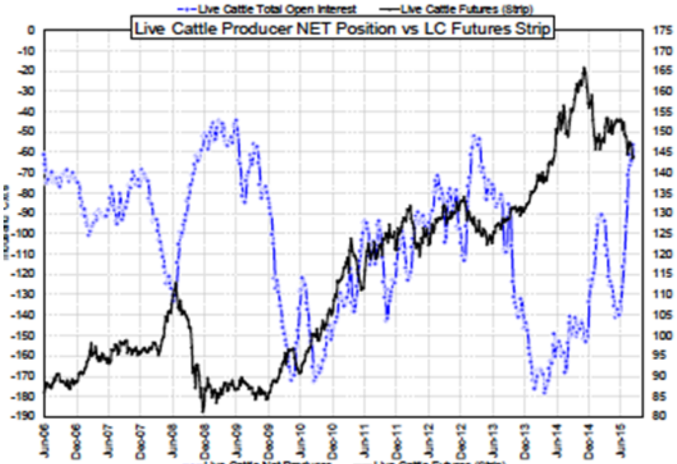
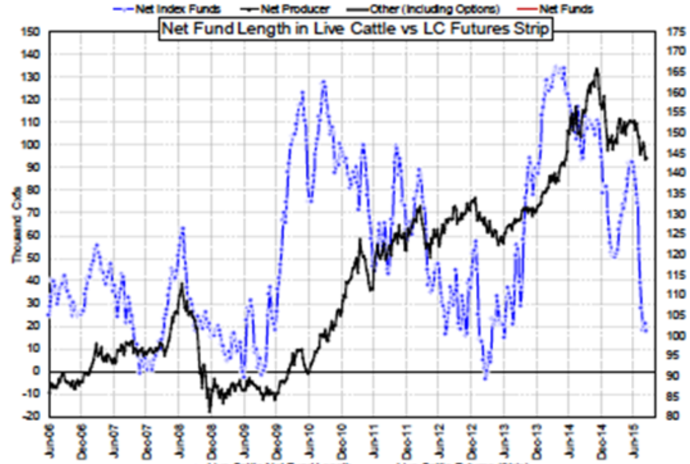
Our returns were good for the month as we were able to capture that seasonal surge off the lows in early August as well as the push back down into month end. While the market is attempting to flush big cattle out of the system, trade may be confusing for the coming weeks and months. Traders will decide whether to trade the smaller supplies into Q4 or a flush on the weak demand situation and outside markets. As we enter into the roll period, bull spreads will be something we look at. In addition, if the market can flush hard enough we might entertain a bullish posture into the winter.

A great thanks to our friends at MP Agrilytics for the help with the data displayed.









Regards,

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