April 2015 Monthly Commentary

April failed to follow through with March's bullish intentions. Cash started the month at $165-$167 but ended the month at $160-$162. June futures started at $153 and ended at $150. Despite the decline in prices, funds continued adding to longs with positions ending at about 92,000 contracts. Beef prices started at $250 and ended the month at $252 despite record low slaughter rates. Typically when supplies are reduced as much as we saw this past April, prices rise dramatically, yet this year they were firm. Middle meat items did rise to record high prices as retailers finalize their plans and inventories for the Memorial Day holiday weekend—one of the beef industries best demand windows of the year. Continued large supplies of chicken and pork products seem to be providing consumers with alternatives to the record high prices for beef. Exports continue to be slow while imports remain strong. As a result, the market is having trouble sustaining prices on kills over 560,000 a week. Cattle weights are strong as noted by steer carcass weights being 28 lbs over a year ago and seasonally bottoming in early May. This is the highest seasonal low for weights ever. This will be important with the heat and humidity present this summer. Cattle feeders have been deferring inventories but now appear to be placing cattle. This is hard to see due to the retention going on in the industry and heifers on feed that are -10%. USDA did however peg heavy weight placements for March to be +16% from a year ago and recent placements in April appear to be the largest on record dating back to 1988. While carryovers increased less than expected in April as a result of better marketings, demand should be a focus from the middle of May into August. This will in turn affect feeders as they will need to move cattle if kills don't increase beyond our current levels. In the wake of all this information, the market is telling us that the seasonal lows will be normal and conservatively down 7% to 8% from their spring highs this year. Traders are shifting back into longs expecting prices to climb as they did last year. Heifer retention and grazing demand are supporting feeder cattle prices more than expected and might have some clues to the coming trends. Our returns were solid in April despite a very choppy market.

Fundamentals to watch in the coming month(s) are the following:

- Packer margins: After a fleeting seasonal jump up to +$50 to +$100 per head in the middle of April margins are back to break even to start May. Can they increase as they should or will they continue below expectations?
- Slaughter rates: Will they increase or remain depressed?
- Cash: How much of a seasonal decline will be seen?
- World markets: What will become of Brazil entering into the Chinese and US beef markets later this summer?
- Domestic drop credit: Recently depressed prices have come amid record small supplies. What will happen when supplies increase or remain constant?

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