M & R Capital LLC

# January 2015 Monthly Commentary

## The Bear Raises His Head

January found the market moving sharply lower to prices not seen since August of 2014. Cash prices moved from $173 to $158, April Cattle futures prices moved from $165 to $148, and June Cattle futures fell from $155 to $140. Feeder prices fell faster than that of fat cattle as the crush is starting to make a long awaited correction. April feeder futures dropped from $224 to $200. Funds sold roughly 30,000 contracts during the month while commercials bought roughly the same amount. The rational for the commercial buying was simply the unwinding of a record basis level at $10.00, which they have been long from since October, at roughly $2 to $3.00. Options volatility increased during the month as demand for puts from those looking for protection was in greater demand than in previous months. Forward basis traded as wide at $5.00 for cattle into March and April this week.

The fundamentals at work pressuring prices include, but were not limited to the following:

- Packer margins continue deep into the red at approximately -$100 per head, which leads to packers scheduling reduced slaughter schedules through the month.
- Packers choose to kill basis contracts rather than open market cattle as these contracts were roughly $5 to $7 cheaper than spot month trade during the month.
- Supplies of competing proteins have been larger than expected and very competitive domestically as well as internationally.
- Beef demand peaked in late November and there has been no sign of better demand yet despite a reduction in prices of some $20/cwt on the cutout from $260 to $240.
- Exports continued to slide while imports continued to rise as the strong US dollar continues to make US beef the highest in the world by far margin.
- Export troubles have come from labor problems at west coast ports in the US that have all but stopped shipments. This is also affecting beef imports as well as exports.

Our returns were better than expected during the month due to the market's acceleration in price action, volatility increasing, and feeder cattle out pacing the move in fat cattle. We were still long volatility as the need to protect downside objectives while minimizing upside risk is still important. After seeing a $17 break in prices the trade is due for a rally. The next weeks should establish that before contra-seasonal forces and poor demand take over into the spring and summer. 2015 should still be a market that is focused on the fear of demand at all levels of the business, as well as supplies potentially being greater than analysts are forecasting.

Regards,

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