M & R Capital LLC

March 2015 Monthly Commentary

Market at a Crossroad

After a volatile month in February, March jumped out with a bang as futures raced to catch up with cash trade and narrow basis as well. The bears ran for cover as the bulls reengaged the market. Cash moved from $160 to $165. Futures moved from $152 to $162 for April and $145 to $153 for June. Bull spreads dominated trade amid the cash strength and basis narrowing into Aprils spot trade position.

A good way to look at things right now is to say: there is a general lack of supply and a general lack of demand. That said, now that we are entering April and eyeing Memorial Day features, traders seem to be anticipating that consumer demand will increase in these coming weeks. Cattle feeders have been deferring inventories and marketing what looks to be a record small number of cattle versus their inventories over these past few months. Recent placements appear to be -5% to -9% depending on your location. The main detail here is that these lower placements for the feedyards are due to the increased placements of cattle in pastures. The decline in placements seems to be the result of an increased demand for wheat graze.

Packers continue to raise beef prices, which are currently at $252 blended and seem poised to reach last years peak prices of $258. The funds have jumped back into the long side of the market increasing their long positions by roughly 20,000 contracts in most recent weeks while commercials have been the sellers. Trade sentiment has clearly shifted back to the bullish side with most everyone now convinced the futures market has seen its lows and despite a seasonal dip into June should be on track to rally into the year end. There will never be another bad day again, the storm has passed and most all analysts are re-forecasting cash prices under the assumptions that $160 should catch June and $155 for August and then back up into the fall with downside no less than $150 to be seen. Most trade talkers are long and talking about buying more on dips as well. Interesting what a few weeks and a $10 futures rally can do to perceptions. Packer margins are starting the month at record wide loses that are around -$150/hd to start the month.

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

- Packer margins: get better or remain at today's record -$150/hd losses?
- Showlists: how much will they increase as the feeder starts scheduling their deferred marketing's over the coming 12 weeks or will they remain low?
- Cash: will cash cattle seasonally peak in early April and how will beef prices handle its seasonality that looks for the same in later April into May?
- Slaughter rates: will it increase as much as showlists in the coming weeks?
- What has always been an inelastic demand curve for beef in the spring is going to be tested this year with record high prices for middle meat items. As a result of multiple year low prices for pork and chicken items, retail margins for these items are record wide as compared to beef.
- Will the USD continue to advance or is this enough?
- Will the water crisis in California create any ripple affects directly or indirectly to the cattle and beef industry? Is this situation worse than city planners can understand or have the ability to manage?

Our returns were modestly better in March as we caught some of this move but did not expect this degree of tightness and price moves in the cash market. The tightness in supply that has been seen is something that we did not forecast. We are trying today to figure out why and its implications for pricing going forward as it relates to the bullish trade sentiment.

Regards,

Scott Shepard

April 2, 2015

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