# May 2015 Monthly Commentary

May ended up being a very choppy $3.50 uptrend for futures. Cash was more or less steady during the month starting at $161 live and ending the month at $160 live. Basis narrowed $5 as you would seasonally expect. Beef was stronger during the month as retailers scrambled to gather beef for the Memorial Day weekend. This took beef to an all time record high price of $258 ($163 live) on 5/20 and was the primary support for futures for the month peaking at $153 on 5/28. Driving this appreciation in beef prices was the strip steak and ribeye market, which appreciated to just over $10—a price we normally associate with tenderloins. Since that peak, average beef prices declined $17 down to $244 ($154 live) where they stand today on 6/4. Even though prices have eroded, steak cuts are still very high at roughly $8. Seasonally these cuts will continue to move lower into the fall as competition from pork and chicken becomes greater as total meat supplies grow. As a result we should expect demand to continue to erode as the summer season evolves.

Packer margins were the strongest of the year in May with packers showing +$70/head at the peak in the middle of the month. As packers tried to capture this margin harvest rates increased to 566,000 head for the week of 5/18, but the beef that was produced from that decision was carried for over a week and just cleared the market in early June. Prices declined from $258 ($163 live) to $244 ($154 live) to get this meat sold. All the while, cattle costs remained at $252 ($160 live) and definitely not a $70 margin as they thought. This tells us two things: they won't try that again, and we only have demand for roughly 540,000 head a week when beef prices are over $250. May and November are typically our best demand months as a rule while February and August are our worst. One observation since late May is that the main packer responsible for aggressively leading the cash trade since March has significantly reduced their efforts. Clearly supplies are tight for the market with weekly harvest rates at 3% to 5% less than a year ago. However, demand has clearly become a problem and is something we are going to focus on more and more in the coming months.

Futures open interest during the month was active with commercials selling and speculative interests buying. Since April 23rd the speculative community has been aggressive buying breaks and buying rallies, adding roughly 40,000 new longs into the market. Total longs from this category stand at 105,000 as of 5/26 with some estimates as large as 115,000 following month end additions. When looking around at other markets this action correlates with large increases in speculative shorts in corn as well as the bond markets. The speculative longs in the cattle market are beginning to approach the record levels when prices peaked back in late November of 2014.

The main focus for the longs' interest seems to be strong beef prices, heifer retention, and more recently smaller placement patterns that were seen in April and May. Beef prices have fallen as of late but that is of no concern with futures at a discount to cash. It is cash cattle that need to decline and this is something we are expecting to see over the coming weeks. The markets price action and the degree that the funds decide to add or sell are directly related.; sometimes more than we would like to admit. This recent 40,000 contract addition length has cost them $3-$4 to accomplish. By comparison, when they decided to sell 60,000 it cost them $15, which we saw in January. Not saying that will happen anytime soon but it is something we have to remember when considering the funny money and its schizophrenic nature in these markets sometimes. Prices were $155 for August in early January and fell to $140 that month. Funds have bought back 2/3rds of these longs and prices are back to $152. Increased bear spreading and outright commercial selling is taking the other side.



**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**

# May 2015 Monthly Commentary

Front end cattle supplies are up but with cost of gains so cheap cattle feeders are trying to get every last dime they can out of them at these prices. This makes them very tough and seemingly unwilling marketers of cattle. Packers, struggling to get control of the market, have decisions to make. Forecasted hog supplies for the late summer and fall are fairly big and will certainly provide many challenges to an already taxed beef system. As demand becomes reduced it seems clear that packers will be running at significant losses in order to keep cattle prices $160/$250 dressed or higher later this summer. Longs are confident they can't get futures premium to cash in the coming two months with targets of $155-$158 for August and $160 for October. Based on our demand concerns this seems temporary at best. Even with placements being lower in May, cattle are being carried on pasture rather than in the feedyard. This will change and when it does we will see what real demand is made of; however, maybe not until next summer but it will happen. Meanwhile everyone has forgotten about the March heavy weight placements that were +16% and the Aprils that were +6%, all the market is focused on appears to be the tighter supplies for this 4th quarter. If we change our mind we will focus on spreads for the up coming quarter and remainder of this trade idea.

Our returns were depressed in May as a result of this rally and our bias being more negative than it clearly should have been. Choppy markets are not something that we excel in. We are looking at the long term horizon (Summer 2016) for opportunities as well as monitoring the demand situation for keys to changes in the packer's attitude for which they manage the markets prices.

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

- Carryover has been large yet cattle have yet to show any need to be sold.
- Expansion is large, grass is everywhere and demand is strong.
  - ⇒ This will matter in 12 months.
  - ⇒ Costs for this production are in the $120s.
- Weights are very large and have bottomed for the year. This highest seasonal bottom ever recorded and will move higher into the fall. But will the packer discount this or not?
- Imports
  - ⇒ Brazil is coming when and how much?
- Competing meats have not seemed to affect beef so far but will be much larger late summer and fall.
- Summer low is $155 coming in June?
- Drop credit continues to be depressed as Brazil takes more and more global market share.

Regards,

Scott Shepard

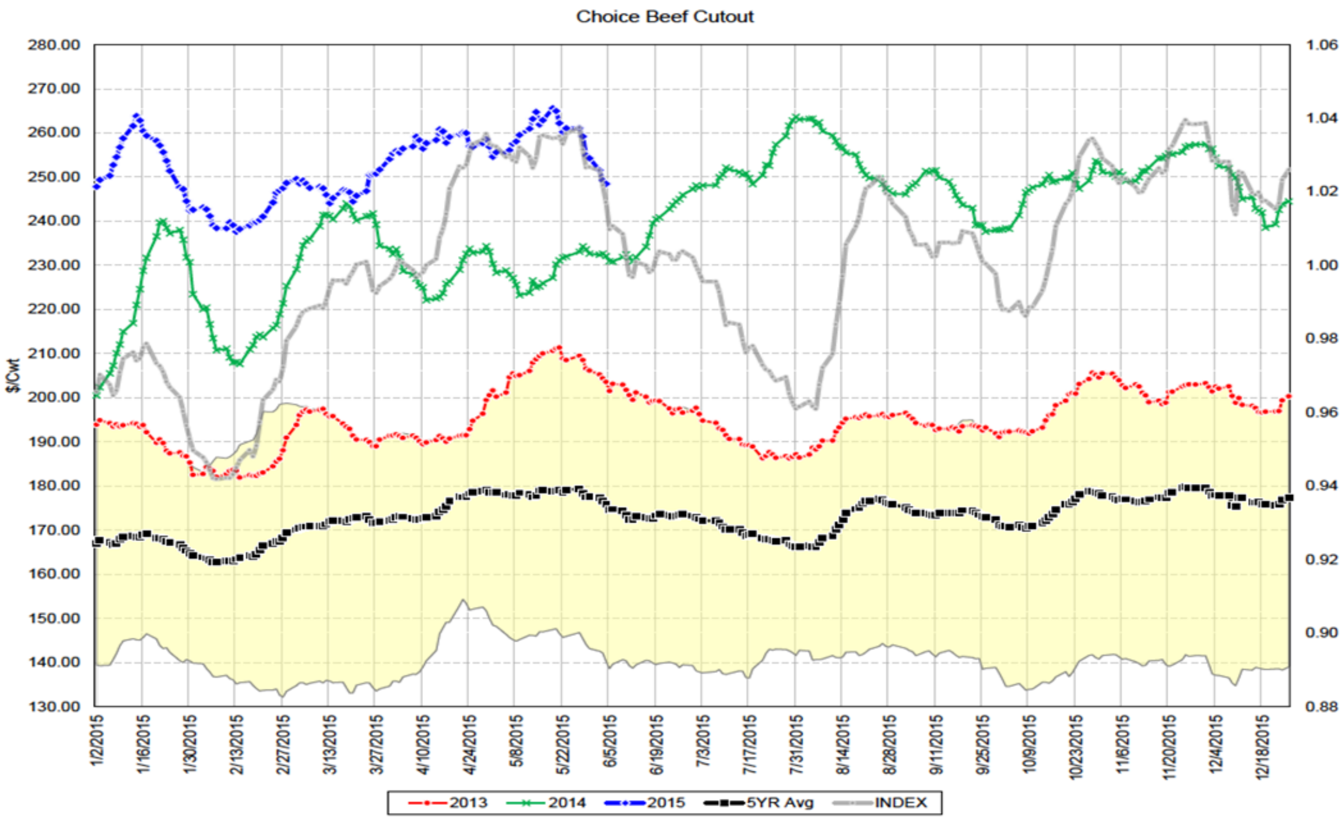
6/05/2015



9047 Poplar Avenue, Suite 101, Germantown, TN 38138

newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406

# May 2015 Monthly Commentary

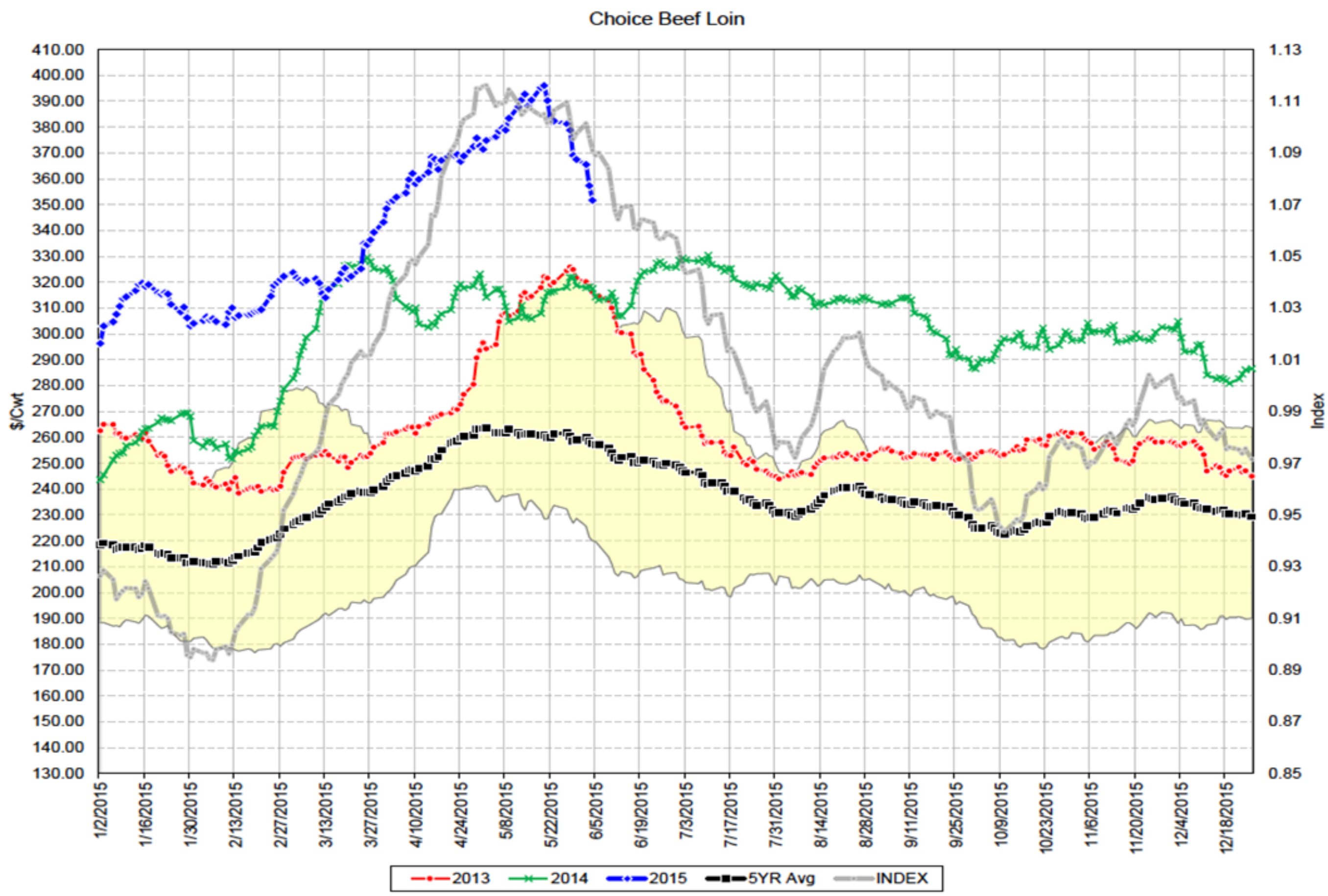





9047 Poplar Avenue, Suite 101, Germantown, TN 38138

newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406

# May 2015 Monthly Commentary

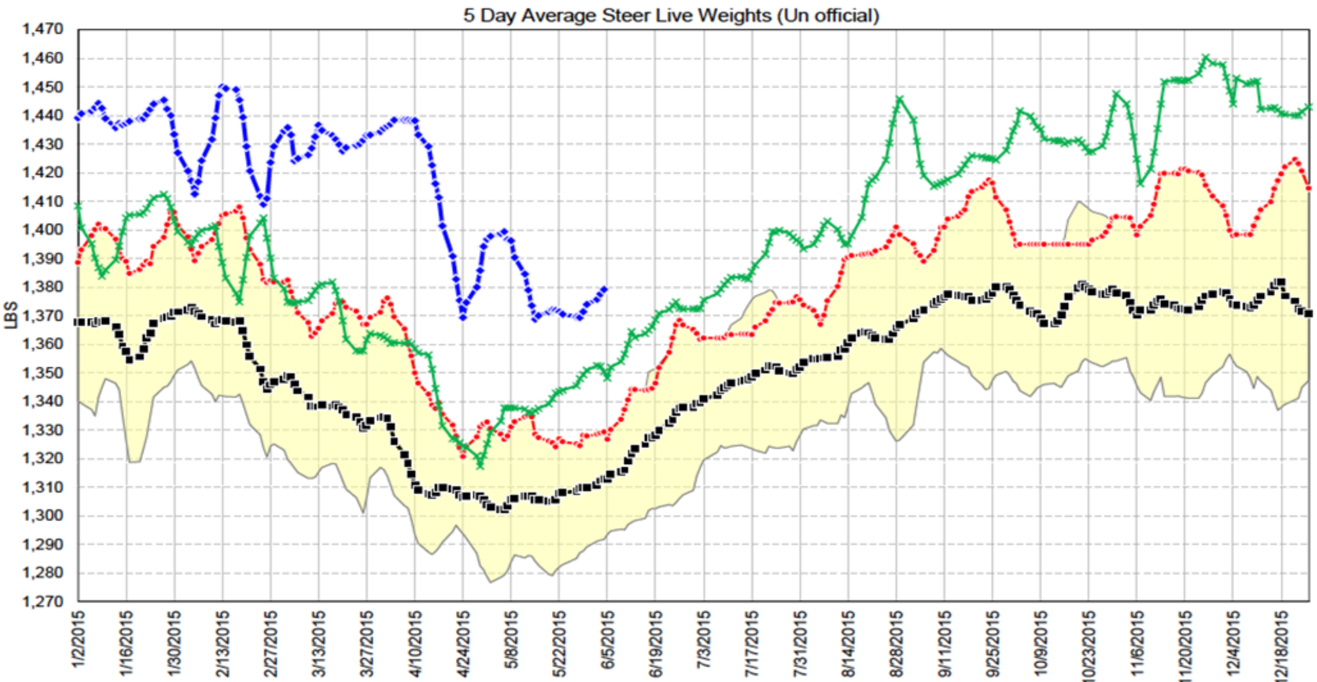


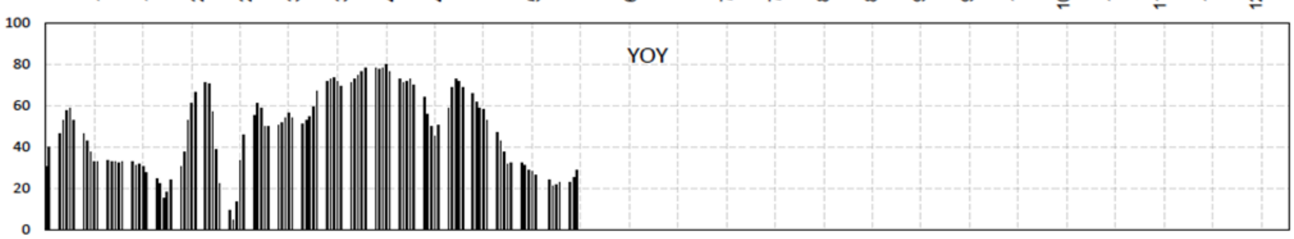



**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**

# May 2015 Monthly Commentary



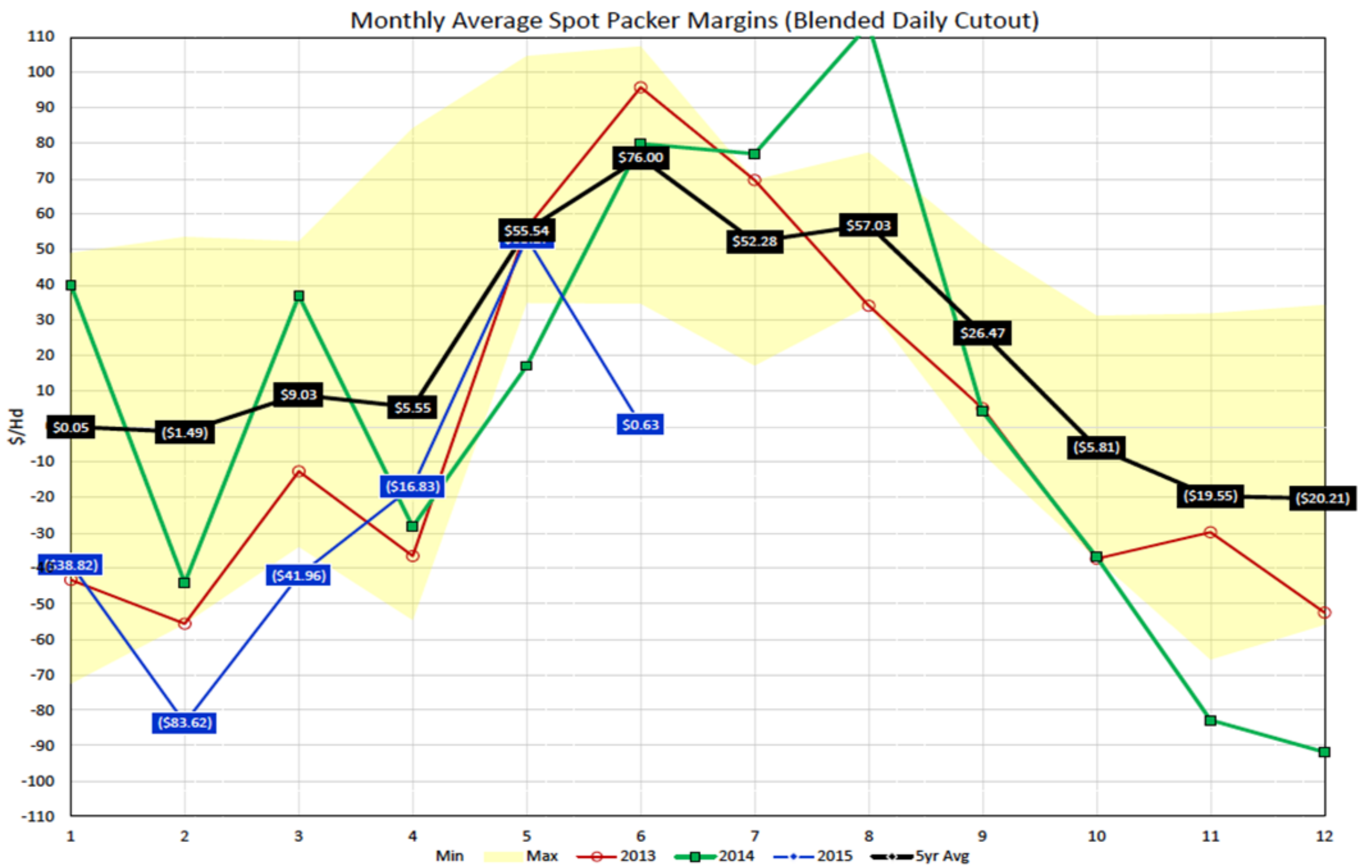






**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**

# May 2015 Monthly Commentary

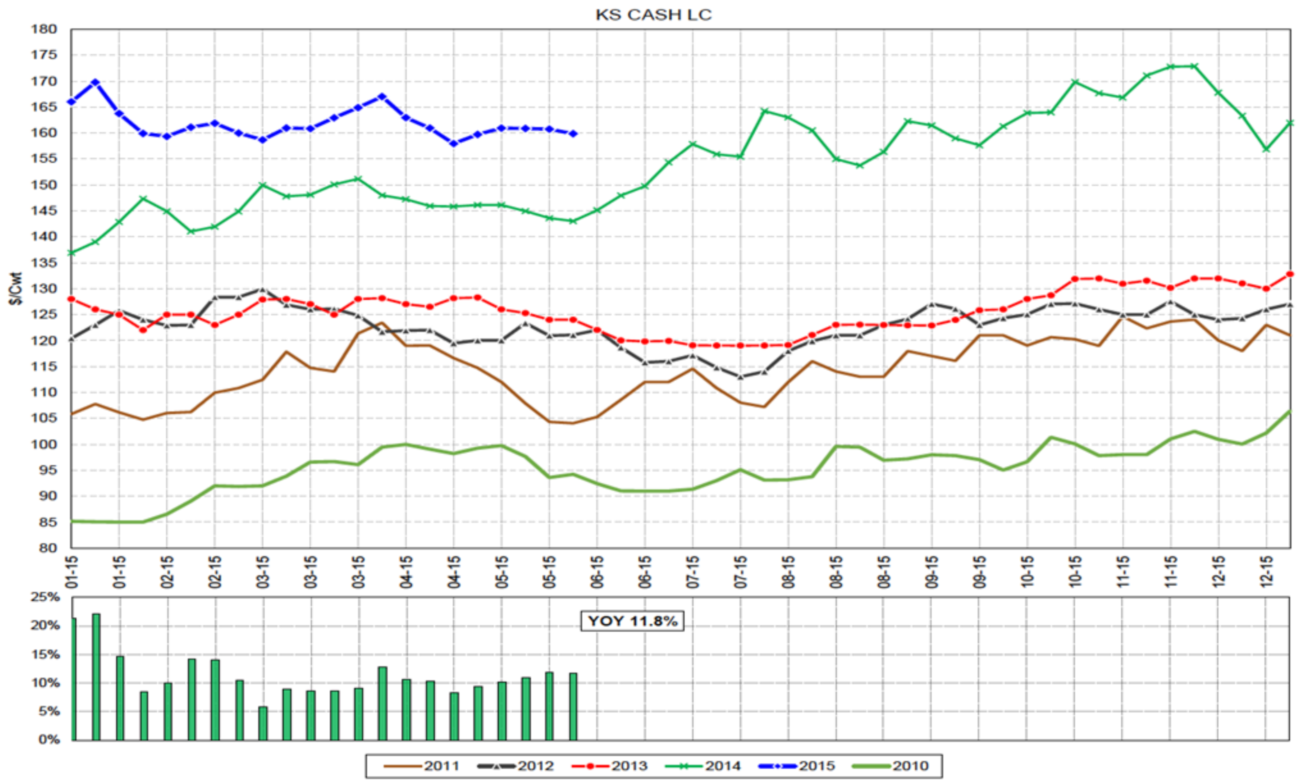



The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. M & R Capital, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of M & R Capital, LLC. No one has been authorized to distribute this for sale.


**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**

# May 2015 Monthly Commentary

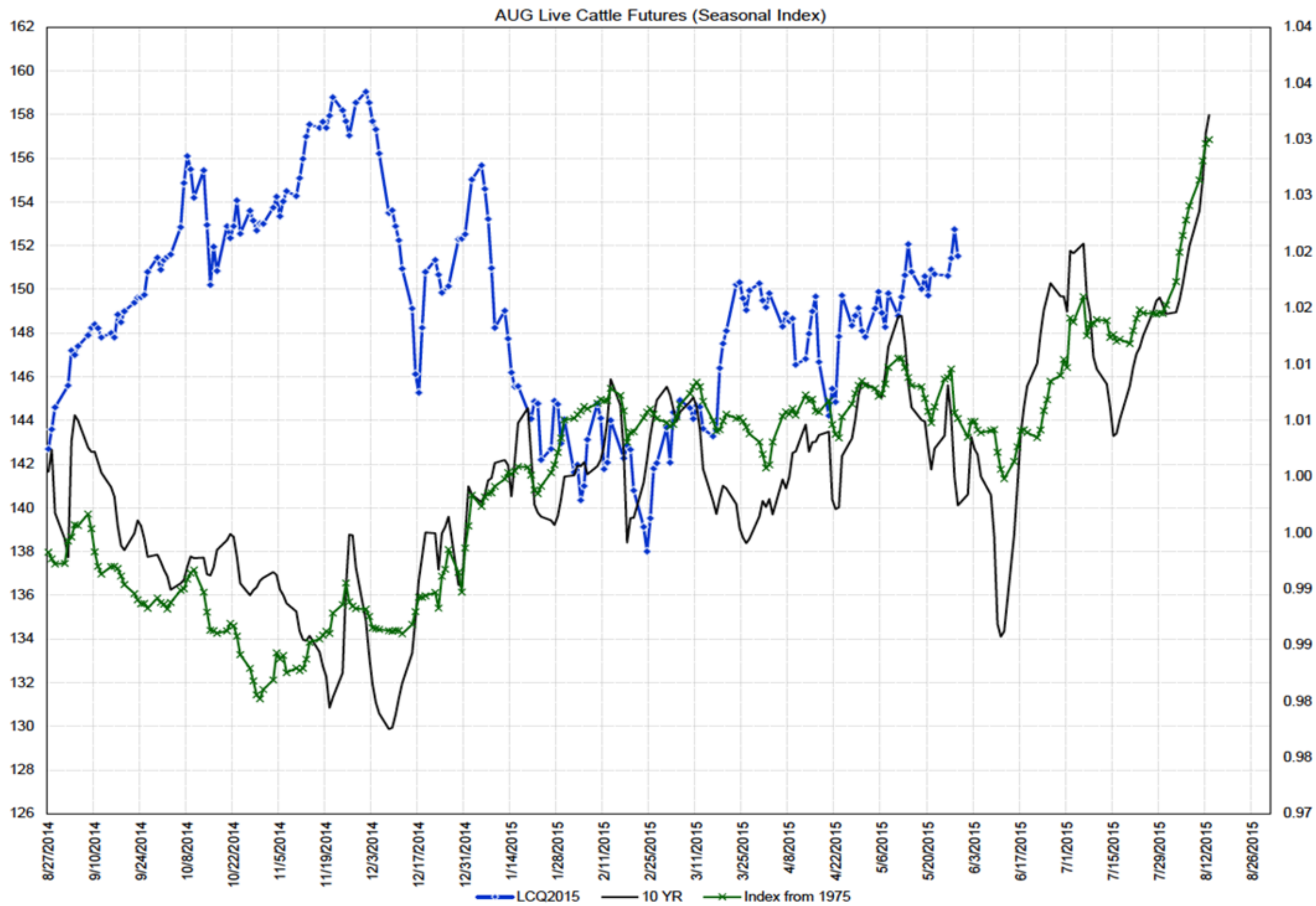





**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**

# May 2015 Monthly Commentary






**9047 Poplar Avenue, Suite 101, Germantown, TN 38138**

**newaccounts@mnrcapital.us • Tel: 901-766-4446 • Fax: 901-766-4406**