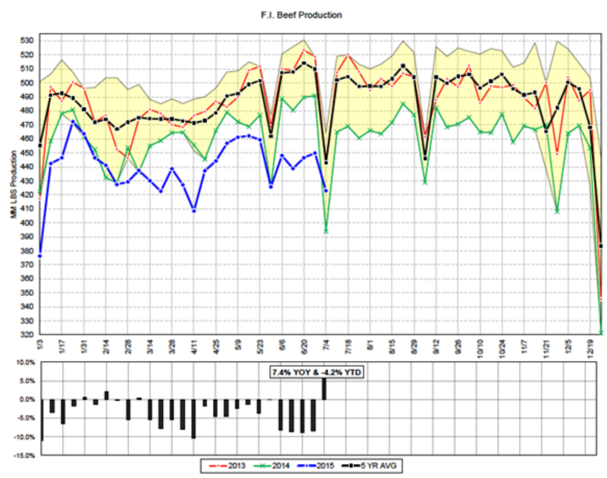
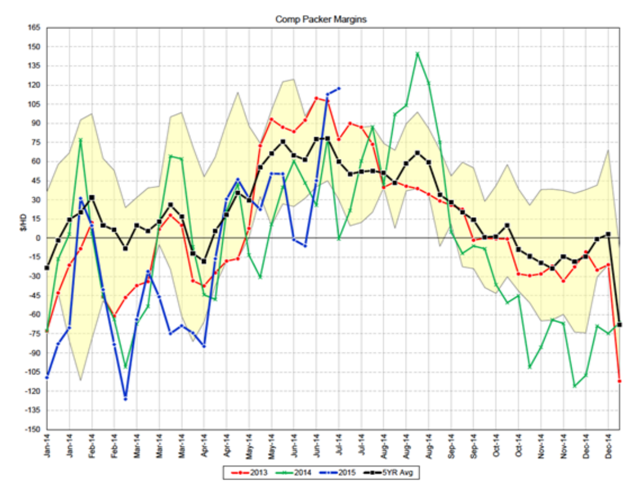
M & R Capital LLC

June 2015 Monthly Commentary

June found a very seasonal shift in basis moving from +$8 to +$1. As a result of this we should find futures tied closer with cash moves from week to week. For the month, cash moved from $160 to a low of $148, ending the month at $152. Futures found a high and low of $154-$148 starting the month at $152 and ending the month at $148. Trade continued to be very choppy amid an overall trend of liquidation from all parties involved. Open interest has declined more than 60,000 contracts this past month. Commercial buying was persistent when futures pushed under $150-$148 and fund long liquidation seemed to come nearly every day in the later half of the month. However, most recently commercials resold some of their positions back into the market at $152 before the holiday weekend. This would imply lower prices might still be coming still as we look into July.



Harvest rates remained extremely slow with June posting a contra-seasonal beef production rate that was less than May. I don't think I have ever seen this happen. Packers sited poor demand as their 9% decline in production vs a year ago only yielded a beef cutout value that was steady with that of late May at $251. Normally this kind of production decline would find prices rising rather sharply but in this case it took a severe reduction in supply to just hold prices steady. This verifies the packer claims that demand is certainly a struggle. This is something we will have to keep in mind when production rates rise again. As clearly the implication here is that any more production than what June produced will force prices lower. Exports, especially China, will continue to struggle. All indications out of China are that they will continue to plague the packers drop credit (hides a.k.a leather) as well as 50% trimmings into the fall.



Packer margins as a result of steady beef prices and an $8-$10 decline in cattle prices were record large ending the month at roughly +$150/hd and certainly was the rationale behind cash prices moving form $148 back up to $153 ahead of the holiday weekend. Beef prices are expected to move lower through July so the degree of cash cattle prices having "bottomed for the year" seems premature to factor into our equations at this time. However, seasonally and from a placement perspective, prices will have the ability to rally from here if beef demand finds buyers at/under $240. Sometime around early August is when beef should find this interest from retail buyers as they look for pricing around that time for their labor day demand needs. At today's beef prices of $250 live, prices should be $158-$154 depending on

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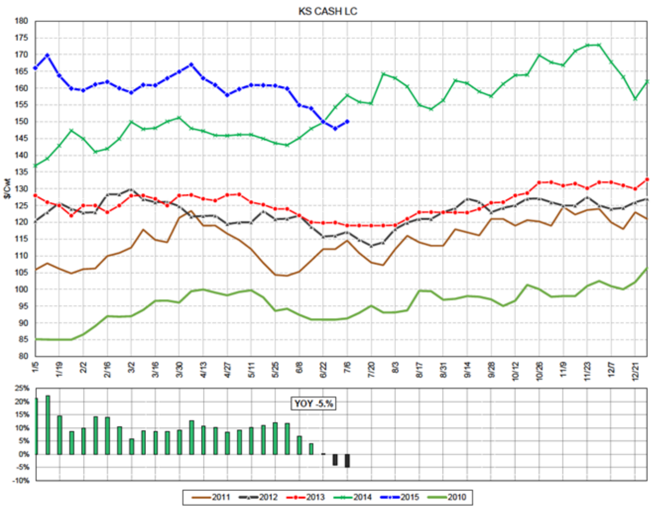
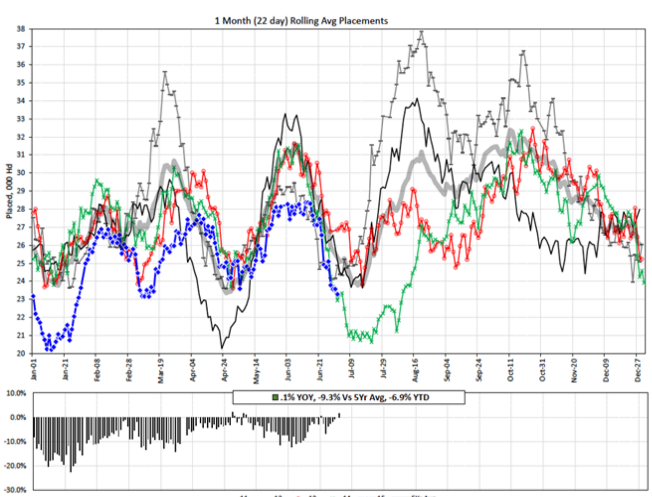


packer margins while seasonally when prices are $235 in late August prices might be $146-$150 depending on packer margins. Futures today are at $150-$151.

Brazil and the U.S. announced they are willing to allow Brazilian beef into the U.S. soon after a 60-day comment period in the federal register for the final ruling. This means meat might be able to flow as early as the beginning of September. However, as we all know: everything takes its sweet old time with the U.S. government at the helm. But this is something we have to keep in mind looking into 2016 as with demand issues clearly struggling any increase in supply, real or imported, is something we have to keep at the forefront of our forecasts and trading assumptions.

Placements, as we all know, have been declining as pasture conditions are still nothing short of the best the industry has seen in a long time. This means that instead of placing all weight groups (drought induced) like we have done for the past 2 years we are now only placing heavy weight yearlings (amid less heifers being used for retention) while keeping calves out on pastures as long as possible. This has shown up in the past few months of placements where we find 800 pound and up categories +5% to +10% while the lighter weight calves are all down 10% to 15%, even when the total value for the month is -10% like was seen in May. This pattern will continue as long as weather allows. The industry has been feeding more and more calves over the past 2 years and this has shown up in a smaller turnover rate as feedlots marketed less frequently. Looking forward however, the industry should start to get back to the old standard with 2 turns a year of big yearlings instead of all calves. Normal market watchers don't account for this until after the fact so this is something else we have to put in our analysis for 2016. This means that prices like we saw in 2014 shouldn't be seen again in 2016 while 2015 becomes the transition year for this change in turnover rate. That said, May placements were -10% in total so this implies less cattle in Oct-Dec. June placements should post +3% or so later this month and when you factor the 10% less marketings we saw in June it will be easy to find a total Cattle On Feed supply at approximately +2% to +3% for July 1st. Looking forward into August 1st, depending on harvest rates in July, Cattle On Feed may be as much as +4%. As a result, the cattle feeders' beginning inventories (carryover + placements) are the highest of the year. Upcoming shipments (packers desire to kill or not) will determine a reduction in this supply or not.



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Our returns were very conservative as the chop was hard to trade and we cleared out positions assuming cash lows might be near this $148 as packer margins swelled into profitability. While the market might now focus on looking for the fall peak in prices from here we will be watching demand indicators, beef prices, and movement at retail very closely. We remain bearish to the longer term supply trends but want to respect the markets ability to bounce seasonally coming out of this June and July time frame. The feeder cattle crush is still grossly mispriced so we will be looking at that market while adding the potential for a corn hedge at the same time. This assumes that we will start to see the potential of expansion coming later this fall and into next year for better supplies. We are also looking into spreads vs next spring and summer as well as flat price positions for next summer should the opportunity present.

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

Regards,
Scott Shepard
7/07/2015

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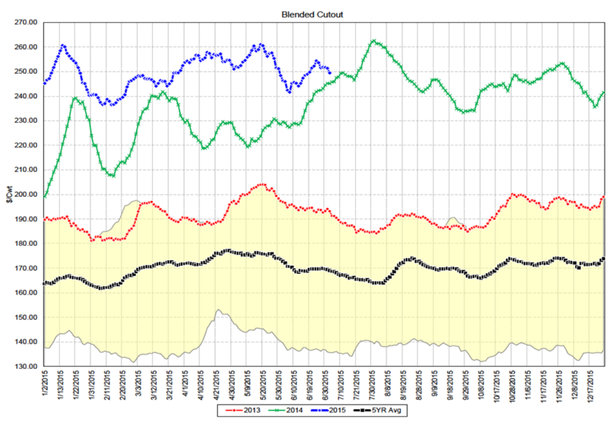

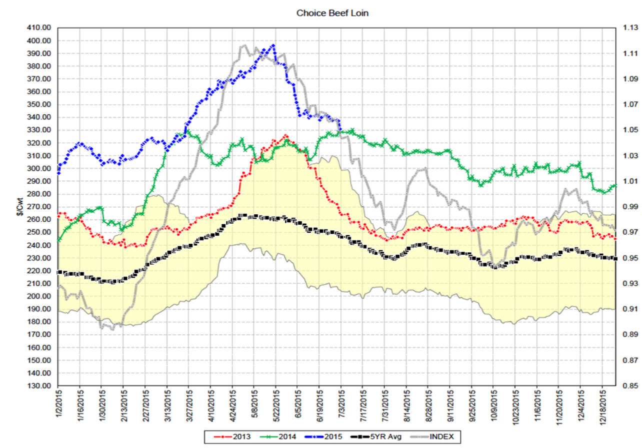

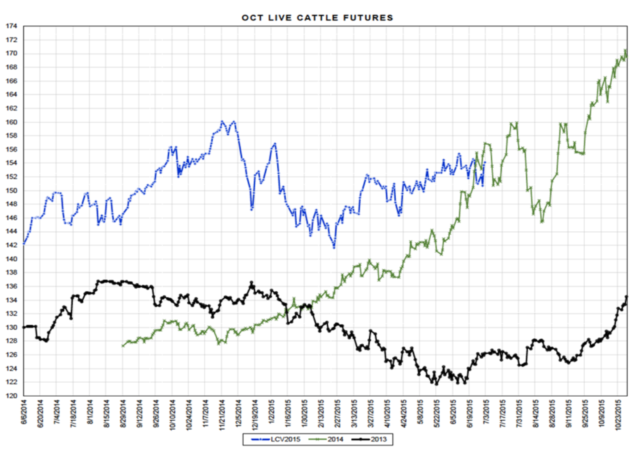

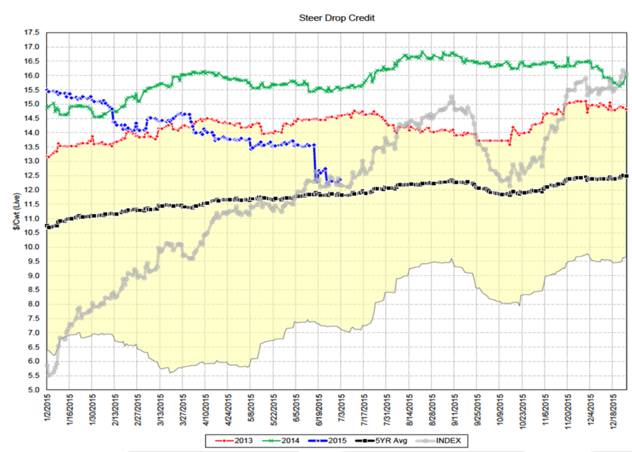

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