



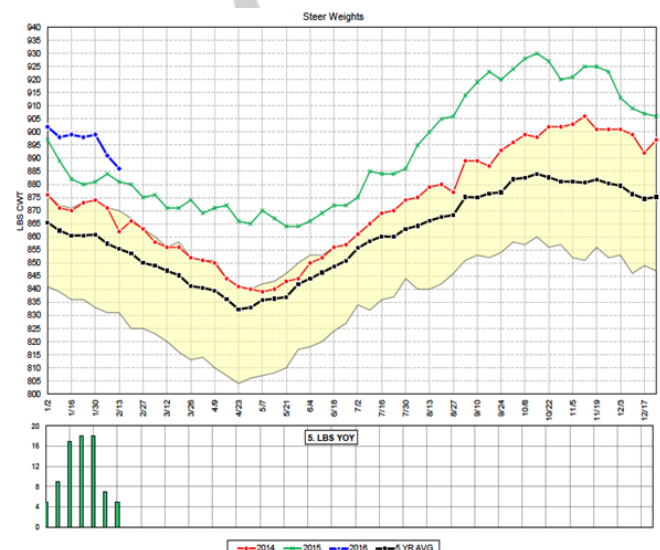
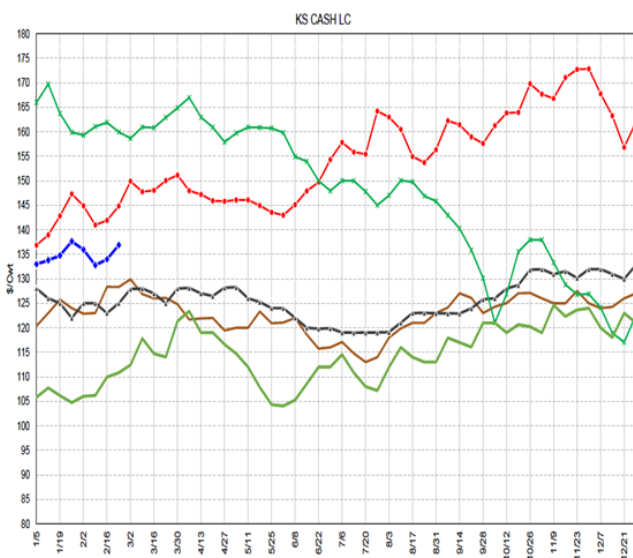
February 2016 Monthly Commentary

February was another yo-yo environment for the market. Outside market influences pressured early and mid-month trade while cash markets supported trade late in the month. Weather from early in the month found packers forcing feeders to carry inventory which hurt performance and forced feeders to sell down inventory from \$138 to \$133. Like in December, once this inventory sell off was completed, packers went back to the market and prices recoiled to where they started. Funds were aggressive sellers under \$134 to \$130 and just as aggressive buyers from \$134 to \$137 in recent weeks. Commercials continue to pare down the massive long position. This seems to be coming both from decreasing the long in February contract as it expired and the April, as well as adding new shorts into the October and December.

The changes the CME announced on February 1st to coral the HFTs seems to be helping as the markets appear to be responding to fundamental information and expectations a little better than the unabated madness that was occurring in the 6 months prior. We applaud the efforts of industry leaders to demand changes. There is still more work to do on this topic as efforts from industry leaders are not yet finished. One implication these changes could have in the future is that options volatility trend lower most of the year. Volatility was 25% in January and has come down towards 15% to 17% where it sits today.

Our positions were able to weather the storm of the decline due to the addition of risk management in option positions. We managed the drawdown from the unknowns before the market could eventually find its way. The market is evolving as we expected and it should be no surprise to understand that we remain bullish into the spring and we will re-engage the trade in similar fashions as we have in February. Cash highs are not in for the spring and summer and neither are they for the futures. However, you should expect that our trading activity will increase as we move forward into the spring as the markets will go through many fits and starts. Trading these hills and valleys can be more profitable than riding the roller coaster. We will also be looking to shift our strategies as we look forward. There is a potential increase in placements that should be coming now that pen conditions and weather have allowed feedyards to start placing cattle at profitable levels. This may come from spreads and this may also come in the form of options.

Near term fundamentals still tell us nothing has changed in the data to fix the spring supply. Placements are going to increase today forward as we should see the data begin to shift towards placing more cattle. Looking into and beyond the summer we are waiting to see it before we shift away from the clearer patterns in front of us. Demand will get better into the spring and supplies won't increase beyond a year ago until we can get into the fall. Australia will continue to be short of supplies all year.



Trading futures contracts and commodity options involves substantial risk of loss, and thus is not appropriate for all investors. Investors should carefully consider the inherent risks of such an investment in light of their financial condition.

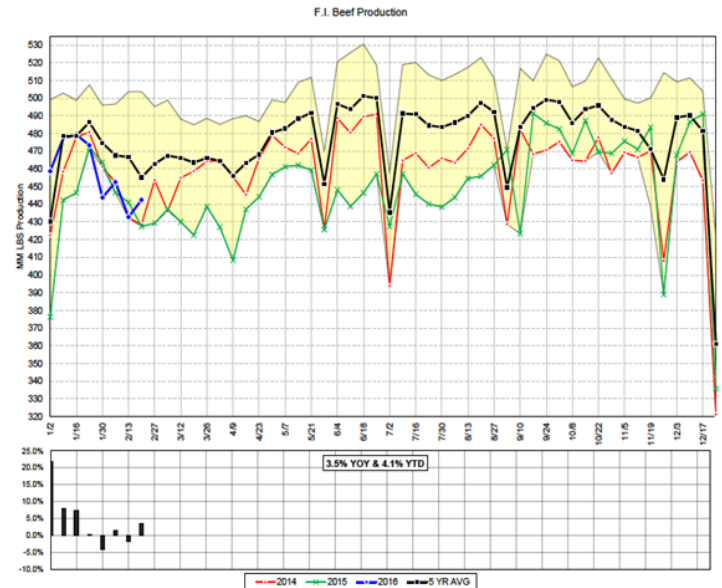
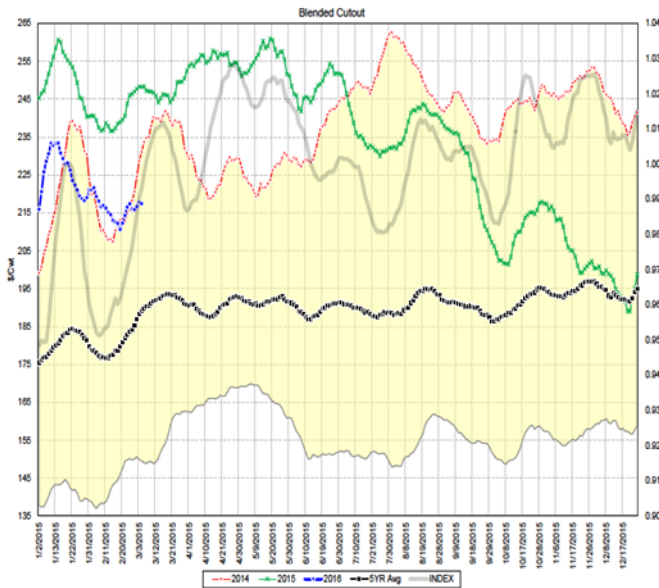
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- February's cash cattle prices moved from \$133 to \$137.
- Futures started at \$134, sold off to \$129, and ended the month at \$137.
- Basis tried to be positive mid/month but came back to par late.
- Beef prices moved +\$3 from \$213 to \$216. Retailers continue to do a good job buying beef on dips and have used this to lower prices. However, recent prices have found wholesale prices higher than they should be for this time of year (ribeye's and strips). Ground beef remains a struggle to move, lower prices here should change as weather improves and cheap prices at retail increase demand. This should lead to better features this spring and summer vs a year ago.
- Slaughter levels declined as we expected from their peak in January. After a minor uptick in early March this could continue to decline between now and April. Higher prices could surface from now into the spring from this decline in supply.
- US Exports should continue to grow as the year unfolds and as the affects of Australia continue to shorten the world supply. Australia equates to as much as 30k hd per week in the US (or roughly 5%) that is not there.
- Weights could continue to lower into the spring, now only 5 pounds over a year ago.
- The wet and stormy weather from the winter continue to pull weights down for the coming months. Pen conditions are recovering, however.

Regards,
Scott Shepard
3/4/2016

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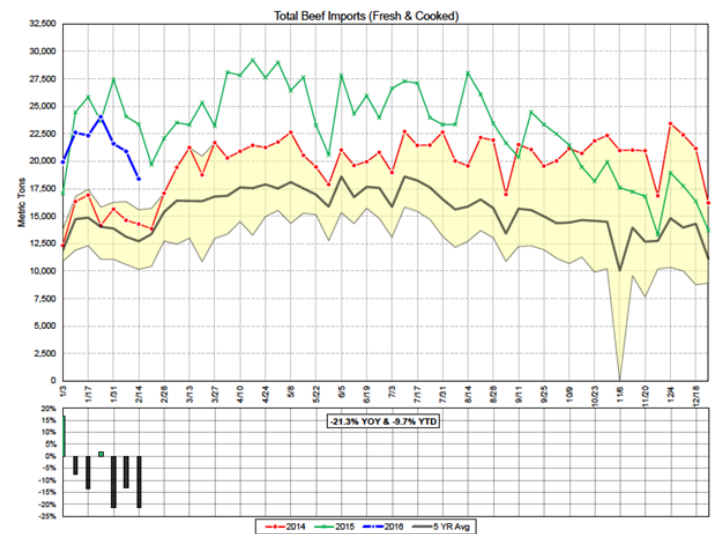
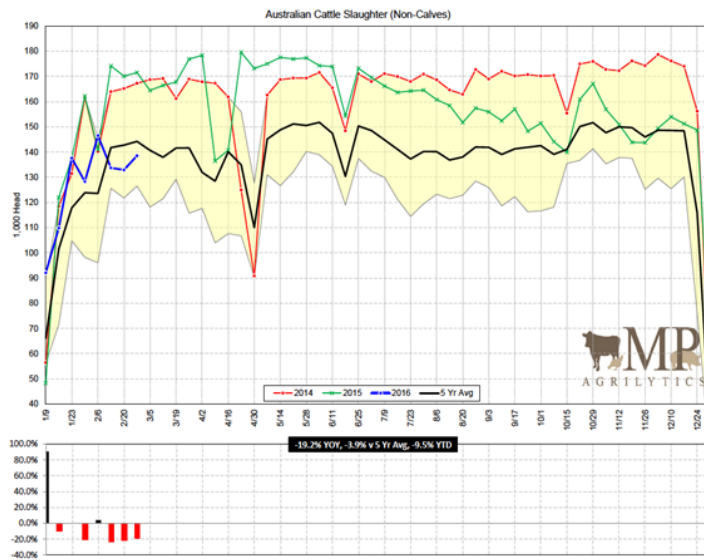
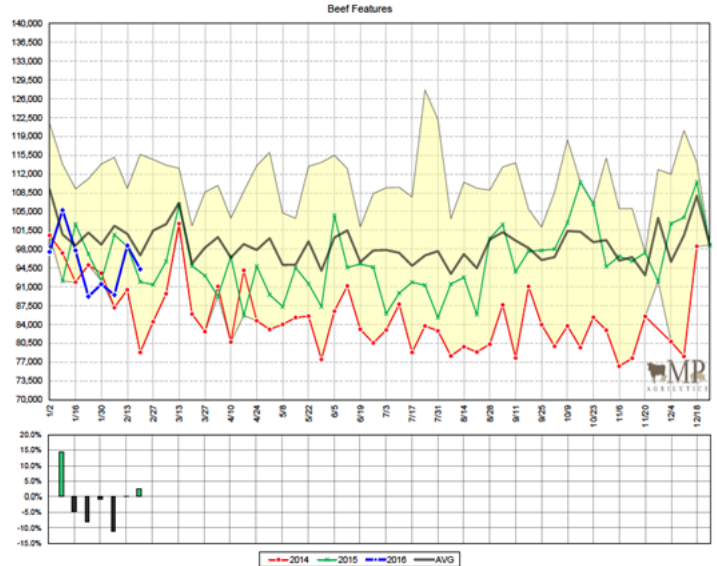
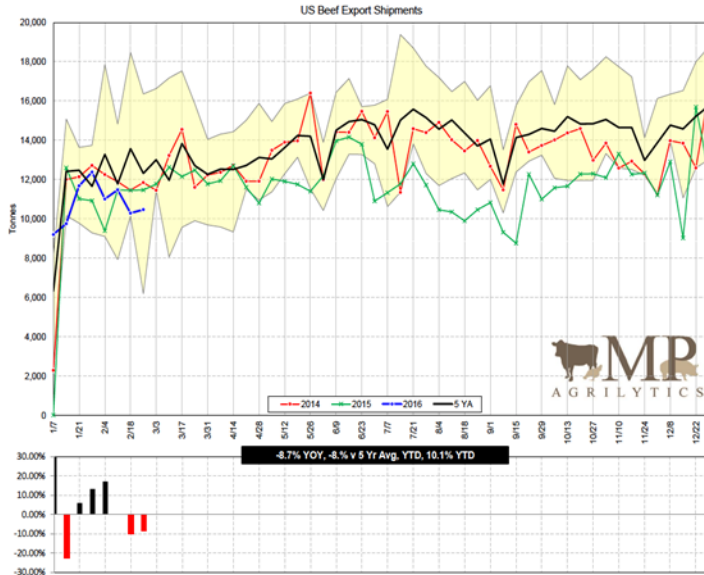
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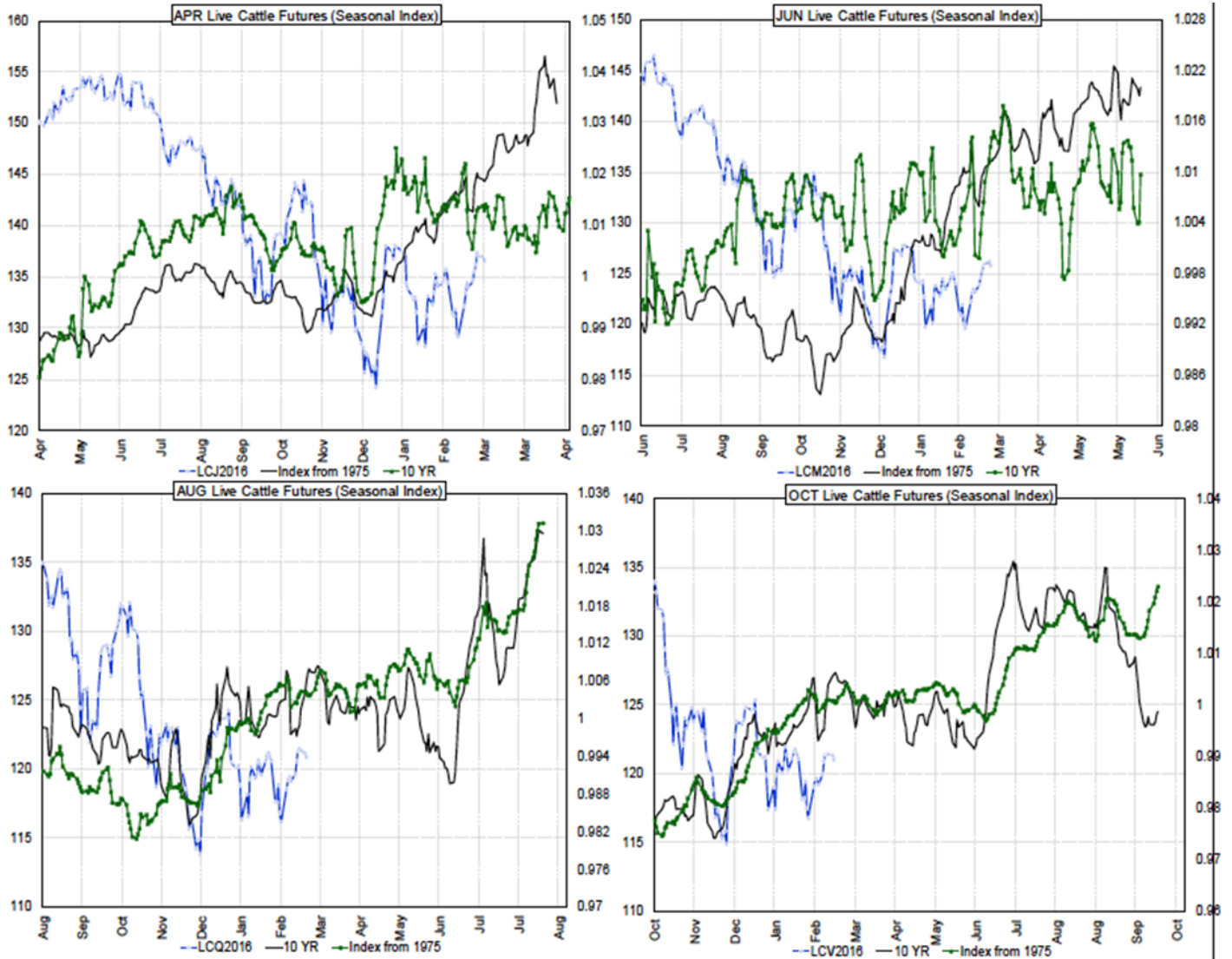
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