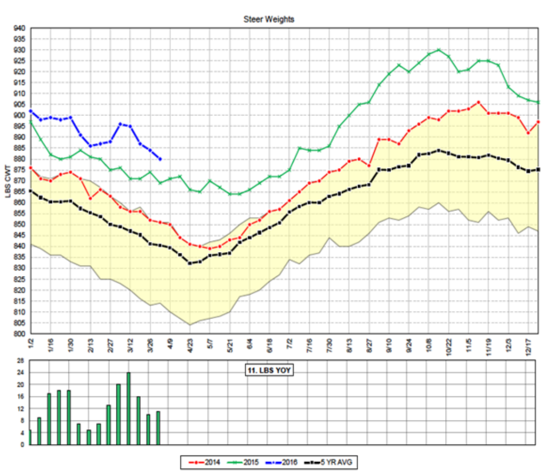
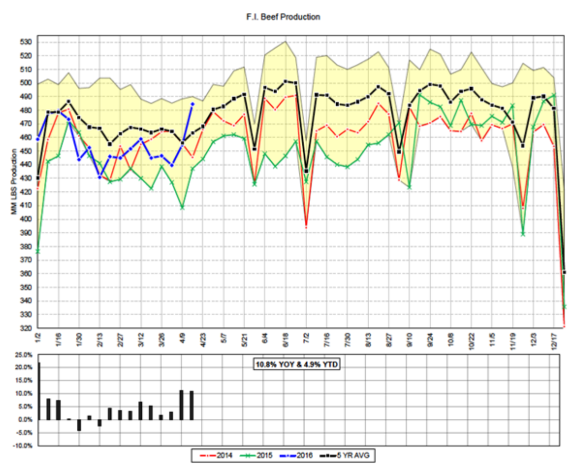
M & R Capital LLC

April 2016 Monthly Commentary

- April's cash cattle prices moved from $136 to $125. Futures started at $124 then broke to $114. Basis narrowed from +$12 to +$9. Feeders are in a big pulled ahead mode for April as well as May.
- Beef prices were all over the map during the month: starting at $2.17, falling to $2.10, rallying back to $2.19 before falling back to $2.12 again late in month. Demand is good, as with supply increasing dramatically and prices not falling comparably. Retailers continue to do a good job buying beef. Forward sales continue to increase by packers. Negotiated forward sales and long term forward contracts are the largest the market has seen second only to last fall when prices were $1.15-$1.20.
- Slaughter levels are larger than expected as cattle are being pulled ahead from May and June.
- Placements are falling from late March all through April. There was one less market day in March. Placements on a weekly average basis were flat within a year. April placements look to be about –7% to –5% of a year ago.
- US Exports will continue to grow as the year unfolds as the effects of Australia continue to shorten the world supply. Imports into the US will continue to decline for the same reason.
- Weather has been wetter than expected in the North but good overall.
- Feed prices have spiked in recent weeks adding to the feeder's desire to liquidate front-end inventory.
- Weights will continue to decline into May. Heifers are under a year ago now and steers will follow that trend shortly. All of this is much sooner than expected.
- China is starting to increase purchasing patterns for US pork vs. last year adding select items that were not previously included in last year purchases.





Cash prices started April at $136 and ended $125. Beef prices were up and down but moving lower as compared to weeks past. Harvest levels are spiking as packers respond to feeders dumping their front-end inventories. Beef prices were expected to bottom in the middle of April as demand got better, weather improved, and supplies failed to increase as much as seasonally expected. However, as feeders scrambled to pull supplies ahead this unexpected increase in slaughter rates has put the bottom at $2.00/lbs. and in to next week for timing versus three weeks ago as was expected. In a world where nothing seems to be normal anymore a normal rally in prices from here would imply a retest of the $225 area into May and June. Packer margins are historically very large and creating a strong incentive to remain forward sold and should help increase demand as retailers respond to the lower prices. Demand is increasing (roughly 3% all ready this month) so supplies will need to continue being pulled forward in order to meet these volumes. Pulling all these cattle ahead has filled in the hole that would have created $140 cattle and has given us $125-$120 cattle instead. As a result, one has to ask if we pulled cattle from a time when prices were going to be $120 what will come in that period now to keep prices at $120 or below?

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

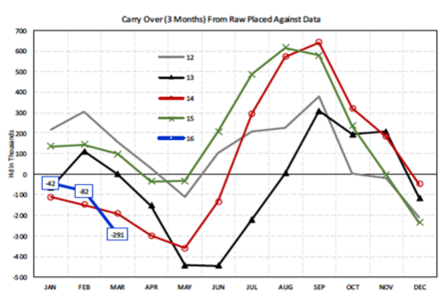
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

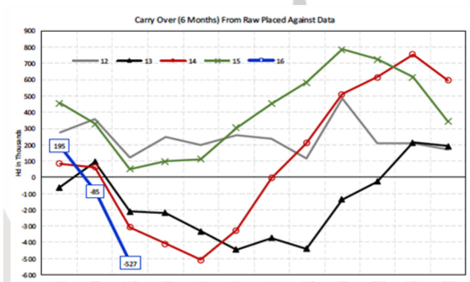
M & R Capital LLC

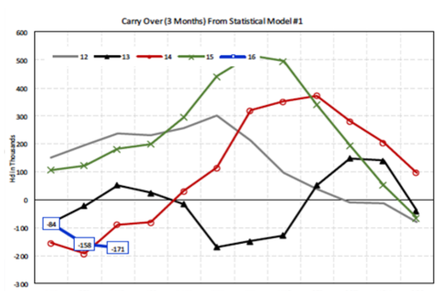
April 2016 Monthly Commentary

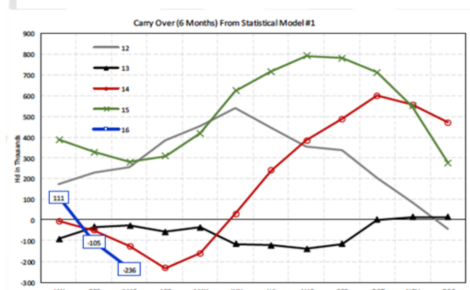
When we look back at the data, April has had all the makings of being a mini-liquidation at the feedyard level. Basis and fears of equity balance sheet devaluation helped to create this mini-liquidation. Feeders scrambled to pull cash supplies ahead as much as they could in the spot month as well as from their May inventory. Weights are confirming this and will continue to show us more of these facts in the weeks ahead. Numerically, front-end cattle supplies are not as burdensome at this time of the year. As a result, this should limit the duration of this price decline and the level of beef demand will be the trump card. Cattle carryover in March was the smallest ever and is expected to fall to a 5 year low when the April data is finalized. On Feed supplies will soon be under a year ago at this pace. Kills are being elevated in order to deal with the surge in future supplies coming to market early as the industry attempts to create the demand needed to deal with this. While decisions to market supplies may not last much longer than mid-May, the demand created by these price declines could possibly. One thing that seems certain amid all these changes in the data is that all the expansion that has been going on has come to a stop. This will go down in history as the quickest expansions ever as every part of the industry is hurting financially and the economics no longer work. The bears have been selling and pressing the argument that expansion means lower prices and it has come true much sooner than they expected. We applaud them on catching the break. Looking forward, marketings are growing and placements are not what the market thought they would be. When both sides of the business are moving like this its very compelling especially with a discounted futures market; certainly something the discounted futures market has yet to consider.

Feedlots moving to sell forward inventory has everything to do with equity invested vs. equity expected to be returned. They are looking for $300-$500 per head immediately in order to make it from April's $1.35 cash market to the perception of the summer's $1.15 cash market. Currently every $1.40 animal that is on-feed is worth $1.25 and in June it will be $1.15 according to the futures market. Last fall, the premium in deferred futures compared to the summer told them to hold cattle. Today, the discounted futures market is telling them to sell them all or get paid less in deferred months. In essence, liquidate your front end supply to minimize your future loses all the while creating extra marketing revenue that is needed to survive the losses. The data reflects this: marketing rates are spiking and carryover is crashing. What are the implications from this? It is creating the crash in cash prices from $136 to last weeks $125-$128 and likely this week's $123-$126 market. It is also pulling weights down very hard. It is allowing feeders to market ahead a substantial amount of their supply as slaughter rates swell over 600,000 hd in the coming weeks. Pulling forward supplies from the future is not only filling in this spring's record small supplies but it is also reducing our forward inventories (+/- placements) for this summer. Currently the data will tell you they are placing 5% to 10% less in April. Adding all that up you come up with a much smaller Cattle On Feed June 1st inventory than we have today and for sure not as large on as the futures market is pricing.









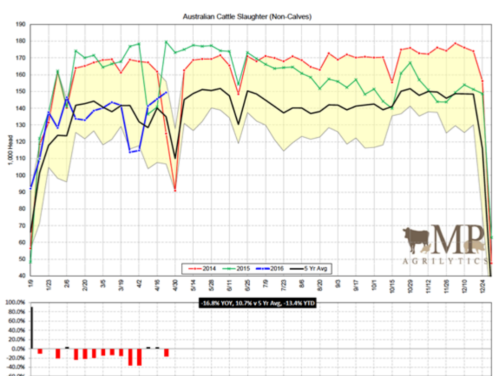
9047 Poplar Avenue, Suite 101, Germantown, TN 38138

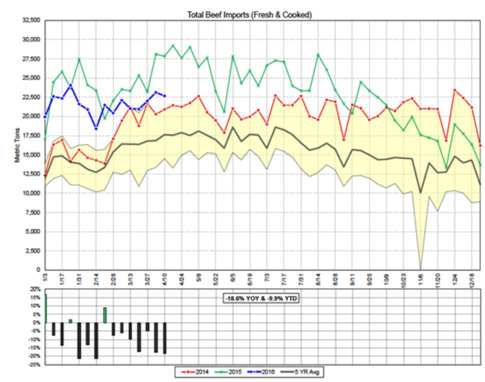
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

April 2016 Monthly Commentary

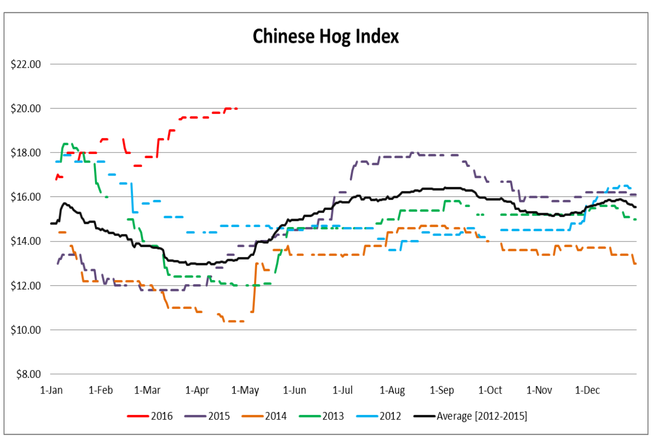
We conclude that futures prices are over estimating the impact of the pending supplies this summer especially now that we are moving them out of that projected spot. While this signal was helpful enough, the markets were topping in April at $140 and aided in pressing June under important support at $122. This is not an indication that moving from $115 to $105 is something to plan for—in fact quite the opposite. It says that one day we will be walking to the office and feedyards will move from selling them all to holding them all. Basis will be that guide for their decision as it was for the transition from $140 to $120 getting them to sell. As futures move from their discount to par if not a premium to cash in the coming weeks, this $115-$108 area will be time to price in the lows for 2016. From there the market is expected to move into a stronger demand and smaller supply (and weight) situation for some time. At a minimum, the market may chop around but this next move is expected to be the one that flips the proverbial switch. Weights are a powerful thing as we have learned from 2015 and taking almost 50 lbs. off the market will have a very beneficial affect for pricing.

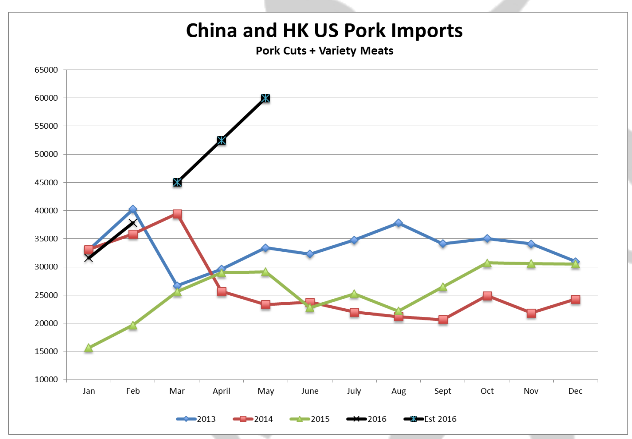
The Australian markets continue to evolve as we have expected with harvest rates still being well under a year ago. Imports, as a result, are running short as well. Imports are expected to continue very short of a year ago as we move through the summer and certainly this fall.





We would like to make mention of Chinese pork prices again this month as it is becoming something of a concern and now people are starting to notice it. Tight supplies have pushed up pig and pork prices and China's sow inventory has declined. As of the end of April, domestic pig prices have increased dramatically from last year. This is leading to stronger exports, a trend that should continue through the summer.

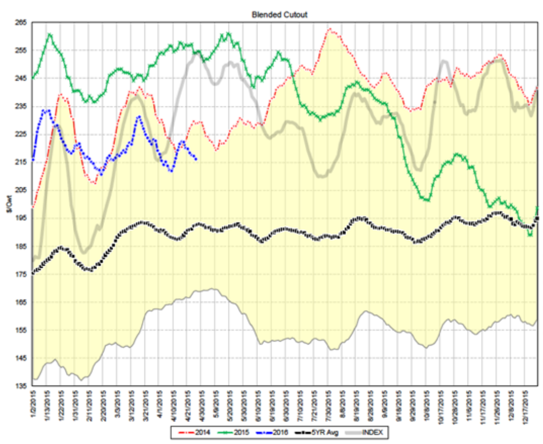


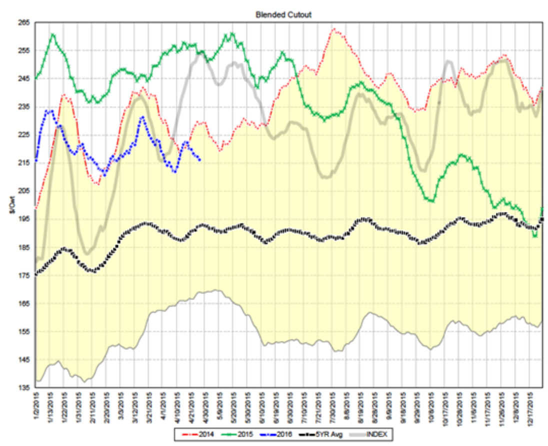


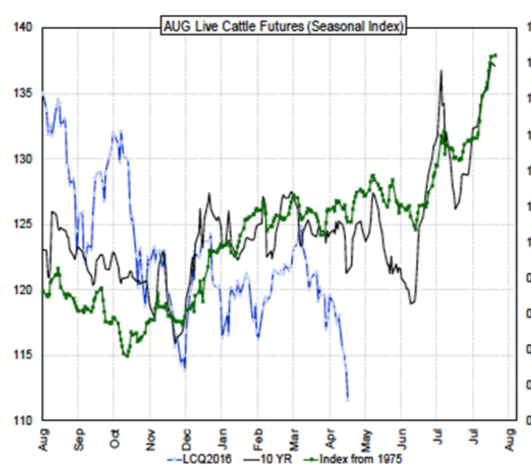
M & R Capital LLC

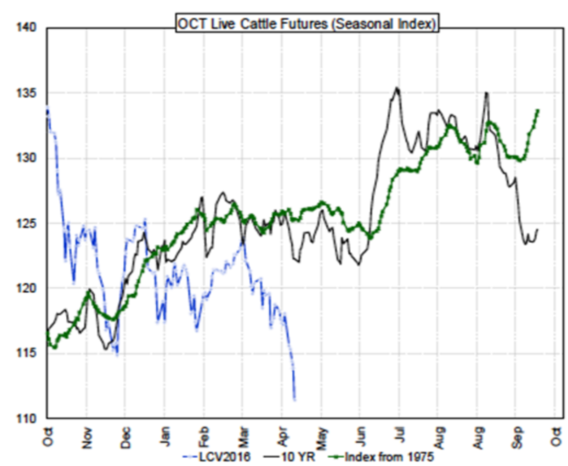
April 2016 Monthly Commentary

We were able to take our profits in the April Futures at $140 and cut our losses in the June at $122 when the market broke down through previous defined support. As our model is increasing demand and pulling supplies ahead we are engaging the most discounted part of the market right now thinking that futures discounts are in the tails of the probability curve and should show positive returns over the coming months. We chose to resist the emotional and technical signals to be short and it clearly would have been profitable. However, in our tenure we have found that fading our fundamentals is a path that leads to more loses than profits over time. We merely chose to stop out of longs while looking for a spot to re-engage, and letting the market catch up to the reality of the balance sheet. We are waiting to recover some of the recent drawdown capital before we feel we will have a significant amount of reserves in place in order to move back into larger positions. Once this is accomplished, it will then allow us to trade around our base. When this time occurs you will find we will come out of this treading water situation and re-engage the market with more frequency.









Regards,

Scott Shepard

5/2/2016

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

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