



June 2016 Monthly Commentary

- Cash cattle prices dropped \$3 in the month of June. Trade started at \$125 to start the month, falling towards \$115 mid month, settling at \$122 at month end. Futures moved with cash falling \$4 in the month, which normally is not the case.
- Basis continues to be a struggle with futures at or near record wide discounts to cash. Basis is trading between \$6 and \$10 depending on the week.
- Beef prices were offered all month following the Memorial Day holiday. Prices moved in a very seasonal manor falling from \$211 to \$202. The largest production levels are behind the market in June and as a result so too should be the decline in prices. Retailers are planning to lower prices and feature beef more aggressively later this summer and throughout the fall.
- As a note on demand, price to quantity relationships generally call for a 1:1 or 2:1 relationship between production increases and price movement. Beef prices declined \$9 or 4% while slaughter rates and marketing's ranged between 6% and 10% larger—clearly a sign of increasing demand.
- Chicken prices are moving higher while beef prices declined. This will encourage retail featuring of beef over chicken late this summer and into the fall as retail margins are maximized for beef and getting crushed for chicken.
- Packer margins continue to be very strong.
- Slaughter levels have been much larger than expected in June as feeders continued to pull cattle forward from the future. Packer contracts are noticeably smaller in July than in prior months, as much as 50%. This signals that cattle have been marketed and consumption has been strong. As a result, harvest rates are expected to decline from the seasonally larger June levels.
- Placement levels have backed off in the month of June falling to only +3% vs the past months where we had seen numbers as large as 10% or more. The expansion has stopped and forward supplies are not expected to grow beyond what is already in the hopper.
- Weights, while having bottomed for the year seasonally, are now solidly 8 lbs. below a year ago. We should see this trend widen as we move through the later summer and fall.
- Cash prices have most likely bottomed seasonally for the year. While prices might retest these \$115 lows, basis should begin to change from the big \$10 discount to more of a \$2 discount come August 1st. As a result, futures could be hunting for a summer low now.
- The pinnacle of the long roll is right now. This typically and magically marks the end of the sellers and marks the beginning of the buyers as we look into the September 1st valuations.
- Funds have added roughly 10k new shorts to start the month while commercials are the buyers.
- In the wake of the Brexit madness that rocked many markets, the cattle market got by comparatively well. This is important to understand as the sharply higher move in the US Dollar usually implies US exports would decline and imports to the US would increase. However, real data continues to show the opposite with US exports growing and imports into the US continuing to decline.
- Our skepticism with regards to Chinese imports of US pork continuing through the summer came to a head mid-month. The discussion revolves around Chinese imports of US pork having stalled for the moment. This has allowed cash prices to decline from \$85 to \$80 in recent weeks and for futures to take out their big premium to cash and fall back to par with cash coming down from \$90 to \$80. While prices may continue to erode, the bulk of this trade is over for us now that risk rewards have equilibrated to fair value.

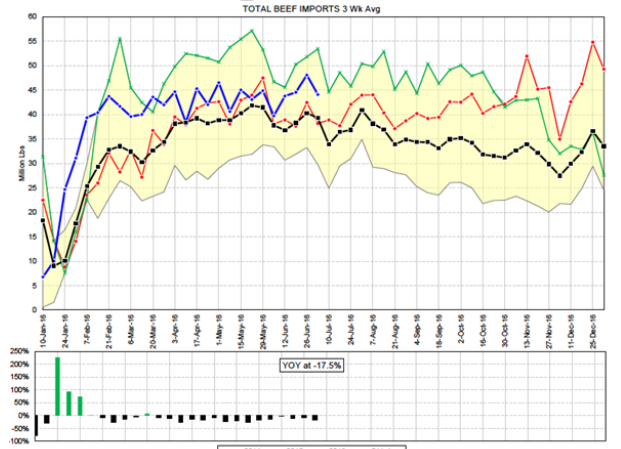
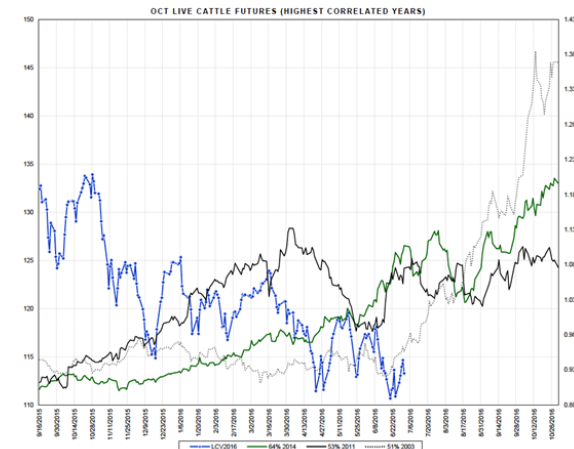
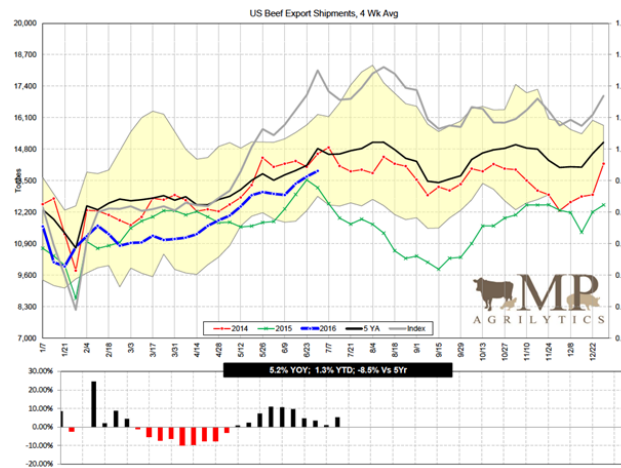
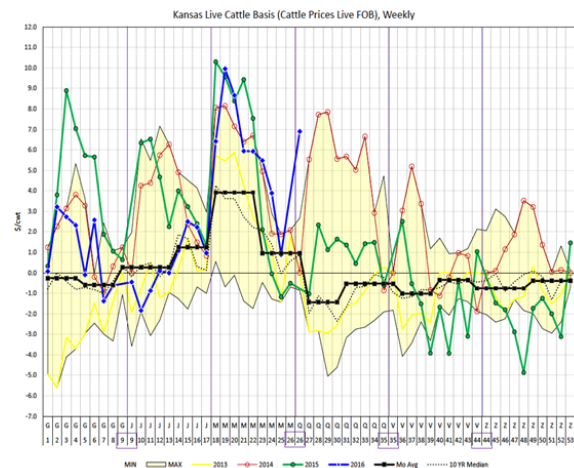
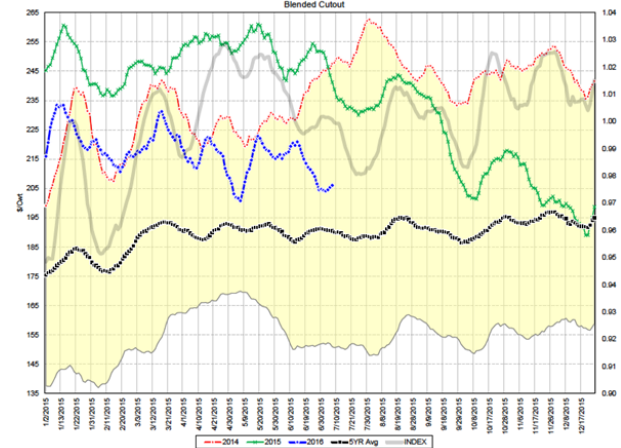
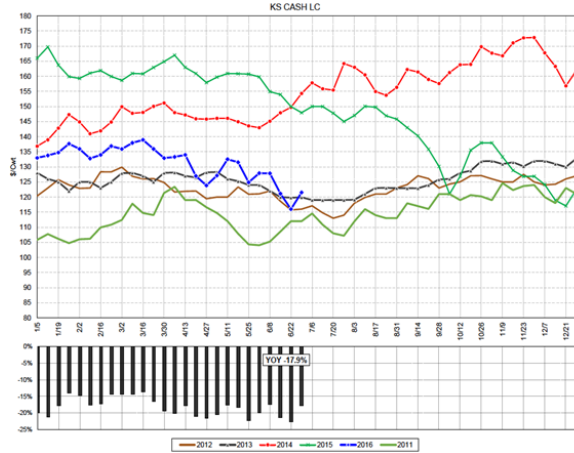
Regards,
Scott Shepard
7/8/2016

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