



July 2016 Monthly Commentary

- Cash cattle prices dropped during the month of July putting in what could prove to be the cash and futures lows for the year. Trade ended the month at \$116 but found trade as low as \$114 in the middle of the month. Futures prices moved with cash early in the month. The contract then divorced from cash moves and rallied the remainder of the month narrowing basis to some degree.
- Basis continues to be a struggle with futures at or near record wide discount to cash as compared to history. By the end of the month basis was a calm \$3 to \$4 vs the past \$10 to \$7 we have become accustomed too. Seasonally futures are par to premium to cash.
- Beef prices were offered all month falling to \$197 choice and \$194 blended which is roughly \$122 live. Forward demand continues to be strong for both domestic and export trade. The largest production levels are behind the market and as a result so too should be the decline in prices. Retail margins are maximized. As a result, retailers should be lowering prices into more aggressive features later this August and into September.
- Packer margins continue to be very strong.
- Slaughter levels have been much larger than expected as feeders continued to pull cattle forward from the future. However, now that basis has narrowed this seems to have stopped. As a result, the packer should move into a more competitive need for supplies as compared to these past 3-4 months.
- Placement levels vs marketing levels have resulted in a large decline in total Cattle On Feed. Even though placements were +3% in May and +3% in June they were more or less steady in July. This compares to marketings that have been a strong +10% for 3 months running now. This could result in a total Cattle On Feed number falling under a year ago as of August 1st.
- Weights, while having possibly bottomed for the year, are now solidly 8 lbs. below a year ago. We should see this trend widen as we move through the later summer and fall.
- Now that cash prices have possibly bottomed, the futures will be looking for where they will be complacent with basis. Packers should be looking for cattle to fill their increasing forward demand. Funds are still shorts and commercial users have been aggressively selling out of longs while cattle feeders have increased short hedges. Prices do not seem like they have topped. While a correction can be seen, higher prices could still be on order.
- One thing we have to recognize is that US beef market is the cheapest in the world and if the US\$ declines it will get even cheaper. As a result, our market is set up to export **NOT** import beef at \$120-\$110 values. In addition, weights will continue to increase their decline with year ago values. More heifers will hit the slaughter mix and weights should be 20 lbs. or more below a year ago this fall. This will act like 3% less beef production given all things constant.
- Our skepticism with regards to Chinese imports of US pork continuing through the summer came to a head mid-month and proved to be very accurate. We exited the bias to start August. We will be looking for spots to engage a long position. The key here is the Chinese will be looking to re-engage the market somewhere from \$60 to \$50 since walking away from \$85-\$90.

Regards,
Scott Shepard
8/5/2016

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