August 2016 Monthly Commentary

- Cash cattle prices continue to drop driven by the decline in futures prices and fears of equity positions that exist in the industry. Cattle feeders continue to pull ahead and liquidate inventory at a near record pace. Cash trade ended the month around $110 last week and expected to be lower at $105 this week. This is down from $120 during the second week of August. These are prices last seen in 2011. August carryover is the smallest we have seen since January of 2014 and this is also the highest sold ahead position for the industry in over two years. As a result, September supplies are expected to be smaller than a year ago. The seasonal peak in supply came in July, and monthly inventories could decline steadily into November from here.
- Basis continues to be a struggle with futures at or near record wide discounts to cash ending at roughly $100 early this week as compared to last week's $110 cash and this week's expected $105 cash trade.
- Beef prices sat at roughly $200 ($126 live) all month before falling to $190 ($120 live) late last week and early this week. Forward demand continues to be very strong for both domestic and export trade. Retail margins are maximized. As a result, retailers are lowering prices and beef is noticeably grabbing market share with consumers. Forward sales last week were the largest ever for this time of year: +53% versus values a year ago.
- Packer margins are record for this time of year, averaging between $150 and $175 per head.
- Placement levels for August will be confusing to look at when they come out in late September. There were two extra days in August this year. The weekly average placement rates, which should matter more, were roughly +5% from a very small value a year ago. However, when comparing to last year, USDA will show +15%. These cattle will be coming in the later winter time frame or early spring depending on the weights in which they entered the yard. The same will go for marketing values being much larger than expected. This concept should drive bull spreads into the remainder of this month and into October following the completion for the long roll period later this week.
- Packer forward contract purchases are falling through the floor. This means that packers will have dwindling ability to be off the market as they pull contracts into the coming months and definitely early next year.
- Cash prices should have bottomed but seem to be following futures instead. Seasonally, futures bottom in early September and are expected to rally into the fall. This year should be no different. Futures in general, whether right or wrong, provide leadership to the industry. Hence why feeders have been so aggressive selling cash forward as futures have been falling. This is expected to be a double edged sword.
- Breakeven prices for the growing beef demand and packers' forward sold exposure is $120. This compares to today's $100 October futures and this week's expected $105 cash trade.
- Exports are up and growing; imports are down and falling; Australian prices are at an all-time record high; weights are going to reduce the available net beef supply by roughly 3% alone this fall; seasonals indicators could be up from here; carryover has reached a two year low. These are all things that come together to support prices not pressure prices.
- The market is grossly undervalued and expected to recognize this soon. Bull spreads will dominate the trade in the coming months.

Regards,

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September 7, 2016

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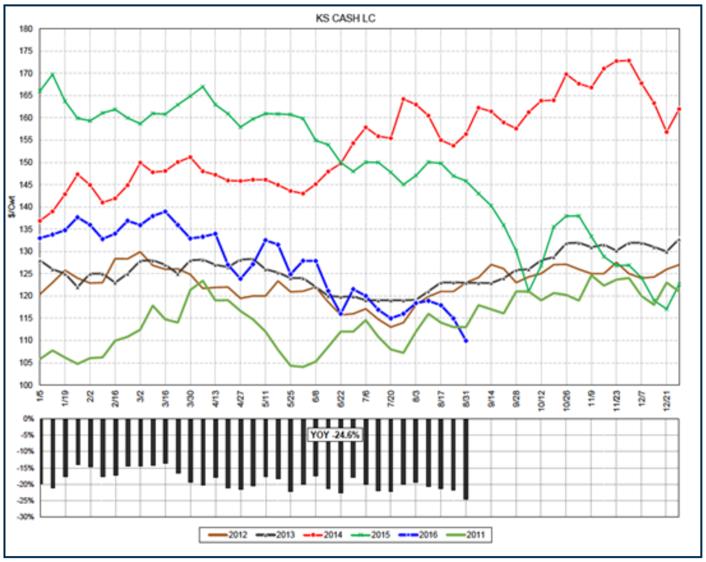

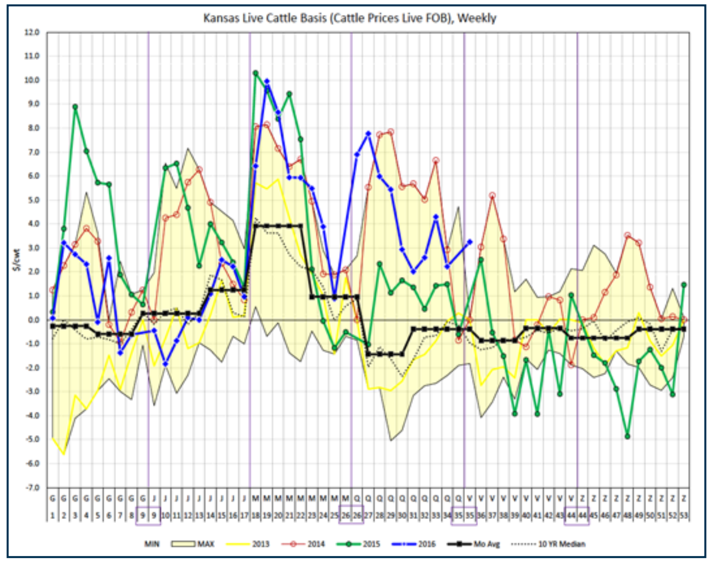

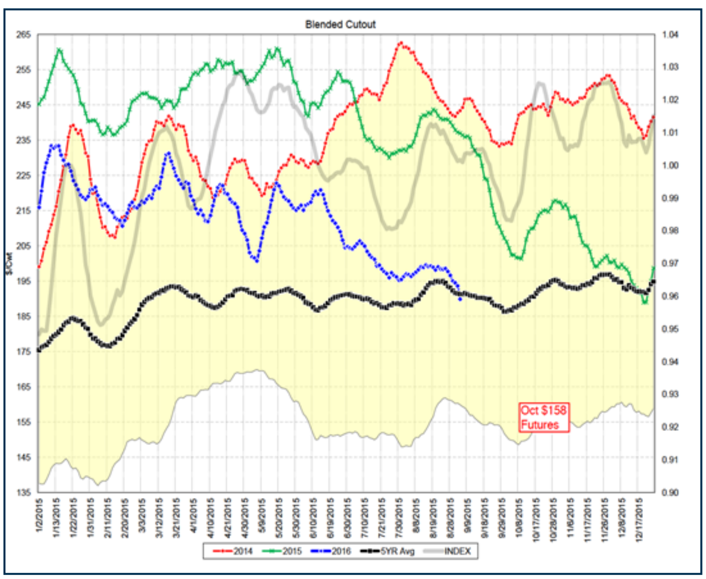

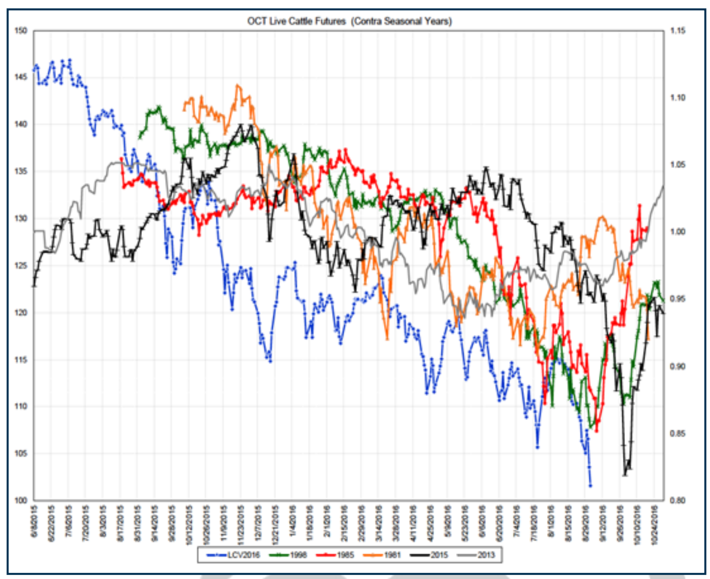

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