M & R Capital LLC

September 2016 Monthly Commentary

- Cash cattle prices continue to drop driven by the decline in futures prices. Cattle feeders continue to pull ahead and liquidate inventory at a near record pace. Cash trade ended the month $102 on the averages last week but found trade as low as $98-$100 in spots. These are six year lows in prices. August and now September carryover is the smallest we have seen in almost 3 years. Cattle feeders are done selling and we should see showlists declining as confirmation of this. As a result, October and November supplies are expected to be smaller than a year ago. The seasonal peak in supply is behind us and monthly inventories should decline steadily into December from here. Interesting fact, prices bottomed on 10/1 last year.
- Basis has changed. Futures are starting the month at roughly a $1.00 discount to the last cash trade and par in the December and February. Seasonally futures should be moving premium to cash.
- Beef prices declined with cattle prices dropping $8 last month and sit at $183 blended to start the month. Prices for most every cut are lower than retailers have seen in years. End cuts, ground beef, fat, and steaks are all at values and driving increased features. Retail beef features continue to increase +10% over a year ago as prices come down for consumers and retailers scramble to capture record margins. It is interesting to note that packers have started raising forward prices from these $180 levels up towards $190 and $200 as we look into the fall and winter. This is important because forward prices are always a sign of where the cutout is going when those trades prices hit the USDA pricing system for the time they are sold. After building 50% more forward demand at $190-$180 retailers are now likely to shift from forward buyers into greater spot buyers in the coming weeks as clearance continues to be good.
- Packer margins widened to all time record highs for this time of year at nearly $200/hd. This is the greatest impact to our model for what we missed on prices and why we have be struggled over the past few months to be profitable traders. As an example, normal packer margins are $70 per head for this past month but at $200/hd that is a difference between $100 cattle prices and $115 cattle prices. This is VERY important to understand for forecasting the remainder of the year. We understand packers are in the process of increasing hourly wages and it has helped them get more labor. This is all *just* in time for supplies to start declining.
- Placement levels for September will be only steady to +3% and marketings will continue to be huge estimated at +8% to +10%. This will be bullish for the market at current prices.
- Packer forward contract purchases continue to fall as feeders sell off inventory and have no desire to sell at $100 or less for the future. The implications here are that packers will have less ability to be "off the market" as they pull contracts into the coming months and should need more spot inventory as compared to the past few months (stronger demand).
- Recently, China announced opening access to imports of US beef. China has a population of 1.4 billion people and this market will play an important role for the US and will be supportive to cattle prices. Australian supplies are extremely short and China is currently buying all they can get from Brazil so it's natural for them to turn to the US to fill the void. Especially now that prices are $105-$100 vs $130-$150. Great trade china!
- We had thought cash prices bottomed at $104 in August but they appear to be bottoming right now around this $98-$100 area. Seasonally, futures bottom in early September and are expected to rally into the fall. This year seems to be a month off much like last year was. 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 edge sword now that they are done marketing as much inventory as they have.

Scott Shepard
October 6, 2016

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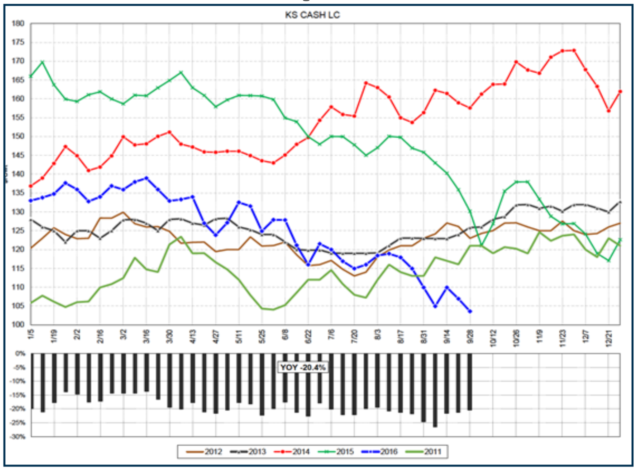

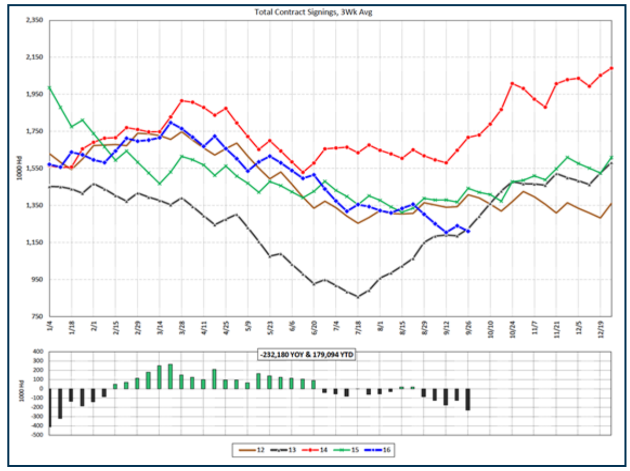

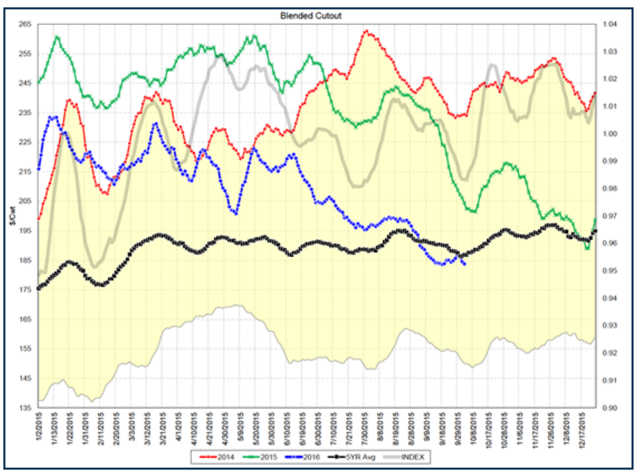

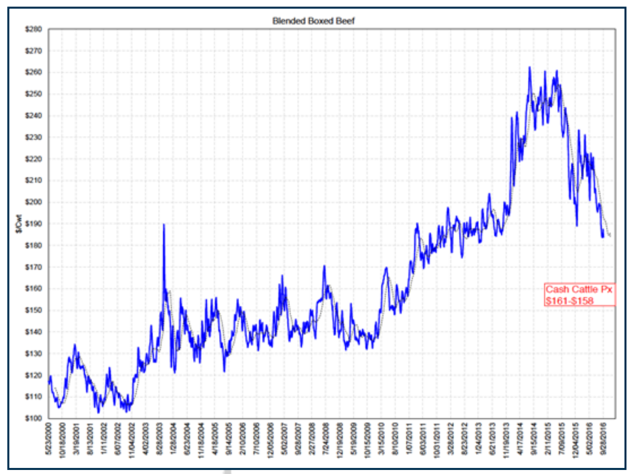

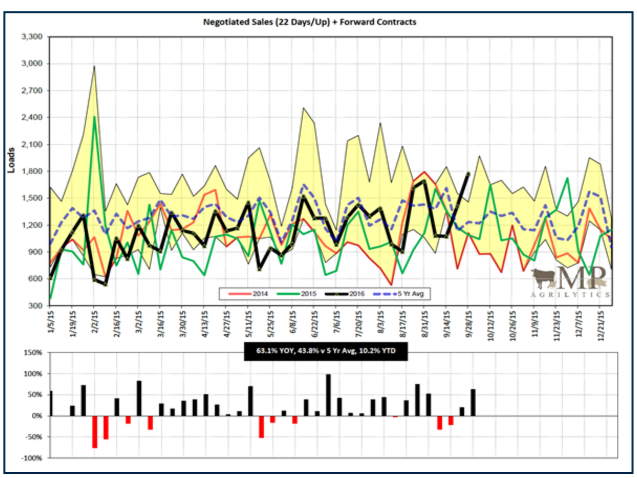

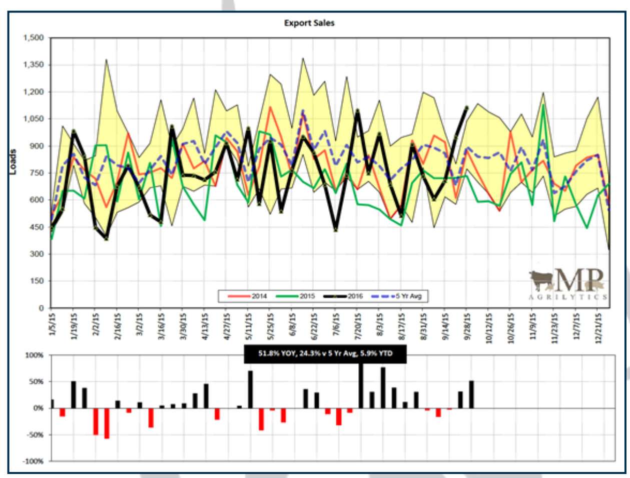

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