



October 2016 Monthly Commentary

- Cash cattle prices found support in the month of October at roughly \$95 and ended the month at \$105. Strong packer margins, declining showlists, and a bullish USDA Cattle on Feed report supported trade. USDA posted a much smaller than expected placement figure for the month of September at -3%.
- Beef prices eroded on continued strong slaughter rates combined with record large packer margins forcing prices down. Prices gain strength into November and December on increased holiday demand for ribs, tenders, and ground beef.
- Packer margins weakened a bit from the record wide levels over \$200/hd in September but remain well over \$150/hd at the end of October. As we discussed last month, this is the single largest factor in our model that is creating havoc with pricing expectations. As you can see by this week's price action, things are starting to normalize. At \$105, things are getting better but still have some ground to make up as we move out of the fall and into the winter.
- Placement levels posted about 6% less than expected for September at -3%. October placements will continue with this trend at -5% or more. Marketings continue to be strong as feeders move through their peak supply and look forward at declining inventories from current levels through the winter. As a data point for this trend, packer contracts are down some 30% for November through January.
- Imports continue to be down with quantities still 30% lower than this summer and some 45% below last year's peak. Currently running -13% on a 3 week average and -3% versus a year ago week over week as last year's trend dropped 20% from September into December.
- Export shipments slowed as USDA and China ready their new rules for all beef trade soon. However, Mexico and Korea have been much stronger than expected. Rumors of Mexican exports to China are driving this trend as they seem to be able to negotiate with China much easier than the US. They have been able to buy US live cattle these past few weeks and ship that beef to China. Australian exports in October were -47% to the US and China.

	Week Ending 28-Oct	Week Ending 30-Sep
Kansas Cash Trade	104.80	1.20 103.60
Blended Beef Price	176.64	-5.97 182.61
December Futures	104.35	4.23 100.12

Upcoming Data and S&D Thoughts:

- The next Cattle On Feed report is expected to post total supplies under a year ago with placements down again and marketings still strong.
- Northern supplies are the smallest they have been in close to 6 years and marketings have out paced placements now since July. Peak supplies are behind us and smaller showlists will be seen from late October through February.
- Canadian COF supplies are the lowest in the data set. In addition, the numbers in Mexico and Canada are tight enough that they are being forced to import from the US for their domestic needs.

Expectations and Comments:

It's been a struggle this year with our forecasts and model expectations vs the market. Things seem to be starting to change for the better and we are anxious to see what the end of the year brings. The market has no weather premium priced, no expectations for declining showlists into November or December, and a sentiment that is complacently bearish. Shorts are still betting on increasing supplies and trends similar to last year. We are still a believer that prices move up from here. The cash lows are in and we need to be focused on where this turn will take us into Q1. The \$106 area has proven to be a larger reaction and pivot point area for the technical traders. When we move over that we should begin to see things become a bit more realistic in terms of modeling expectations as the selling over these past few months unwinds. The long index roll is this week and should mark the last of the selling in the market for a while following that the shorts will roll out of December and into February. As these shorts roll we will likely roll our longs with them. However, one interesting thing we have to forecast from an outside vantage point is the index rebalancing factors that will take place in early January.

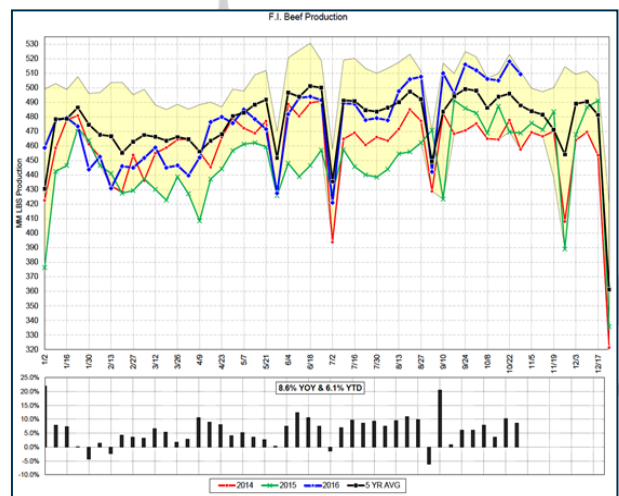
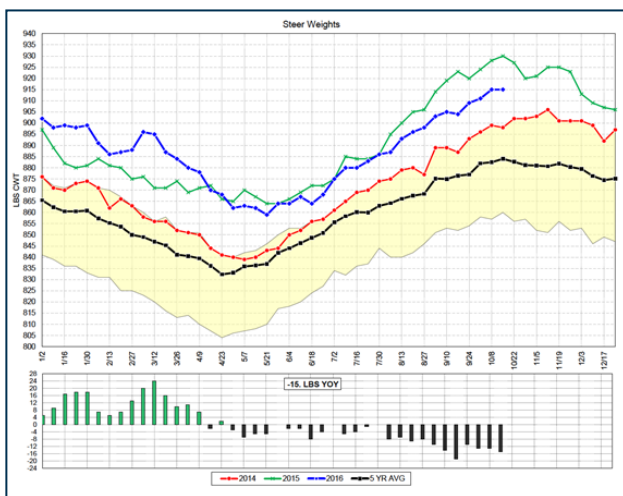
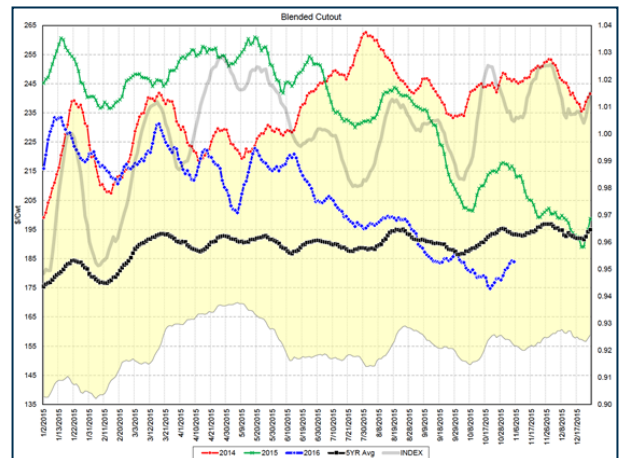
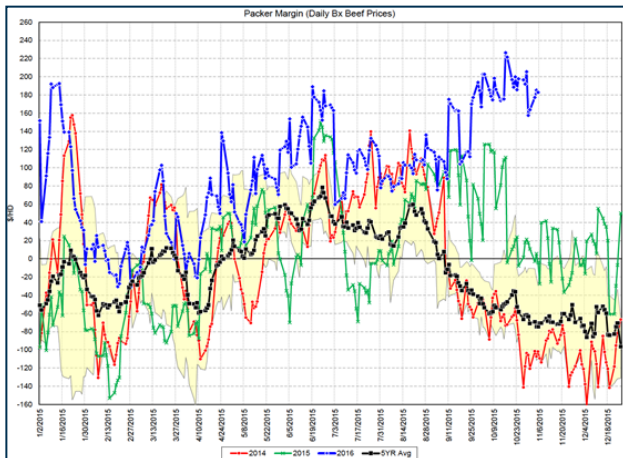
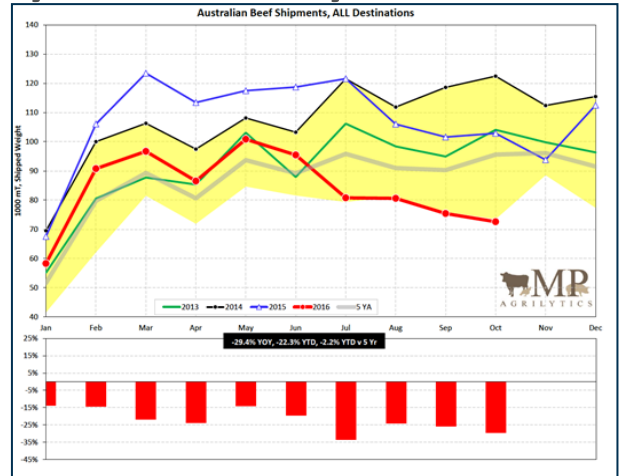
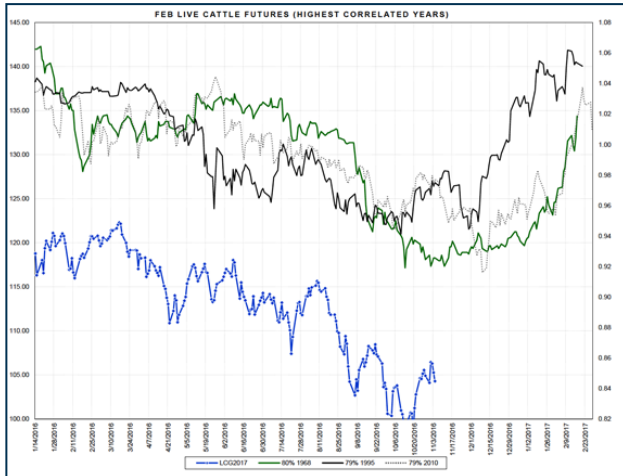
Scott Shepard
November 7, 2016

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