M & R Capital LLC

November 2016 Monthly Commentary

	Week Ending 2-Dec		Week Ending 28-Oct
Kansas Cash Trade	114.75	9.95	104.80
Blended Beef Price	181.72	5.08	176.64
December Futures	111.37	5.77	105.60

- Cash cattle prices advanced all throughout November from $104 to $115. Increased packer demand for live supplies amid seasonally smaller showlists and very strong demand supported trade.
- Beef prices surged on exports as well as better domestic retail trade. Exports and very strong forward sold positions are key to this demand curve. Seasonally prices increase into December where they make a minor seasonal top. Notes of interest on prices: Imported 90s are the HIGHEST premium to domestic 90s in 10 years, 65% beef trimmings are at the highest discount to 72% pork trim (McRib) for this time of year in recent history, 73% trimmings (typical ground beef patty at fast food) are the cheapest to chicken breasts for this time of year, boneless ribeye's basically hit an ALL TIME RECORD high.
- Packer margins were crushed from last month's $150/hd into the end of November at +$25/hd margins. Breakeven with beef prices at $184 blended beef price is $118. As you can see by this month's price action, things are starting to normalize. At $115, things are almost up to base line forecasts. However, changes that can affect the forecast that are coming to light are an increase in bird flu outbreaks in Asia and Europe that is causing a culling of those herds. As well, we seem to have a large gap in yearlings to calf placements to deal with. As a result we need to be mindful of this impact as well as the global balance sheet and unexpected demand from that. The US is still the cheapest around. However, the most important thing to watch from here is the packers desire to keep slaughter rates strong or pull them back. This will affect near term pricing more that anything in our opinion.
- Placement levels have increased in November as the calf runs have entered the feedyard. Keep in mind we have YET to place more than we have marketed for months over months. As a result, the December 1st Cattle On Feed total will be 99% of a year ago, which is the smallest on record for the month of December. Beginning inventory is at a 5 year low. As a data point for this trend, packer contracts remain down sharply through January. But this will be a big placement number to see in a few weeks.
- Imports continue to be down with 90% imported trimmings at their highest premium to the US 90s market in 10 years at $0.25/lbs. Export shipments remain strong at +22% over a year ago with all 'major' Asian destinations +37% year over year.

Upcoming Data and S&D Thoughts:

- The next Cattle On Feed report is expected to post strong placements (summer through fall supply depending on placed in-weights) but just as strong marketings. Total Cattle On Feed is 99% of a year ago. Beginning inventories are at a 5 year low at 15% below a year ago. Therefore, when you put a 15%+ larger placement figure on top of this it will only get us back to steady. Regardless, the market will 'trade' this placement value and we intend to as well.
- Northern supplies continue to be small but are now starting to place cattle (calves) for next summer and fall. Cattle are starting to carry mud, which will hurt weight gain and increases packer competition for clean cattle (yields). Weather will begin to be an issue as winter will bring some powerful winter storms ahead in December and January. Peak supplies are behind us and smaller showlists will still be seen into January. We will look at April and June to play the larger placement data.
- Canadian COF supplies are the lowest in the data set. They are currently dealing with an outbreak of TB and quarantining and culling herds to control it.
- China is buying a lot of protein and this is expected to continue with the US announcing a broader ruling on US regulations for direct beef trade. China was expecting this in September and is buying US product via Mexico until the US can get off their duffs and work for the industry for a change.

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Expectations and Comments:

- It's been a struggle this year with our forecasts and model expectations vs the market. The market is experiencing the mean reversion we have been looking for and focused on for the second half of this year. We were aggressive in late October and early November. However, we pared back risk to spreads as there is a seasonal desire to pull back prices into year end and we need to be mindful of that. In addition, the next USDA Cattle On Feed report is expected to show a larger placement value and will affect the back months. The market had no weather premium priced, no expectations for declining showlists into November or December, $150/hd margins priced, and a sentiment that was complacently bearish. That was $12 ago. At $112 we have smaller showlists priced, margins that have normalized, yet there is no weather premium as futures are still discount to cash. We believe the packers are over killing the available supply by 4%. If that is true it could be worth $7 in price and take futures higher still. However, if kills are reduced to match supply with demand we are priced at $112 for that. Futures, however, remain discount to cash and seasonally should still gain on cash into early 2017. Shorts have come out of most of their miscalculated positions since we accelerated through $106 and moved over $112. The big "long hog vs short cattle" player seems to now be buying cattle and selling hogs. Spec short covering was absorbed by 20,000 contracts of new short hedges from the cattle feeder from $106-112. Specs putting on new longs should be their next focus with the rebalancing of the Index roll in early 2017 likely to be the pinnacle of this play. We still view cash as a $105-$120 item into early 2017. We are still playing on the long side of the market in the front month but don't be surprised if you see us shift into cattle spreads (placements) vs Feb, April and June. As well, there is potential for a seasonal and stronger demand play in hogs for year-end valuations.

Scott Shepard
December 2, 2016

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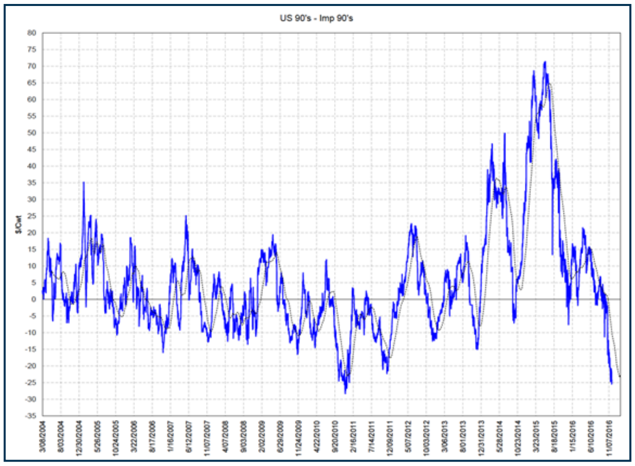

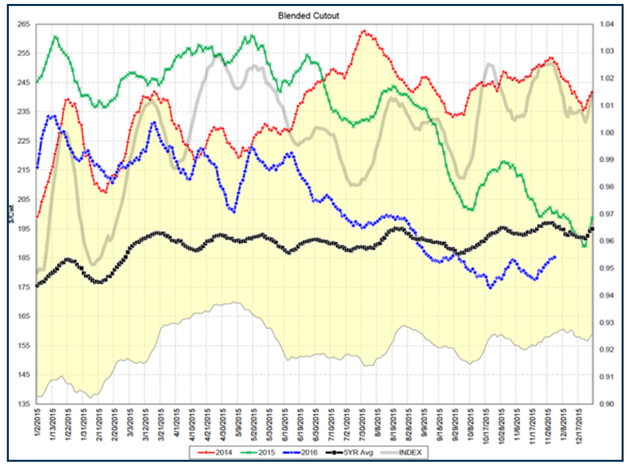

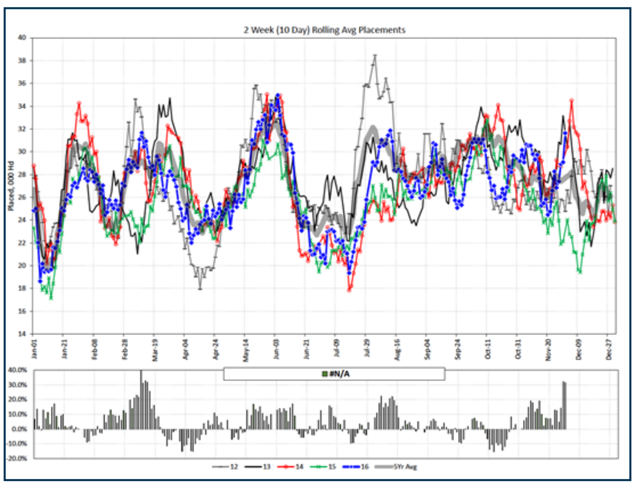

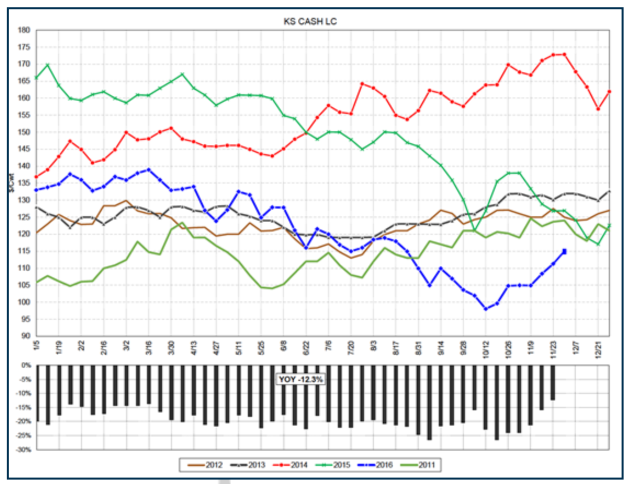

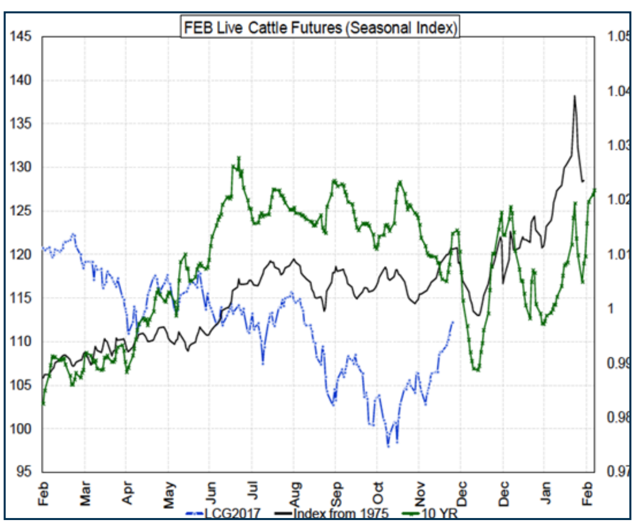

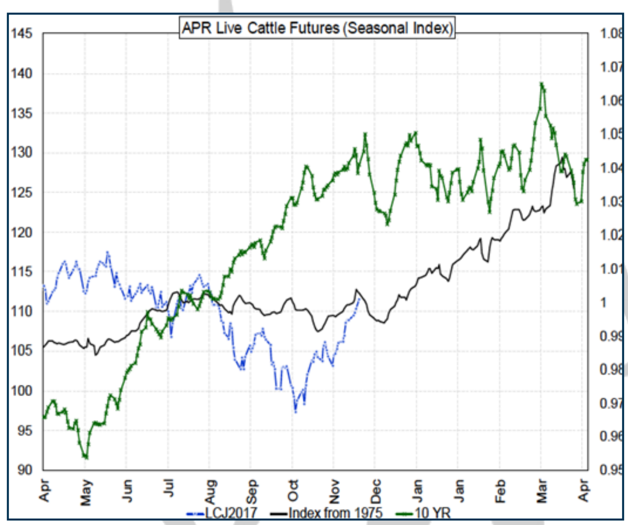

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