



December 2016 Monthly Commentary

Notes of interest on prices:

- | | Week Ending
31-Dec | | Week Ending
3-Dec |
|--------------------|-----------------------|-------|----------------------|
| Kansas Cash Trade | 118.00 | 3.25 | 114.75 |
| Blended Beef Price | 198.09 | 16.37 | 181.72 |
| February Futures | 116.05 | 7.18 | 108.87 |
- Cash cattle prices advanced all throughout December from \$110 to \$118. 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. Prices are expected to top out in January or February as demand moves into a difficult time of year.
 - Packer margins continue to be very high. Breakeven with beef prices are at \$198, blended beef price is \$125. As you can see by this month's price action, the market has normalized. At \$118, things have hit our base line forecasts. However, a few things that can change the forecasts have come to light recently—an increase in bird flu outbreaks in Asia and Europe and the market for Holstein's is finding it difficult, if not impossible, to market their cattle. In addition, we seem to have a large gap in placements to deal with right now. As a result we need to be mindful of these impacts on the market, global balance sheet, and unexpected demand. The US has equilibrated prices with this rally in beef prices as well as the rally in the US Dollar. This increase in the US Dollar is becoming a concern. 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 than anything in our opinion.
 - Placement levels have increased in November, +15%, and in December estimated to be +7%. 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 is 99% of a year ago, the smallest on record for the month of December. As a data point for this trend, packer contracts remain down sharply through January. Adding to this, the placements at +7% and marketings at +6% for the month of December and total Cattle On Feed remains at 99% of a year ago. These recent placements are coming in April-June.
 - Imports continue to be down, running 9% under a year ago for the past three weeks on average. Australia remains weak at -44% (3 wk avg) but strength from Mexico at +24% (3 wk avg) and Brazil at +59% (3 wk avg) is making up ground in recent weeks. Brazil's growth is strong but they only make up 3% of the market. Export shipments remain strong at +19% over a year ago with all 'major' Asian destinations +38% year over year. The surging US Dollar is a concern for sales trends in early 2017.

Upcoming Data and S&D Thoughts:

- The next Cattle On Feed report is expected to post another strong placement figure at +7%. This has us on the defensive looking for a correction in prices. With total Cattle On Feed at 99% of a year ago, we have to be conservative in our forecasts. As a point of reference, when we put last months 15%+ larger placement figure on top of this it will only get us back to steady total supplies.
- Northern supplies continue to be small but are now starting to place cattle for next summer and fall. Canadian supplies remain very tight and we need to monitor that situation. Weather has been an issue but now seems to be calming down. Peak supplies are behind us and smaller showlists will still be seen into January. Average slaughter availability will range in the 565,000 to 585,000 hd range for January. We will look at April and June to play the larger placement data.
- The long index and speculative roll will be the largest we have seen in over 3 years. This will affect the February contract especially if the packers reduce their demand in the coming weeks.
- Canadian COF supplies are the lowest in the data set.
- A disturbing trend has developed with certain packers shying away from the Holstein breed based on a large retailers change in demand. This has a very large percentage of this supply going to two packers and reducing their demand for live supplies in general. We will monitor this situation for impacts on near term prices as well as the impact to future supply patterns.

Trading futures contracts and commodity options involves substantial risk of loss, and thus is not appropriate for all investors. Investors should carefully consider the inherent risks of such an investment in light of their financial condition.

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Expectations and Comments:

Now that the market has seen its mean reversion we will focus on a correction in price and trade in the near term. The index fund rebalancing and roll will be excessive. We wanted to get bear spread for this but did not due to year end volatility concerns. This is something we will look into as we start the new year. We believe the index funds have bought all their rebalancing needs and will merely focus on rolling a bigger number throughout the roll period in early January. This will be followed by the largest fund rolling of longs we have seen in over two years. As a result, it will be most likely that bear spreads rule the trade for the early part of the year. If kills are reduced to match supply with demand we will fall back towards the \$110 area. Shorts have come out of ALL of their miscalculated positions since we accelerated up towards \$118. Commercials are now the big short in the market. Speculators putting on new longs have increased the funds position up to a record 100,000 contracts. We still view cash as a \$105-\$120 item into early 2017. We will begin to test the bearish waters of pricing as well as bear spreads to start out the year. Hog prices have hit all objectives and are now moving into over priced areas. As a result, we will test the bearish waters in that market as well.

Regards,

Scott Shepard
January 6th, 2017

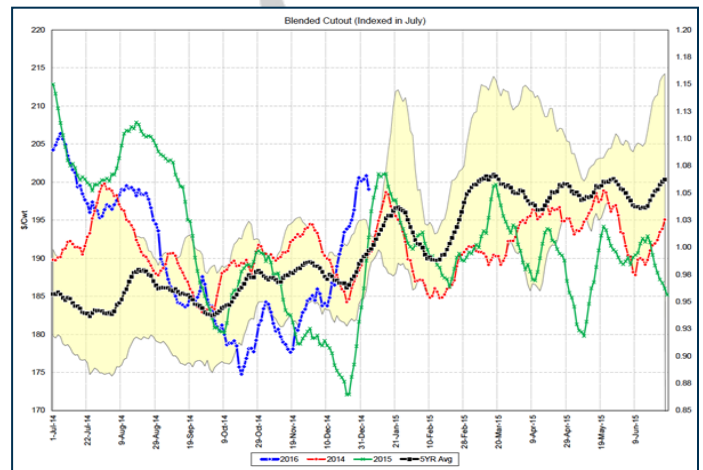
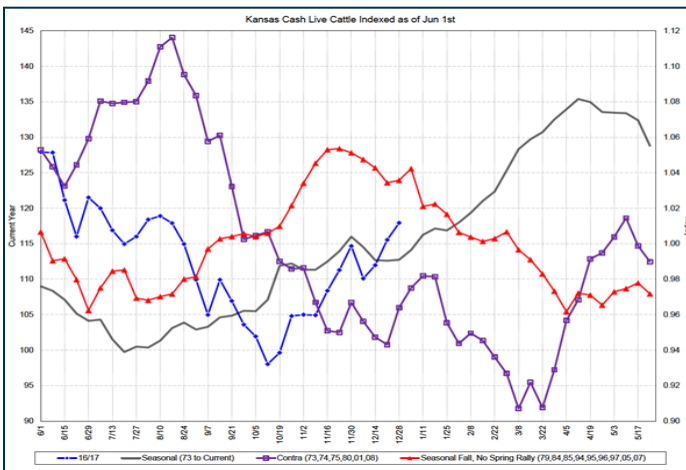
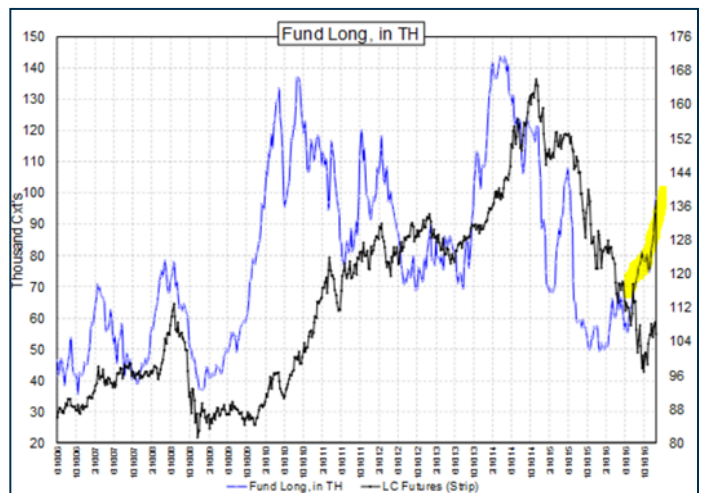
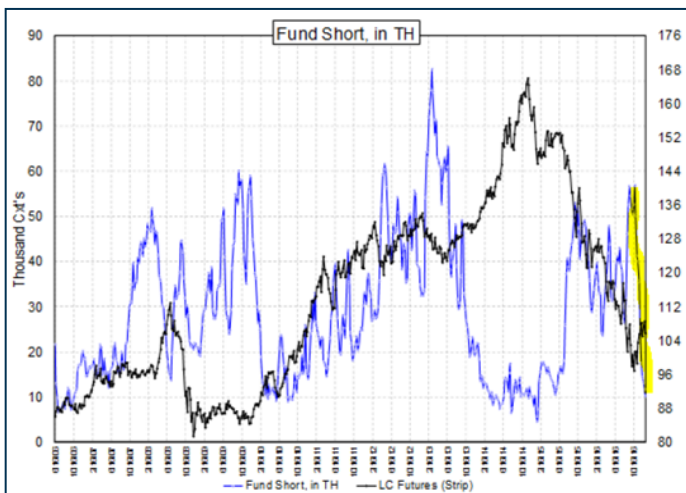
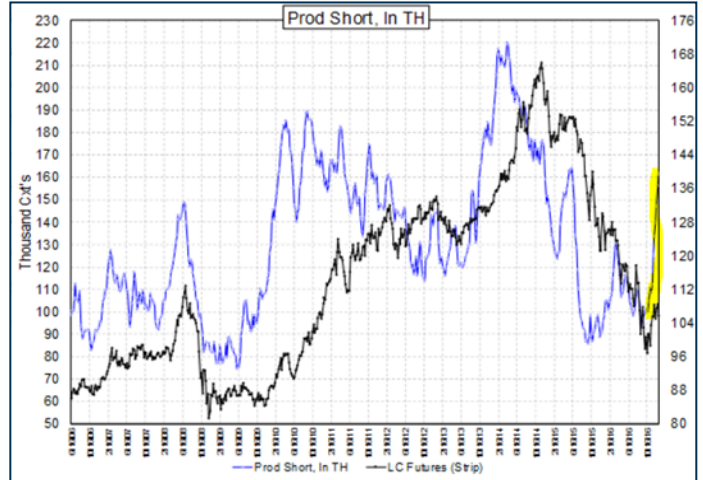
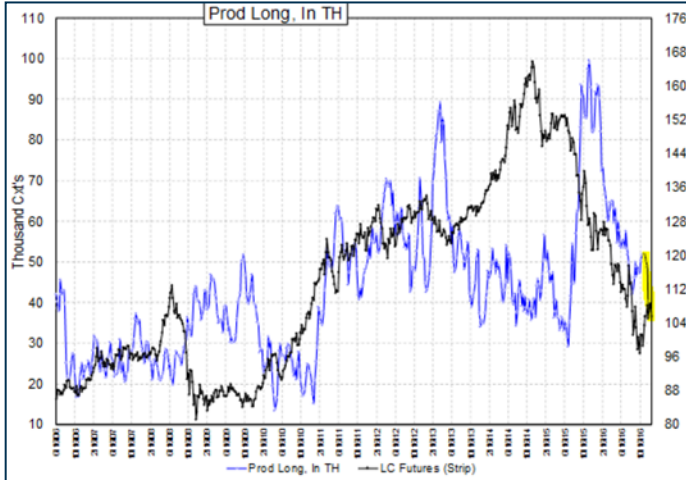


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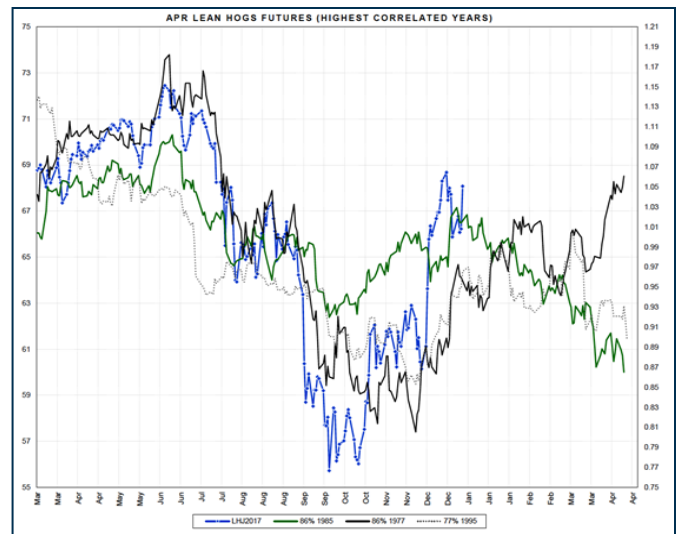
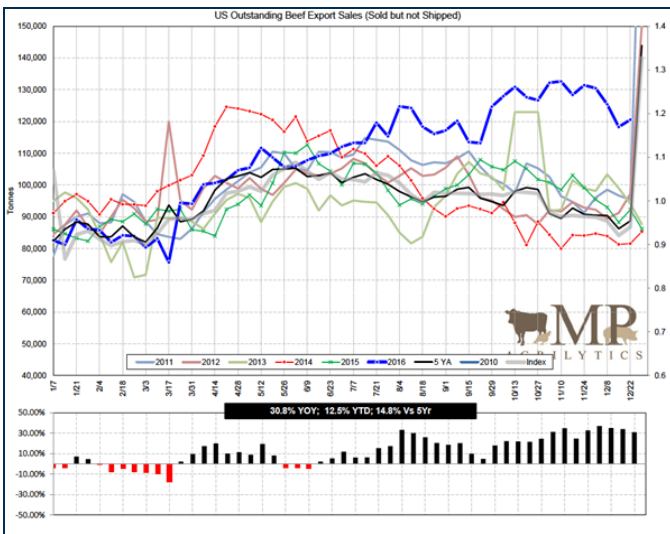
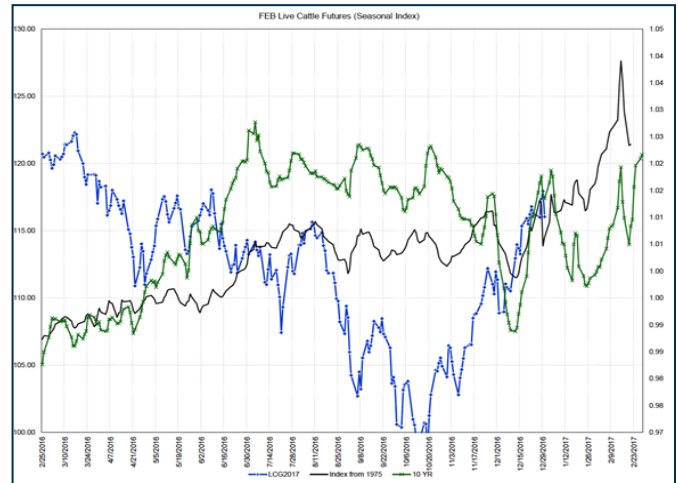
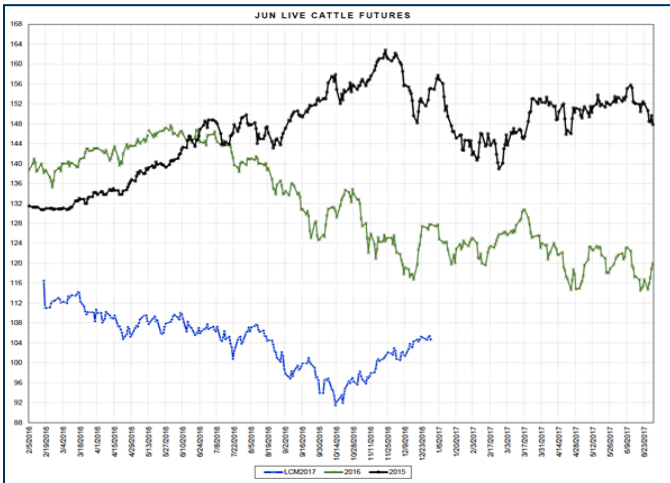
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