



February 2017 Monthly Commentary

Monthly Recap:

- Cash cattle prices advanced all through February as packers seem to have sold more demand than cattle supplies are readily available. As we have been saying for some time now January and February were the tightest supplies of this cycle. This fundamental is trading out. Live supplies are being pulled ahead at a record pace in order to supply today's demand, which was created some \$20 before and weeks ago on the cutout value.
- | | Week Ending
4-Mar | | Week Ending
4-Feb |
|--------------------|----------------------|-------|----------------------|
| Kansas Cash Trade | 125.00 | 6.00 | 119.00 |
| Blended Beef Price | 205.16 | 14.49 | 190.67 |
| February Futures | 117.57 | 1.95 | 115.62 |
- Beef prices rallied \$15 through the month before buyers could get their fill and packers continue to want to kill more than the available supply—hence this rally. Exports were the strongest part of the demand curve and the driving force for trade. We expected prices to top out in February but it seems like we have just done that here in the first few days of March.
 - Packer margins eroded through the month but quickly bounced back as beef prices spiked \$15-\$20 off their lows. Since demand was created at \$185 its likely to fade a bit here at \$210.
 - We said last month that at \$118, things have hit our base line forecasts but still felt like \$123 was possible and now we have traded up to and through that level. However, the board has yet to run with the cash market and remains a record discount to cash at its widest at \$8-\$10 in April and \$12 in June. The board's discount to cash assumes that more cattle will be coming in 2017 and they are not wrong. Kills will be in this 560-580 area in March but moving quickly up to 600,000 in April and 620-630,000 in May and June. The USD has rallied back in a very strong posture in February, which can reduce exports here forward especially after the depressed USD prices from January which created our recent demand over these past few weeks.
 - Placement levels have increased in November, December, and January, but are estimated to have STOPPED in February, which will be -5% or maybe as much as -9%. We think the placements have stopped cause the yards are now full for summer inventories. This is another reason why cash prices are likely topping now.

Upcoming Data and S&D Thoughts:

- The next Cattle On Feed report is expected to post a decline in placements from February at -5% to -9. This has us wanting to be long the back months beyond this summer especially if that pattern continues into March and April, which it likely will.
- Spot supplies of cattle will continue to be small but are being supplemented by pulled ahead inventories and increased turnover rates. Supplies over all are the tightest now and will increase as we move forward from here.
- Weather has been a bad issue with mud and yields but this is cleaned up now and should no longer be and issue moving forward.
- We still see the average slaughter availability increasing from current levels around 575,000 head in March up towards 600,000 in April and more so in May and June. We will look at April, June or August contracts to play the larger placement data even with their discount. While we are not a believer in selling record discounts to cash there is still an opportunity here. Spreads will be an integral part of our strategy, as will options.
- The long index and speculative roll has been going on to a smaller but consistent manner over these past two weeks. They will be the largest we have seen in over 3 years and with their pinnacle in volume seen next week. They have to move some from April to June or August (where all the cattle are) next week which will bring about the larger opportunity we want to watch for which is taking that on and waiting for their roll into the fall (where the cattle may not be). Inflation is and will continue to be a hot button for the speculative and index community and you can see this affecting trade all month especially at month end. They firmly believe in a weaker USD and higher interest rates pulling ALL commodities higher in 2017.
- There is still a labor shortage fear with more beef as well as pork plants coming online in 2017.

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:

We think the market is attempting to find its seasonal top early this year. However, with the futures at such a large discount, trading this idea will be more difficult than normally expected. The placement patterns tell us there will be a \$30 move in prices from high to low this year and we still believe in that. However, with the summer contracts already pricing in \$20 of this here in lies the difficulty for trading this. The index fund roll will be excessive and we will look to play this movement of longs. If kills are reduced prices will fall in March and if they are increased prices will keep rising. Prices will be lower this summer. Commercials have been selling hard late in the month and funds have been piling on more than ever. Seasonally the funds are about at their cap for exposure and we should see them focus on rolling from here or stopping out if prices move lower. We will begin to test the bearish waters of pricing as well as bear spreads but we will not be selling hard breaks and will be looking for rally points as a focus.

Regards,

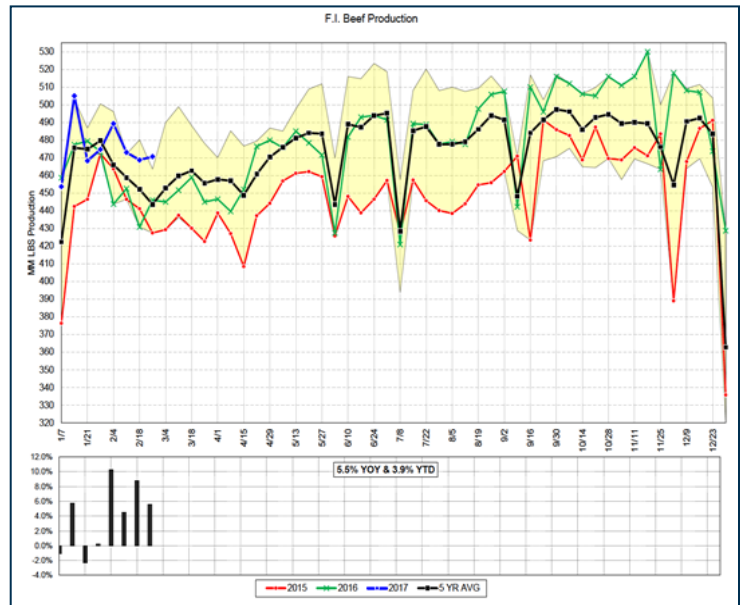
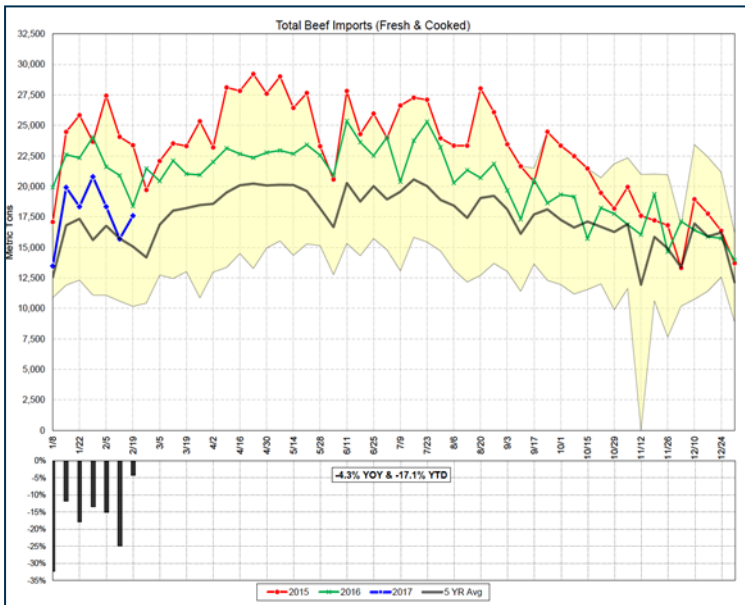
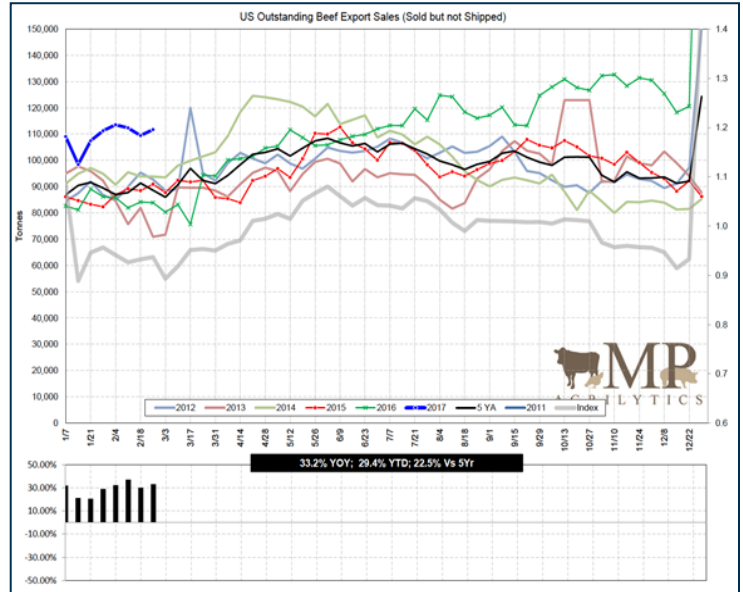
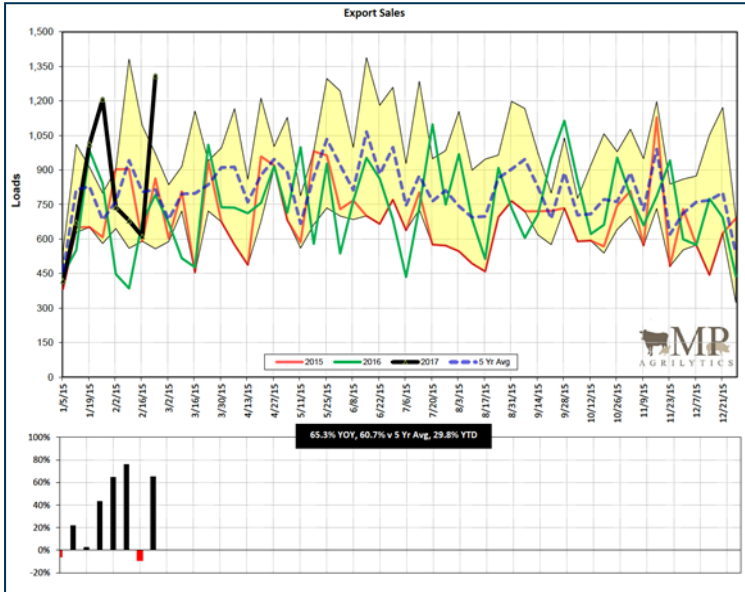
Scott Shepard
March 3rd, 2017



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9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us