



March 2017 Monthly Commentary

Monthly Recap:

- Cash cattle prices advanced through March as packers continued to chase live supplies to match up with their beef sales which were forward sold in prior months. This pushed basis to record wide levels. At over \$130 live, packers stopped chasing the spot market and began pulling from forward inventory and contracts. This stemmed from meat buyers that backed away from further price increases in the beef over \$220. Forward cash trade was aggressive with more volume than I have ever seen trading as much as 30-45 days out front. This needs to be monitored aggressively because with this many cattle being pulled ahead, there could be another void in supply if demand raises its head again this spring or summer.

	Week Ending 1-Apr		Week Ending 4-Mar
Kansas Cash Trade	130.00	5.00	125.00
Blended Beef Price	211.63	5.59	206.04
June Futures	110.87	4.12	106.75

- Beef prices rallied \$6 through the month before buyers stopped chasing. Packers kept kills restrained but then increased kills just as buyers walked away, creating a near \$20 slide in beef prices into month end and into the first week of April. Now that prices are closer to \$200, buyers are stepping back into the market. Seasonally demand will get better next week forward into May.
- We have said that supplies were tightest as we moved through March. We looked for a top in the trade and found it in the cash market with ease at \$130+ but with the board at such a record discount to cash it was very hard to be a large short in the market. That said, we did hit the bear spreads and small short June position. However, now looking for spots to buy into the discount. Demand is strong and the boards discount does not seem justified. From \$106-\$108 we expect the June futures to find strong support. Funds are record long and while that is a risk we will use long puts to protect this strategy. We believe the record commercial short is actually at more risk than the record long fund position. We should expect the cash market to trade in a range of \$105 to \$130 this summer and for basis to narrow every week here forward. The cash lows for this spring should be in early April at \$120 and then again at \$110 in August. The board is at \$109 in June and \$106 in the deferred months—it's too much.
- Placement rates have slowed so the next COF report, while larger, should post a modest increase in placements. However, marketings are expected to be very large especially with the massive supplies that were pulled from April into March to create those March production figures. This is the largest pulled ahead supply we have ever seen.
- Beef exports continue to out perform expectations posting a very strong February at +18% and +20% year to date. Japan was the standout at +45% year over year.
- We had a brief tainted meat issue that presented in March. A few plants in Brazil were accused of bribing inspectors to let rotten products flow into the world markets. Specific markets responded by shutting down all Brazilian exports temporarily for about a week. All these markets have since been re-opened and the allegations remedied. A longer term ripple affect can be seen if some of this Brazilian demand shifts to the Australian and US markets in order to prevent these offenses from potentially being a part of their meat supply in the future.

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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Supply and Demand Thoughts:

- Spot supplies of cattle will be larger with weekly harvest rates likely to be around 620,000 head for all of June, July, and August. However, the aggressive pulled ahead figures of cattle from April into March and now May into April means we may have a void in supply coming if harvest rates increase before these summers supplies are ready.
- We still see the average slaughter availability increasing from current levels up towards 600,000 in April, May, and 620,000 in June. Recent declines in prices have now priced in the placement data and more than enough in seasonal price declines. Prices declining more than this \$105 area will require exports to stop, domestic retail prices to jump, and June supplies to be pulled ahead into May. If not, \$115-\$120 will likely be a better estimate for early summer pricing. We are not a believer in selling record discounts to cash and will be locking to re-engage the long side of the market.
- The long index and speculative roll has been actively pre-rolling their positions recently. Yet they still have a lot to do as we look into the early May roll period; this will be an on going trading focus for us. The funds love this discount to cash and will remain long this market.

Thank you to our friends at MP Agrilytics for their data and charts.

Regards,

Scott Shepard
April 6th, 2017

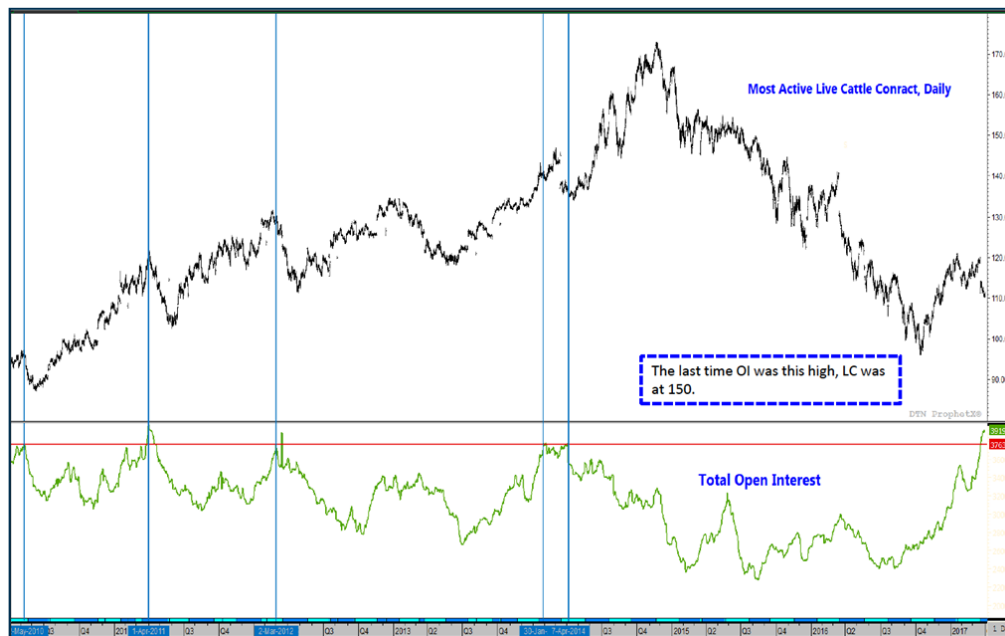
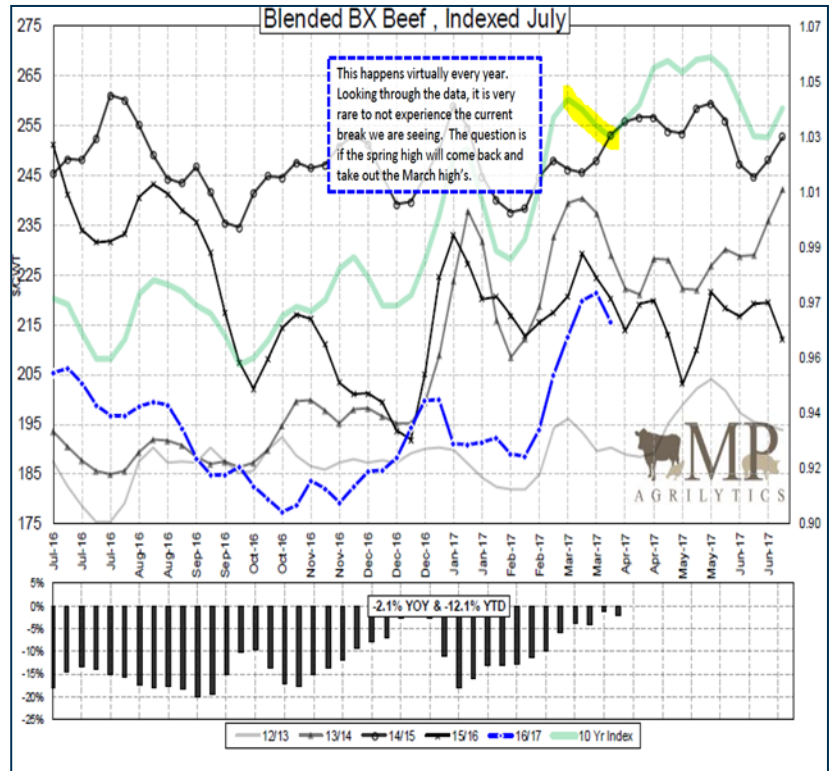
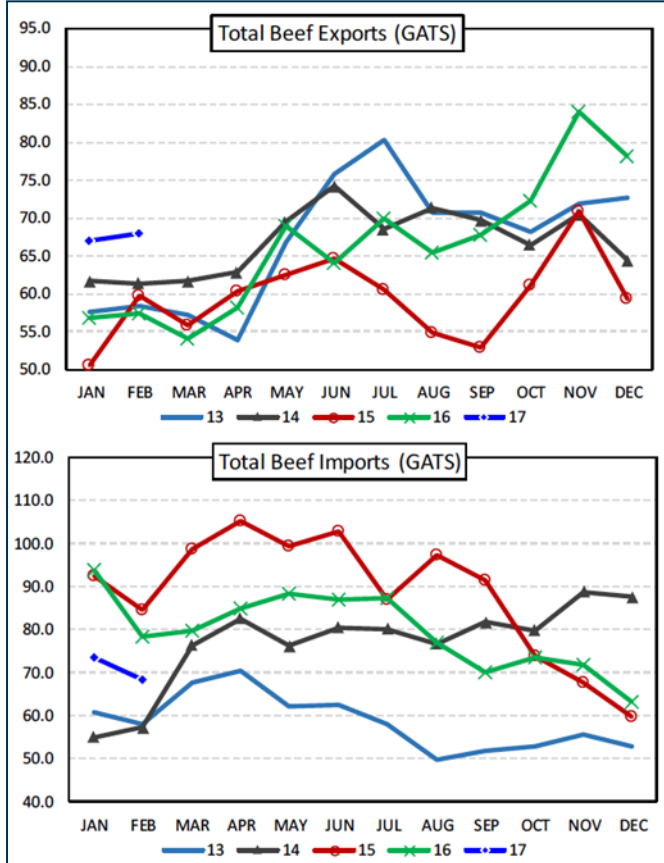


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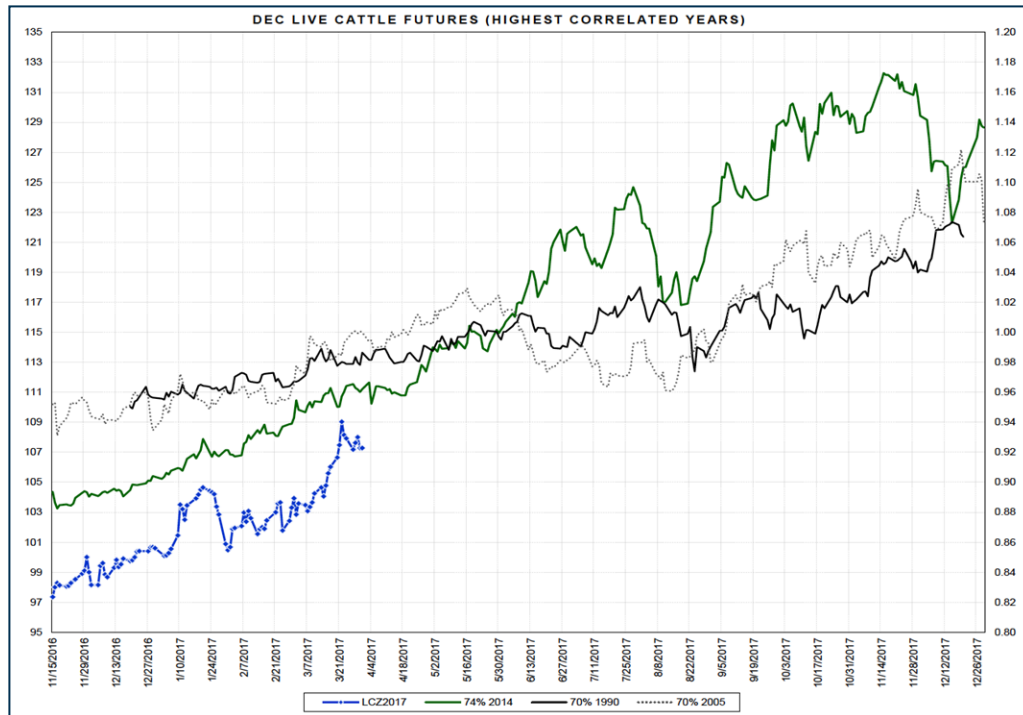
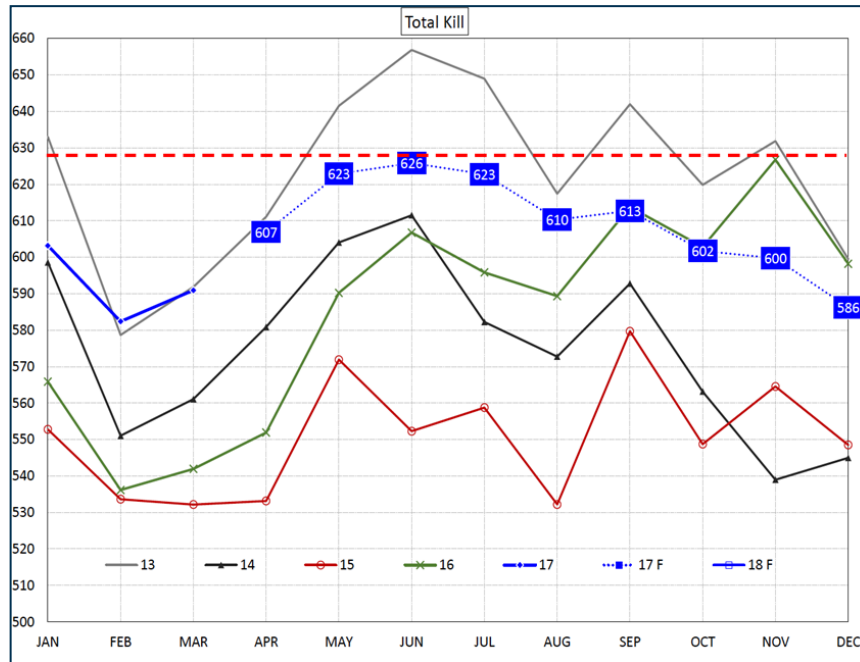


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