April 2017 Monthly Commentary

Monthly Recap:

	Week Ending 30-Apr		Week Ending 31-Mar
Kansas Cash Trade	137.00	7.00	130.00
Blended Beef Price	214.73	3.10	211.63
June Futures	110.87	0.00	110.87

- 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.
- Cash cattle prices advanced through April like a rocket ship to the moon. At face value it seemed like one packer forgot what is was like to buy cattle or hadn't bought them in well over a month. They were caught buying cattle forward into late April and early May and pulling those cattle into spot harvest periods for the middle of April. This manufactured a hole in supply, forcing prices higher and hitting $140 at the end of the month. The reason I use that word is that I find it interesting that when you do the math it shows that by delaying purchasing cattle in March, they were able to price ALL their April contracts at $120 basis LCJ futures (plus basis). In affect buying inventory before they cased for the rest. So did they really pay $140? Interesting ideas especially considering less than 30% of this market trades in the spot.
- As packers pushed for live supplies, forward basis continued to run record wide cash premiums to future. At over $137-$140 live, packers stopped chasing the spot market and began curtailing forecasted kill schedules for May and June—which is now sending beef prices sharply higher. Forward cash trade was aggressive in April as packers worked to secure supplies into mid-late May and early June $10 under the market. However, unlike the past months when they pulled them forward, these forward contracts seem to be priced but not moving. Instead they are deciding to curtail kills instead of pulling them ahead and killing them. This is a much different pattern than what we saw in March and April.
- At the end of this cash market shuffle, relative to total committed inventory, packers are now sitting on the largest supply in 7 years. Packers own 60k more head in the month of May and they will most likely use those supplies to stay off the market for the coming weeks.
- Beef prices rallied but the jump in price as well as lower sales volumes have been lack luster as compared to surge in prices of live trade. As a result, packers' margins are break even or in the red depending on where your forward book is priced. If you are on formula you are still +$30/hd but if you are negotiated or forward sold you are losing. Seasonally demand will get better into May as weather permits. Retailers, however, are forward bought through the middle of June. Meat buyers are backing away from further price increases in the beef at over $230 now and shifting some beef features into pork and chicken for later June and all of July. This is very important to understand as this rally has been built on prices being under $190 and then again most recently at $205 not $230 where they lie today.
- We have said that supplies were the tightest as we moved through March. We looked for a top in the trade and thought we found it. What we didn't know was that one packer was delaying buying cattle and needed to scramble into the end of April to find what felt like 30 days worth of cattle in one weeks time.
- Placement rates have been much stronger than expected with March at +11% and April even larger than that. Feedyards are full and will continue to focus on basis and marketing these supplies.
- Beef exports continue to out perform expectations posting a very strong March and +20% year to date.
- Weights remain lower but are searching for their spring lows as we speak. A freak blizzard through SW Kansas and Oklahoma this week did create some problems but at this time of year it's followed by 80 degree temps and wind so the issue is not a big deal.

9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

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

April 2017 Monthly Commentary

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 and will start on May 15th. The real question now is with red margins, and now declining beef volumes of trade at higher prices, will harvest rates be more or less than the available supply into the summer? We expect that slaughter rates will be less than expected in May and struggle to increase into June unless cash prices move back lower. At $120 slaughter rates can and will be 635,000 hd, adequate rates, but at $140+ they will be only 610,000 hd, less than the available supply.
- We said in last month's letter that we are not a believer in selling record discounts to cash and would be looking to re-engage the long side of the market. We never got that done and now the data has changed our opinions since this recent surge in prices. We can no longer support that strategy until after the summer and fall break in prices—which is still on order. As a result, we are focused on bear spreads (placement patterns) and being short.
- The long index and speculative crowd is at an all time record large long position and now that prices are at levels where demand will be challenged we are willing to take on this long position for the first time this year. We should see them roll into August, October, and December over the coming 10-15 days. Then we will see if the cash can decline enough to create the headline news needed to trip some long liquidation through the coming months. We see 2018 as being a very positive environment for cash but not until we elevate and chew through the record placement patterns we have seen and feedyards marketing their bulging supplies on or ahead of schedule.

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

Regards,

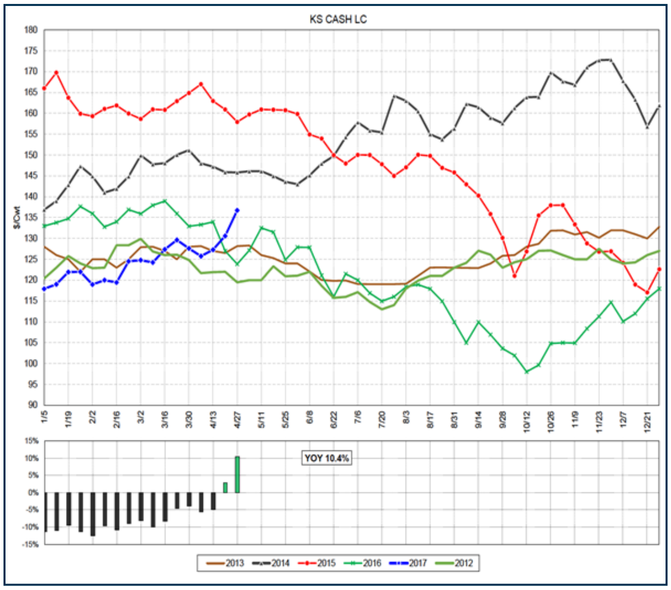
Scott Shepard
May 3rd, 2017

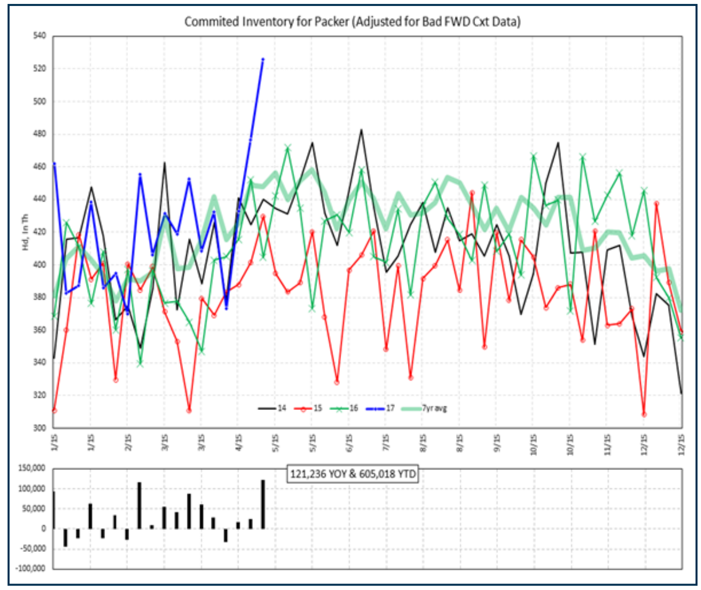
9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

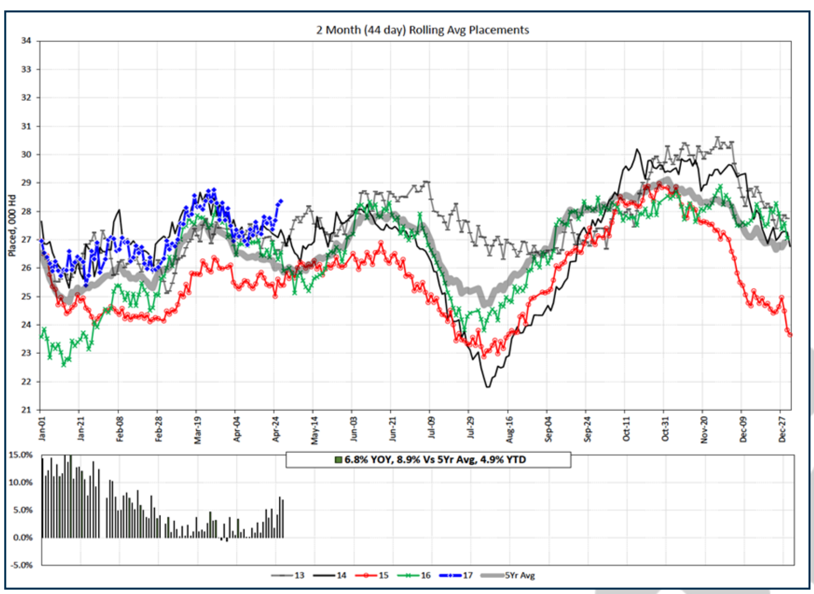
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

M & R Capital LLC

April 2017 Monthly Commentary



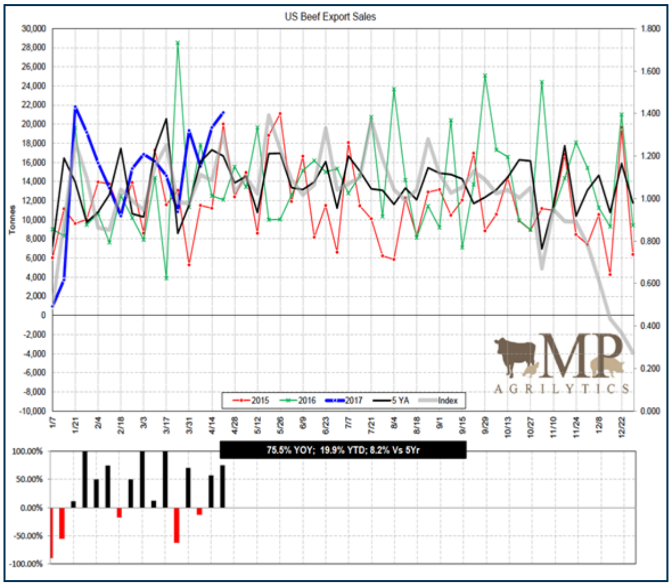


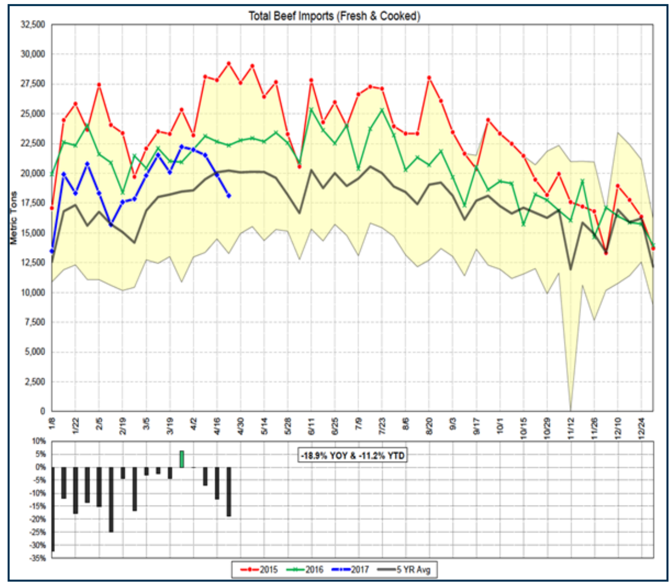


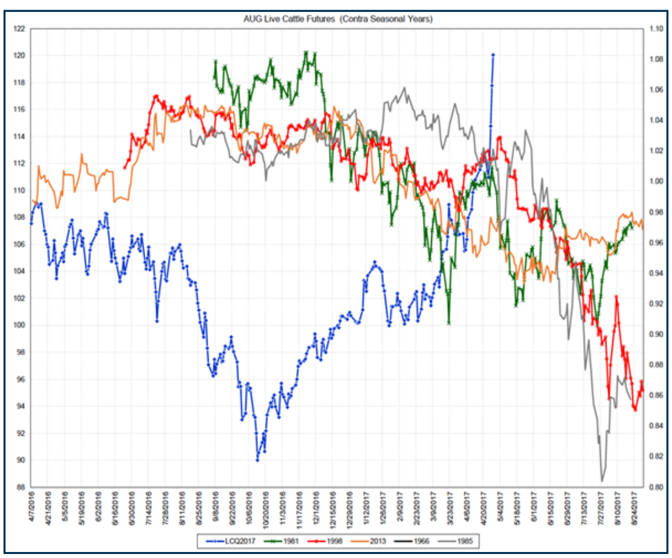
9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

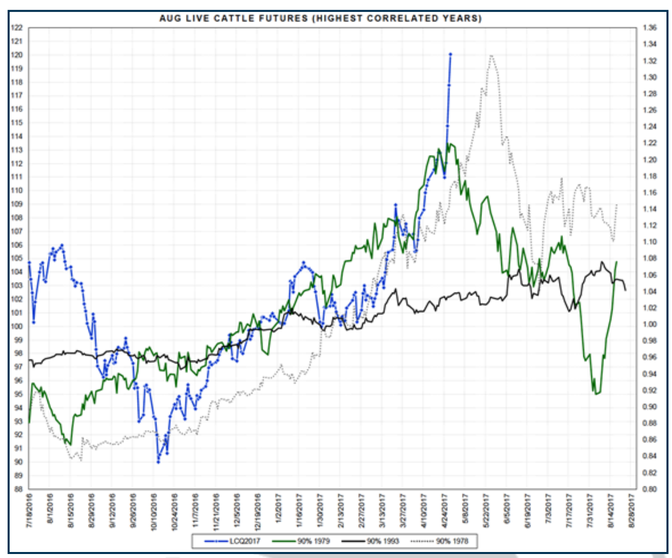
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

April 2017 Monthly Commentary





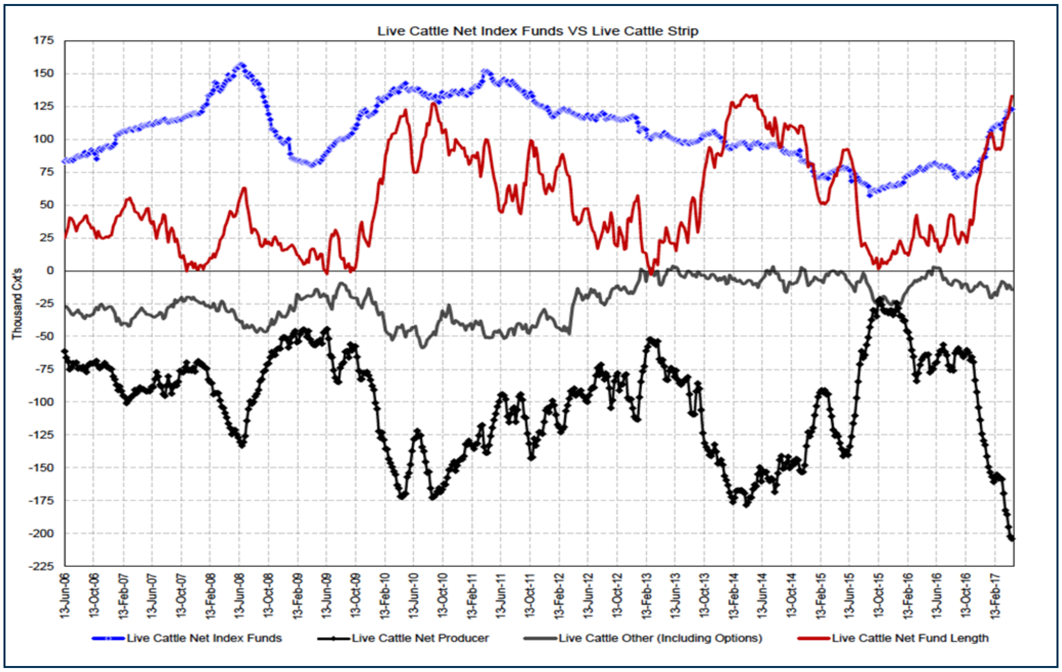


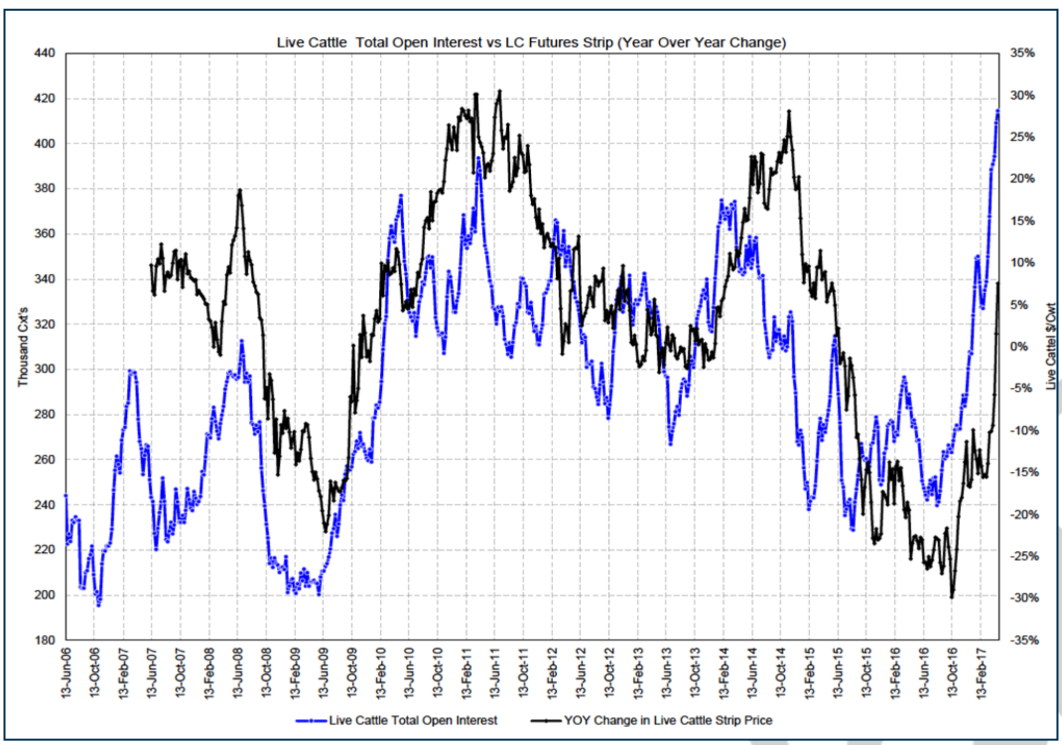


9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

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

April 2017 Monthly Commentary





9047 Poplar Avenue, Suite 101 • Germantown, TN 38138

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