June 2017 Monthly Commentary

Monthly Recap:

	Week Ending 1-Jul		Week Ending 3-Jun
Kansas Cash Trade	118.85	-18.15	137.00
Blended Beef Price	216.60	-14.80	231.40
August	116.55	-10.17	126.72

- Cash cattle prices started the month at $135-$137 and collapsed to an all time seasonal record drop for the month of June closing out at $119. Creating this large decline in price came from holiday down time at month end combined with aggressive forward supplies that had been booked into late June and early July, allowing packers to stay off the market until this week. As a result, basis collapsed from $12 to $10 down to $2. This has two effects: first it tells the producers to stop selling forward, which we have seen now for two weeks running; and secondly, it says to rotate back to normal feeding times. This will create a minor hole in supply availability from late July through August and secondly it will cause packers to increase their demands for spot volume trade. An estimated 600,000 hd were pulled ahead this spring and summer (about a week's production).
- Beef prices collapsed as expected dropping from $230+ to just under $216 at the end of the month. If you recall forward demand stopped in the middle of May as prices surged upwards to $235+ blended. However, now that prices have pushed back to the very well forecasted $205-$210 area this week, forward buyers are beginning to kick the tires for August and September. Exports have started back up in the mean time increasing to just about 15% of production. Ground beef demand is discussed as being very good to on the verge of the best ever. This is a trend we should expect to continue, especially with pork and chicken prices up sharply this summer. At the $205-$210 area retail margins will be strong and justify a shift back into beef for late August and early this fall.
- Placement rates have been moderated with the total head count in June down from the strong May number that USDA posted at +14%. However, with May supplies being mostly all lighter weights these cattle will be very much spread-out this fall and led to a slower turnover rate vs what we have seen over these past 10 months. June placements will post at only +3% and July's are likely to be much smaller estimated to be -6% or more. Hence, we can say with confidence that we are 50% of the way through the larger summer supplies and when you factor in the largest pulled supply in history we should be in store for an early summer low this year.
- Looking at slaughter rates for this summer's forecast we never had a forecast for 650,000 hd. Yet we did very close to that last week, and from what we hear we'll be doing it for all of July as well. This leaves us with no fear of backing up supplies and forces us to raise our seasonal lows in prices to the $112-$116 area. In addition, packer margins are record large, showing us that demand is much stronger than we forecasted.
- Packer margins are roughly $200/hd if you sold nothing and were all on spot. Margins are $300/hd if you sold 40% of your beef 2 weeks ago with cattle at $118. If beef stops at $205 like discussed, a $200/hd margin puts cattle at $112. A $100/hd margin puts cattle at $120-$122 and into the winter at $130. It is clear to us that the summer lows should be no lower than this $112 area with margins maximized and supplies peaking.
- Weights remain lower but have seasonally bottomed. We expect them to gradually increase through the summer and peak in the fall. Weights should remain about 15 lbs. under a year ago in 2017.
- The futures markets are still extremely volatile. Funds that spent early June buying some 50,000 August futures have so far sold almost all of those longs here at the start of July. Once they have completely shifted these long cattle positions from a $125 average into long hogs at a $82-$83 average we could continue to pull futures up over cash. Range of trade is expected to be $112 on the lows and $132 on the highs as we look into the summer and fall/winter trade. Looking forward, supplies are peaking and we will have less into the end of the year and early 2018. This means winter and early 2018 prices should be 30% higher than the 2017 summer lows.
- At the end of the day we're pretty bullish as all our data is shifting off center. As a result, we have covered bear spreads and started our longs in deferred months along with long puts for protection.

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Supply and Demand Factors:

- We thought we would struggle to get to weekly harvest rates above 620,000 hd for June and 630,000 hd for July. However, we hit 650,000 the last week of June and will do the same for the reminder of July. Add to this the aggressive forward sold inventory out of the feedyards and increasing placement rate for smaller cattle on the last USDA report and we have the potential for peaking supplies in July. This combined with a much greater global demand curve for beef and we have to raise our forecast for prices looking forward. Retailers played the forward game well and have the ability now to buy August and September at today's sharp decline in prices (which regains demand controls on the market).
- Seasonally we should find about a 20% break in prices from the spring highs to the late summer/fall lows. Measured from the $145-$147 peak we saw that would imply the lows are at $116-$118. As we outlined above, there is risk to $112 but that is about it, which would be a 24% break in prices.

Chinese Impact:

- Details surrounding US exports to China were released and as expected China holds ALL the cards in terms of pricing power and trade. Regulations include traceability, synthetic vs natural implant restrictions, and hormone restrictions. Because of these restrictions the flow of orders and demand has been slow. But as we get cattle on the ground, salesman and buyers are figuring out what they are actually trading. And thus increased demand is expected to start up later this fall and into early next year. They are discovering they can find discounted quality to match their price needs and trade restrictions that won't be as great of premium to the market than was earlier forecasted.
- US pork exports to China are still failing to match 2016 with many industry sources citing "softening" trade patterns for this summer and early fall—yet US prices continue to soar unexpectedly. This points towards ideas that exports are better than expected and we will look further into that. However, until proven wrong we are expecting that hogs will top seasonally very soon and US demand shifts back to beef and seasonally increasing supplies will weigh on the market into the fall.

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

Regards,

Scott Shepard
July 6, 2017

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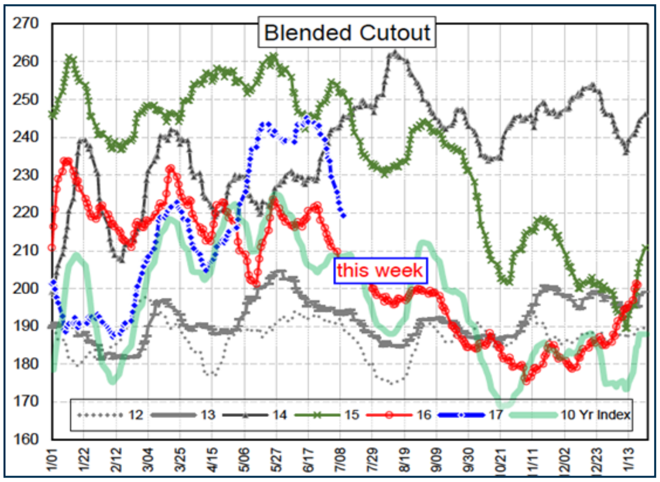
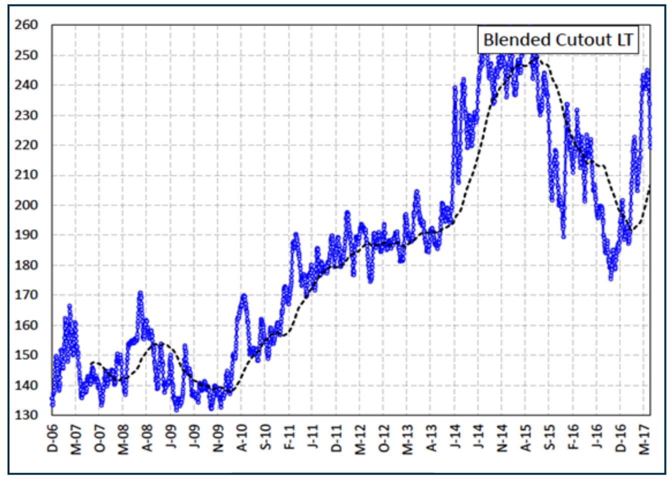
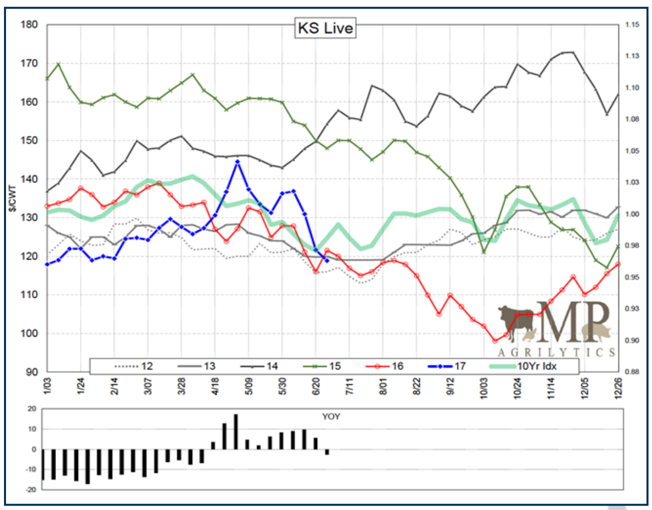
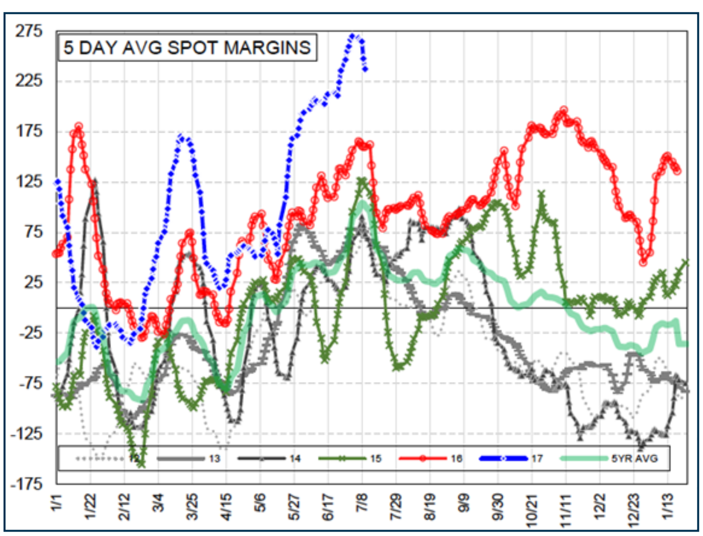
M & R Capital LLC

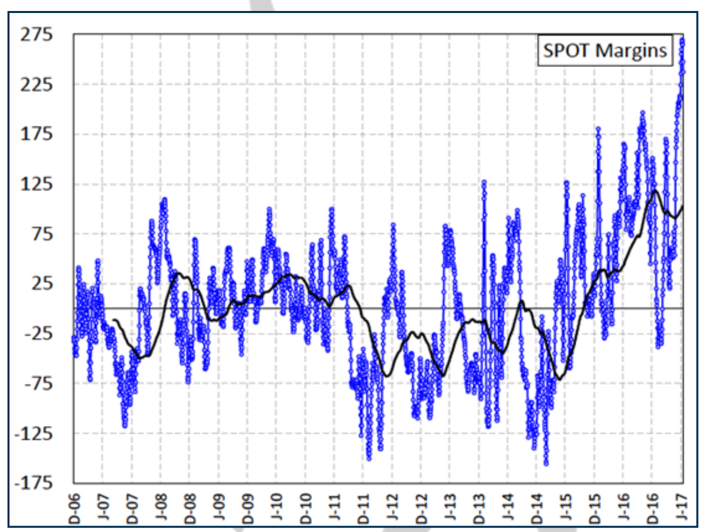
June 2017 Monthly Commentary











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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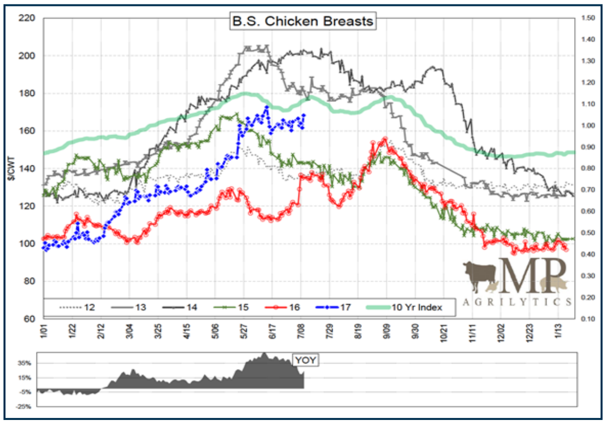

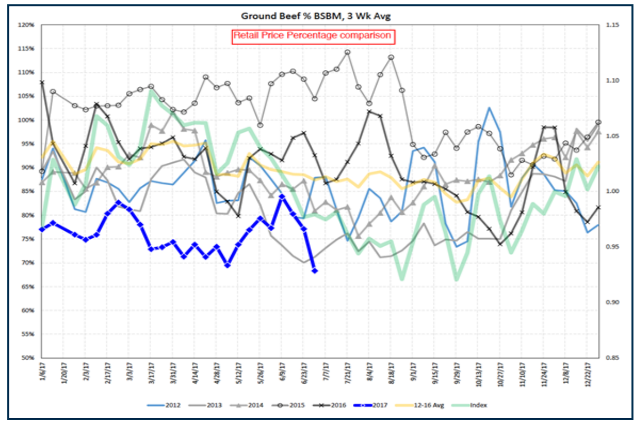

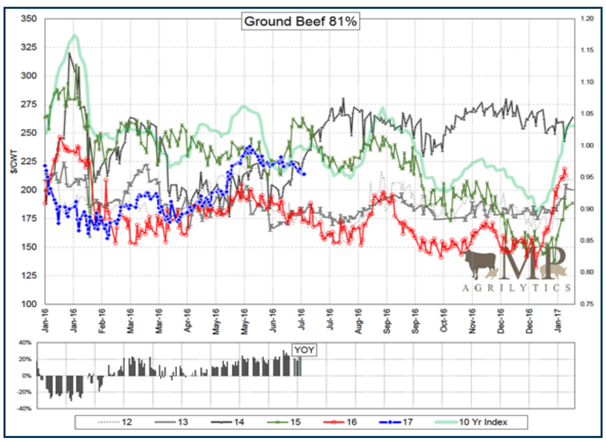

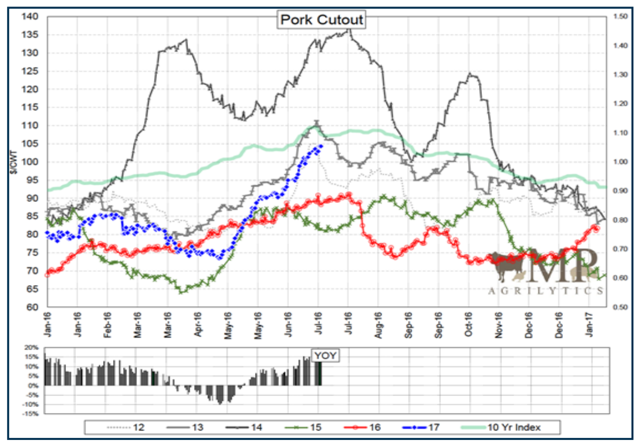

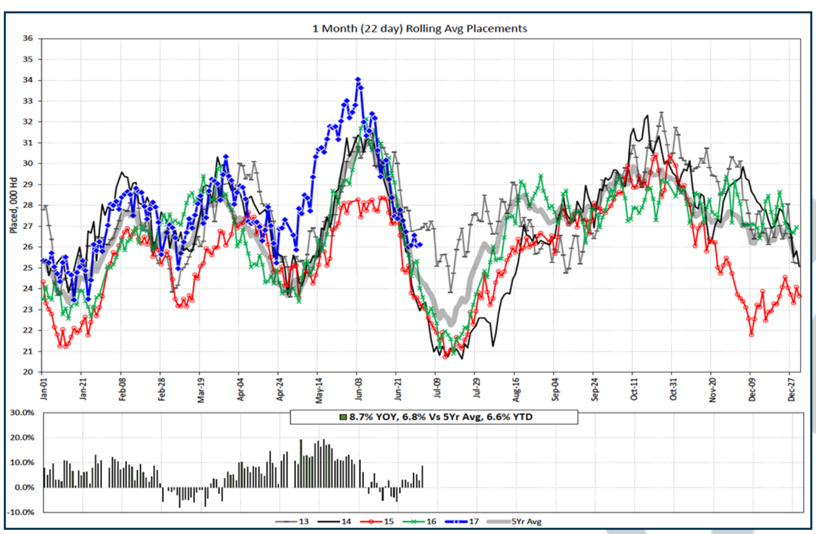

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