



September 2017 Monthly Commentary

Cash cattle prices started the month at \$105 and increased through the month as better demand for beef increased packer demand for live supplies. Futures flipped from a discount to a premium during the month as producers that had been aggressively marketing cattle ahead stopped.

This should reduce the packers stranglehold over the market and increase their competition for inventory over the coming months. The board premium in December is something we are going to watch as it says to move cattle from late October into early December. While this should be supportive to prices near term it may create a negative force at year end.

	Week Ending 29-Sep	Week Ending 1-Sep	
Kansas Cash Trade	108.00	3.00	105.00
Blended Beef Price	193.37	2.30	191.07
October	115.25	5.78	109.47

Beef prices moved higher with ribeyes and a few ends cuts being the rising star. Retail interest for ribs for this holiday season is very good, some of the best we have seen in years. Exports have been very supportive to trade. September is showing us the 2nd largest sales volume of the year with China taking on more tonnage. Sales growth to Japan remains strong as well despite their shift from frozen to chilled demand as a result of tariff issues two months ago. The choice-select spreads widened out from \$1 to almost \$10 confirming the better demand we have for high quality (choice) beef.

Placement rates in August were much larger than expected at +3% and data we are privy to for September looks to be very similar rates if not more (to be released later this month). This better than expected flow into feedyards are likely to affect the April, May, June and July time frame but can't really affect the January or February in our opinion. This should mean that level of the February vs the summer contracts should move out to a very wide level this year. Its really muddy in Texas so placements should drop there in October.

As we discussed last month peak supplies were in late August and September. While we would seem to have enough cattle to supply current demand, current showlists should begin to decline seasonally. We are seeing packers pull back harvest rates here in October to match up with that slightly smaller supply moving from 645,000 hd kills down to 635,000 hd kills. The question before us is weather supplies can drop below that or not. It is my belief that they will in October but come back up again into later November and December. As a result, the market should have enough demand for support under it here at current levels but might struggle with rallies to new highs amid the futures premiums if supplies pop again later this year. All in all we might be in for some choppy trade. The spreads seem to be the things that are the most miss-priced. October seems low relative to the December, and February seems cheap relative to the summer months. \$115 is likely a very happy spot for cash and futures this fall with December likely to trade a range of \$120-\$110.

Funds have now covered the shorts they sold when prices ran from \$110 down to \$104 in August. We are seeing signs that they will buy more if the market moves over this \$116 area. However, because they have lost on so many trades this year in both hogs and cattle it's hard to see that they will "campaign" any trades like they did last year. As a result, we're being rather conservative at the moment by sticking with spreads. We might even entertain the idea of selling strangles to put a fence around our forecasts assuming we will chop sideways maybe more than trend one way over the next 60 days.

The \$104 lows that were made in August should hold us for the 2017 lows in cash and futures. Basis led prices lower this summer and basis is going to lead us higher into the winter as well. While trade should rally into October expiration we will be looking for a correction back lower into December's expiration as something to watch. We think that there is a bigger decline in supply from Q4 of 2017 into 2018 that will be supportive but I also have my eyes on the idea that if we keep placing cattle this fall we might have a burdensome supply come this next summer. This is reason for our spread bias as we discussed above.

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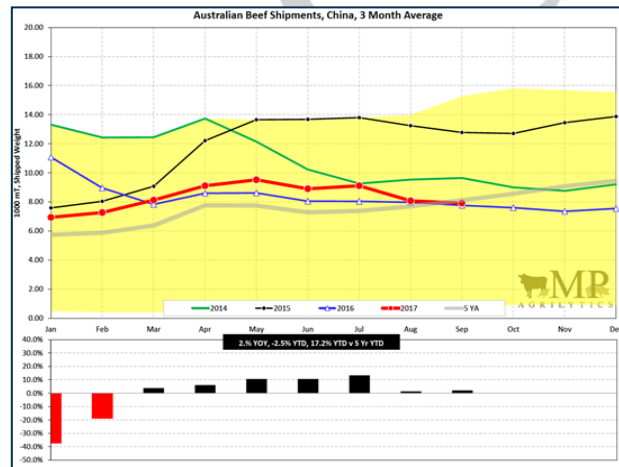
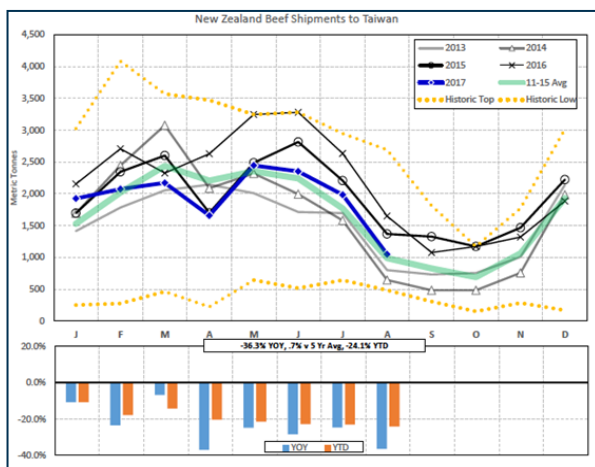
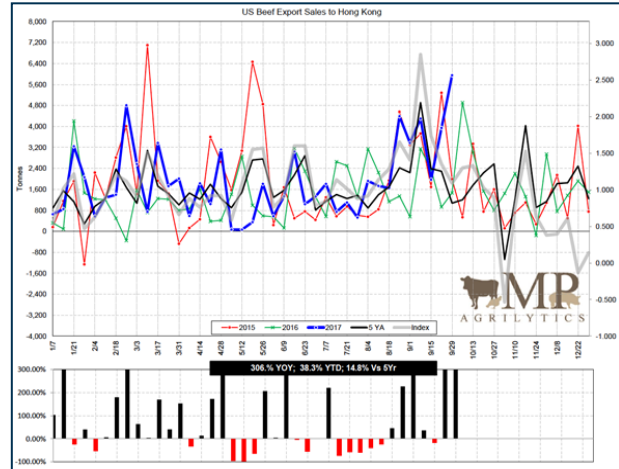
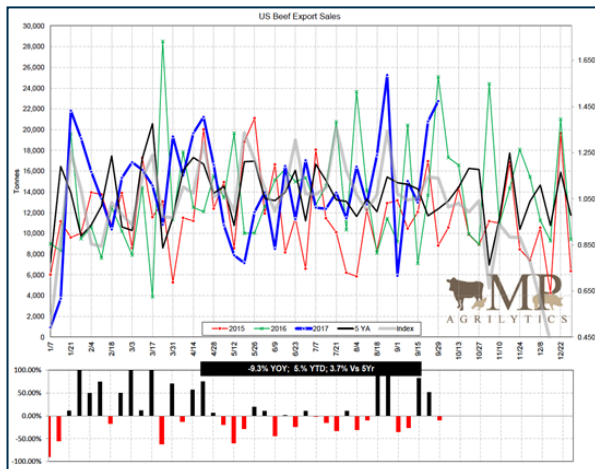
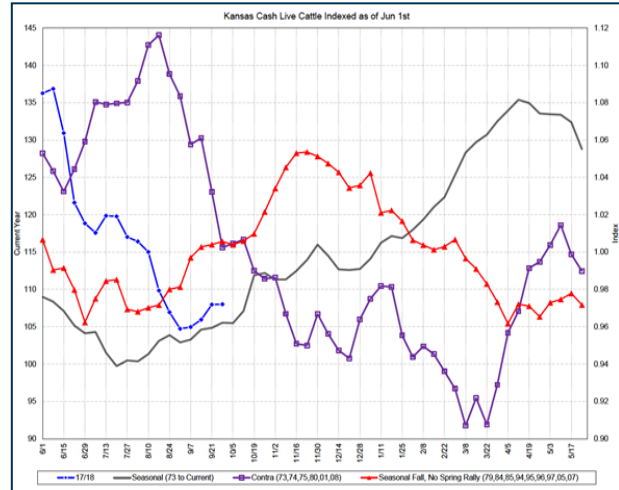
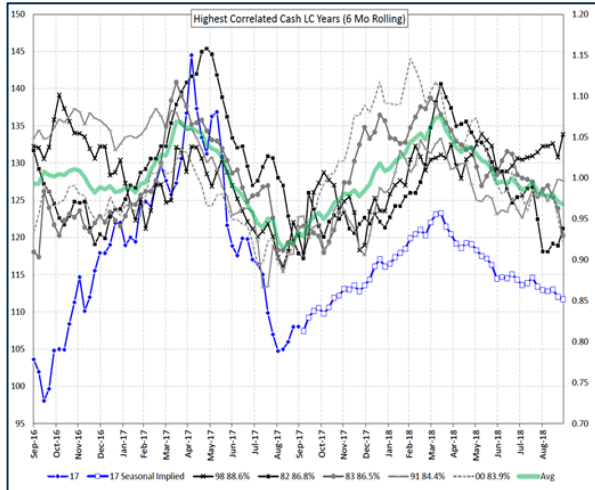
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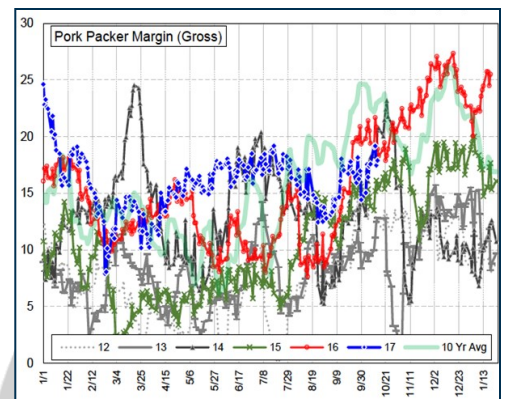
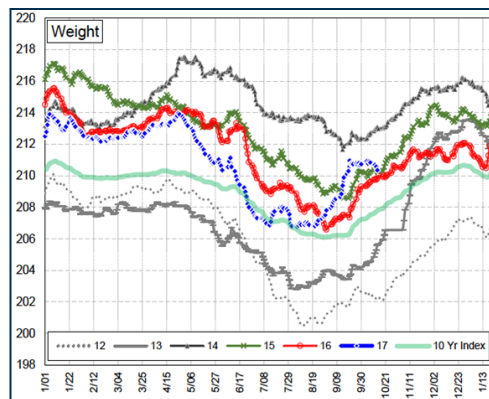
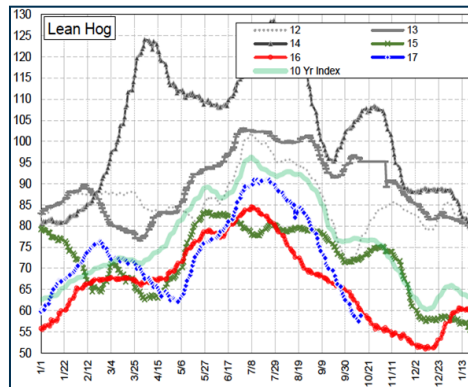
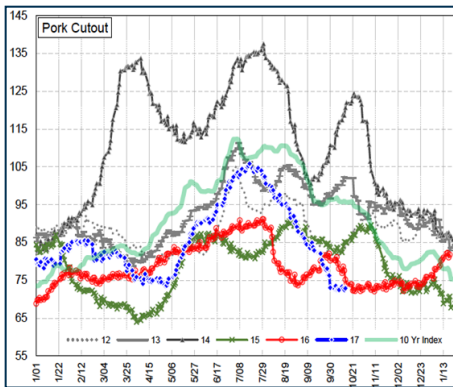
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Hogs:

The debacle for the most part has transacted from the summer peak in prices at \$90 to just under \$50 in more recent weeks. The market turned off it's lows based on changing thoughts that the packers whom could not come online in July and August will be online here in November. The theory here is that the US market is \$0.25 under the world pork prices and exports will come online. In addition, the packer that was selling excess hogs in August and September will turn into a deficit buyer come November. The board's insane premium to cash, in our opinion, is very hard to justify but something we will watch. Cash today is closer to \$56 and increasing while the December futures are at \$62. February futures are \$67 and April are \$72. We have no disease issues and record production coming; at some level we have to ask how high is too high? China has yet to show any real interest in buying US pork and I don't have any forecasts for that just yet. Those buying the market do seem to but we are waiting for data to show us before we can support that notion. Until then we will be looking for places to sell hogs.



Regards,

Scott Shepard
October 5, 2017

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