October 2017 Monthly Commentary

	Week Ending 3-Nov		Week Ending 29-Sep
Kansas Cash Trade	125.00	17.00	108.00
Blended Beef Price	200.71	7.34	193.37
December Futures	124.32	9.07	115.25

Cash cattle prices started the month at $108 and surged to $125 by the end of the month. Packers tried to reduce kills to get increased cattle inventories during the month but it backfired as stronger demand and shortages of choice cattle sent them into the market which they found to be much tighter than expected. As you have heard us discuss in past letters, basis had moved cattle out of October and early November in the wake of peak supplies having been in September. This put packers in an over sold position in the beef world sending them scrambling for quality cattle. This is expected to continue until the inelastic demand that is the holiday rib market gets a handle on its supply needs.

Beef prices moved higher but not as much as cattle prices. This will change as we look forward to the coming six weeks as packers will force prices higher. 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 with October holding steady with the big September sales volume. Because of mandatory changes to industry grading cameras that happened in the middle of October there is a minor shortage of Choice product in the market currently. As a result we are expecting choice-select spread to widen out even further into the coming weeks.

Placement rates in September were much larger than expected at +13% as feeders raced to get cattle back into their feedyards after pulling so many cattle ahead this past summer (record marketings). These cattle are primarily coming in the spring and summer months and something we are already trading ourselves as a spread bias. Placement rates in October continued and are estimated to be +5%. These cattle will add to the summer supplies.

As we discussed in past write ups, peak supplies were in September and the market has responded to this by reducing harvest rates in most recent weeks in order to keep from chasing supplies. However, packers looked to increase supplies to match holiday demand needs but with stronger exports they are finding the cattle just aren't as available hence the price surge to $125 this week. This is what we planned for and we are capitalizing on it. While supplies are currently tighter, they are expected to pop back up a bit into December. Therefore we will be looking for a level to engage the short side of the market. You have heard us talk about $130 as an objective and we are almost there. The summer months are the ones that are in most jeopardy longer term so the December is most likely just a trade for us while the summer will be position for our strong bias.

Funds have now entered back in to all the longs they covered this past summer from $118 down to $105. Having bought the market heavy from mid-October through this week from $115 up to now $127 in December. The last time they did this play they rallied the market over eight days from $118 to $134 or $16. To date they have rallied the market from $115 to $127 or $12.

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 and did 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. That is reason for our spread bias as we discussed above which we continue to hold.

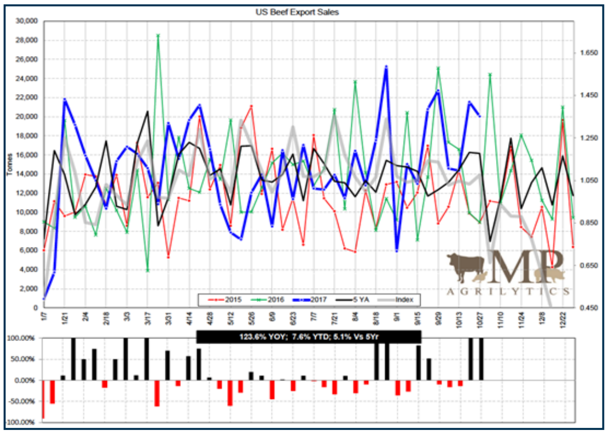
We have pared back risk as the market has now hit some of our objectives.

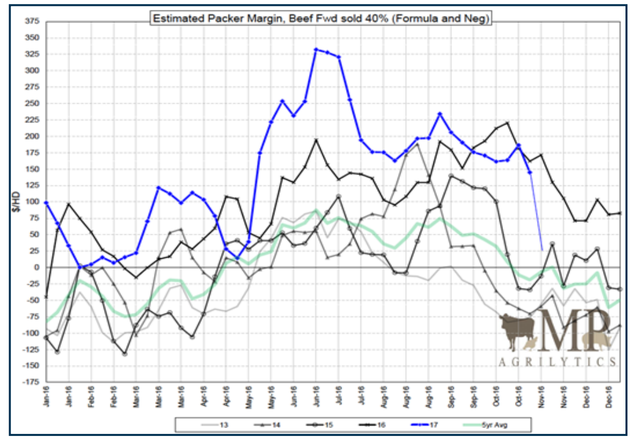
Poplar Avenue, Suite 101 • Germantown, TN 38138

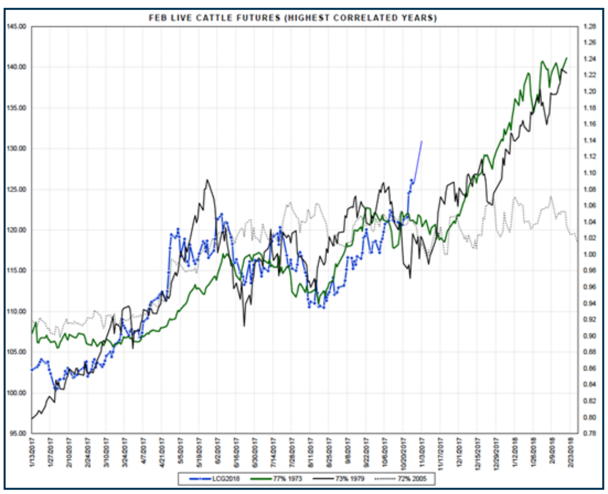
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

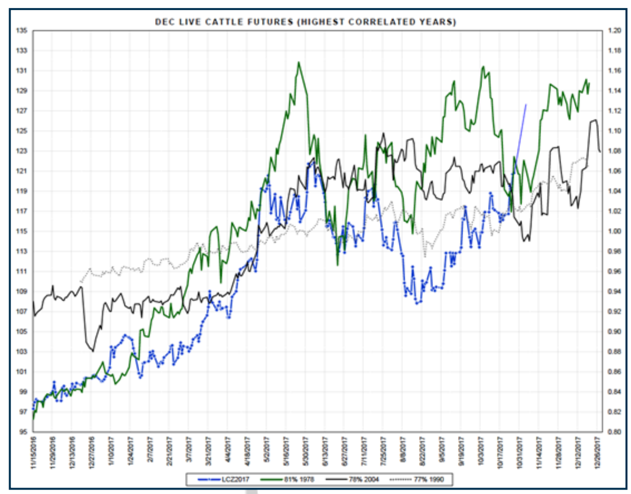
M & R Capital LLC

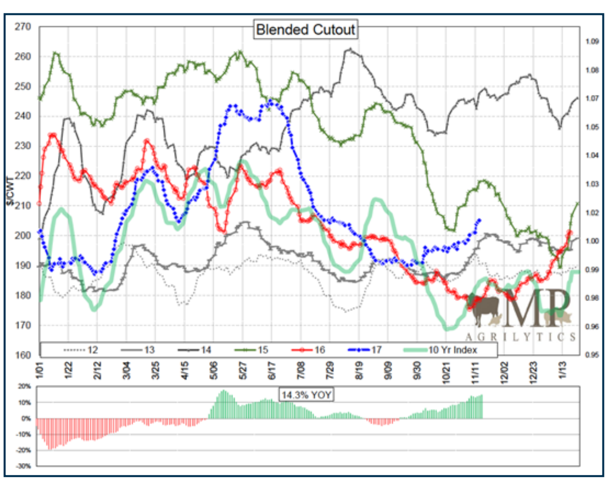
October 2017 Monthly Commentary

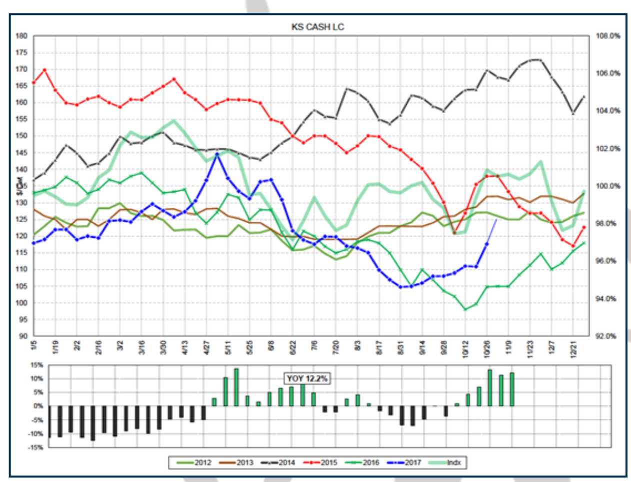












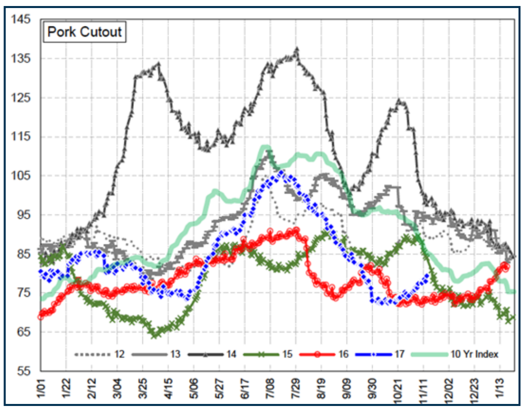
Poplar Avenue, Suite 101 • Germantown, TN 38138

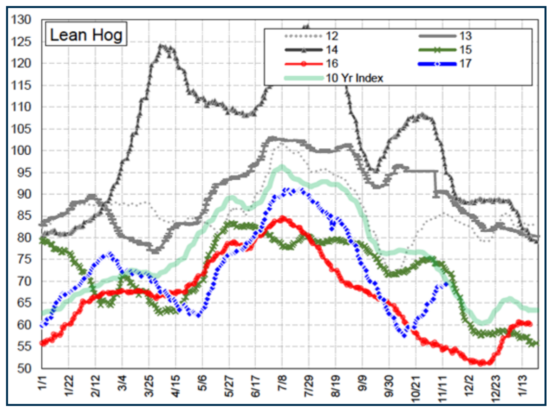
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

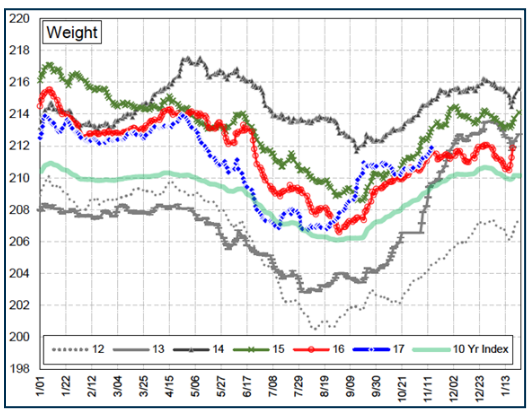
October 2017 Monthly Commentary

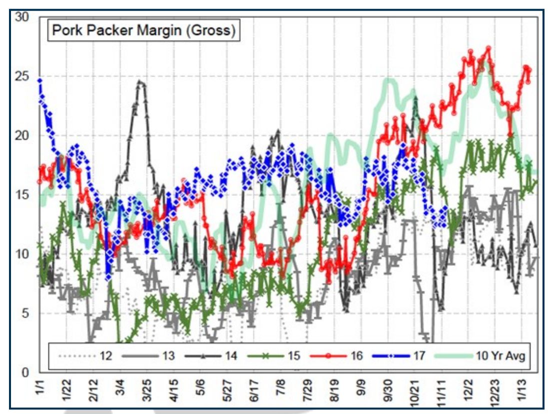
Hogs:

The market has rallied back nicely from the debacle that took prices so fast from $80 down to $55 into September. Currently cash prices are back up to $70. However, slaughter rates are not keeping pace with hog supplies and as a result we are starting to back up hogs. This will likely force prices lower as we're looking from here into December. Funds have been big buyers of the markets on this rally after having liquidated them at the lows. As a result, a move under $63 is likely to force them into stop loss mode once cash prices push beneath those levels. We think that the new plants coming online will still have trouble with labor and as a result there will be more hogs than shackles in the near future.









Regards,

Scott Shepard

November 3, 2017

Poplar Avenue, Suite 101 • Germantown, TN 38138

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