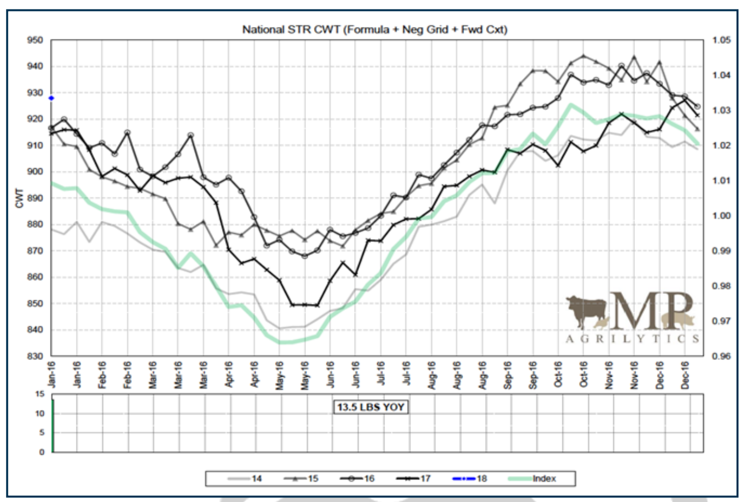
December 2017 Monthly Commentary

	Week Ending 30-Dec		Week Ending 2-Dec
Kansas Cash Trade	123.00	3.00	120.00
Blended Beef Price	197.94	3.14	194.80
February Futures	121.55	-0.42	121.97

Cash cattle prices started the month at $120 and jumped to $123 by month end despite reductions in harvest rates by packers. If you recall, feeders have been adding days on feed because of the board's large premiums to cash which moved cattle from late November and December into January. This caused higher live cattle trade in December. Cold weather also seemed to make feeders embolden.

Beef prices moved higher but struggled into the end of the year as buyers seasonally wait to buy deferring their demand until the new year begins. This season was no different. However, it took severe kill reductions by packers to jump start buyers' demand as prices have rallied $7 so far this year. End cuts and trim/grinds are the most in demand. Severe cold and the upcoming nor'easter that is pressing into the northeast should prove to idle demand in January. Exports continued to post strong sales.

Placement rates in December were much larger than expected at +14% as dryer than normal weather pushed cattle into feedyards earlier than normal. This pulled calves into the feedyards on top of yearlings rather than waiting for these calves to become yearlings and be placed later this year. Instead they are in feedyards now. This will have two affects on the market. First, it will potentially create record marketing rates this spring and summer. Second, it will reduce the availability of yearling placements this coming spring and summer (Q4 2018 and beyond supplies).



I don't have an answer as to how we are going to overcome the supply that is currently in the feedyards and the plant capacity issues we might have in 2018. If cattle do not move out into the forward curve and get stretched out into the fourth quarter we will have trouble. However, with the current spread relationships in the futures today that might not happen. This is something we will be looking to trade and strategize around. The spread relationships need to shift to incentivize these ideas.

Packer margins have collapsed to roughly $25/hd. This means packers will attempt to get cash prices down and beef prices up. Which is currently under way. Kills are much smaller than we have forecasted and leads me down the path of backing cattle up if this is not rectified throughout January.

Poplar Avenue, Suite 101 • Germantown, TN 38138

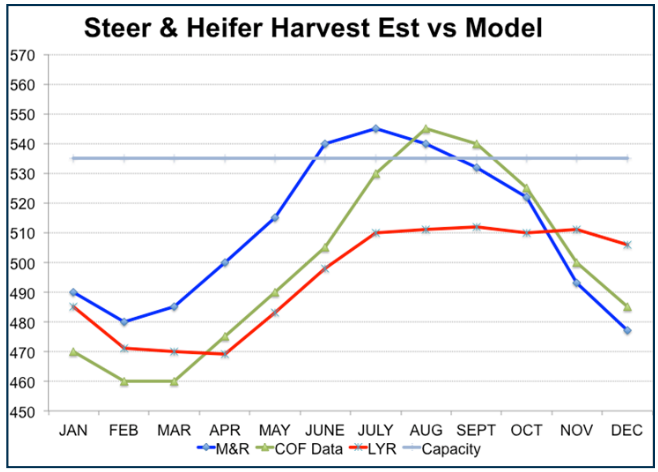
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

M & R Capital LLC

December 2017 Monthly Commentary

Weights are enormous and at all time highs for January. This will put constraints on feeders in the coming weeks that should push them to be more aggressive sellers of cattle. Especially as cash prices move premium to the futures markets.

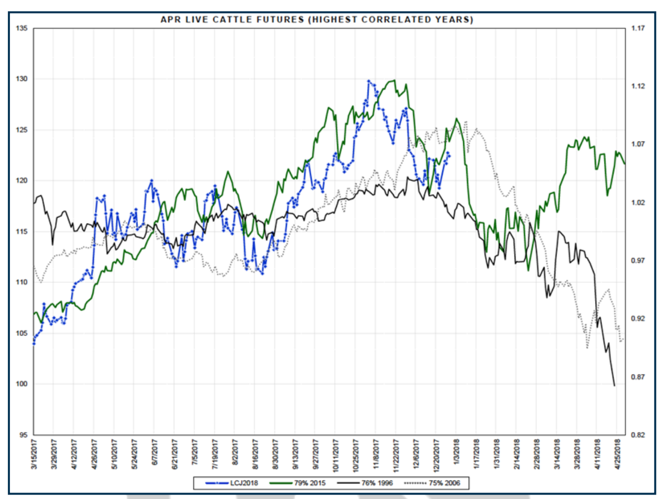
You have heard us talk about $130 as an objective. The December futures failed to get there and the market is going for that number here again in January. Based on current demand and the prospect for growing supplies in April, May, June, July and August combined with our huge weights, and now the packers limited slaughter rates we think this beginning of year rally will be short lived. The focus for us will be bearish the spring and summer contracts. Adding to shorts on rallies and looking to be bear spread vs the fourth quarter. Because placements patterns were contra-seasonally strong we should find prices contra-seasonally weaker this spring and summer.



Japan and the EU concluded trade negotiations, which paved the way for the largest global FTA as EU pork and beef imports into Japan will receive access equivalent to the TPP agreement. The US could find itself in a very difficult position with Japan being the US' largest beef and pork buyer.

After peaking at $128-$130 in early November the market fell down into December towards $118 before rallying back seasonally where it stands today at roughly $124. We still believe prices will be capped by the $125-$130 area for February and April and $115-$120 for the summer contracts. Downside potential will be determined by the packer's ability to increase slaughter capacity.

Basis led prices lower this past summer and basis led us higher into the winter. Basis is most likely going to lead prices back down again this spring and summer. Trade should correct back lower in January, find a muted spring rally before pushing lower this summer. Placements like we have seen combined with weights will bring a lot of cattle to market this spring and summer.



We will be increasing our risk platforms as we focus on the above strategy thoughts and ideas

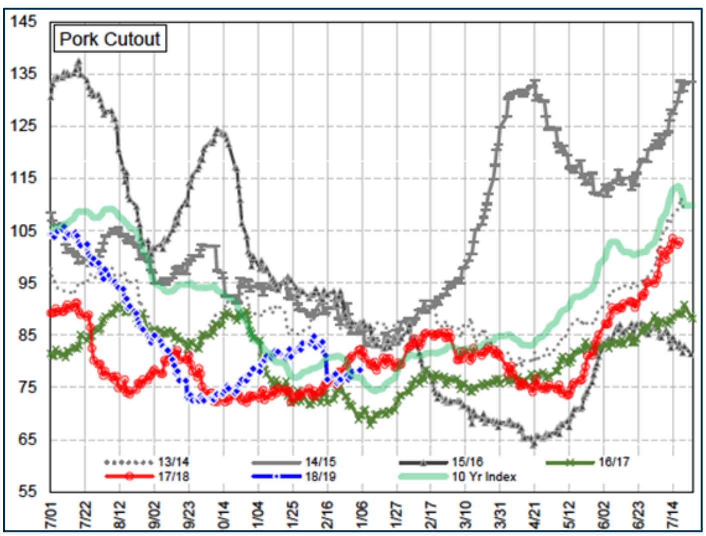
Poplar Avenue, Suite 101 • Germantown, TN 38138

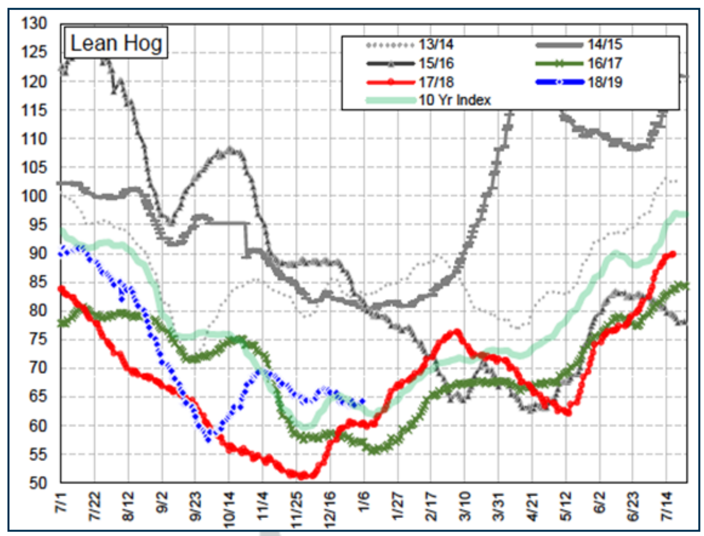
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us

December 2017 Monthly Commentary

Hogs:

The hog market has surprised even the bulls with how supportive futures were compared to cash this fall. Fund buying has been extra-ordinary. Basis is very strong as a result. This can make the market very susceptible to crashes if the funds decide to sell at any point. Slaughter capacity increases this winter that have been very publicized, and with index funds' desires to get out of cattle while increasing their hog positions, it has driven market higher. Demand for bacon as well as strong ham prices have been supportive for pork despite limited export demand from China. Hogs don't show us any opportunities at this time, as prices are way too high vs cash to buy them but too strong to sell. Patience on flat price seems to be the best course of action unless February crashes closer to cash in the near term. Spreads, however, following the fund rolls in January should give us an opportunity to buy February (as close to cash as we can) and sell the spring contracts at their large (and expected to get larger) premium to cash. We should expect to find continued seasonal price appreciation with early 2018 prices being $75 to $80 and summer hogs $90-$100.





Regards,

Scott Shepard
January 5, 2017

Poplar Avenue, Suite 101 • Germantown, TN 38138
newaccounts@mnrcapital.us • Tel: 901-766-4446 • mnrcapital.us