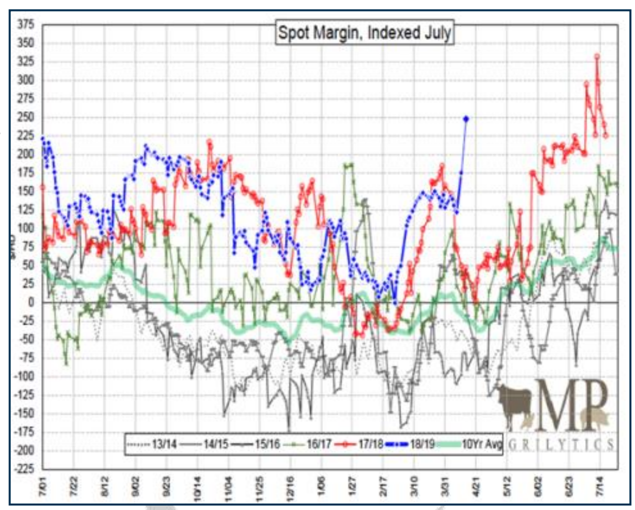
M & R Capital LLC

March 2018 Monthly Commentary

	Week Ending 1-Apr		Week Ending 1-Mar
Kansas Cash Trade	121.00	-7.00	128.00
Blended Beef Price	214.87	-4.50	219.37
June Futures	102.57	-13.03	115.60

Cash cattle prices started the month at $128 and fell to $120 by month end. The desired effects of limiting harvest rates pressured trade as did a strengthening basis. Control shifted from the feedyards to the packer. Harvest rates have been running close to par with a year ago for weeks on end but are expected to be +5% in the month of April and +9% in May now that margins have exploded and demand is around the corner. Cattle On Feed sits today at 8% more than a year ago.

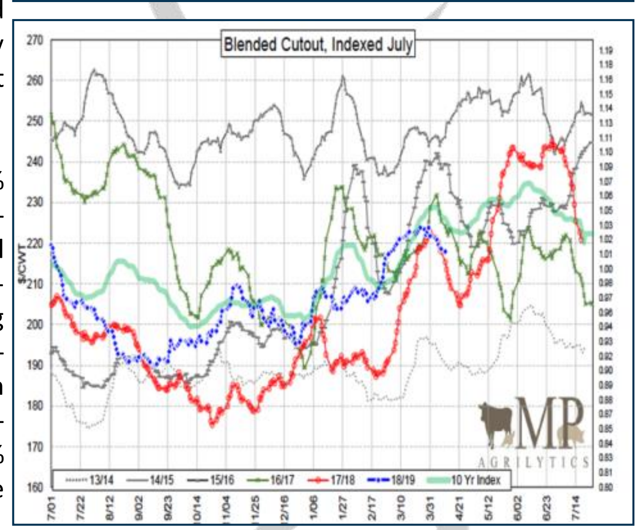
Basis strengthened with cash running roughly $6 over futures to April at month end. Forward basis, despite printing close to $20 on paper, was trading at $10 to $12 late in the month for early May delivery. It’s estimated that roughly 70,000 hd were sold ahead around $126 in March for all of April using a $6 basis and around $120 for early May at $11 basis. Feeders will continue to market cattle as basis remains strong. This will be the first step in fixing the summer bulge we have been talking about for months. The second step is raising kills and big margins. The third step is increasing forward demand. The last step will be declining placements patterns into the spring and summer.



Beef prices topped and are moving lower. Price may uptick seasonally into May but prices are under pressure for now. I expect we will find support around $200 on the blended cutout or another $10 lower, especially if kills are not increased to anything more than 620,000 hd a week in late April or early May. We will not see a rally like in 2017 this summer but a pattern much like in 2016 (green line) is expected. Exports will be the key discussion with trade wars “rolling” with China and the US.

Packer margins are exploding to just over $250/hd this week and expected to continue to surge towards $400/hd later this summer. Risk in pricing is that they are only $250/hd.

Exports have remained stronger than expected but are likely to fade as we enter into spring and early summer as political trade tensions hang in the balance. Domestic forward sales have been VERY slow since December and are just staring to pick up this week and should continue through early June seasonally. Australian supplies have idled as weather has shifted a bit there slowing the slaughter pace.



USDA posted the March 1st Total Cattle On Feed during late March at +9% compared to a year ago, once again showing larger than expected placement patterns for February. On feed supplies are peaking now and will begin a 4 month effort of increasing marketings and decreasing placements through April and July. As a result, you will see in the upcoming April 1st On Feed report that this trend of more placements after placements, which stemmed from the dry weather throughout the southern plains, has stopped. March placement will be -10% or more with April likely down even further. If this continues, come July 1st we may only have 4% more total cattle on feed vs the 9% we have today. What can change

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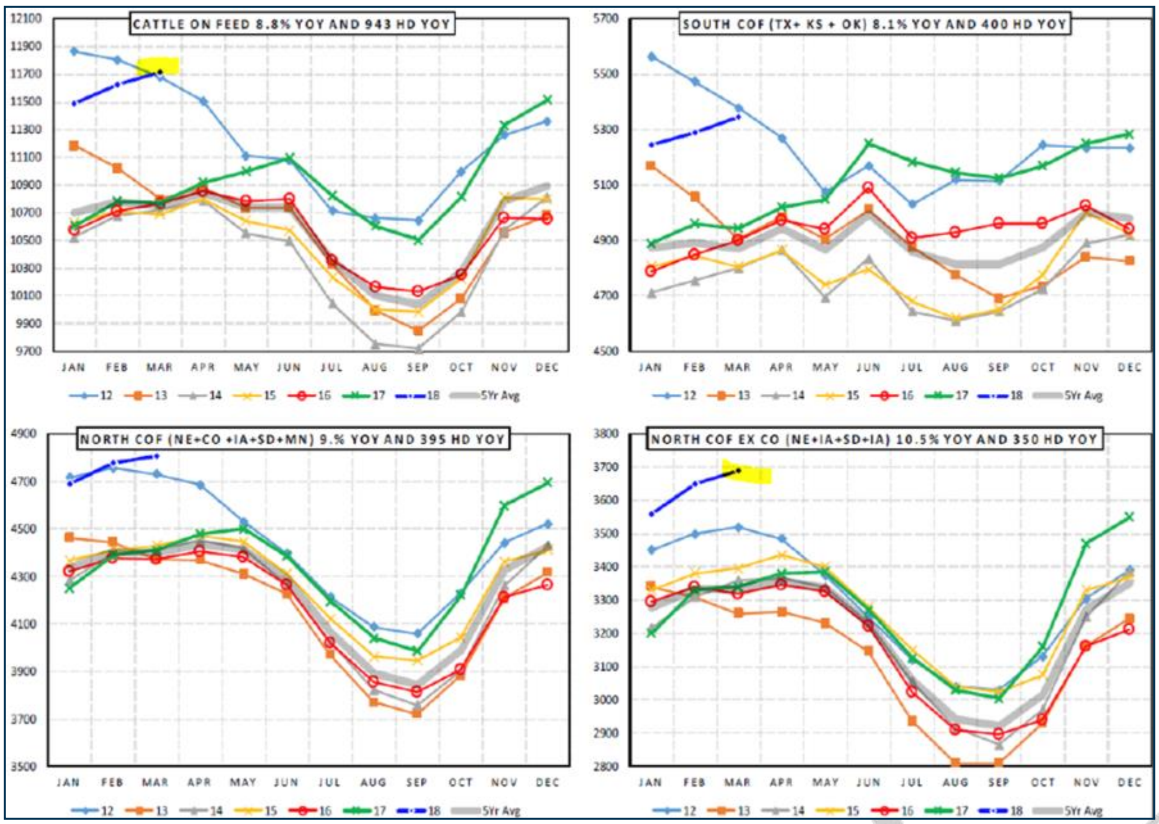
things on top of the placements and marketings, however, are future spreads. When we are at a positive basis (like today) it tells feeders to sell cattle. When we are at a carry (or negative basis) it tells feeders to hold cattle. You have heard us talk about this over the past few months. However, the futures spreads were mispriced telling feeders to put cattle into the summer where we don't need them. Now in one short month all that is changing. Today the spreads have shifted to levels that are telling feeders to push August out into the fall—if they can or even want to is the question. With the spread at $10, it is enough money to move some of them or shift placement weights.



We are starting to do a few things to overcome the supply that is currently in the feedyards. It's a long road but recent changes in market patterns are giving us some things to take notice of. Plant capacity issues are still in question as well as political trade tensions. We need to start actively and consistently harvesting more supplies before we decide to get bullish and pull the potential for $90 to trade in cash this summer up to $100. Until then we will still be looking for rallies to sell. After an $18 break in prices, that opportunity won't come until we retest the $106-$110 area in the June or August. Support levels are $96, $90 and then $85.

You have heard us talk about a $40 high to low in cash trade this year. At our highs at $118, futures were pricing in only a $10 break in cash but today they are pricing in a $30 break and all this in just a few weeks time. The motion of the ocean says this is too much too fast let alone 75% of that expected trend. While our S&D says we can keep moving lower prudent money management is forcing us to step aside from the increased risk positions we were once taking at the $115-$120 area in the June as well as the spreads (at even money) which are now $9. We still look for an early summer low in cash trade this year.

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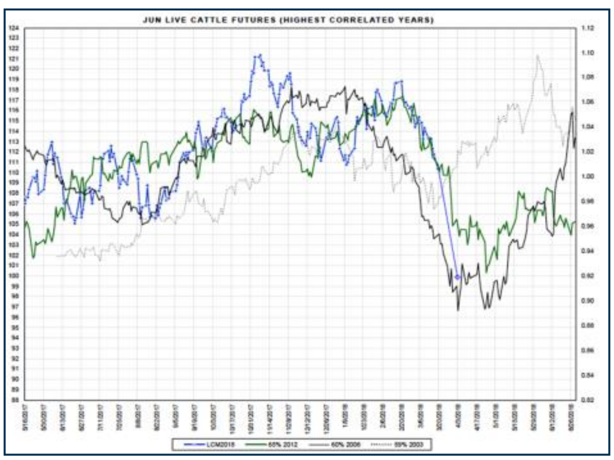
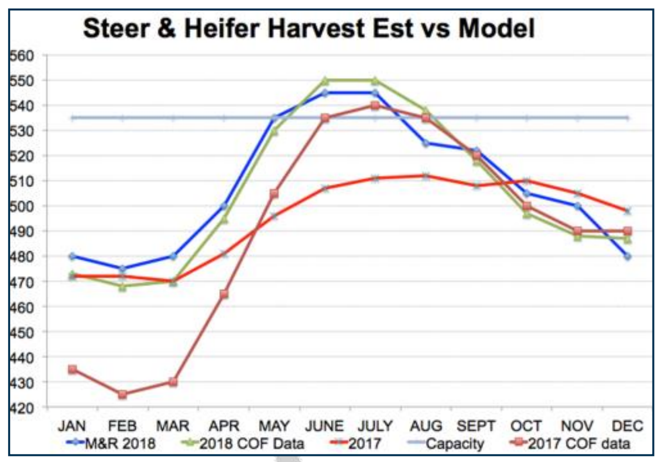
Based on current demand thoughts and the prospect for the known supplies in April, May, June, and July combined with the packers limited slaughter rates we forecasted that the beginning of year rally would be short lived and that held true. We are now down to levels that we decided to reduce our positions and shift to rolling down long puts so in case things keep moving lower. We will participate in that wash-out but if we rally back for a mean reversion or experience a demand led rally we can have the ability to re-position into that shift. We are looking for reasons to be long the August and October contracts but waiting for more data to clarify our risk parameters. We are still comfortable being long volatility and will continue to use options to hedge or enhance our strategies.

Index funds continue to view the market as an inflationary play using CPI and GDP long term correlations to forecast a 15% increase in prices into this spring. They are in the middle of recovering from March's break after watching this 12-14% drop in prices come in short order as well as a $6 collapse in spreads from summer to fall. Some have given up while most others have merely decided to roll back and fight another day. Trend followers are shifting out of longs and into new and ever larger shorts.

On Feed supplies are peaking and will begin to fall from now and throughout the summer. However, with record large supplies in the north will find feeders struggling at times with marketings if they do not stay in front of things.





Regards,

Scott Shepard

April 5, 2018

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