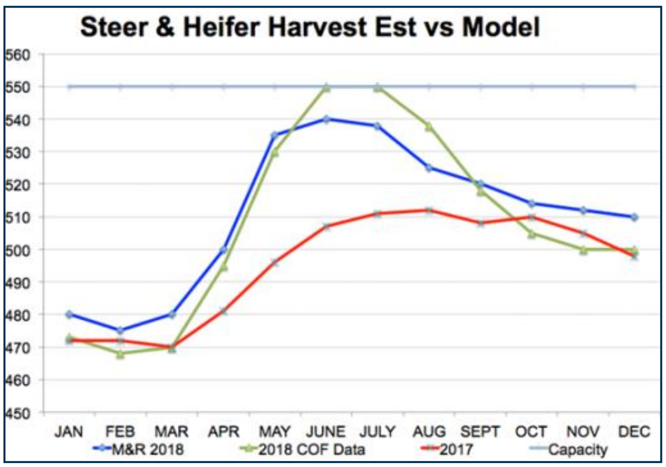
June 2018 Monthly Commentary

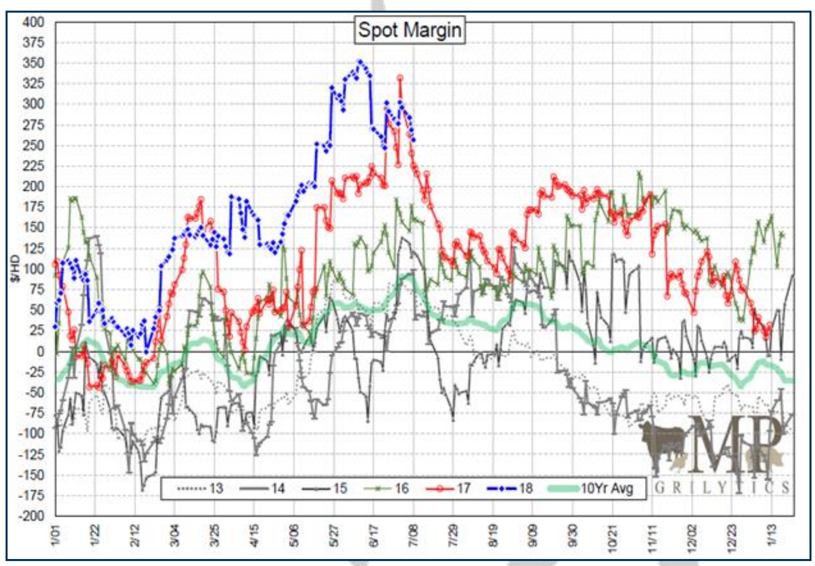
	Week Ending 1-Jul		Week Ending 1-Jun
Kansas Cash Trade	108.00	-3.00	111.00
Blended Beef Price	206.60	-12.11	218.71
August	106.72	2.77	103.95

Cash cattle prices started the month at $111 and dropped to $108 by month end while futures dropped from $105 to $101 before ending the month at $107. Basis continued to collapse ending the month at +$1 with cash at $108 and the board at $107. Continued fears that trade wars (the 4th straight month of this now) and increasing summer supplies (6th straight month of this talk) continued to pressure cash prices.

However, data continued to be released all month that is supportive of strong demand and declining supplies to come as the month unfolded. Yielding strong action in futures markets opposite of the spot cash trade. Retail demand remains strong, exports remain strong and USDA is slowly realizing they might have over-stated Cattle On Feed supplies as they start to reduce prior quarterly forecasts for supplies on their Global WASDE reports. Our guesses say they may have missed supplies by roughly 2% in total so far. Peak supplies are behind the market and funds remain big shorts in the front months of the futures contracts. Index funds have finished selling and are starting to buy. Cash has likely made its annual lows here at the end of June at $106 and should seasonally move higher as we move through the summer and into the fall. Basis is flipping with the front month being par with cash now and the back month futures $2 to as much as $8 higher. This is the first time this has happened since last September and tells feeders to stop selling cattle, which has been going on since mid-March.



Packer margins have peaked and should contract into July and August back to $150/hd. With beef falling another $6 in the coming weeks towards $200/cwt that would imply live trade prices at $180/dressed or $112/live. If beef bottoms at $205/cwt next week that would mean live trade prices at $185/dressed or $116/live.

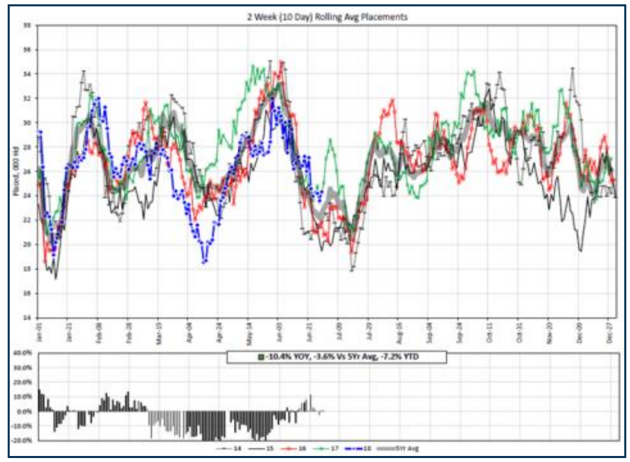


We have been worried that packers could not kill the cattle supplies this summer but we have proven we can hit 540,000 steer & heifer kills. This implies we can get to 665-670,000 with ease and means we have no real issue with capacity to fear here forward. Hence maybe why the board has now erased its discount to cash it has held since November of 2017 in fear of such things?

Cash prices dropped as a result of strong margins and beef moving very well. It seems like cash prices have bottomed for the summer. If this is an accurate state-

June 2018 Monthly Commentary

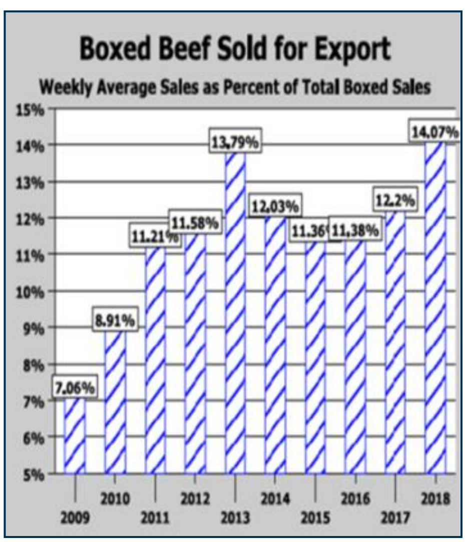
ment cash should rally back to $115-$120 and futures should be able to rally back from $105 to $115. Trade has spent 4 months basing and building forward demand as well as a lot of new speculative shorts. The degree of upside for the trade will be determined by the funds desire and aggression with their nearly 60,000 shorts and likelihood of flipping into new longs. $118 is the target.

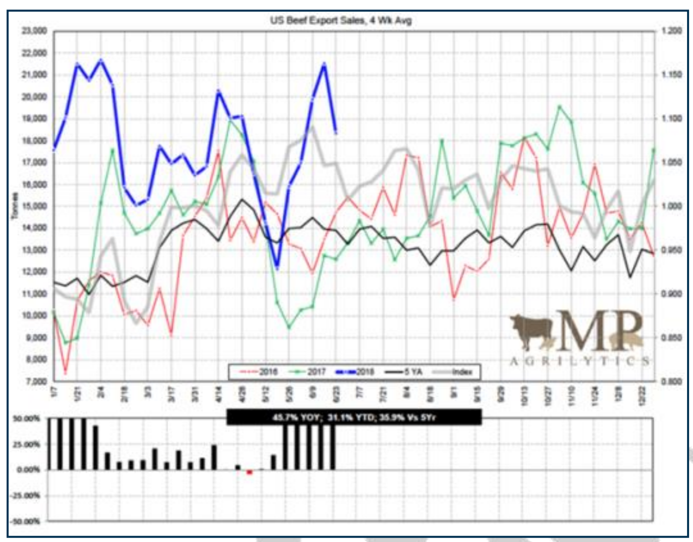


Placement rates have been falling since March and total head counts have been falling now since May. While May's rate was par with a year ago there is a big story inside the average value. Heavier weight yearling cattle were still running at -7% to -9% continuing the trend that averaged -10% for March and April. However, the much lighter weight feeder cattle (the calves) were +7% to +9%. These cattle are typically spread out over a few months time and more like 8-12 months out vs the yearlings that coming in 5-7 months time. Since demand is running so strong this summer and supplies subsiding we might have a stronger market later this summer than many are currently expecting.

We have long discussed peak supplies being around early July. However, as basis changes I am expecting that we will start moving some of these July and August supplies out into the fall. This will remove supplies from the later part of the summer and add them on to the fall supplies, which are falling at this time based on recent placement patterns. This should be very supportive to prices into the later part of this summer but level off supplies from crashing too much this fall.

After taking a break for early summer trade, exports have come back on very strong posting an all-time record for their percentage of totals sales at 14.07%. If sales continue while supplies decline we can get this percent up towards 20% pretty easy. Late May and early June exports surged to levels that have not be seen since 2012.





Speculatively, the funds seem to be trying to cover some of their huge short exposures sitting at roughly 55,000 shorts down from the peak at almost 70,000. There have been very few times that they have been this short. Each of these has resulted in roughly at $15.00 rally in prices before the situation was changed. We said last month that the index funds (both passive and

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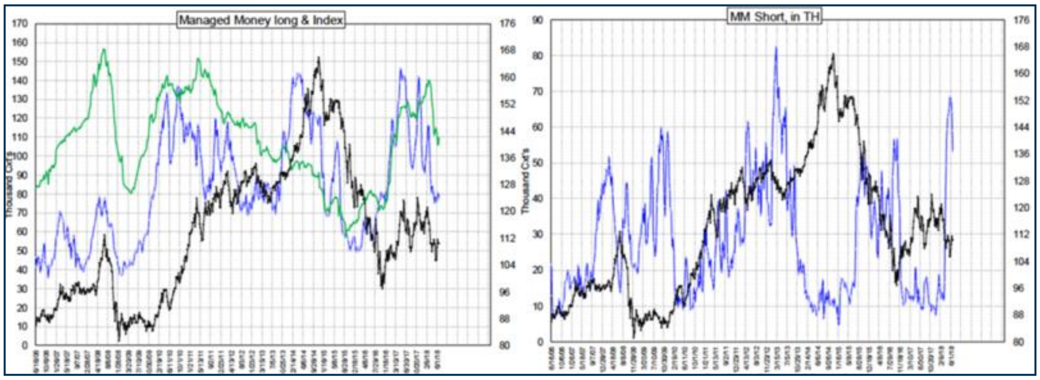
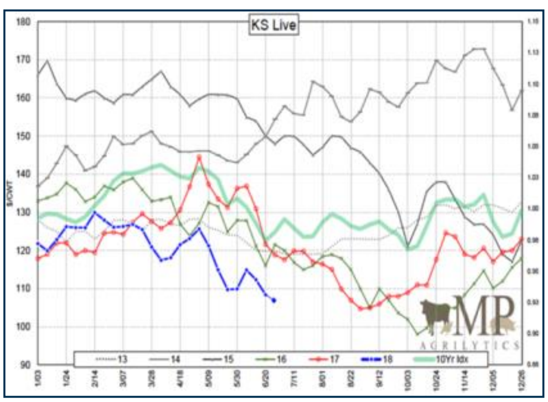
June 2018 Monthly Commentary

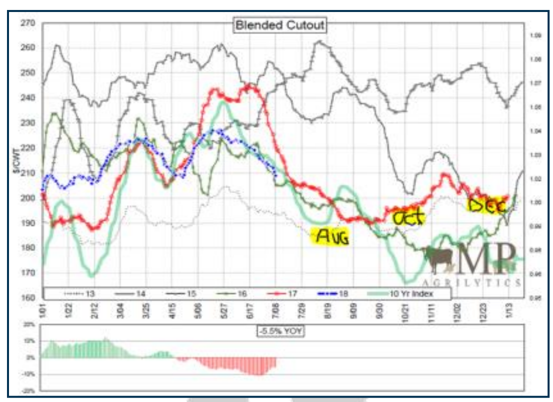
active) have likely finalized their 3 months of selling they needed to accomplish. This was confirmed as their buying patterns started back up in the last two weeks of June. This means they should be buyers from now into the fall. All the while commercials have break evens hovering around $120, which is where these parties are likely to shake hands.



We will continue to be big traders of options to limit our over-all risk exposures relative to our positions. We have found our reason to be long the August and October as we stated last month and continue to feel this way today. We are comfortable being long volatility again.

Cattle On Feed supplies have dropped to 103% of a year ago from almost 109% and should be at 101% in 60 days as marketings remain very strong in June and July. Hence our increased risk parameters.





Regards,

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

Scott Shepard

July 2, 2018