



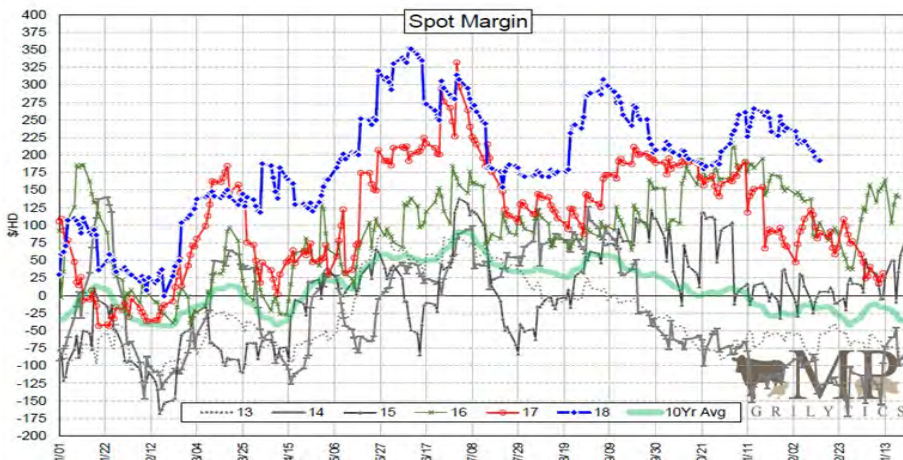
November 2018 Monthly Commentary

Cash cattle prices started the month at \$116, dipped to \$114 ahead of the holiday, but closed the month at \$118. Basis moved \$2 against the Dec and \$3.50 against the Feb with cash up and the futures steady to lower. Fund long liquidation ahead of the G20 meeting and forecasts for lower cash cattle prices into year-end pressured trade. However, prices remain supported based on tighter than expected live supplies and excessively profitable packer margins for this period as compared to history. Weather is an issue, with mud and cold pressuring weights seasonally lower and likely will

	Week Ending 1-Dec	Week Ending 3-Nov	
Kansas Cash Trade	118.00	2.00	116.00
Blended Beef Price	206.93	-4.76	211.69
December Futures	116.93	-0.14	117.07

lead to further weight declines heading into year-end. The effects will be felt into the spring. Beef prices dropped \$5.00 during the month as packers scrambled to lock in margins and get hard sold for December. Beef prices are bottoming and are expected to move higher into the spring. Demand remains strong and slaughter rates have peaked seasonally and should decline from mid-November through December into mid-winter with average weekly rates moving from 640,000 hd a week towards 610,000 hd. The big issue people will not forecast is weights dropping 30 lbs or more as this alone will act like another 2% decline in available beef supply. Export flows have slowed seasonally as countries wind down their year's purchases while domestic demand has been very strong. As we start 2019, both exports and domestic sales are both expected to be strong.

President Trump and President Xi, met at the G20 and agreed to a 90 day truce in the current trade wars, during which



negotiators will attempt to find solutions to still-wide differences in trade positions. Words from afar suggest this agreement came from President Trump caving and wanting a deal rather than President Xi, which tells me that this will be resolved if this is indeed information we can trust. That said, anything goes when it comes to this administration. However, will we continue to trade the bullish side of the curve into the spring and summer. We said in our last report that beef prices would find a temporary stall in trade and prices from \$215 down towards to \$205-

\$210 and this is what has happened. Prices are now expected to move back higher from here into the early part of 2019. Fast food, retail and export demand all continue to be strong and expected to out-pace the rate of placements patterns for 2019 supplies. Packer margins are very strong and expected to be very supportive to live trade especially as they tighten seasonally. Steer and heifer harvests have been running at about 500-510,000 hd per week and will be closer to 480,000 by mid-winter. February is typically our worst demand period of the year so if there are any concerns about pricing it is here. Other than that \$240-\$250 should be easily attained this spring as demand rises but supplies are spread out and weights are declining. Given beef prices and said packer margin; cattle prices may be:

\$200 beef: \$50 margin \$118 cattle, \$100 margin \$114 cattle, \$150 margin \$112 cattle.

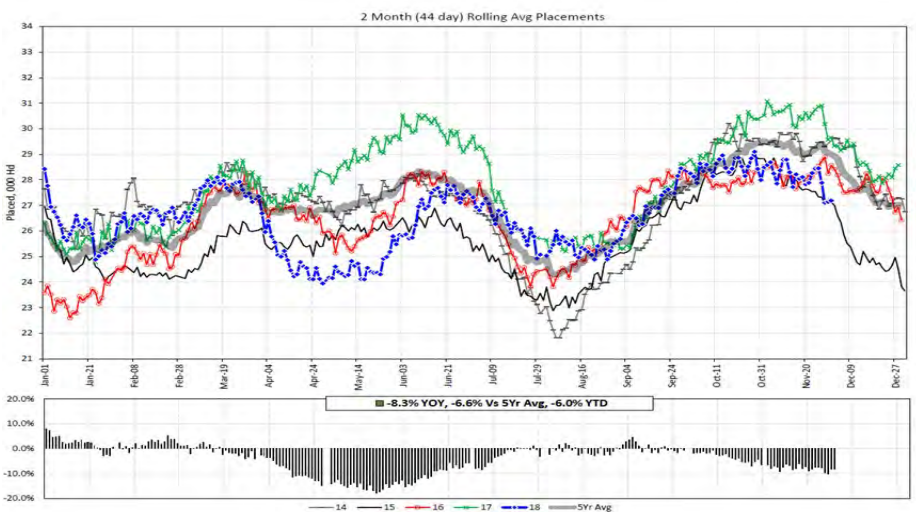
\$215 beef: \$50 margin \$128 cattle, **\$100 margin \$124 cattle**, \$150 margin \$120 cattle, **\$200 margin \$116 cattle.**

\$250 beef: \$50 margin \$148 cattle, **\$150 margin \$138 cattle**, \$200 margin \$133 cattle, **\$300 margin \$123 cattle.**

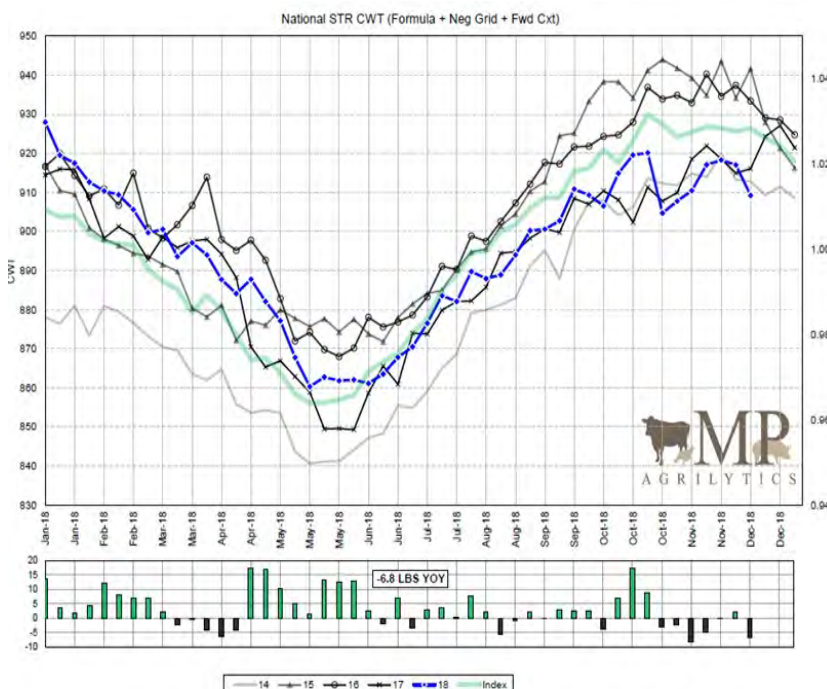
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These simplistic values for margins and beef will comprise our forecasts for this spring cash cattle prices, a range between \$123 and \$138. As far as the summer is concerned I am focusing in on a range of \$105-\$125 for the June and August contracts. But supplies against these contracts won't be totally known until late this year into early next so we will wait to define those more precisely in January. That said, October placements were -6% and November placements look like they are closer to -10%, so the kick start for big spring supplies looks more like a void in supply more than a burdensome supply. That said not placing cattle now means we will see more come early next year.

Based on this you can see we remain bullish the market up front but considering trade is so whippy these days, we can still find technical sell offs, which we need to be respectful of. The seasonal tendency is for prices to be stronger into year end and early 2019. Looking for a dip into February before surging into spring highs. We thought we would have strong support under \$115 in the December contract and \$118 in the February, which was realized in early November. The market has been in a well-defined downtrend dating from the late 2014 peak through recent fall highs. This 4 year downtrend line should be broken in December as trade eyes a move on up towards a retest of the \$135-\$140 area this spring.



Weather is something we are watching. It has been a very wet and muddy fall in the north, which has pulled weights down contra-seasonally. A recent storm hit most of Nebraska and northern Kansas with 1" of rain followed by snow and below normal temps. As temperatures moderate again, this temperature variation combined with mud, often limits cattle weight gains and, in extreme instances leads to weight losses. As a result we are expecting weights to come down some 30-40 lbs over the coming months.

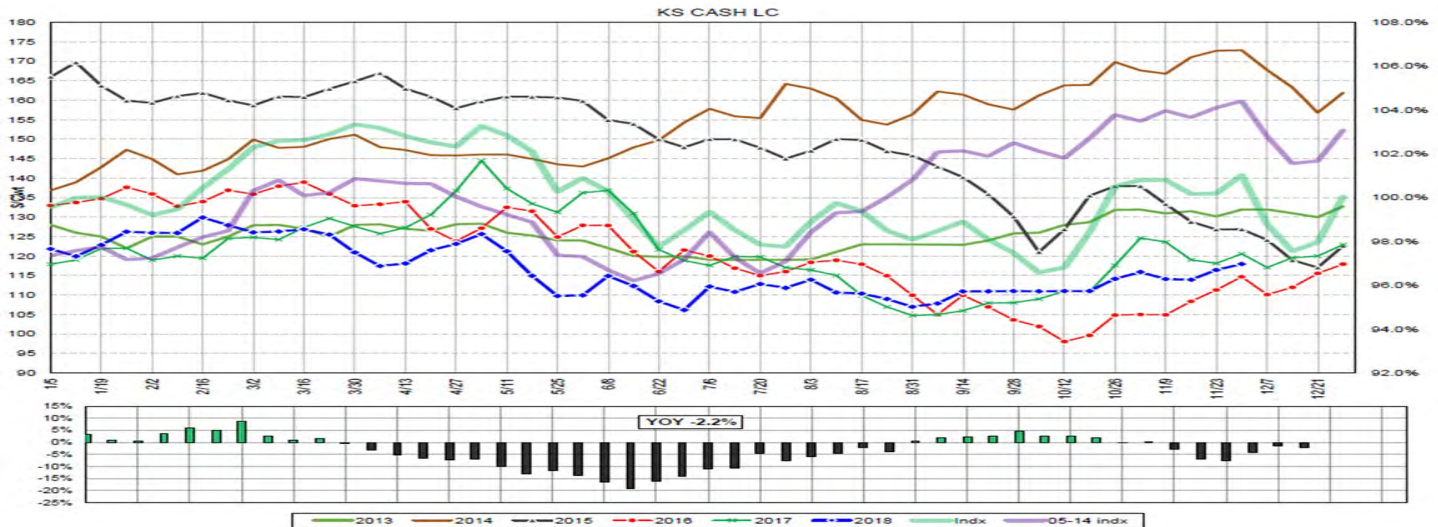


When we look at the cash trade we should see a trend higher in the spring amid minor breaks around year end and again in February but other than that a march to the spring highs is something we would like to focus on. In recent years April futures have moved \$20 from contract lows to highs in bear markets, to as much as \$40 in bull markets with the average being roughly \$30. This year's contract lows were \$111 which implies \$141 is possible for April futures. Figuring "normal" basis in the \$5-\$10 range, puts cash around \$131-\$136. From December forward, we are moving past the time period for placing cattle



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against the April time period. As well, weather can typically push cattle away from this period, delaying marketings further into the spring and summer if weight gains are slowed amid a succession of winter storms.



We have been long during a very choppy market that has gone nowhere. We have been very conservative in our positions and recently started to take a bit more risk all the while covered with options. Our returns have been challenged as our long put options were devalued as much as our futures positions moved up or more like chopped us up. We maintain a long bias looking to roll that into and add on with the April as our new long in the coming month. We expect bull spreads will work but while we are not in them today we would like to be on any correction or long roll affect facilitating that move.

ASF continues in China. While the Chinese gov't reports sporadic cases, pork demand seems to be softening in a few areas, depressing prices in those regions while movement restrictions and tight supplies in other areas has boosted prices sharply higher. As an example prices in the Southwest are at \$18/rmb/kg versus \$12 in the Northeast. For now there still seems to be enough pork in China but this will change in due time.

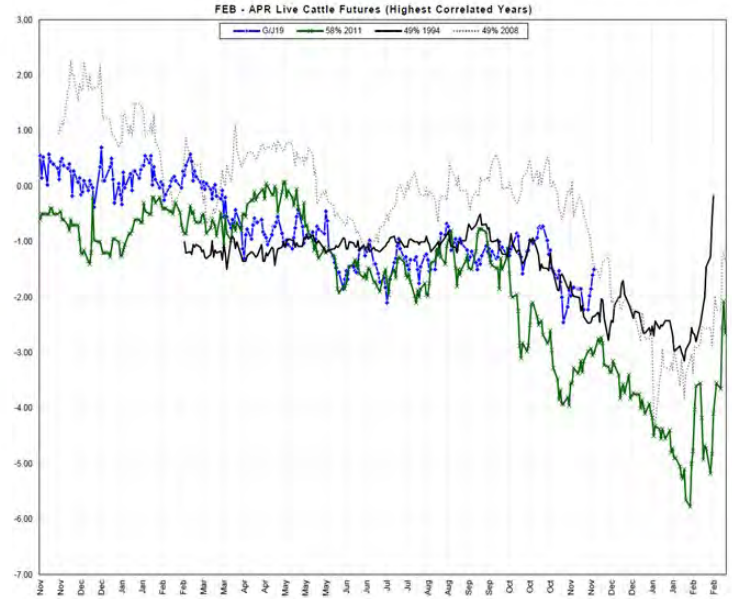
As this virus becomes more rampant throughout the region, China may lift their transportation restrictions. If that happens, it would a very clear message to the world that control is no longer an option. While we think this is already the fact, the market is waiting to hear/see this before engaging more aggressively.

We are watching and waiting for more information. This virus is clearly beyond the point of being controlled and its clear that millions of hogs have been affected already and millions more will be affected. We should be cautious about the speed of the decline in world supplies as it always takes longer than you might believe. That said, its coming.



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WEEKLY CONTINUOUS LIVE CATTLE FUTURES



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

Regards,

Scott Shepard

December 4, 2018

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