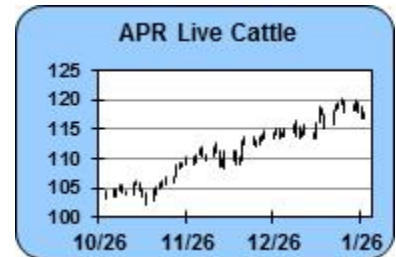




DAILY CATTLE COMMENTARY
01/30/17

Big jump in placements but futures already discounted

The market should start off sharply lower today but with the large discount to the cash market, the downside seems somewhat limited and if focus continues to shift to trade wars with Mexico, a break in cattle today may be an opportunity to buy cattle and sell hogs. The Cattle on Feed report was considered bearish against trade expectations. Placements during December came in at a whopping 117.6% of last year as compared with trade expectations 108.4% which was well outside of the range of estimates of 103.5%-113.6%. This is a six year high in placements and this pushed heifer on-feed supply to 5% over last year. Marketings during December came in right on trade expectations at 106.8%. This left January 1st On-Feed supply at 100.3% of last year which was well above trade estimates which averaged 99% and was also above the high end of trade estimates. The report is clearly bearish, especially to the April and June contracts. April cattle closed 25 points lower on the session Friday and this left the market down 165 points for the week. Given the high open interest and the hefty spec net long position, some long liquidation selling may need to be absorbed. The Commitments of Traders reports as of January 24th showed Non-Commercial traders were net long 125,028 contracts, an increase of 325 contracts for the week. Non-Commercial and Nonreportable combined traders held a net long position of 88,720 contracts, down 980 for the week but still up near the highest level since May of 2015.



Commodity Index traders held a net long position of 105,670 contracts, up 3,935 contracts for the week. The USDA estimated cattle slaughter came in at 103,000 head Friday and 23,000 head for Saturday. This brought the total for last week to 577,000 head, up from 569,000 the previous week and up from 570,000 a year ago. Beef production for the week was up 1.4% from last year. USDA boxed beef cutout values were up 69 cents at mid-session Friday and closed 30 cents lower at \$192.70. This was up from \$190.42 the prior week. The market pushed moderately lower on the session early Friday, and pushed down to the lowest level since January 13th. However, a jump in hogs, talk of the oversold condition and talk of the stiff discount of futures to the cash market helped to support. Ideas that we import near 6% of our feeder cattle needs from Mexico is seen as a bullish force for feeder cattle, and also a potential bullish force for August or October cattle "if" trade war talk intensifies.

TODAY'S MARKET IDEAS:

April cattle looks set to test the key support zone at 114.35 to 112.97. With cash at \$122.00 and a significant import of feeder cattle from Mexico, the market should see good support emerge. Long liquidation fuel, however, is also significant with high open interest and speculators holding the largest net long position since May of 2015.

NEW RECOMMENDATIONS:

* Buy June cattle 110.00 call at 160 with an objective of 455. Risk a total of 80 points from entry.

PREVIOUS RECOMMENDATIONS:

Short April cattle 115.00 put from 247 with an objective of zero. Risk to 345.

| Commitment of Traders - Futures and Options - 1/17/2017 - 1/24/2017 | | | | | | | |
|---|----------------|-------------------|--------------|-------------------|--------------|-------------------|--|
| | Non-Commercial | | Net Position | Commercial | | Non-Reportable | |
| | Net Position | Weekly Net Change | | Weekly Net Change | Net Position | Weekly Net Change | |
| Livestock | | | | | | | |
| Feeder Cattle | 16,334 | +1,470 | -2,997 | -952 | -13,337 | -518 | |

| | | | | | | |
|--------|---------|------|---------|------|---------|--------|
| Cattle | 125,028 | +325 | -88,721 | +979 | -36,308 | -1,305 |
|--------|---------|------|---------|------|---------|--------|

CATTLE COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

LIVE CATTLE (APR) 01/30/2017: Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The close under the 18-day moving average indicates the intermediate-term trend could be turning down. It is a slightly negative indicator that the close was under the swing pivot. The next downside target is now at 116.350. The next area of resistance is around 117.800 and 118.220, while 1st support hits today at 116.870 and below there at 116.350.

FEEDER CATTLE (MAR) 01/30/2017: Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. A negative signal for trend short-term was given on a close under the 9-bar moving average. The daily closing price reversal up on the daily chart is somewhat positive. The market tilt is slightly negative with the close under the pivot. The next downside target is 125.669. The next area of resistance is around 128.187 and 128.618, while 1st support hits today at 126.713 and below there at 125.669.

DAILY HOGS COMMENTARY

01/30/17

Surging pork demand clashes with fear of trade war with Mexico

With the pork market at the highest level since July 26th, the demand side of the equation is very strong. However, the market is overbought and a focus shift to trade wars with Mexico could eventually force a significant amount of pork back onto the US market. April hogs closed 107 higher on the session Friday and this left the market down just 17 points for the week. The market experienced early follow-through technical selling on Friday which drove futures down to the lowest level since January 4th. However, talk of the oversold condition, the discount of futures to cash and ideas that we are not in a trade war yet with Mexico helped to support a strong recovery bounce to trade sharply higher on the day. Cash market news remains positive as pork cut-out values at midsession showed pork bellies were up \$1.33 to \$159.42 as compared with \$137.54 last week. USDA pork cutout values, released after the close Friday, came in at \$82.57, up 17 cents from Thursday and up from \$79.44 the previous week. This is the highest pork value since July 26th.



The CME Lean Hog Index as of January 25th was 68.11, up 38 cents from the previous session and up from 66.69 the previous week. The USDA estimated hog slaughter came in at 433,000 head Friday and 205,000 head for Saturday. This brought the total for last week to 2.367 million head, up from 2.329 million the previous week and up from 2.320 million a year ago. Pork production for the week was up 1.9% from last year. The Commitments of Traders reports as of January 24th showed Non-Commercial traders were net long 58,343 contracts, a decrease of 3,070 contracts for the week and the long liquidation selling trend is seen as a short-term bearish force. Non-Commercial and Nonreportable combined traders held a net long position of 39,124 contracts, down 2,357 contracts for the week. Commodity Index traders held a net long position of 76,564 contracts, down 1,535 contracts for the week. The pork belly cold storage news was extremely bullish last week but with Mexico representing 1/3rd of the total US pork exports, the market remains sensitive.

TODAY'S MARKET IDEAS:

Fear of losing the Mexico pork market is clashing with some very positive short-term demand forces. June hogs closed under the key uptrend channel on Thursday and back up above this channel on Friday. A close under 76.55 today would be seen as bearish. Close-in resistance is at 77.32 and 77.70.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

| Commitment of Traders - Futures and Options - 1/17/2017 - 1/24/2017 | | | | | | |
|---|----------------|-------------------|--------------|-------------------|--------------|-------------------|
| | Non-Commercial | | | Commercial | | Non-Reportable |
| | Net Position | Weekly Net Change | Net Position | Weekly Net Change | Net Position | Weekly Net Change |
| Livestock | | | | | | |
| Hogs | 58,343 | -3,070 | -39,124 | +2,356 | -19,219 | +713 |

PORK COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

LEAN HOGS (APR) 01/30/2017: A negative indicator was given with the downside crossover of the 9 and 18 bar moving average. Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. The close below the 9-day moving average is a negative short-term indicator for trend. The daily closing price reversal up is a positive indicator that could support higher prices. The market has a slightly positive tilt with the close over the swing pivot. The next downside target is 65.850. The next area of resistance is around 69.370 and 70.170, while 1st support hits today at 67.220 and below there at 65.850.

DAILY TECHNICAL STATISTICS

| | CLOSE | 9 DAY RSI | 14 DAY RSI | 14 DAY SLOW STOCH D | 14 DAY SLOW STOCH K | 4 DAY M AVG | 9 DAY M AVG | 18 DAY M AVG | 45 DAY M AVG | 60 DAY M AVG |
|---------------------|---------|-----------|------------|---------------------|---------------------|-------------|-------------|--------------|--------------|--------------|
| MEAT COMPLEX | | | | | | | | | | |
| LCJ7 | 117.320 | 49.22 | 54.92 | 75.67 | 67.87 | 117.99 | 118.71 | 117.35 | 114.31 | 112.30 |
| FCH7 | 127.450 | 44.57 | 50.13 | 74.86 | 64.83 | 128.64 | 129.59 | 128.04 | 125.87 | 123.85 |
| LHJ7 | 68.270 | 50.03 | 52.45 | 54.34 | 44.39 | 68.33 | 68.56 | 68.60 | 66.47 | 65.16 |

Calculations based on previous session. Data collected 01/27/2017

Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

| Contract | | Support 2 | Support 1 | Pivot | Resist 1 | Resist 2 |
|---------------------|---------------|-----------|-----------|---------|----------|----------|
| MEAT COMPLEX | | | | | | |
| LCJ7 | Live Cattle | 116.320 | 116.850 | 117.270 | 117.800 | 118.220 |
| FCH7 | Feeder Cattle | 125.668 | 126.712 | 127.143 | 128.187 | 128.618 |
| LHJ7 | Lean Hogs | 65.820 | 67.200 | 68.000 | 69.370 | 70.170 |

Calculations based on previous session. Data collected 01/27/2017

Data sources can & do produce bad ticks. Verify before use.

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