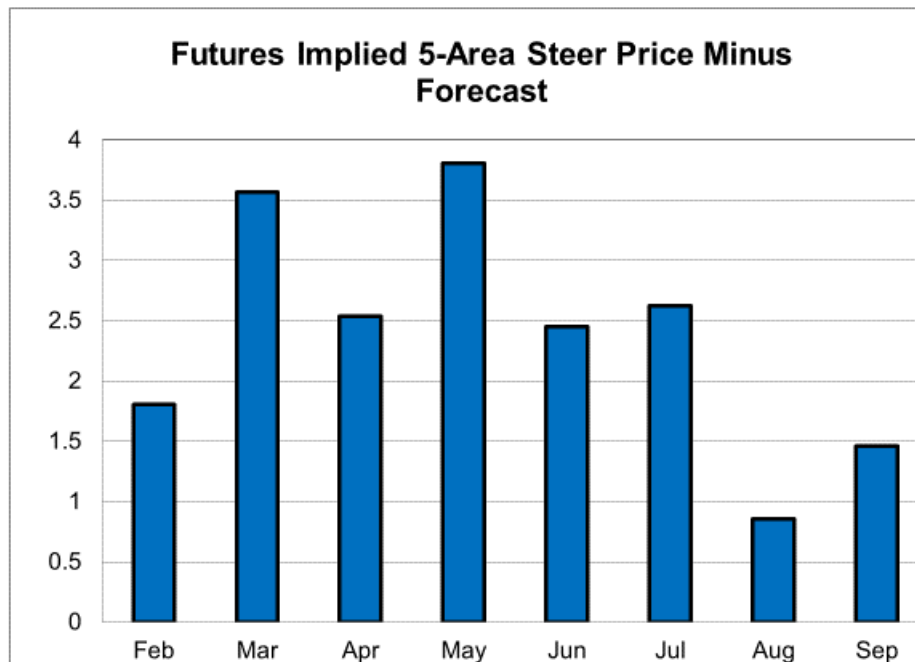


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

January 22, 2018

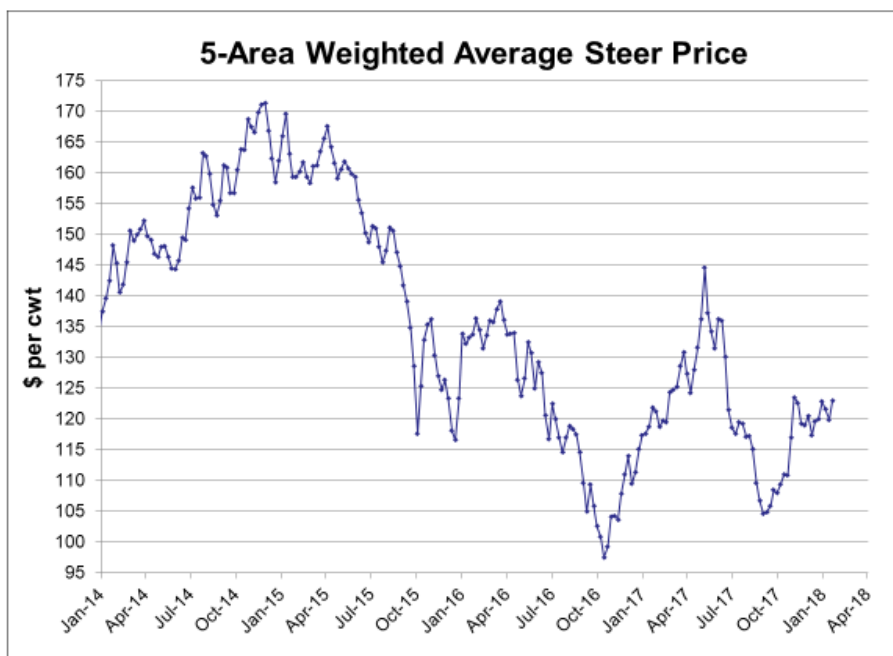


I am generally interested in the short side of the cattle market for a short-term trade, but my only commitment at the moment is a minimal short position in the June contract. My objective is \$113.00. The same position could have been taken in February or April cattle, but the risk

would be greater; the upper “boundary” in the June contract is about 125 points above Friday’s close (\$116.00), which is an obviously important horizontal resistance level on the daily chart as well as the approximate location of the major trend line drawn from the contract high.

The prospects of the beef market over the next three to four weeks are not particularly buoyant which, of course, is a major reason why I am willing to engage in the short side of the market even though the profit potential does not appear to be great. My best guess at this point is that the combined Choice/Select cutout value will make its way down to about \$195 per cwt in the middle of February (vs. Friday’s quote of \$203.92), but who knows for certain? The main consideration is that the direction should be downward because of a rather light “forward-sold” position among packers.

The late-week trade in the cash cattle market was a bit stronger than I had anticipated, but then, this might be as good as it gets for a while. As I show on the next page, the Five Area Weighted Average Steer price has merely matched the point from which it turned back in the final week of December and prior to that, in the first week of November. Why not again this time? The southern end of the relatively narrow range it has traversed over the past twelve weeks is \$117.46, and I regard this as equally respectable support. My guess is that the cash cattle market will remain within this range through the end of February.



Finally, the always-important technical picture has a bit of a negative look, following Friday's outside range/ reversals in the April and June contracts. In the absence of any consequentially bullish "news" from the cash markets, the technical considerations will take control. On

that subject, however, I notice that as of last Tuesday, the long position held by large speculators did not constitute a very big share of the total "pie", and had come down precipitously over the preceding five weeks. Thus, the potentially bearish pressure on the market from speculative long liquidation is not that great.

Meanwhile, spot packer margins drew in quite a bit this past week, as the index that I calculate (which is not precise, but fairly representative) registered a \$+68 per head vs. \$141 the week before. An average of \$+50 still seems as good a guess as any for the month of February, recognizing the consistent tendency for margins to narrow during the seasonally slow beef demand interval. That would compare with a virtual breakeven in February 2017.

As for the February/June bull spread that I had been watching, it is probably still a good idea....but that train has left the station, and I did not have a ticket. From where the spread stands today, the risk: reward parameters are too close together.

Forecasts:

	Jan*	Feb	Mar	Apr	May*	Jun
Avg Weekly Cattle S/tr	599,000	590,000	601,000	607,000	631,000	646,000
Year Ago	576,100	581,400	596,800	599,600	606,400	637,900
Avg Weekly Steer & Heifer S/tr	473,000	468,000	481,000	487,000	511,000	525,000
Year Ago	456,000	458,000	476,500	481,100	490,600	514,200
Avg Weekly Cow S/tr	117,000	112,000	111,000	110,000	109,000	108,000
Year Ago	111,900	114,000	110,200	107,700	104,600	111,000
Steer Carcass Weights	897	891	883	868	861	874
Year Ago	894.0	881.3	871.8	849.0	837.8	854

Avg Weekly Beef Prodn	498	489	496	494	509	527
Year Ago	474.8	475.6	485.5	478.6	477.6	509.6
Avg Cutout Value	\$204.25	\$198.00	\$208.00	\$207.00	\$211.50	\$211.50
Year Ago	\$192.21	\$190.41	\$213.29	\$208.39	\$232.95	\$232.42
5-Area Steers	\$121.50	\$120.00	\$123.00	\$122.50	\$119.00	\$114.00
Year Ago	\$119.90	\$120.62	\$127.39	\$130.04	\$136.78	\$126.59

**Includes holiday-shortened weeks*

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