

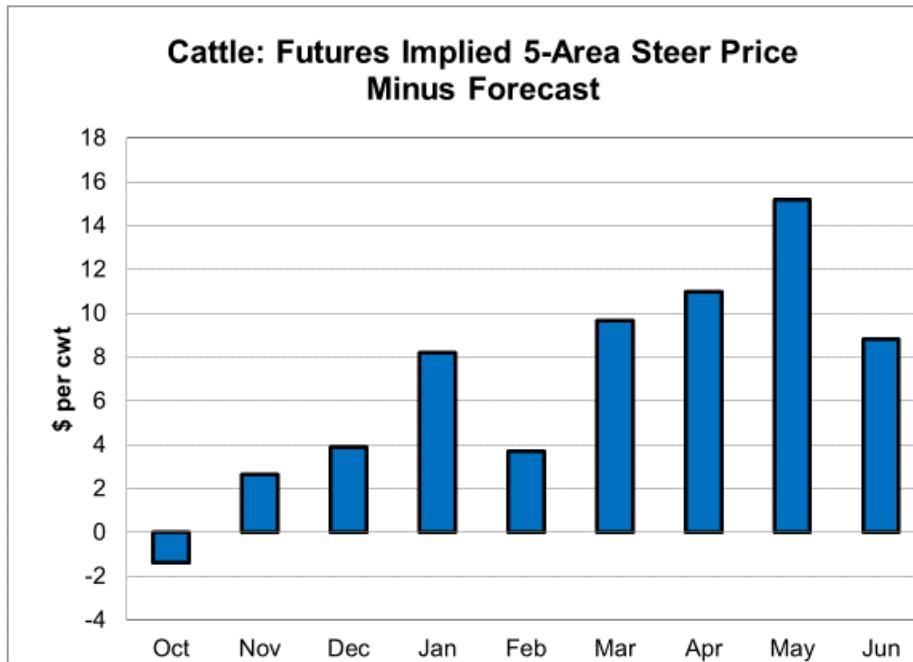
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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October 5, 2018

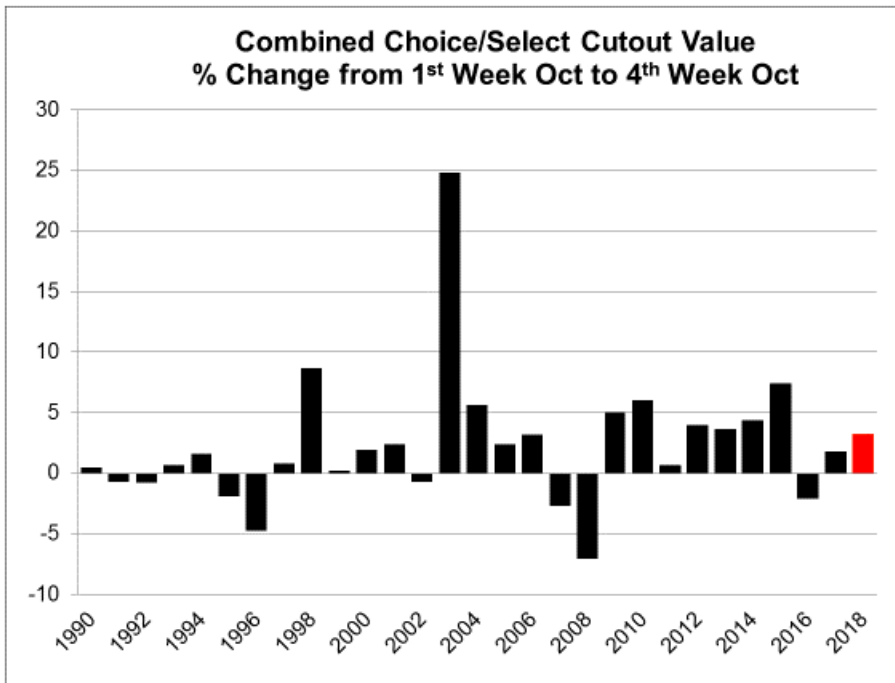


I hold a moderate position in the long October / short April spread. In my humble estimation, the former should be buoyed by strength in the cash markets, while the April and June contracts

are grossly overvalued. I remind myself also that the premium in the April contract is a bit stretched, as only once has it traded above \$10 per cwt at the end of October (that happened to be last year). Otherwise, the biggest premium in the fourth week of October has been \$8.36 (on a weekly average basis), that having occurred in 2012. My objective in the trade is an April premium of about \$7.50, a major point of support on the chart. I will risk it to a close above \$11.00. The spread has tried earnestly to push through \$10.50, and earlier this week it did so—but immediately fell back. This was my signal to initiate the trade.

The presumed strength in the cash cattle market is not a “lead pipe cinch”, of course (I am polishing my lexicon as I head off to Keeneland today), but it is likely. The combined Choice/Select cutout value still appears to be bottoming on schedule, and seems to be well-staged to follow its seasonally upward path, which I show in the picture on the next page. The chart of the Five Area Weighted Average Steer price looks like it’s destined for a move up to its nearest major resistance level at \$115-\$117. And the spot packer margin index has narrowed a bit this week, from \$198 to \$185 per head. If the combined cutout value advances to \$209 as I anticipate, then a concurrent packer margin index of

\$200 would result in a cash cattle price of about \$114.50 per cwt. [Yesterday's quote of the combined cutout was \$201.45.]



A much bigger profit opportunity is presented on the short side of either April or June cattle. I made one attempt at the June contract on september 14 but I was stopped out

eight trading days later. When will be my next attempt? I'm not sure at this point, but because of the chart on the first page, I am focusing right now on the April contract. As of this morning, this one is desperately trying to hold above its ten-day moving average. If it is unable to do so, then this would be the first faint signal that the ultimate high was established at \$124.92. However, by itself, a close below the ten-day MA would not be sufficient evidence that the top is "in". A close below \$122.50 would be much more convincing, and I probably would sell into such a close. I am trading cautiously, though, because of the likelihood that the news from the cash market will be "friendly" for the next couple of weeks.

How realistic is the notion that the April contract may be worth only \$112-\$113? One way to briefly summarize the elements that go into the equation is a year-over-year comparison of the key variables....sparing you the detailed explanations for now:

	April 2019	April 2018
5-Area Steers	\$116	\$120.41
Weekly Fed Cattle Sltr	511,000	491,300
Beef Exports	258 MIL LBS	254 MIL LBS
Beef Demand Index	.310	.273
Spot Packer Margin Index	\$159/HD	\$210/HD
Futures Minus Cash Basis	-\$3.50	-\$3.53

Forecasts:

	Oct	Nov*	Dec*	Jan*	Feb	Mar
Avg Weekly Cattle Sltr	640,000	629,000	605,000	619,000	609,000	621,000
Year Ago	629,500	625,700	593,800	595,400	594,200	600,400
Avg Weekly Steer & Heifer Sltr	501,000	492,000	477,000	484,000	479,000	488,000
Year Ago	500,900	498,600	472,600	466,400	465,800	470,400
Avg Weekly Cow Sltr	128,000	126,000	119,000	126,000	122,000	123,000
Year Ago	117,800	116,700	111,600	120,400	119,500	119,700
Steer Carcass Weights	901	899	899	891	884	876
Year Ago	897.8	902.6	902.8	892.8	884.0	877.0
Avg Weekly Beef Prodn	528	519	502	510	500	507
Year Ago	518.4	519.2	495.3	492.5	488.1	490.0
Avg Cutout Value	\$206.50	\$204.50	\$203.50	\$210.50	\$209.00	\$222.00
Year Ago	\$197.04	\$205.15	\$199.67	\$206.72	\$212.70	\$212.70
5-Area Steers	\$114.00	\$115.50	\$115.50	\$118.00	\$118.50	\$120.00
Year Ago	\$112.08	\$121.03	\$120.00	\$123.36	\$127.65	\$125.40

*\*Includes holiday-shortened weeks*

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