

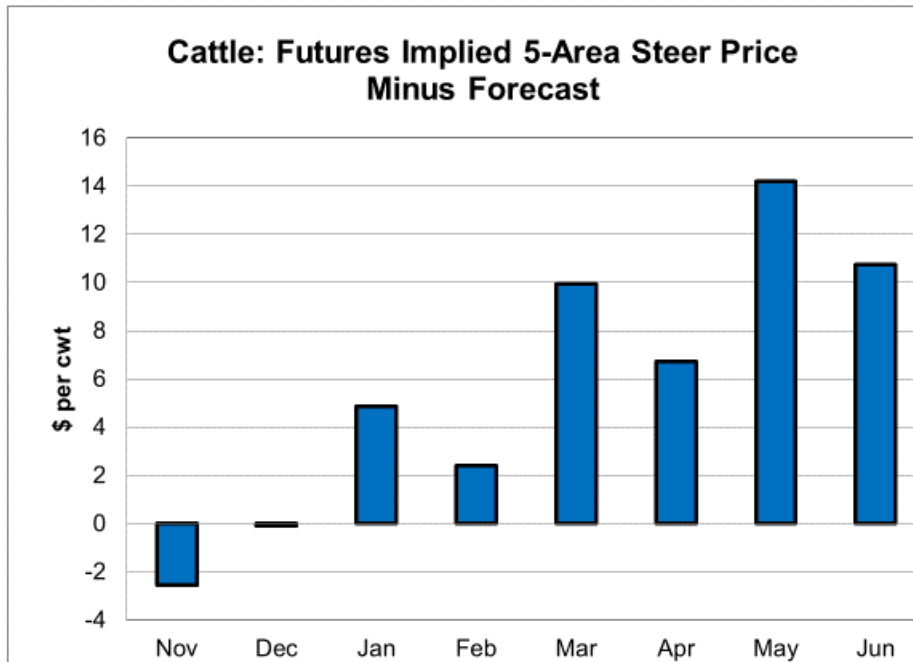
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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November 2, 2018



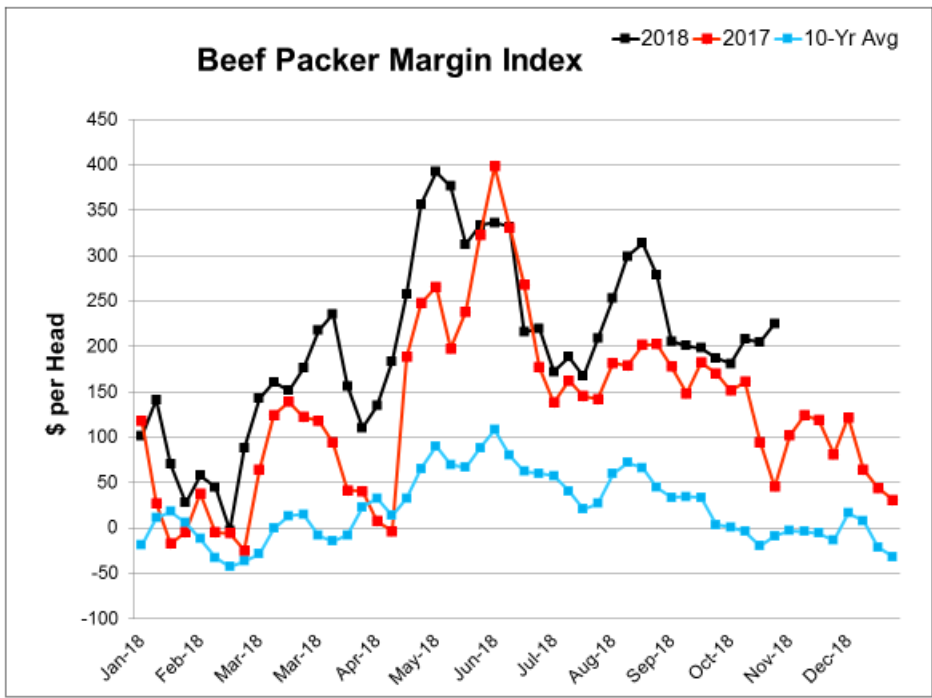
I covered my short position in June cattle earlier this week because this rally in the beef market is extending quite a bit farther than I had anticipated. It was my second attempt at the short side of the

deferred contracts, and I am certain that there will be another. The profit opportunity still appears to be big.

But the near term prospects for the cash cattle market are formidable. The combined Choice/Select cutout value has driven through its August peak, which was obviously a major resistance level. Spot packer margins are extremely wide for this time of year, leaving room for a rather sharp advance in cash cattle prices without much help from the beef market. And on that subject, the decline in carcass weights in the last two official readings (the second and third weeks of October) is mildly shocking, possibly indicating a tighter front-end cattle supply.

In regard to the stronger beef market, this is no House of Cards. Sure, the rib cuts are making their final push into seasonal highs and will collapse in mid-December....but that point is still six weeks away. Likewise, ground beef and 50% lean trimmings should—according to the seasonal history—start to slip backward within the next week. As for the round cuts, briskets, and top butts, the other main sponsors of the current rally in cutout values, there is no telling how long they can hold on to their recent gains. Otherwise, I can identify nothing on

the menu that is likely to lose significant ground in the near term. Forward booking activity for November and December delivery has been brisk, far better than it was last year.



The spot packer margin index has drifted out to about \$225 per head this week (assuming a cattle market of \$116 per cwt). During November 2017 it averaged \$94. If the combined

Choice/Select cutout value were to stay right where it is (\$215.74 per cwt), and if the packer margin index merely narrowed to \$180 per head, then we would be looking at a Five Area Weighted Average Steer price of \$120. Thus, the notion of a \$120 cash cattle market before the end of November does not seem far-fetched.

What I'm doing here is waiting for the bullish news to begin to dissipate. That point likely will be reached within two weeks. If the June contract does not trade above \$117.50 by the time the beef market flattens out, then I will assume that it's never going to happen....and I will sell it against that price (again). Of course, if June cattle are able to take out their current contract highs, then I will have to let it "run" for a while.

Forecasts:

	Nov*	Dec*	Jan*	Feb	Mar	Apr
Avg Weekly Cattle Sltr	634,000	605,000	619,000	613,000	623,000	639,000
Year Ago	625,700	593,800	595,400	594,200	600,400	620,100
Avg Weekly Steer & Heifer Sltr	497,000	477,000	483,000	481,000	490,000	505,000
Year Ago	498,600	472,600	466,400	465,800	470,400	491,300
Avg Weekly Cow Sltr	127,000	120,000	127,000	123,000	124,000	123,000
Year Ago	116,700	111,600	120,400	119,500	119,700	118,000
Steer Carcass Weights	893	893	885	878	870	854
Year Ago	902.6	902.8	892.8	884.0	877.0	861.3
Avg Weekly Beef Prodn	520	499	506	500	505	509
Year Ago	519.2	495.3	492.5	488.1	490.0	498.4
Avg Cutout Value	\$216.00	\$212.75	\$218.00	\$212.50	\$218.50	\$219.00
Year Ago	\$205.15	\$199.67	\$206.72	\$212.70	\$222.00	\$212.70
5-Area Steers	\$119.50	\$118.00	\$121.00	\$119.50	\$120.00	\$120.50
Year Ago	\$121.03	\$120.00	\$123.36	\$127.65	\$125.40	\$120.41

*\*Includes holiday-shortened weeks*

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