

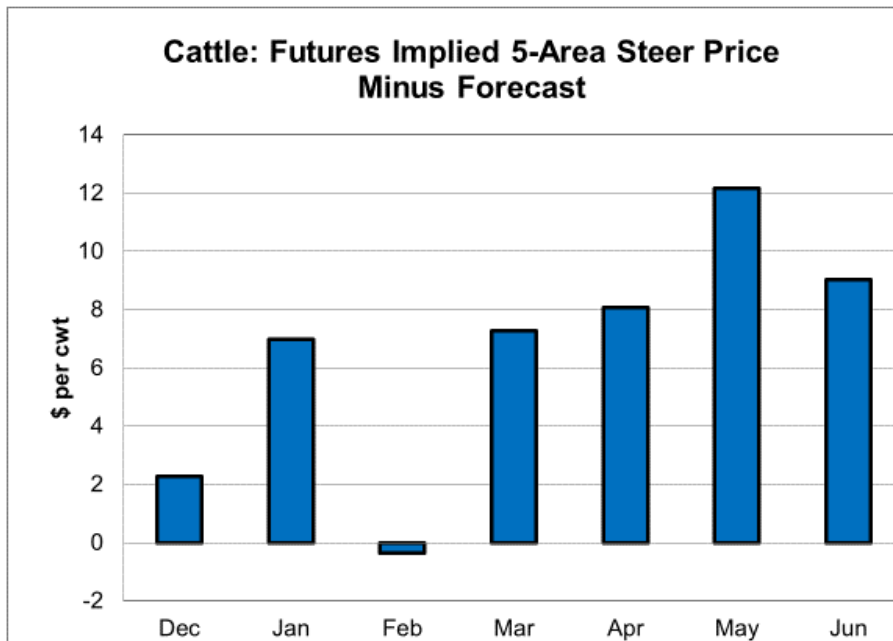
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

---

November 25, 2018



I still hold a long position in the December / June spread, and Friday I sold the June contract outright as a separate trade. Let's discuss the spread first, since I find this one more difficult to manage.

I remind myself that I entered the December/June spread mainly because of the likelihood that cash cattle prices would “pop” during the week of Thanksgiving, and boost the December contract into higher price levels that would be maintained while the deferred contracts languished. Well, this past week's cash trade did, in fact, jump \$2.50 per cwt....and the spread did not respond. I am inclined to read this as a warning signal and lower my sights to an objective of approximately \$2.50 premium to the December, instead of the initial \$3.50 target. [My close-only stop-loss remains at a December premium of \$.50 per cwt.] Also causing me to be a bit less zealous toward this trade is that the chances of a softening beef market through December are increasing. Am influenced by an apparent slowdown in forward bookings for delivery beyond mid-month (I mean, beyond the normal slowing ahead of the holidays), which would be reflected in spot market quotes as early as this coming week. When the bet is long of the spot month and short of something else, the home runs are hit when the cash market charges upward....and it looks like this ain't gonna be no home run.

And yet, the Five Area Weighted Average Steer price *did* take out a significant resistance level at \$115 this past week (my estimate is \$115.50). This makes the

chart look pretty bullish in the near term, as the nearest resistance is now \$117.00-\$117.50:



What are the chances that the cash cattle market moves upward from here while the beef market loses ground? Fairly decent, actually. My forecast of a \$116 average

cash market in December assume a combined Choice/Select cutout value of \$207.75 per cwt (vs. Friday's quote of \$211) and a spot packer margin index of +\$170 per head (vs. \$204 this past week). And I obviously regard these as objective forecasts; but after all, spot margins in December 2017 were only \$65 per head. I'm giving the "nod" to the cash cattle chart for the moment.

As for the outright short position in the June contract, I was able to wait until the market tested the major downtrend line at \$115.65, which is formed by joining the contract high (of October 2) and the high of November 2. Therefore, I can risk this trade up to a close above \$117.50 without wrecking the potential profit-to-loss ratio. The ultimate downside objective is \$107.50.

As I have mentioned before, the winter/spring peak in the cash cattle market is some distance away.....I'm thinking of something in the neighborhood of \$125. But I fully expect the June basis to look a lot different by the time the cash market gets there. I have no immediate plans to add to the position.

Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Cattle Sltr	595,000	611,000	601,000	614,000	632,000	653,000
Year Ago	593,800	595,400	594,200	600,400	620,100	642,200
Avg Weekly Steer & Heifer Sltr	471,000	479,000	472,000	485,000	503,000	526,000
Year Ago	472,600	466,400	465,800	470,400	491,300	517,100
Avg Weekly Cow Sltr	115,000	123,000	120,000	119,000	118,000	116,000
Year Ago	111,600	120,400	119,500	119,700	118,000	113,800
Steer Carcass Weights	895	889	882	875	862	852
Year Ago	902.8	892.8	884.0	877.0	861.3	848.4
Avg Weekly Beef Prodn	490	501	491	500	507	520
Year Ago	495.3	492.5	488.1	490.0	498.4	510.2
Avg Cutout Value	\$207.75	\$212.50	\$215.00	\$222.00	\$217.00	\$227.00
Year Ago	\$199.67	\$206.72	\$212.70	\$222.00	\$212.70	\$224.53
5-Area Steers	\$116.00	\$117.50	\$121.00	\$122.00	\$118.50	\$115.00
Year Ago	\$120.00	\$123.36	\$127.65	\$125.40	\$120.41	\$116.36

*\*Includes holiday-shortened weeks*

*Trading Cattle* is published weekly by Procurement Strategies Inc., 99 Grover Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523; or visit our website at [www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com).

Information herein is derived from sources believed to be reliable, with no guarantee to its accuracy or completeness. There is a substantial risk of loss in trading futures and options especially when not hedged against a cash position. Opinions expressed are subject to change without notice. Each investor must consider whether this is a suitable investment. All funds committed should be risk capital. Past performance is not necessarily indicative of future results.