

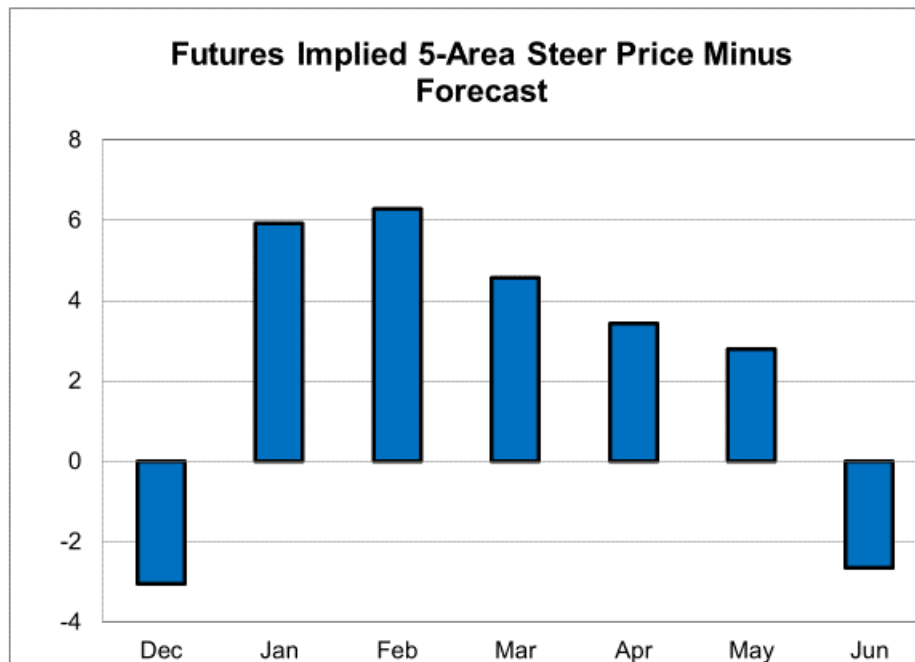
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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November 30, 2017



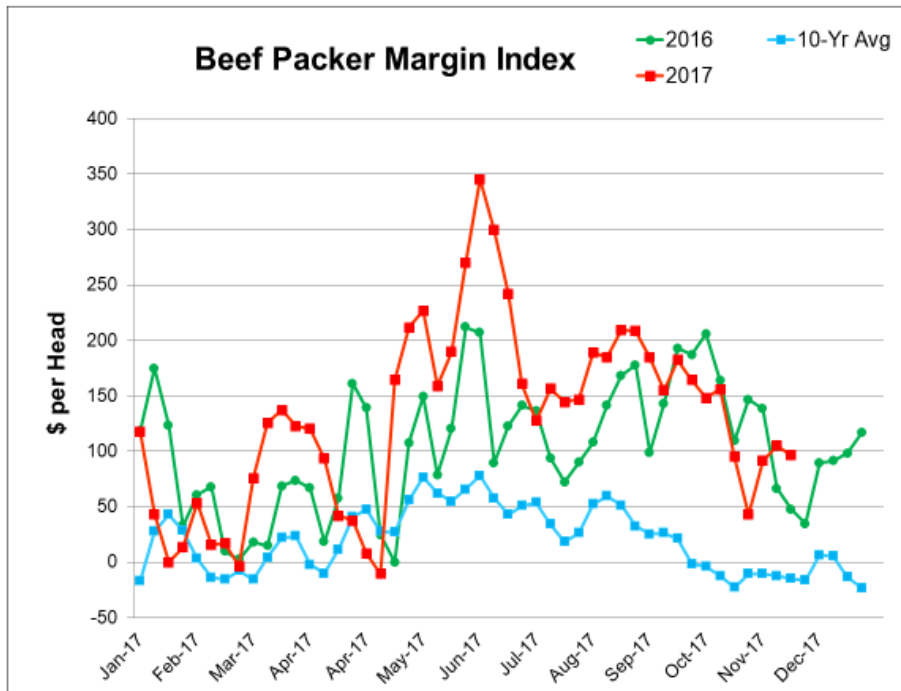
I remain minimally long of December cattle and engaged in the long December / short February spread. My target on the outright long position is approximately \$123.50, which is where I objectively anticipate the cash cattle market to situate in the

second half of December. It is the location of the most recent peak in the Five Area Weighted Average Steer price (during the week ended November 4); and it lies just below the nearest major resistance level on the chart of the December contract (\$124).

My objective in the December/February spread is a February premium of approximately \$2.75 per cwt, which is a price of obvious importance on the chart. A close within a premium of \$5.25 would be the signal that the spread has “turned”, and will make a serious move in my favor. I notice that within the last 20 years, the widest premium that the February contract has carried in the third week of December has been \$5.17; and never before has it been as wide as it is now at the end of November. All well and good, but the conditions on which I am betting are a firm cash market between now and Christmas, and some sort of technical failure in the February contract. If I am not alone in my assessment that February futures are considerably overvalued, then rallies in that contract should—*should*—be more difficult to sustain, and will encounter strong resistance at \$128....that is, if fundamentally-driven traders have any influence on the futures market these days. In any case, I fully expect that the December contract will gain against the February after First Notice Day next Monday. If it does not, then this will be a “yellow flag”.

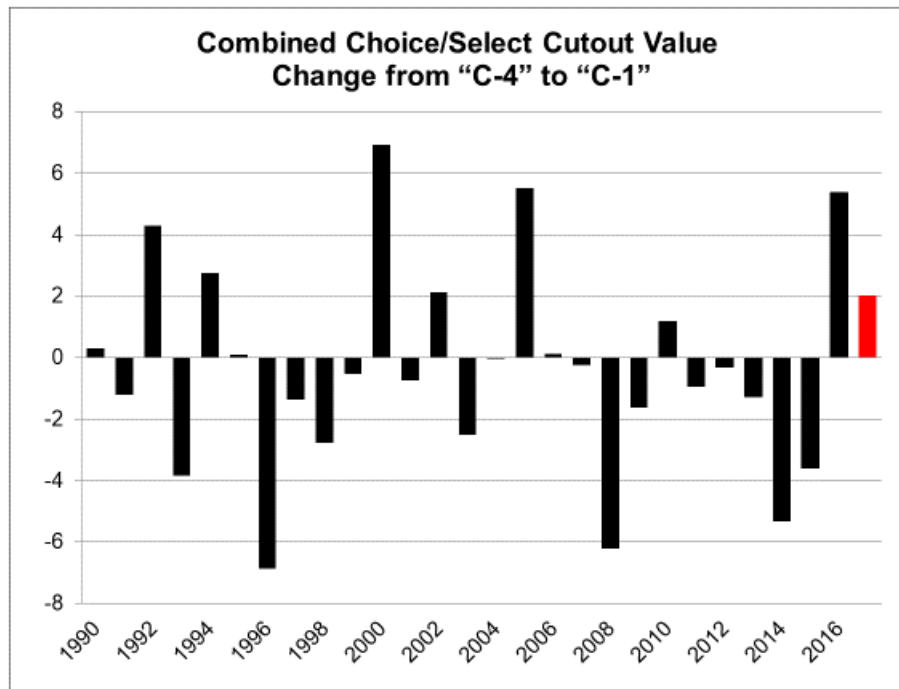
The notion of a firm cash market from now through Christmas has come into some doubt this week as the combined Choice/Select cutout value has lost about \$3.35 per cwt so far this week. I did not expect this, and I have to admit that it's a bit disconcerting. Now, higher beef prices are not a prerequisite for higher cattle prices. However, if one is willing to believe that the Five Area Weighted Average Steer price would trade at \$123 while cutout values show no advance, then

one would have to think that spot packer margins can drop to their narrowest level since May....it's not *that* far-fetched, but I don't want to count on it happening. It would require a packer margin index of as low as \$30 per head, whereas in 2015 and 2016 it averaged \$79.58 and \$94.70 respectively in the two weeks leading up to Christmas.



What I *am* counting on is a combined cutout value of about \$204 per cwt, together with a packer margin index of \$80-\$90 per head—about where it is right now. That sort of advance in the cutout value would not be terribly unusual at this time of year, and it would require nothing more than a typical seasonal change in

demand during December. In the picture below, “C-4” refers to the fourth week prior to Christmas, and “C-1” refers to the week prior to Christmas.



As for a stop-loss in the long December position, I will take my cue from the charts. A close below \$118.37 (Monday's low) would probably be enough to prompt me to step aside.

Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Cattle Sltr	576,000	599,000	585,000	589,000	603,000	629,000
Year Ago	574,900	576,100	581,400	596,800	599,600	606,400
Avg Weekly Steer & Heifer Sltr	457,000	474,000	467,000	472,000	486,000	511,000
Year Ago	459,300	456,000	458,000	476,500	481,100	490,600
Avg Weekly Cow Sltr	111,000	116,000	109,000	107,000	106,000	106,000
Year Ago	107,200	111,900	114,000	110,200	107,700	104,600
Steer Carcass Weights	896	891	885	877	862	855
Year Ago	903.3	894.0	881.3	871.8	849.0	837.8
Avg Weekly Beef Prodn	475	492	481	481	486	502
Year Ago	479.0	474.8	475.6	485.5	478.6	477.6
Avg Cutout Value	\$203.00	\$204.50	\$201.50	\$214.50	\$215.00	\$216.50
Year Ago	\$189.19	\$192.21	\$190.41	\$213.29	\$208.39	\$232.95
5-Area Steers	\$122.00	\$121.75	\$121.50	\$126.50	\$126.50	\$125.50
Year Ago	\$113.37	\$119.90	\$120.62	\$127.39	\$130.04	\$136.78

*\*Includes holiday-shortened weeks*

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