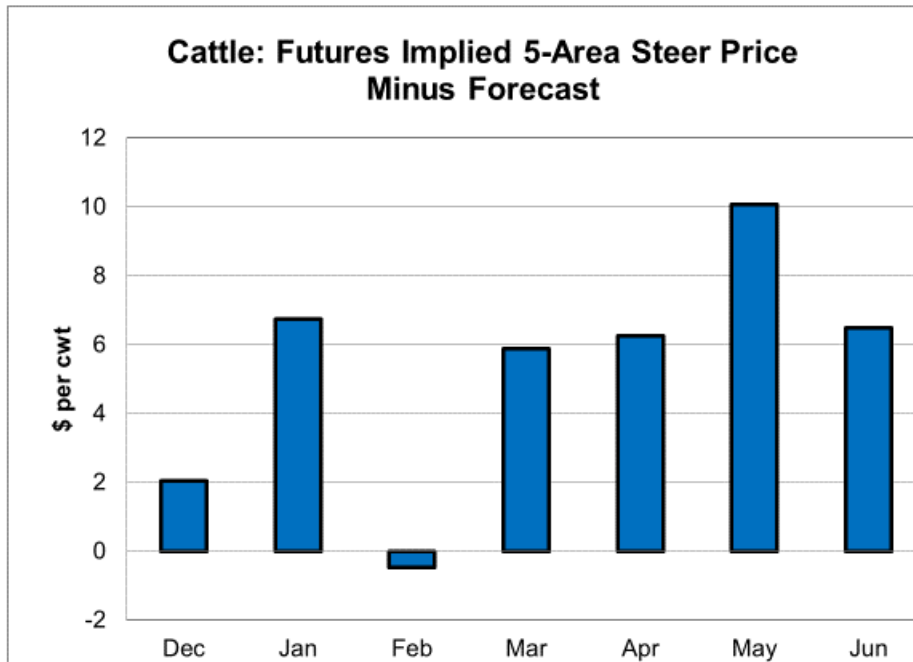


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

December 1, 2018



I now hold a rather aggressive short position in June cattle, in addition to the long December / short June spread that I have owned for a bit more than two weeks now. I had considered exiting the

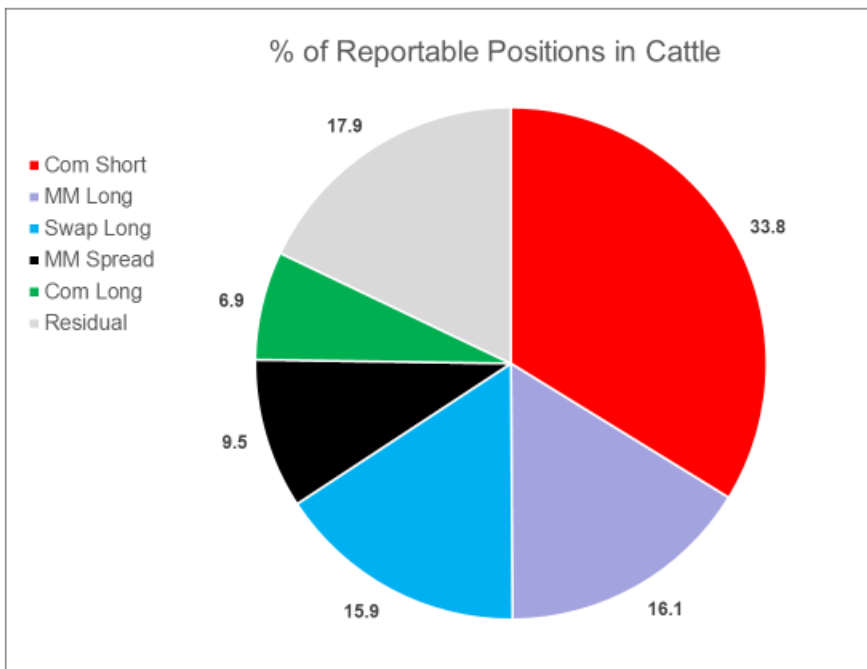
spread at a 250-point December premium, but decided to give it one chance to push through its longstanding resistance at 275....which it did, and emphatically so. The nearest resistance on the chart is now 370; I intend to liquidate around 350. Since the sideways trend from which the spread has broken out is exceptionally well-defined and persisted for nearly five months, there might be room for a more extensive move; but as I explained last week, it does not look as though we're headed for a strong rally in the cash market during December.

It was the prospect of another sizeable leg up in cash cattle prices that concerned me most about being short of June cattle so early in the game, but this threat has diminished, now that the cash market has gained \$3.50-\$4.00 per cwt over the past two weeks. The bulk of the trade in the Southern Plains took place at \$118 on Friday, but I'm guessing that the weekly weighted average will wind up somewhere between \$116.50 and \$117.00. The nearest resistance on the chart of the Five Area Weighted Average Steer price stands in the neighborhood of \$117, and I expect that it will be January before this resistance gives way....notwithstanding a barrage of winter storms, which seems to carry a higher risk this time around. [If serious weather problems do develop, then I will

probably move into a long April/short June spread; but I'll address those plans when the time comes.]

As best I can tell, the beef market is likely to lose ground from now until the week prior to Christmas, when the next bottom is likely to occur. Even if wholesale beef demand does not underperform relative to the seasonal norm, the combined Choice/Select cutout value is probably in for a setback of \$4 per cwt or so. Significant in this outlook is that ribeye prices appear to have peaked a bit earlier than usual this year, which would augment the originating from 50% lean trimmings and round cuts. Anyway, even though spot packer margins are still extraordinarily wide for this time of year, a weaker beef market would create strong "headwinds" for cash cattle prices in the near term.

And so, I am willing to assume that the June contract established another major high this past week at \$115.55 and has formed a major downtrend line which traces back to the contract high of October 2, and will serve as a guide for adding to—or re-establishing—short positions down the road. This line will pass through \$115 in mid-December, and I expect that at *some* point it will be tested again. Therefore, if the market should move directly down to its November 13 low of \$111.62 (or close to it), then I will lift the entire position with the intention of replacing it at a significantly higher price level. In the meantime, I will maintain a close-only stop above \$115.50 on one half of the position.



There appears to be some room for long liquidation in the cattle market, to which it could be vulnerable in the absence of any supportive news from the cash market. While the long

position among Managed Money traders is not big in absolute terms, it does comprise 16% of the total reportable position—the second largest "shareholder" next to the short commercial traders.

Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Cattle Sltr	597,000	612,000	605,000	615,000	629,000	653,000
Year Ago	593,800	595,400	594,200	600,400	620,100	642,200
Avg Weekly Steer & Heifer Sltr	472,000	480,000	475,000	486,000	500,000	525,000
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	492	502	494	500	505	519
Year Ago	495.3	492.5	488.1	490.0	498.4	510.2
Avg Cutout Value	\$207.50	\$212.00	\$214.00	\$222.00	\$217.50	\$228.00
Year Ago	\$199.67	\$206.72	\$212.70	\$222.00	\$212.70	\$224.53
5-Area Steers	\$116.00	\$117.25	\$120.50	\$122.00	\$119.50	\$115.00
Year Ago	\$120.00	\$123.36	\$127.65	\$125.40	\$120.41	\$116.36

**Includes holiday-shortened weeks*

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