

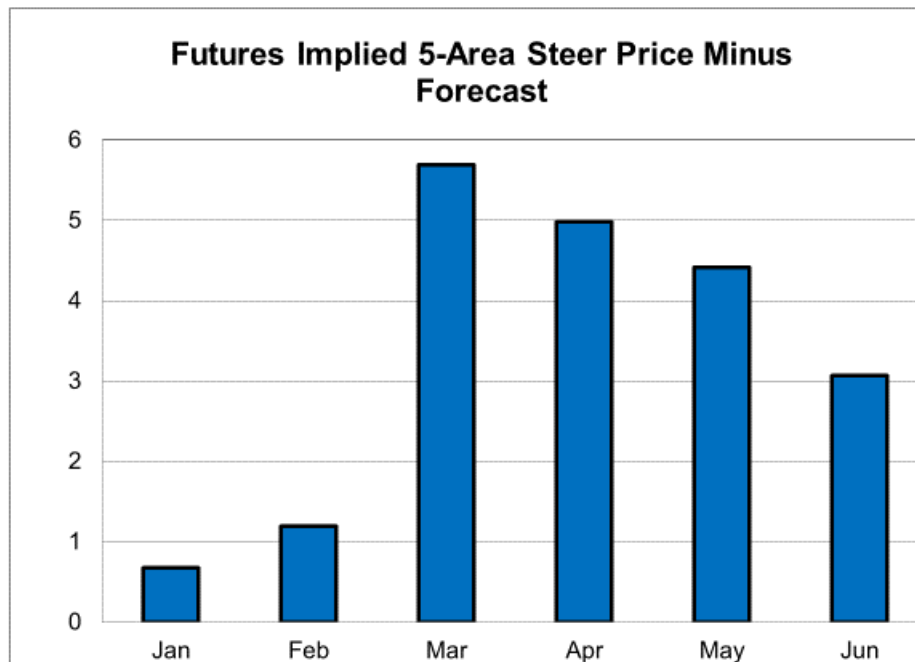
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

---

December 31, 2017



The picture at left suggests that I should be focusing my attention on the short side of either April or June cattle, and perhaps the long February / short April spread.

But even the April futures contract does not appear to be grossly overvalued, such that it could not become yet

more “misaligned” before it’s all said and done. Basis and spread relationships can do some funny things in the first quarter.

To wit: during the month of January, the April contract has averaged anywhere from \$8.45 per cwt over the cash market to \$7.88 under the cash market just within the last five years. The February/April spread has been considerably more stable, but still it has ranged from a \$1.61 February premium to a \$4.27 discount during January. Currently, the April contract is lower than usual relative to the cash market at the end of December, standing at a \$.50 per cwt discount vs. the 15-year average premium of \$3.01. The February/April spread is practically matching the 15-year average at the end of December, thus there is nothing unusual about it at the moment.

The April contract has established an obvious resistance level at approximately \$123.25 which, since I am considering a short-side bet, I have to allow room to be taken out—especially when I consider that the beef market probably will maintain an upward bias over the next three weeks. Now, spot packer margins shrank to surprisingly low levels this past week, such that cash cattle prices may not trade above \$123 in January, even as the beef market appreciates. Indeed, my best guess is that the combined Choice/Select cutout value will gain \$4-\$5 per cwt between now and its mid-January peak, and yet the Five Area Weighted Average Steer price will average about \$121 during January. The point is that the near term developments in the cash market might very well allow the \$123.25 resistance to be penetrated, and in that case, a move up to \$127 would seem to be in order. It looks to me as though a breakout from the consolidation range of the past three weeks would measure up to that price level.

As for the June contract, there are four discernible areas of resistance lying within \$4.00 of Friday's close: a) the 12/18 high of \$115.18, which was the top of an outside range/downward reversal on the weekly chart; b) \$116.00, the importance of which speaks for itself; c) the 40-day moving average, which today stands at \$116.37; and d) the major downtrend line traced from the contract high, which will pass through approximately \$117.35 as this week's trading begins. Forgive the dull-witted metaphor, but it looks like this market will encounter repeated "shelling" upon every attempt to advance. This is one reason why a short position in the June contract may be more appealing, even though it may not be as overvalued as the April contract. I can envision a strategy that aims for a series of short-term trades from each resistance level, as opposed to establishing one long-term position that I would sit on until it reaches my downside target—which looks like it could be around \$110.

#### Forecasts:

	Jan*	Feb	Mar	Apr	May*	Jun
Avg Weekly Cattle Sltr	605,000	590,000	603,000	609,000	633,000	648,000
Year Ago	576,100	581,400	596,800	599,600	606,400	637,900
Avg Weekly Steer & Heifer Sltr	476,000	468,000	481,000	487,000	512,000	527,000
Year Ago	456,000	458,000	476,500	481,100	490,600	514,200
Avg Weekly Cow Sltr	118,000	113,000	112,000	111,000	110,000	109,000
Year Ago	111,900	114,000	110,200	107,700	104,600	111,000
Steer Carcass Weights	895	889	881	866	859	872
Year Ago	894.0	881.3	871.8	849.0	837.8	854
Avg Weekly Beef Prodn	501	489	496	494	509	528
Year Ago	474.8	475.6	485.5	478.6	477.6	509.6
Avg Cutout Value	\$201.50	\$195.50	\$205.00	\$203.50	\$209.50	\$209.50
Year Ago	\$192.21	\$190.41	\$213.29	\$208.39	\$232.95	\$232.42
5-Area Steers	\$121.00	\$120.50	\$121.00	\$120.00	\$117.50	\$112.50
Year Ago	\$119.90	\$120.62	\$127.39	\$130.04	\$136.78	\$126.59

*\*Includes holiday-shortened weeks*

*Trading Cattle* is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523 (cell) or (224) 227-6281 (office); 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.