

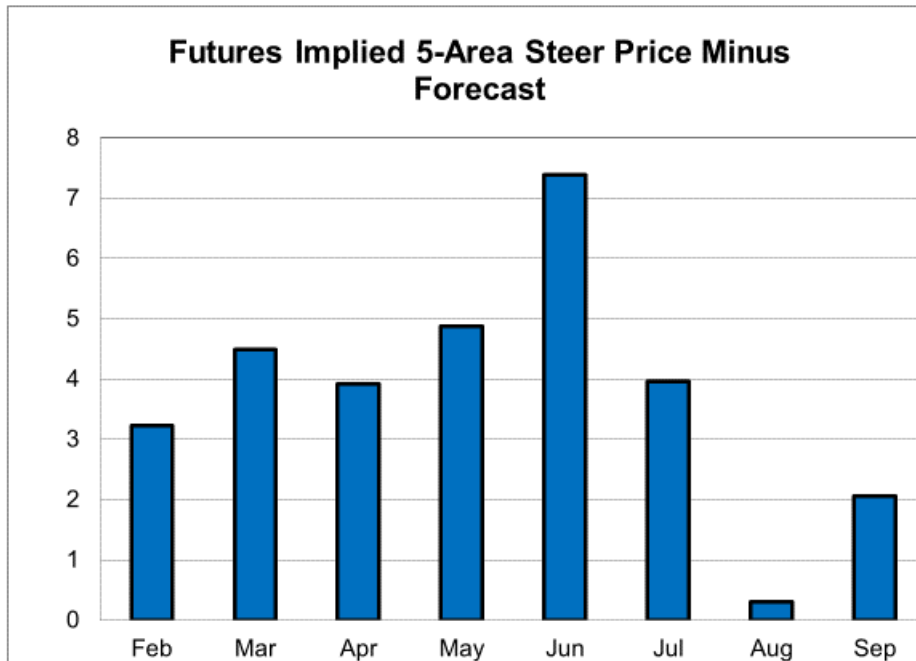
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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February 12, 2018



The cattle market has attempted earnestly to both rally and break within the last three weeks, and has failed to do either. Thus, I am waiting for the market to "show its hand" before I put any money on the table.

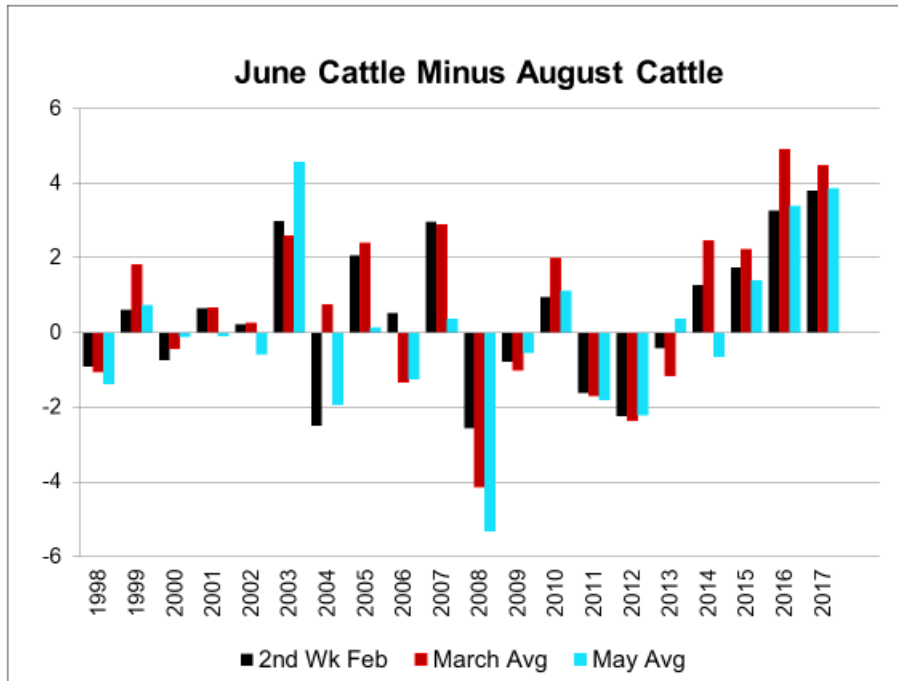
The picture at left tells me that I should be looking for

a short position in the June contract, or else a bearish approach to the June/August spread.

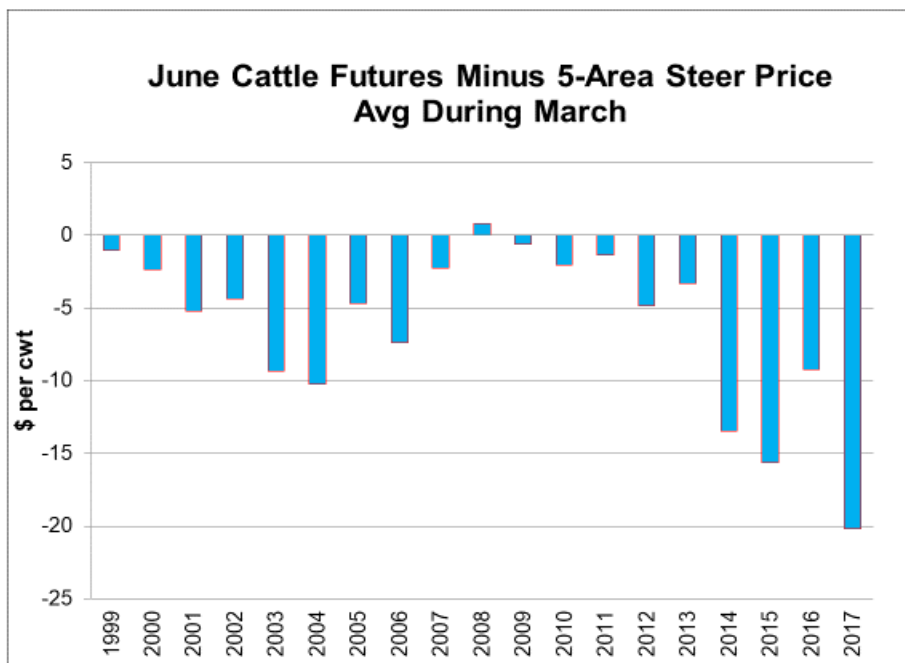
In the case of the latter, major resistance obviously lies in the \$3.40-\$3.70 per cwt range, premium to the June. This is clearly wider than usual for this time of year, but it is not unfamiliar territory. In the graph on the next page I show a 20-year history of the spread in the second week of February; the average during March; and the average during May. I'm including the March average because nobody really wants to hold a spread position for three months to find out whether or not it's going to work....and I remind myself that the opportunity is substantially based on fundamental assessments that could change materially in one month's time.

The history is not particularly compelling, because in eight of the past ten years, the June contract has either gained ground against the August, or lost less than \$.50 per cwt between the second week of February and the March average. For this reason alone, I can find a better place to park my money right now. Oh well.

Anyway, the prospective spread position represents "Plan B", whereas "Plan A" would be an outright shorting of the June contract. The recently indecisive price action leaves open the possibility of a move up into the \$120-\$121 range; and as I look past the presumed setback in the beef market over the next two weeks and toward the presumed rally in early March, the prospect seems rather likely. And so, this is where I plan to "pull the trigger".



Presently, my most objective guess is that the monthly Five Area Weighted Average Steer price will peak in March in the vicinity of \$124 per cwt. This forecast leaves room for a weekly peak around \$130, which is the nearest important price level on the longer-term chart.



Let's assume that this happens in March. Where would the June futures contract trade at that time? The second picture on this page suggests that a \$10 discount to the cash market might be in order.... maybe something deeper. The stronger the cash market,

the deeper the discount is likely to be. But it appears to me that the cash market would have to trade higher than \$130 in order to call the backbone of the resistance at \$120-\$121 into question.

And what about the stoutness of the resistance at \$130 in the cash cattle market? Well, if spot packer margins are no wider than they were in March 2017, then a \$130 cattle market would align with a combined Choice/Select cutout value of \$221 per cwt.... and that, in turn would require the third greatest January-to-March increase in wholesale demand on record.... Possible, of course, but not likely. We're betting on probabilities here.

Forecasts:

	Feb	Mar	Apr	May*	Jun	Jul*
Avg Weekly Cattle Sltr	592,000	605,000	610,000	639,000	650,000	621,000
Year Ago	581,400	596,800	599,600	606,400	637,900	603,800
Avg Weekly Steer & Heifer Sltr	466,000	480,000	486,000	516,000	526,000	500,000
Year Ago	458,000	476,500	481,100	490,600	514,200	488,800
Avg Weekly Cow Sltr	116,000	115,000	113,000	112,000	112,000	110,000
Year Ago	114,000	110,200	107,700	104,600	111,000	104,400
Steer Carcass Weights	885	878	863	856	869	884
Year Ago	881.3	871.8	849.0	837.8	854.0	868.5
Avg Weekly Beef Prodn	488	494	492	511	526	507
Year Ago	475.6	485.5	478.6	477.6	509.6	487.6
Avg Cutout Value	\$202.75	\$210.50	\$211.50	\$214.50	\$212.50	\$203.00
Year Ago	\$191.02	\$215.06	\$211.23	\$238.12	\$238.48	\$209.64
5-Area Steers	\$124.00	\$124.00	\$123.50	\$119.50	\$111.00	\$112.50
Year Ago	\$120.62	\$127.40	\$130.04	\$136.78	\$126.59	\$118.41

*\*Includes holiday-shortened weeks*

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