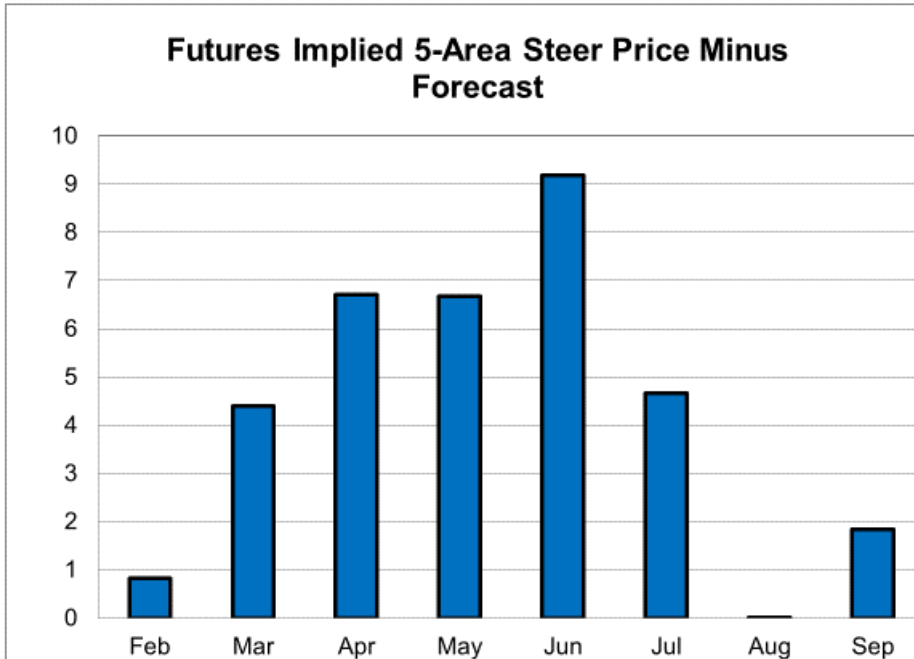


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

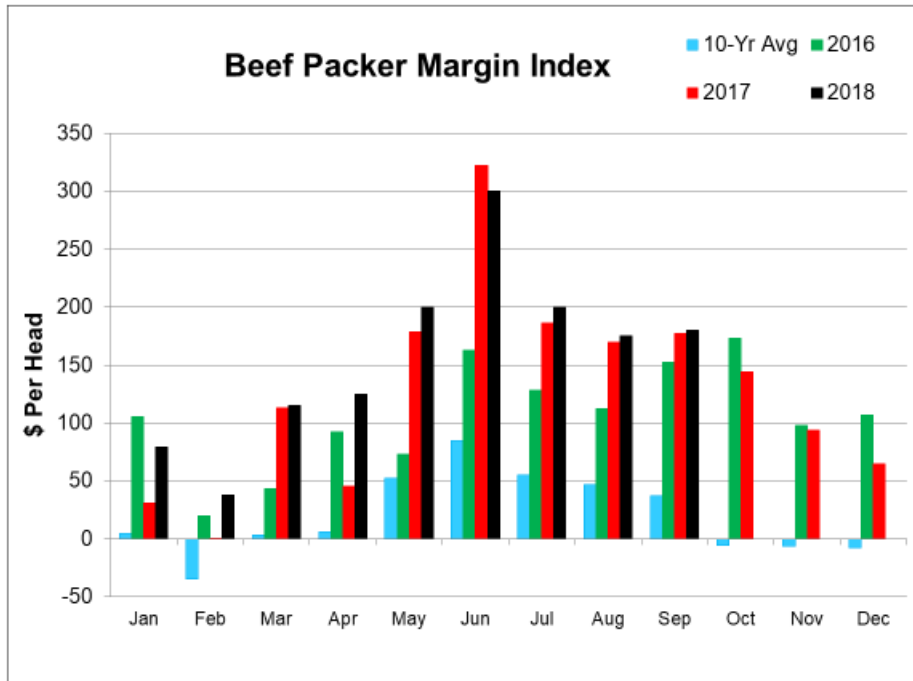
February 20, 2018



I still have no commitment in the cattle market, but I intend to get short of the June contract in the neighborhood of the contract high (\$121.52). As an entry point it is almost too obvious, leading one to think that the market will either poke above that price, or else fall short of it. That's OK

with me. But the market gives me no indication that it will not reach that level. In addition to the fact that there is only one hurdle of resistance between here and there, the combined Choice/Select cutout value yesterday pushed through what had become a major resistance level (\$210 per cwt). It is an impressive development, suggesting that the beef market should be allowed some "room to run". By itself, the chart indicates that a move up to \$220 seems a realistic expectation. Along the same line, the chart of the Five Area Weighted Average Steer price does not show any major resistance below \$135 per cwt. It's not that I *expect* the market to reach that high—I don't, really—but since I am considering a short position, I have to respect the possibility.

It is quite possible that the near-term strength will be confined to the beef market and not spill over into the cash cattle market. I notice that this past week's negotiated sales volume was the biggest since the first week of May 2017. Considering the relatively light production schedules at present, I assume that packers have secured a more comfortable inventory of cattle, at least for a while; and I assume that their margins will improve quite a bit from this point forward. This past week's quoted spot margin index was negative \$3 per head. As I show on the next page, I am including in the forecast an index value of +\$115, which is about the same as it was in March 2017. Even after plugging in a combined cutout value of \$220 per cwt, that would leave cash cattle prices at \$129—no better than they are today.



I have some degree of confidence that the \$220 area will be the location of the next top in the combined cutout value because forward bookings for March delivery are unimpressive. They are running significantly below a year earlier, whereas fed beef production

will be about 1.6% greater. It is likely that whatever the price level, cutout values will have reached their peak by the middle of March.... and the June futures contract probably will peak sometime prior to that. For practical purposes, then, the window of opportunity for selling June cattle should be about two weeks in duration.

If the downside potential in the June contract is anywhere near as great as it appears to be, then I can certainly afford to wait for a convincing technical signal that the top is "in" before I place my money on the table. However, I am willing to sell into strength in this case, because of the likelihood that this uptrend in the cash cattle market—if it is not finished already—has only a couple of weeks of fuel left in the tank. If I am able to sell June cattle near the contract high, then I will have to wait for the market to tell me where the stop-loss should be placed.

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Cattle Sltr	605,000	610,000	639,000	650,000	621,000	627,000
Year Ago	596,800	599,600	606,400	637,900	603,800	633,800
Avg Weekly Steer & Heifer Sltr	480,000	486,000	516,000	525,000	500,000	499,000
Year Ago	476,500	481,100	490,600	514,200	488,800	511,000
Avg Weekly Cow Sltr	115,000	113,000	112,000	112,000	110,000	115,000
Year Ago	110,200	107,700	104,600	111,000	104,400	111,000
Steer Carcass Weights	877	862	855	868	883	895
Year Ago	871.8	849.0	837.8	854.0	868.5	884.6
Avg Weekly Beef Prodn	497	494	513	528	510	518

Year Ago	485.5	478.6	477.6	509.6	487.6	517.9
Avg Cutout Value	\$217.25	\$212.00	\$215.00	\$213.50	\$205.50	\$208.00
Year Ago	\$215.06	\$211.23	\$238.12	\$238.48	\$209.64	\$196.81
5-Area Steers	\$127.50	\$123.50	\$120.00	\$111.50	\$114.00	\$117.50
Year Ago	\$127.40	\$130.04	\$136.78	\$126.59	\$118.41	\$110.72

**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; or visit our website at 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.