

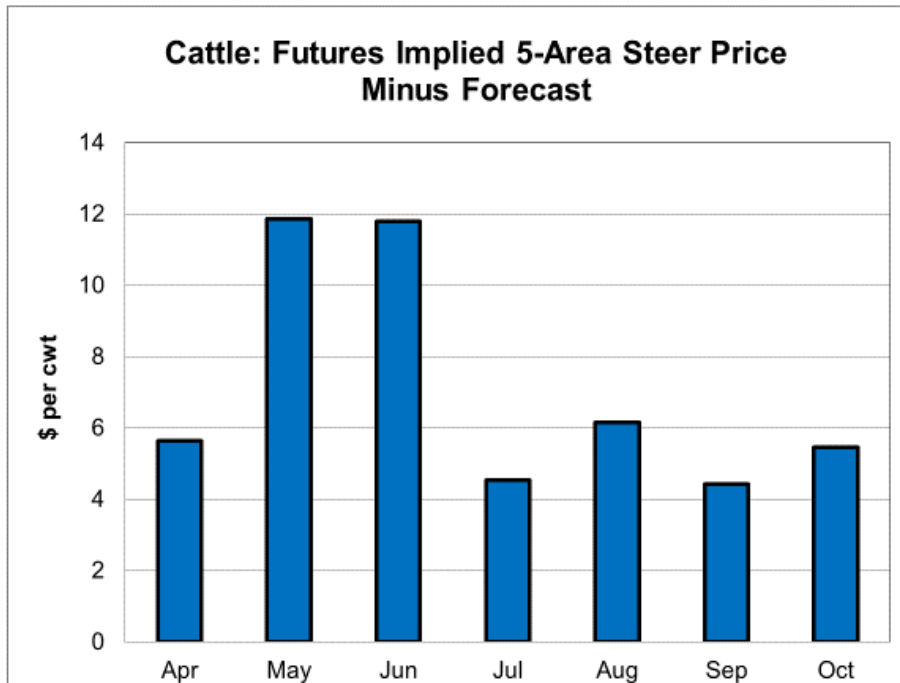
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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March 24, 2019



I remain aggressively short of April cattle with a close-only stop at \$130.50. Although the June contract appears to hold much greater downside potential, the April option is a safer place for a short

position for the time being....as it has proven to be so far.

There is a good chance that Friday's outside range/lower close finally marked the top in the June contract. However, this one has yet to fall through a major support level. The nearest such support is a rather long distance away, at \$118.00. I suspect that this market will go through a sizeable setback; find support somewhere above \$118; and then make an earnest attempt to recover. If that attempt fails, then I will move my short position from April into June.

The long position among managed money funds accounts for an extraordinarily large share of the total reportable position in cattle futures, and the brunt of the seemingly inevitable long liquidation will be borne mainly by the June contract. When it happens--and I am guessing that it will begin within the next week or two--the price decline will be exaggerated (read: overdone). If the cash cattle market is indeed headed for an average of \$113.50 in June, then the November 13 low of \$111.62 becomes a quite reasonable target.

Is the cash cattle market *really* in for a \$16 per cwt decline by June? It seems like a long way off, and it would require one of the steepest drops from March to June on record (though not quite as extensive as we saw last year). On the other hand, it would require nothing special from the demand side of the equation. I am assuming that the seasonally adjusted demand index in June will exceed a year earlier by about the same margin as it has in the first three months of 2019. I am also assuming that spot packer margins in June will approximate those of a year earlier. Why not?

On the subject of demand, it seems unlikely that there will be a noticeable increase in export business (beyond the normal seasonal improvement) by June. Even if the Chinese tariffs on U.S. beef were to be removed before then--which is questionable, to say the least--I would *think* that U.S. packers would have to get in line behind China's current suppliers (Brazil, Uruguay, Australia, Argentina, New Zealand).

But as I said, I am not ready to begin selling into strength in the June contract just yet. If there is to be another major leg upward in hog futures and enough spillover support to drive cattle futures higher still, that bullish influence will probably be restricted to the June and more deferred contracts--not the April.

Meanwhile, a three to four-week setback in the beef market should put downward pressure on the April contract. I am expecting the combined Choice/Select cutout value to lose roughly \$8 per cwt by the third week of April, led by bottom round cuts (flats and eyes), knuckles, briskets, Select-grade middle meats, and quite possibly ground beef. Forward bookings for delivery from now through mid-April were solid, but they have tapered off for the second half of the month. And fed cattle slaughter jumped into a higher tier this past week, where it is likely to remain until its next leg up in the second half of April.

If spot packer margins hold steady at current levels through the bulk of April amid an \$8 decline in cutout values--a reasonable assumption, I think--then cash cattle prices will fall back to \$123-124 per cwt. That would naturally pull April futures down to their major support level of \$123.50. And so this shall be my downside target until the market tells me it's OK to shift the position into the June contract.

Forecasts:

|                                | Apr      | May*     | Jun      | Jul*     | Aug      | Sep*     |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| Avg Weekly Cattle Sltr         | 628000   | 649,000  | 658,000  | 629,000  | 645,000  | 635,000  |
| Year Ago                       | 620,100  | 642,200  | 654,000  | 623,900  | 643,400  | 632,200  |
| Avg Weekly Steer & Heifer Sltr | 495,000  | 520,000  | 529,000  | 502,000  | 514,000  | 505,000  |
| Year Ago                       | 491,300  | 517,100  | 526,100  | 499,100  | 512,600  | 504,500  |
| Avg Weekly Cow Sltr            | 122,000  | 118,000  | 117,000  | 116,000  | 120,000  | 119,000  |
| Year Ago                       | 118,000  | 113,800  | 116,200  | 114,000  | 119,600  | 117,100  |
| Steer Carcass Weights          | 858      | 849      | 860      | 874      | 889      | 901      |
| Year Ago                       | 861.3    | 848.4    | 857.5    | 870.0    | 884.8    | 897.0    |
| Avg Weekly Beef Prodn          | 501      | 515      | 527      | 509      | 528      | 526      |
| Year Ago                       | 498.4    | 510.2    | 523.2    | 503.3    | 525.3    | 522.0    |
| Avg Cutout Value               | \$222.00 | \$228.50 | \$223.00 | \$213.00 | \$214.50 | \$209.50 |
| Year Ago                       | \$212.70 | \$224.53 | \$217.10 | \$204.61 | \$207.50 | \$204.18 |
| 5-Area Steers                  | \$124.50 | \$118.50 | \$113.50 | \$117.00 | \$114.50 | \$113.00 |
| Year Ago                       | \$120.41 | \$116.36 | \$110.39 | \$111.87 | \$110.02 | \$109.89 |

*\*Includes holiday-shortened weeks*

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