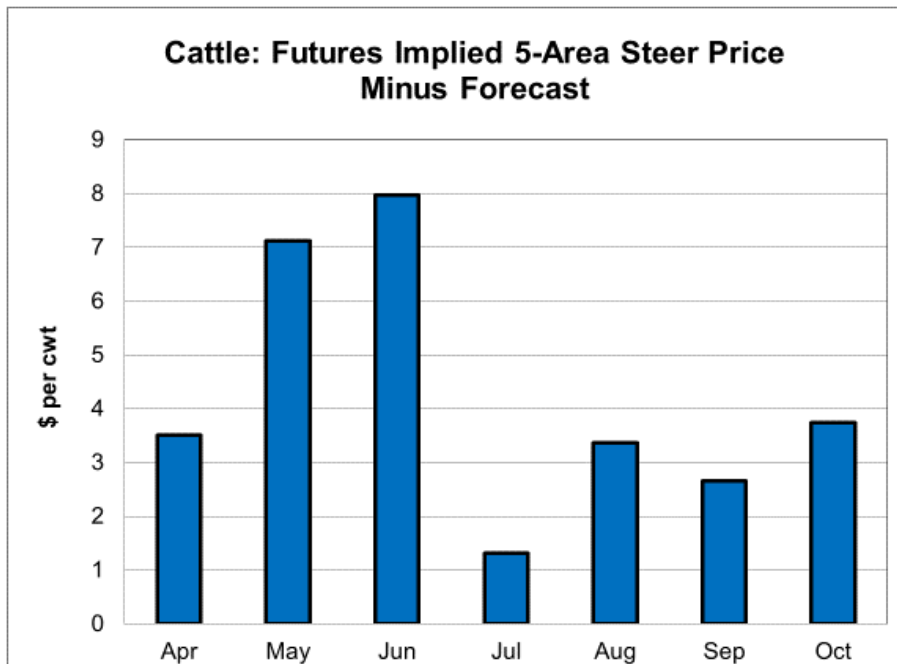


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

March 31, 2019



I remain aggressively short of April cattle, still searching for the right time and place to transfer this position into the June contract. If the stars align perfectly (as they always do, you know), then I will be able

to cover the April shorts in the \$123.50-\$124.00 range, and then sell June cattle on a rebound to the ten-day moving average (which will begin this week at \$121.60).

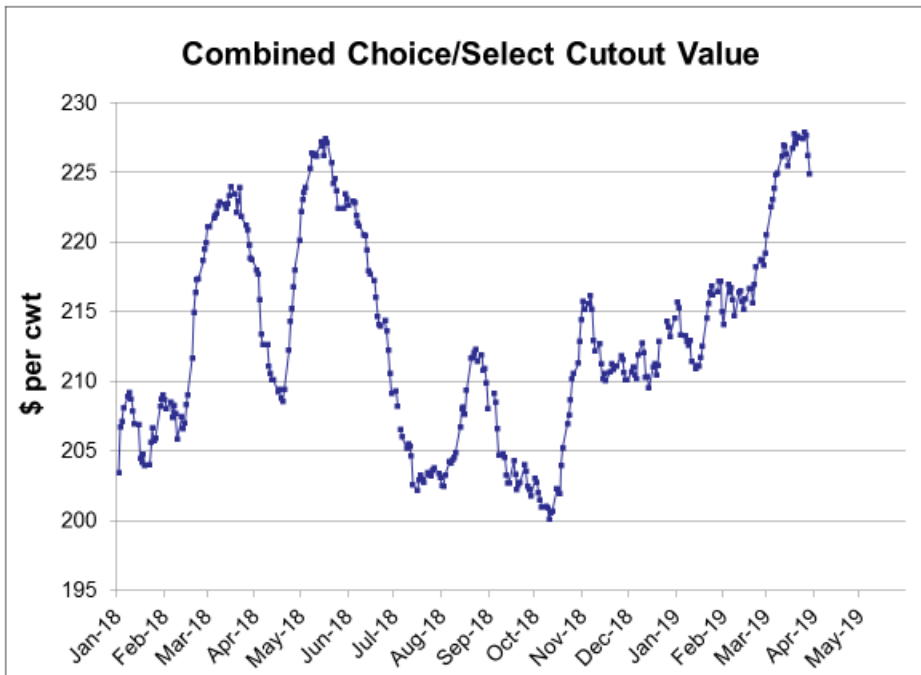
Why wouldn't I just go ahead and roll the position now? After all, the downside potential in the June contract is twice as great. But technically, the uptrend in June cattle remains intact; the trend line originating from the November 13 low has not yet been violated, and the ten-day average remains above the 40-day average. It is still possible that this is but a correction preceding another leg up-- or at least another test of the contract high. Plus, I suspect that a recovery attempt would be more pronounced in the June contract, since it is untethered by the immediate weakness in the cash markets.

On that subject, the notion that cash cattle prices have topped out is considerably more prevalent than it was just a week ago. This is quite significant, because it should prompt feedlots to move cattle more aggressively in the weeks ahead. This, in turn, should give packers some leverage and result in widening packer margins.

I also notice that there are 63,000 more cattle contracted for April delivery than a year ago. That amounts to roughly 15,000 more week, while steer and heifer slaughter should be up only about 2,000 per week....just another reason to think that packers will have a little more leverage in weekly negotiations.

Until recently, while the board was still pressing its highs, my focus was on identifying the “practical maximum” value of the nearby futures contracts. Now that both cash cattle prices and cutout values have turned downward, it’s time to consider the more bearish possibilities. If the market is indeed headed downward, I want to give it a chance to achieve its full downside potential.

The chart of the combined Choice/Select cutout value shows nothing in the way of support above approximately \$217 per cwt. From a fundamental standpoint, this price level is well within reach. It would require a moderate recession in the weekly beef demand index in the second half of April, which is congruent with the slowdown in forward bookings for delivery at that time (and on into early May as well). An \$8 per cwt pullback from the end of March to the April low would be steeper than average, but not as steep as the last three years.



If the spot packer margin index holds at this past week's average, then a \$217 combined cutout would align with a Five Area Weighted Average Steer price of about \$120.50 per cwt.

There is a major support level in April cattle at \$118.55....a bit of a stretch, perhaps, but it's not *that* difficult to envision a return to that level. More conservatively, the April contract has completed a double top formation which measures to \$122.20.

Forecasts:

	Apr	May*	Jun	Jul*	Aug	Sep*
Avg Weekly Cattle Sltr	628000	649,000	660,000	629,000	648,000	637,000
Year Ago	620,100	642,200	654,000	623,900	643,400	632,200
Avg Weekly Steer & Heifer Sltr	493,000	519,000	529,000	500,000	515,000	506,000
Year Ago	491,300	517,100	526,100	499,100	512,600	504,500
Avg Weekly Cow Sltr	124,000	120,000	119,000	118,000	122,000	121,000
Year Ago	118,000	113,800	116,200	114,000	119,600	117,100
Steer Carcass Weights	856	852	863	877	892	904
Year Ago	861.3	848.4	857.5	870.0	884.8	897.0
Avg Weekly Beef Prodn	499	516	529	509	532	529
Year Ago	498.4	510.2	523.2	503.3	525.3	522.0
Avg Cutout Value	\$220.25	\$229.00	\$221.50	\$213.00	\$208.00	\$206.50
Year Ago	\$212.70	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18
5-Area Steers	\$122.50	\$119.00	\$113.00	\$116.50	\$113.50	\$112.00
Year Ago	\$120.41	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89

**Includes holiday-shortened weeks*

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