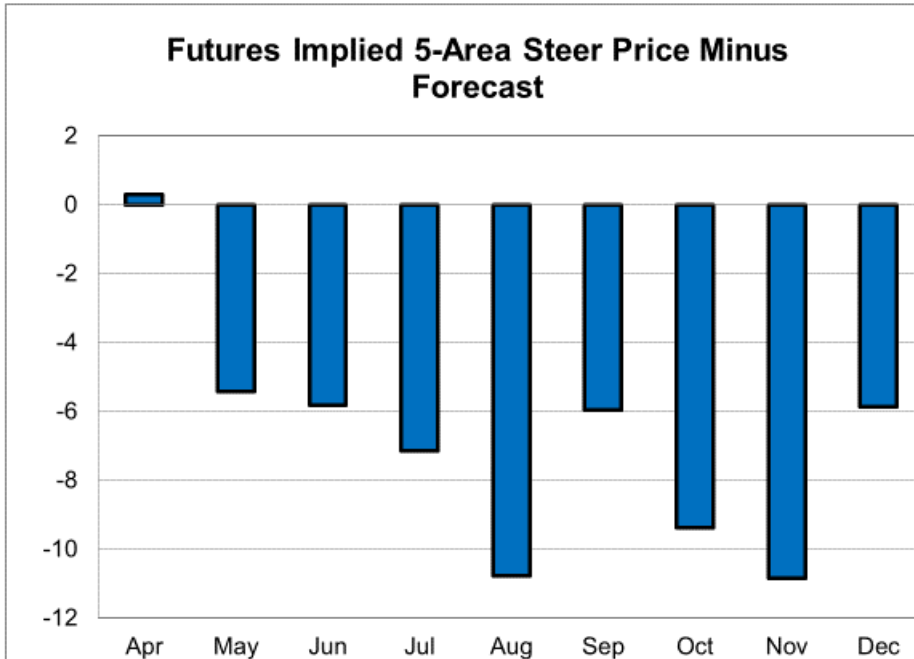


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

April 11, 2018

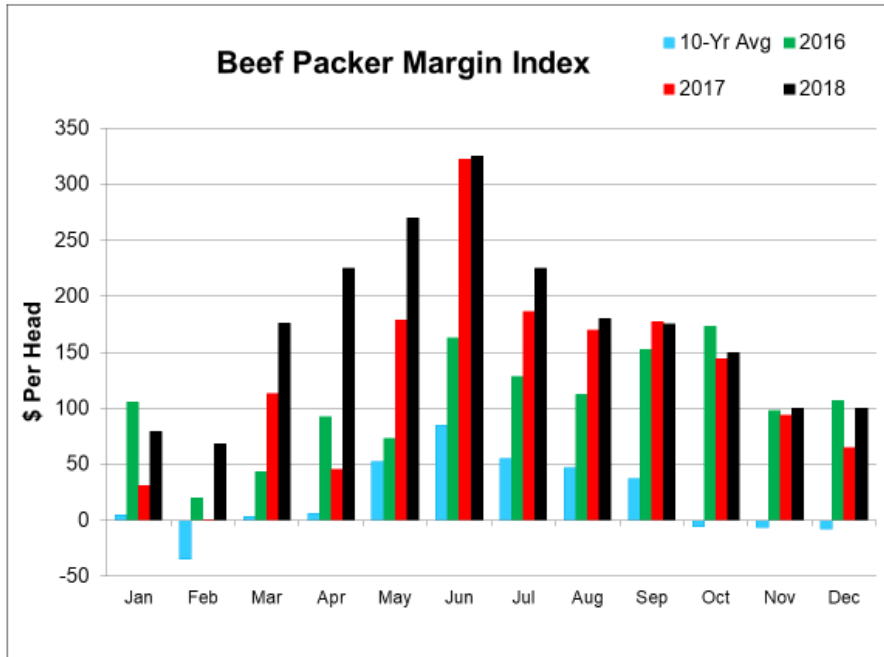


A classic, 500-point outside range/ reversal in a vastly undervalued futures market.... why should I not think that the summer contracts hit bottom last Wednesday? I am willing to bet on it in the August contract. However (there's *always* a however), I cannot justify

buying anything right now. The only price at which a meaningful stop-loss could be placed is \$97.62 (close-only), and at yesterday's close, the August contract stood \$5 per cwt above that level. It's difficult to justify risking that much money at this juncture. I could, and I *would*, if I thought that August cattle would move on up to \$115 without ever trading again at current levels. But I don't. So far, we have only gotten a taste of how the market will handle the copious front-end cattle supplies and (presumably) aggressive marketing rates of May and June.

I am most wary of the spread that may develop between cash cattle prices and cutout values over the next two months. I am building into my price forecasts a spot packer margin index of \$270 per head in May and \$325 per head in June, which I regard as somewhat generous....but is it enough? It has surprised me how quickly the spread has widened in the last two weeks—and we're early in the game. This picture is shown on the next page.

I should mention once again that I do expect packer margins to narrow by August, as front-end supplies begin to tighten and most likely, the deep discounts on the board will have disappeared by then.



As for the beef market, I am anticipating strong support in the combined Choice/Select cutout value around \$210 per cwt, only a little more than a dollar below Tuesday's quote. But this is a questionable assumption, in view of the light forward bookings for second-half April and first-half May delivery. We'll see.

Despite the apparent lack of retail featuring activity in the near term, there is a good chance that the combined cutout value will mount a respectable recovery beginning within the next week or so, and extending through mid-May. I do not expect it to reach its March peak (\$223), but there is plenty of room for another major leg up in Choice and Select strips and short loins, Choice top butts, bottom sirloins items, and perhaps ribeyes as well. This could very well bring some temporary stability to cash cattle prices, to which the board will probably be responsive.

I notice also that the August contract closed far beyond the upper end of last Wednesday's big outside range on the following day, and since then it has registered three closes back within that range. Typically, this indicates that the market will go back and test the lower end—in this case, \$97.62. Just another reason not to engage on the long side just yet. If this happens, then I will try to buy August cattle at \$98.50 or below.

Finally, I recognize that the greatest struggle for me will be watching the market rally—which it will probably do if it is able to push through \$105.00—and fighting the fear of being left behind. I will have to remind myself that this is *never* a good reason to establish a position of any sort. If there is to be a move up to the next major resistance at \$107.50 in the near term, then the market will subsequently establish a new, critical support level against which I can buy August cattle without risking too much.

Forecasts:

| | Apr | May* | Jun | Jul* | Aug | Sep* |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| Avg Weekly Cattle Sltr | 620,000 | 649,000 | 664,000 | 632,000 | 643,000 | 638,000 |
| Year Ago | 599,600 | 606,400 | 637,900 | 603,800 | 633,800 | 624,400 |
| Avg Weekly Steer & Heifer Sltr | 492,000 | 522,000 | 536,000 | 508,000 | 511,000 | 505,000 |
| Year Ago | 481,100 | 490,600 | 514,200 | 488,800 | 511,000 | 502,100 |
| Avg Weekly Cow Sltr | 119,000 | 116,000 | 116,000 | 114,000 | 120,000 | 122,000 |
| Year Ago | 107,700 | 104,600 | 111,000 | 104,400 | 111,000 | 111,200 |
| Steer Carcass Weights | 861 | 849 | 862 | 877 | 889 | 901 |
| Year Ago | 849.0 | 837.8 | 854.0 | 868.5 | 884.6 | 896.0 |
| Avg Weekly Beef Prodn | 499 | 516 | 535 | 514 | 527 | 528 |
| Year Ago | 478.6 | 477.6 | 509.6 | 487.6 | 517.9 | 515.8 |
| Avg Cutout Value | \$213.00 | \$218.00 | \$215.50 | \$207.50 | \$206.50 | \$200.00 |
| Year Ago | \$211.23 | \$238.12 | \$238.48 | \$209.64 | \$196.81 | \$192.17 |
| 5-Area Steers | \$116.00 | \$115.50 | \$110.00 | \$112.50 | \$115.00 | \$111.50 |
| Year Ago | \$130.04 | \$136.78 | \$126.59 | \$118.41 | \$110.72 | \$106.83 |

**Includes holiday-shortened weeks*

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