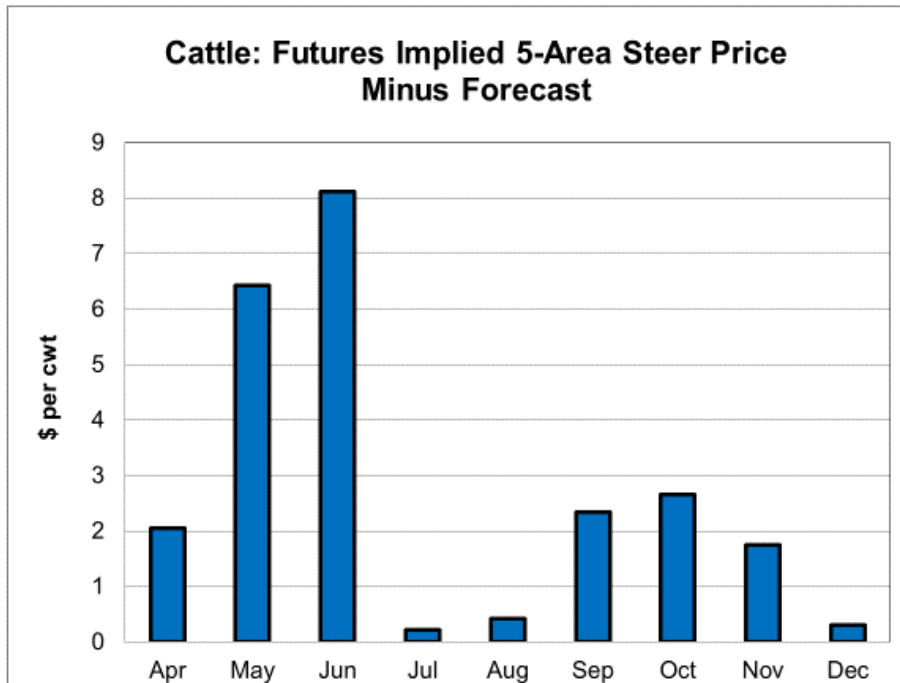


# Trading Cattle .... from a meat market perspective

A commentary by Kevin Bost

---

April 15, 2019

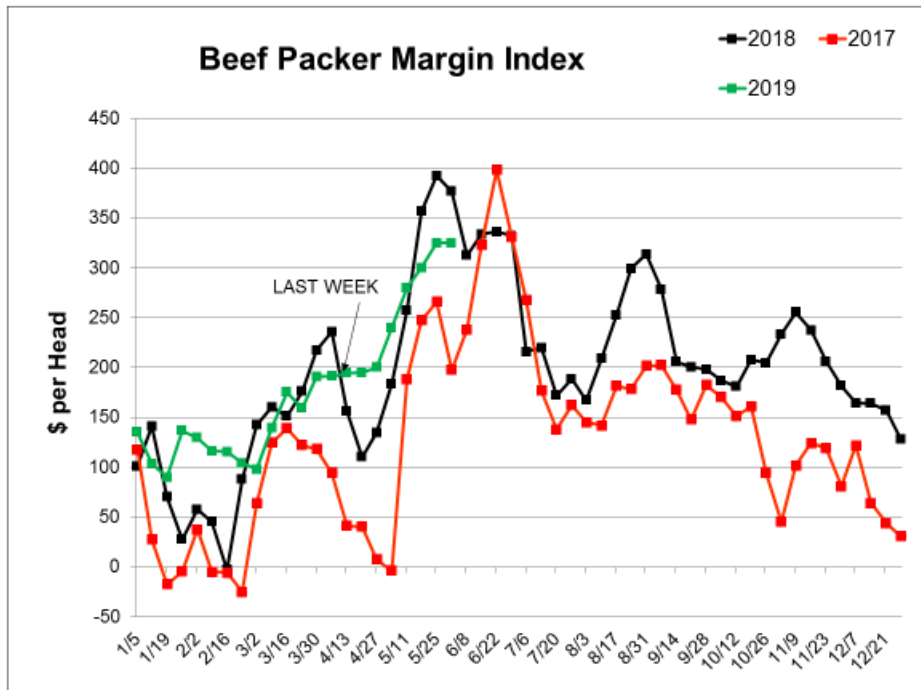


I remain short of June cattle, expecting this market to eventually trade down to \$115.00 and quite possibly \$113.00. If this objective is to be realized, it probably will not happen until we're well into the

month of June. The board has been content to hold a much smaller discount to the cash market this spring than we became accustomed to over the past several years, and I assume that this condition will persist.

On that subject, the June futures contract stands approximately \$5 per cwt below the Five Area Weighted Average Steer price; the average discount in the third week of April over the past five years has been \$13.19. Given the current basis relative to historical levels, I think it's reasonable to anticipate an average discount of about \$4 during the month of May and \$1 during June. It would be fair to say, then, that the board is pricing in a Five Area Steer market of \$125.50 in May and \$122.50 in June. Am I the only one who thinks these are too optimistic?

Clearly, I am depending on a considerably widening packer margin to make my bet pay off. Is this an unreasonable expectation? As I show in the picture on the next page, the spot margin index is currently tracking reasonably closely along its 2018 path. Last year, it averaged \$313 per head in May and \$329 in June. What would make it much different this time around?



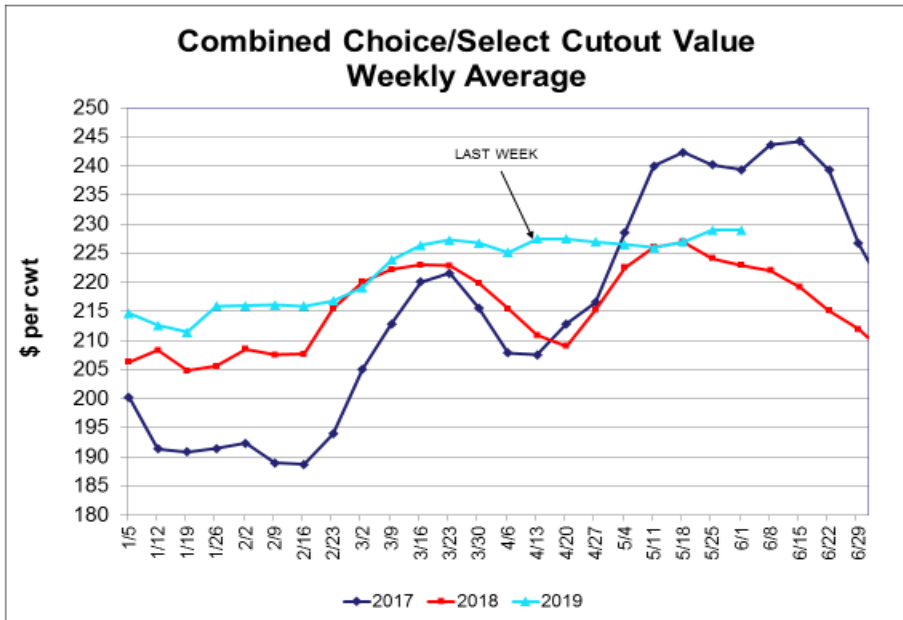
Front-end cattle supplies, as measured by the inventory of cattle on feed 120 days or longer, should be slightly larger than a year earlier on June 1, and as far as I know, there has been

no meaningful expansion in slaughter capacity since then. I can fully understand how the narrower futures discount would make cattle feeders less willing sellers; but some of them tell me that replacing weather-damaged cattle with fresh inventory makes sense. And I notice that in the first half of this month, April futures averaged essentially par with the cash cattle market vs. a five-year average discount of \$4.05, and yet fed cattle slaughter is up slightly and spot packer margins matched those of a year ago.

Meanwhile, the beef market looks like a mostly sideways affair from now through May, as it has been for the past five weeks. Supply and demand has obviously been in pretty good balance. The volume of product booked “out front” for May delivery--and that window is closing--has been distinctly down from April volumes, and pretty far below a year ago. This is *not* indicative of plans for aggressive beef featuring in May....in fact, it suggests that the change in demand from April to May will be somewhat weaker than the seasonal norm.

If one is willing to accept the notion that spot packer margins will widen to \$300+ per head, then one could say that the board is pricing in average combined Choice/Select cutout values of \$237.50 per cwt in May and \$236.50 in June--which would require a much *stronger* than normal change in wholesale beef demand from April into May and June.

Finally, I still regard the preponderous long position among managed money traders as a bearish factor in the cattle market in general, and in the June contract in particular. The percentage of the total reportable position held by this faction (23%) is at a three and a half-year high.



Forecasts:

	Apr	May*	Jun	Jul*	Aug	Sep*
Avg Weekly Cattle Sltr	630,000	651,000	658,000	626,000	645,000	636,000
Year Ago	620,100	642,200	654,000	623,900	643,400	632,200
Avg Weekly Steer & Heifer Sltr	494,000	520,000	528,000	500,000	515,000	507,000
Year Ago	491,300	517,100	526,100	499,100	512,600	504,500
Avg Weekly Cow Sltr	125,000	120,000	117,000	115,000	119,000	118,000
Year Ago	118,000	113,800	116,200	114,000	119,600	117,100
Steer Carcass Weights	858	854	866	880	894	906
Year Ago	861.3	848.4	857.5	870.0	884.8	897.0
Avg Weekly Beef Prodn	502	518	529	509	531	529
Year Ago	498.4	510.2	523.2	503.3	525.3	522.0
Avg Cutout Value	\$226.75	\$227.50	\$224.00	\$218.50	\$219.00	\$212.00
Year Ago	\$212.70	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18
5-Area Steers	\$126.00	\$119.00	\$114.50	\$116.50	\$117.50	\$114.50
Year Ago	\$120.41	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89

\*Includes holiday-shortened weeks

*Trading Cattle* is published weekly by Procurement Strategies Inc., 99 Grover Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523; or visit our website at [www.procurementstrategiesinc.com](http://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.