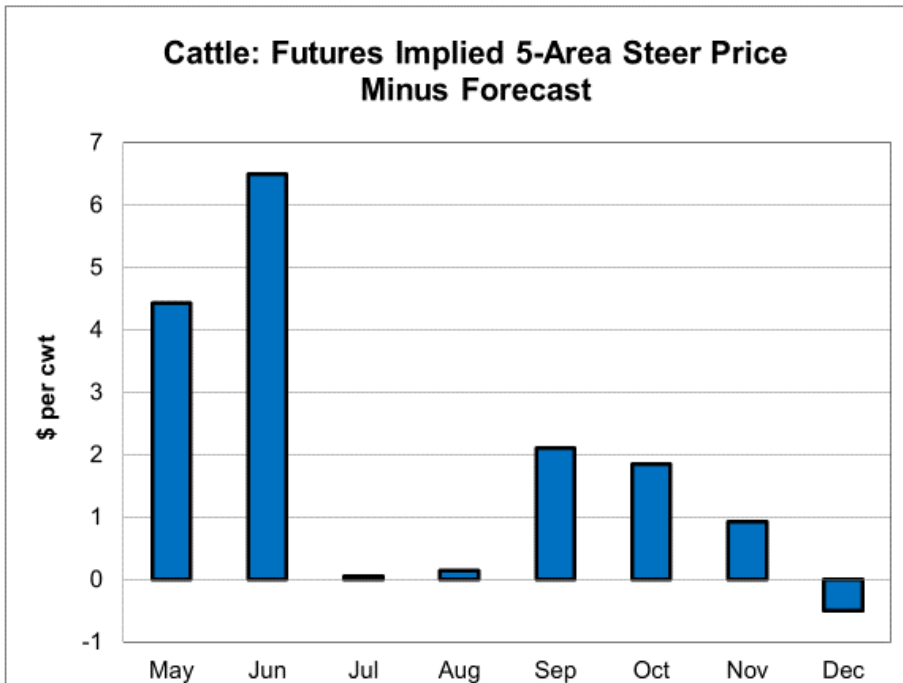


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

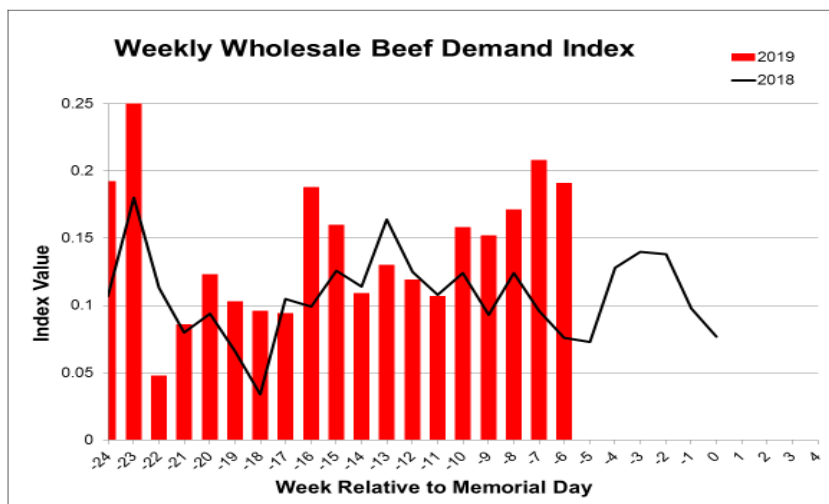
April 22, 2019



My focus remains on the short side of the June contract, in which I am aggressively involved. Needless to say, though, this past week's cash cattle trade is making me squirm.

As I examine the

main components of the pricing equation (fed cattle slaughter, beef demand, packer margins), it becomes quite clear that wholesale beef demand is the area in which I have underestimated the market's performance so far.



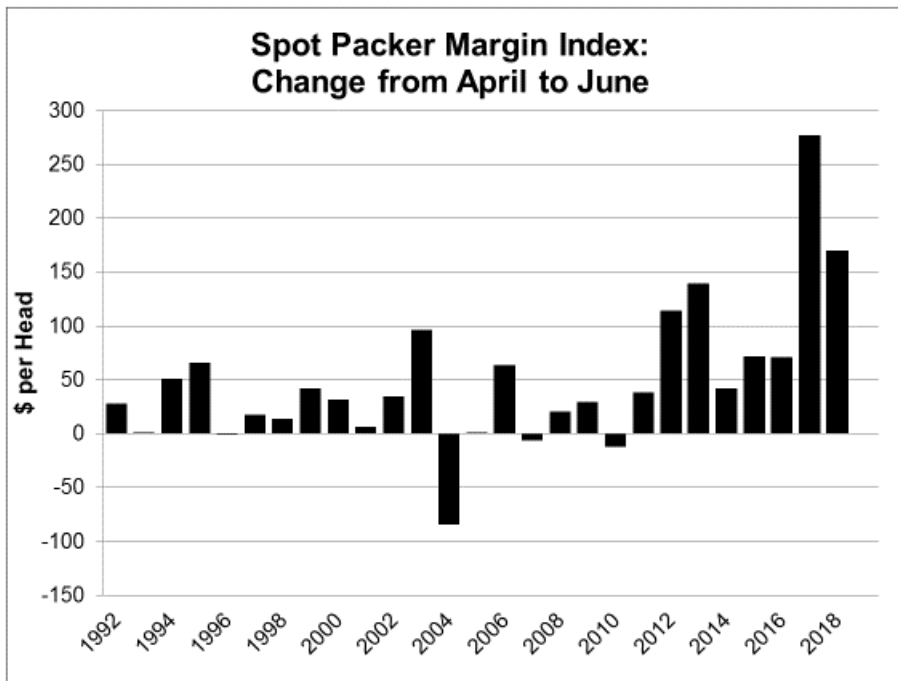
Even though the forward booking statistics plainly pointed to a strong interest in April deliveries, I did not anticipate offerings in the spot market to be quite so snug as we finished the third week of the month. And yet,

in retrospect, it makes perfect sense.

So, then, what is *most likely* to happen to beef demand from this point forward? Well, if it is true that spot market supplies have been tight because so much of April production was already spoken for, then it stands to reason that the much lighter volumes that have been booked for May delivery will result in more generous offerings in the spot market in the weeks ahead. That would stop the advance in cutout values right here. It would be fair to say, then, that further material gains in cutout values into early May would be a loud warning signal.

Otherwise, steer and heifer slaughter is actually going to wind up slightly above my expectations for the month of April. Averaging 499,000 per week, it will be about 1.5% above a year ago. This makes me a bit more confident that average weekly kills will achieve 518,000 in May (including the holiday week) and 529,000 in June. The supply side of the market does not seem to be a bullish factor in the outlook for June futures.

Apart from demand, the variable that causes me the most consternation is the packer margin. My bet is simply that beef prices trend sideways through May and somewhat lower in June, while cash cattle prices move downward--i.e., packer margins widen. If my forecast of a \$226.50 combined cutout value in June is in the right ballpark, then spot packer margins will have to widen by \$125 per head between now and June in order for the Five Area Steer price to average \$116.



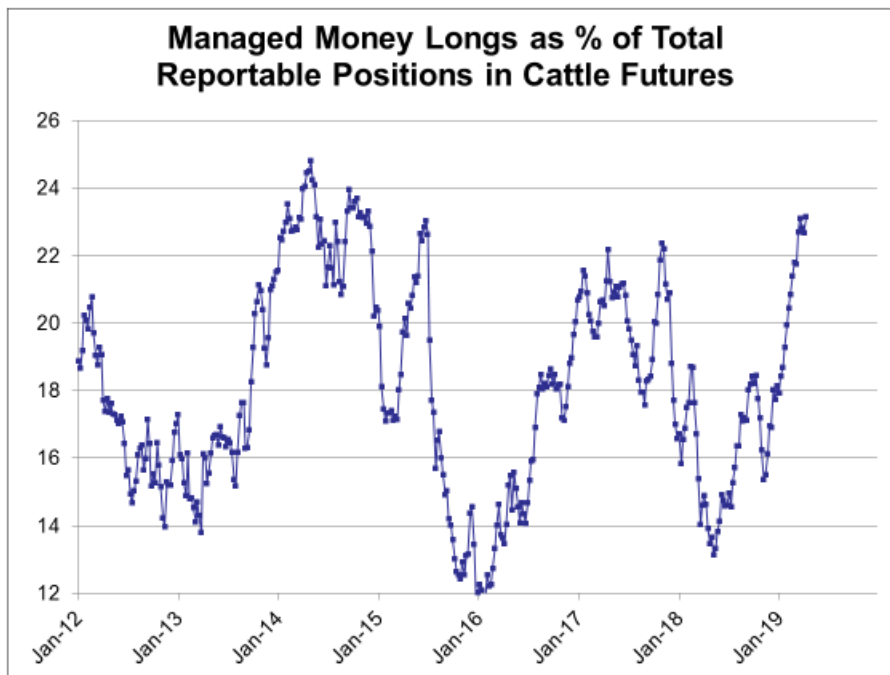
It may sound like an ambitious objective, but in each of the last two years the packer margin index widened by more than that. I'm betting on a margin index of \$325 per head in

June, compared with \$329 last year and \$323 in June 2017. With both front-end

cattle supplies and slaughter capacity virtually unchanged from a year ago, I fail to see why margins would be materially narrower this time around. They did average \$10 per head narrower in March, but it looks like they will wind up \$30-\$40 wider here in April.

On the same subject, I notice that the number of cattle forward-contracted for May delivery is 13,126 head below where it stood at this point last year, implying that packers will need to source an additional 3,000 head per week in the negotiated market. However, the number contracted for June delivery as of the end of last week was 14,498 ahead of last year's pace....not a big deal either way.

The composition of open interest remains one of the more convincing bearish factors in the cattle market. Not since December 2014 have managed money longs held such a large share of the total reportable position in cattle futures. With open interest in the June contract about as big as the August and October contracts combined, I suspect that most of this long position is stationed in the June. I assume that funds will begin rolling their longs into more deferred contracts next week. More significantly, the board will be vulnerable to massive long liquidation if and when critical support levels start to give way. As best I can tell, the nearest such support lies just below \$120.00, through which the major uptrend line passes. I do not, however, intend to expand my short position if this support is violated.



Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Cattle Sltr	649,000	658,000	626,000	644,000	636,000	641,000
Year Ago	642,200	654,000	623,900	643,400	632,200	641,500
Avg Weekly Steer & Heifer Sltr	518,000	529,000	500,000	513,000	507,000	507,000
Year Ago	517,100	526,100	499,100	512,600	504,500	505,500
Avg Weekly Cow Sltr	120,000	117,000	115,000	119,000	118,000	124,000
Year Ago	113,800	116,200	114,000	119,600	117,100	125,000
Steer Carcass Weights	855	867	881	895	907	912
Year Ago	848.4	857.5	870.0	884.8	897.0	898.0
Avg Weekly Beef Prodn	517	530	509	530	530	536
Year Ago	510.2	523.2	503.3	525.3	522.0	528.0
Avg Cutout Value	\$230.25	\$226.50	\$219.50	\$220.50	\$212.50	\$212.00
Year Ago	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18	\$205.70
5-Area Steers	\$121.00	\$116.00	\$117.00	\$118.00	\$115.00	\$116.00
Year Ago	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89	\$112.06

*Includes holiday-shortened weeks

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