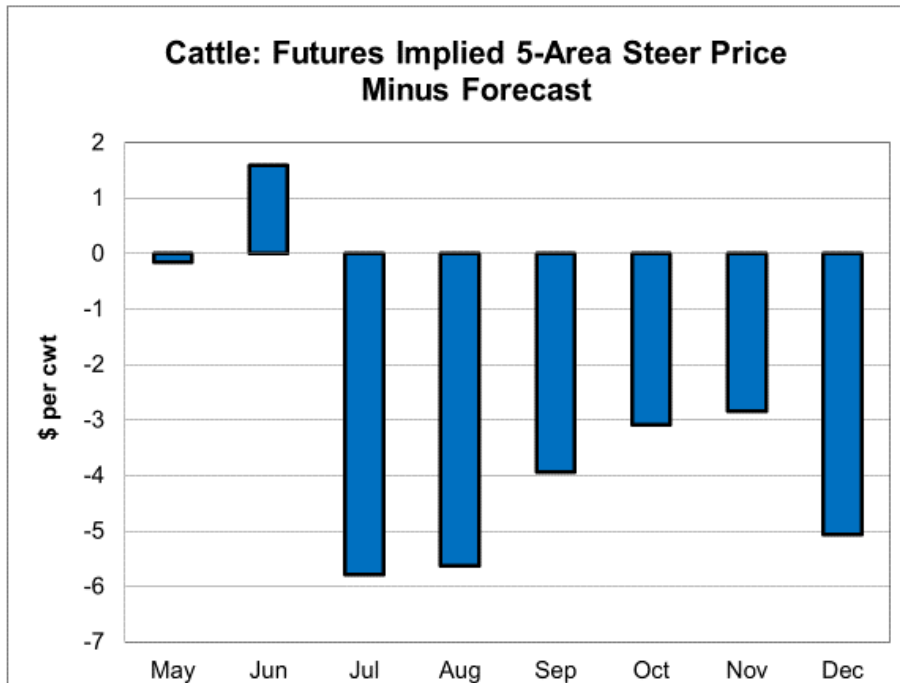


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

April 29, 2019



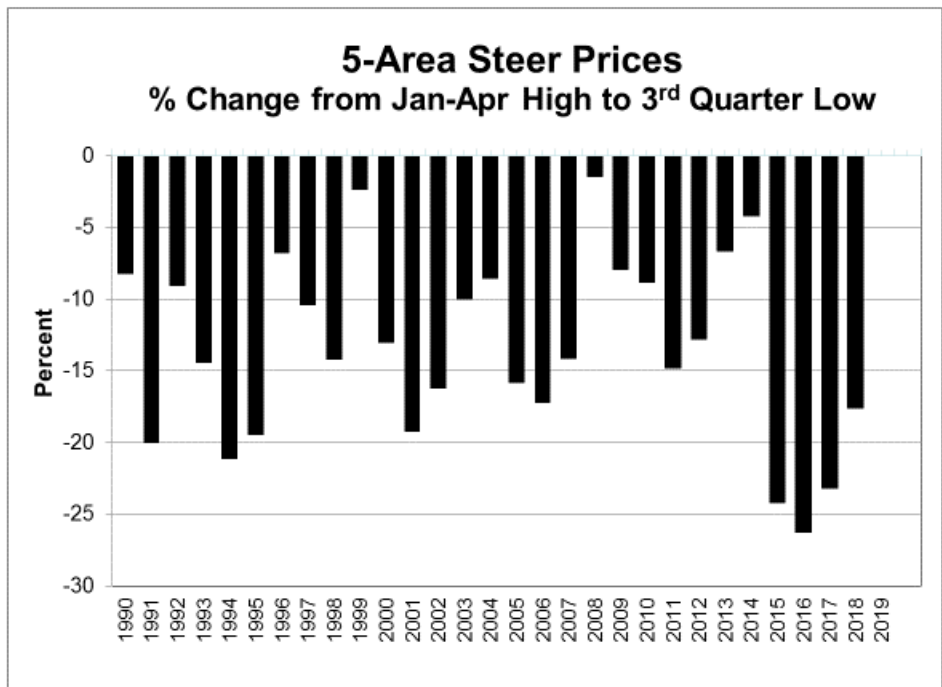
I covered my short position in June cattle this past Thursday--a bit prematurely, it turns out, but I don't think that I'm finished with this trade just yet. There remains a gap on the daily chart at \$118.17

that has a pretty decent chance of being filled, if the beef market trades sideways through the month of May as I suspect. Widening packer margins will allow the cash cattle market to move lower over the next several weeks even if cutout values do not; but the sudden, dramatic shift in the basis will now make the discount in the June contract look pretty steep. At Friday's close, the June contract stood roughly \$11.75 per cwt under the Five Area Weighted Average Steer price; while not particularly wide in comparison with the past five years at this point on the calendar, in the week before last, the difference was only \$6.

Anyway, I will be an aggressive seller between this gap and \$118.70 if given the opportunity, with a downside objective of \$114.00. The stop-loss point on this prospective trade I have not yet specified, as it will depend on the price at which the recovery stalls. I would be quite surprised, however, if the market were able to close back above its 40-day moving average....which now stands above the ten-day average, signaling--as if we needed further confirmation--that the trend has turned downward.

Curiously, my Honest-to-God most objective forecast suggests that the August contract is now substantially undervalued. But I am trying to reject any thoughts of a long-side bet at this point. After all, the cash cattle market has barely begun its seasonal downtrend, and it could easily extend beyond the \$115 per cwt or so that I am forecasting. I have to remind myself that for weeks I have preached that the change in beef demand from April to May would probably underperform relative to the seasonal norm, as forward bookings for May delivery were comparatively light. I would not be at all surprised to see cutout values trend lower instead of sideways between now and Memorial Day.

And looking beyond Memorial Day and into the summer, I remind myself also that the situation of retail prices and retail margins is not favorable of demand at the wholesale level. As of March, retail prices stood well above a year ago, and they probably rose again in April, since wholesale prices gained another 1.1%. The spread between wholesale and retail prices is relatively narrow, possibly putting supermarket meat directors in a mood to boost margins at the expense of volume. Prices of pork loins and butts, meanwhile, are still pretty cheap in relation to beef in the wholesale market. Eventually, high pork prices will benefit beef demand, but it could be midsummer before that begins to happen. I don't mean to "pile on" here, but these are simple facts that the market has been happy to ignore for the past few months.



It could be a quick trip for the cash cattle market down to \$115, as the chart shows nothing in the way of support between here and there. It is not difficult to envision a 15% decline from the

March peak of \$128.96, which would make for a third quarter low of about \$109.50. This market should be given some "line".

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Cattle Sltr	648,000	657,000	625,000	643,000	631,000	642,000
Year Ago	642,200	654,000	623,900	643,400	632,200	641,500
Avg Weekly Steer & Heifer Sltr	519,000	530,000	500,000	514,000	504,000	509,000
Year Ago	517,100	526,100	499,100	512,600	504,500	505,500
Avg Weekly Cow Sltr	118,000	115,000	113,000	117,000	116,000	122,000
Year Ago	113,800	116,200	114,000	119,600	117,100	125,000
Steer Carcass Weights	856	868	882	896	908	913
Year Ago	848.4	857.5	870.0	884.8	897.0	898.0
Avg Weekly Beef Prodn	517	531	509	531	527	538
Year Ago	510.2	523.2	503.3	525.3	522.0	528.0
Avg Cutout Value	\$230.00	\$226.00	\$219.50	\$220.50	\$213.50	\$211.50
Year Ago	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18	\$205.70
5-Area Steers	\$120.00	\$115.50	\$117.00	\$118.00	\$115.50	\$115.50
Year Ago	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89	\$112.06

*Includes holiday-shortened weeks

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