

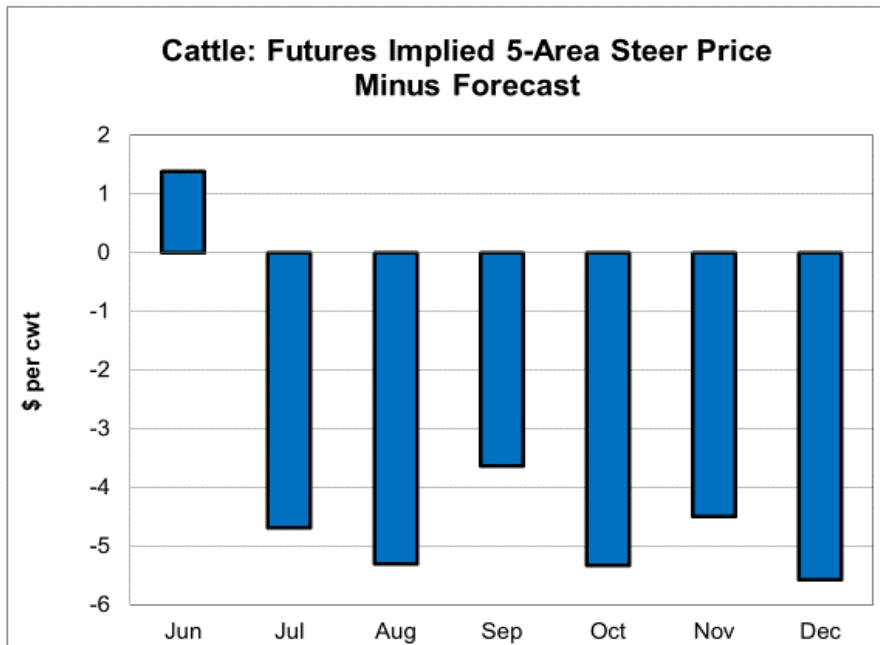
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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May 20, 2019



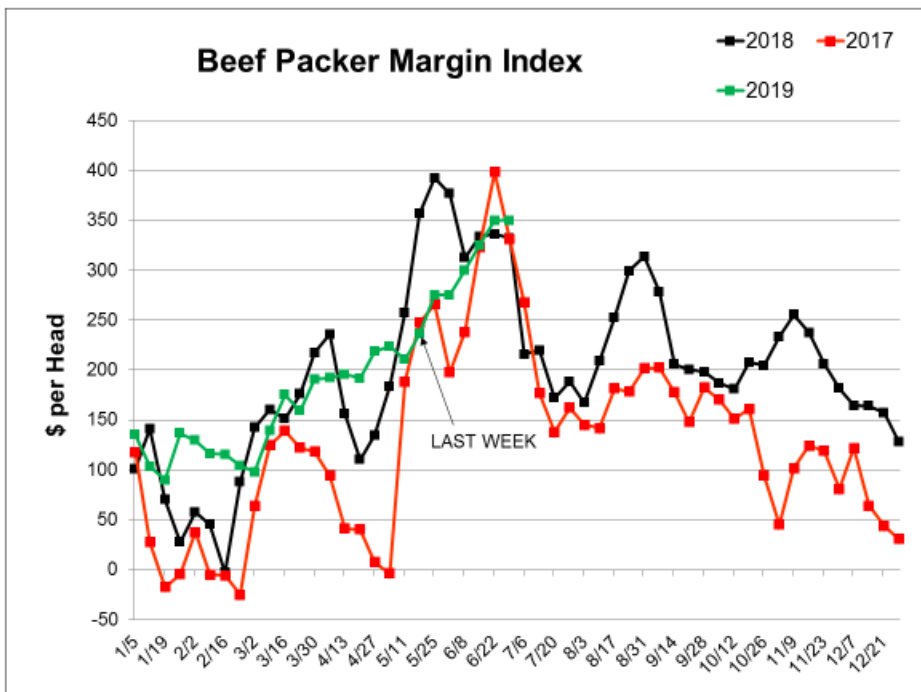
I am holding a modest position in the short June / long August spread, with the expectation that the two contracts will eventually draw even with each other. It could take a while for that to happen, but my guess is that

settlements in the two contracts will average about \$1.00 per cwt apart during the month of June, with the lead option at \$110 and the August somewhere between \$109 and \$110. The spread trades this morning at a June premium of \$2.75, and there is little in the way of support on the chart between \$2.10 and \$0.57.

Given the opportunity, though, I will convert the spread into an outright short position by letting go of the long August leg if the June contract trades up to approximately \$114.50. There is a conspicuous resistance level on the daily chart at \$114.87 (the high of May 6), and a 38% retracement of the \$13.92 drop from April 16 to May 16 would carry the June contract up to \$114.37. The 50% retracement point is \$116.00, and I will reserve enough capital to add to the position at that price.

I want to give this market plenty of room to recover after barely being allowed to come up for air during the past month. But also, it is likely that the beef market will have a firmer undertone than it has over the last three weeks....I'm thinking a basically sideways trend into early June, and a moderate appreciation through the balance of the month. This will be welcome news to an exhausted futures market.

I realize that it's kind of late to be betting on the short side of a market that has just lost nearly 1400 points....but once again, I will do so only if the June contract makes an earnest attempt to recover. I fully expect that presumed improvement in cutout values will go into the packer's pocket, allowing cash cattle prices to take only a brief respite coming out of Memorial Day before making their final descent down to \$110 or so toward the end of June. The recent tendency of packer margins to widen from this point is quite pronounced. And this year should be no exception, given the relative strength in beef prices and the fact that there have been about 32,000 more cattle forward contracted for June delivery than there were at this time last year.



There appears to be a respectable amount of upside potential in the August contract, but I have no plans to buy it just yet. If there is indeed another \$6-\$7 per cwt to be shaved off

the cash cattle market, then the August contract will probably struggle to get off the ground. I would regard a close above \$110.00 as confirmation that the bottom is "in", and at that point I would be looking for a place to buy against the recent low (\$106.22). If my forecast is in the right ballpark and August cattle are headed back up to \$115, it will not be an easy trip; it is likely to be driven by a slow realization that there is not going to be a huge decline in the beef market after Independence Day, as traders have come to expect. And *this* notion, in turn, is grounded in the fact that more attractive forward pricing is attracting interest for late June and July deliveries. At this time last year (and the year before), the opposite was occurring. My forecast of an average combined cutout value of \$216-\$217 per cwt in July assumes only a modest increase in the seasonally adjusted demand index from its currently depressed readings.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Cattle Sltr	654,000	660,000	626,000	645,000	637,000	643,000
Year Ago	642,200	654,000	623,900	643,400	632,200	641,500
Avg Weekly Steer & Heifer Sltr	524,000	532,000	501,000	516,000	510,000	510,000
Year Ago	517,100	526,100	499,100	512,600	504,500	505,500
Avg Weekly Cow Sltr	119,000	116,000	114,000	117,000	116,000	122,000
Year Ago	113,800	116,200	114,000	119,600	117,100	125,000
Steer Carcass Weights	854	866	880	894	906	911
Year Ago	848.4	857.5	870.0	884.8	897.0	898.0
Avg Weekly Beef Prodn	521	533	511	532	532	538
Year Ago	510.2	523.2	503.3	525.3	522.0	528.0
Avg Cutout Value	\$220.50	\$221.50	\$216.50	\$217.00	\$208.50	\$210.50
Year Ago	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18	\$205.70
5-Area Steers	\$117.50	\$112.00	\$115.50	\$115.00	\$111.00	\$113.50
Year Ago	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89	\$112.06

\*Includes holiday-shortened weeks

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