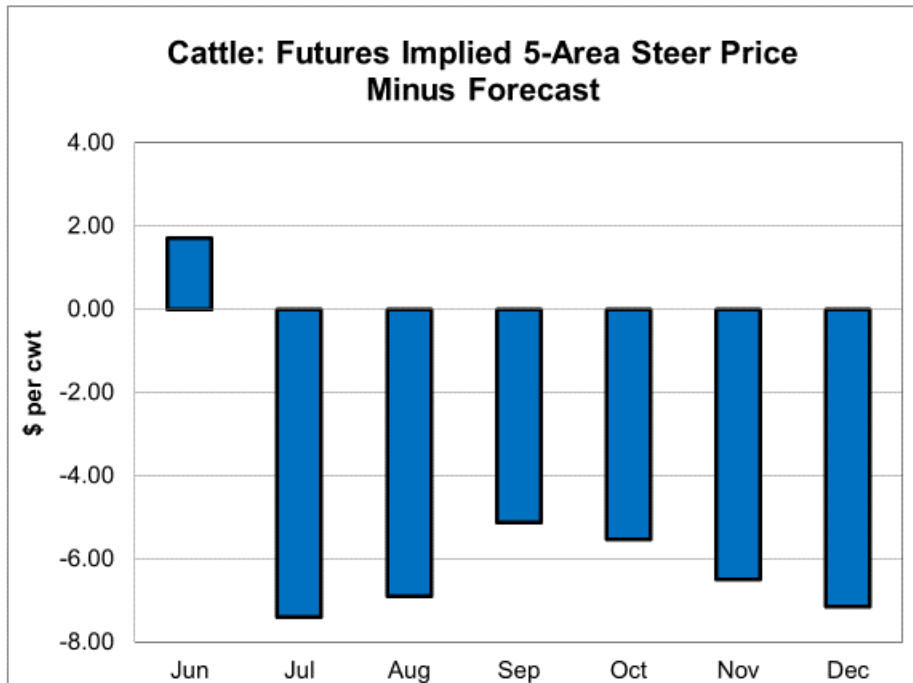


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

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I still hold a modest position in the short June / long August spread, which has neither made nor lost much money in the nearly four weeks that it has been on the books. Boredom is not a good

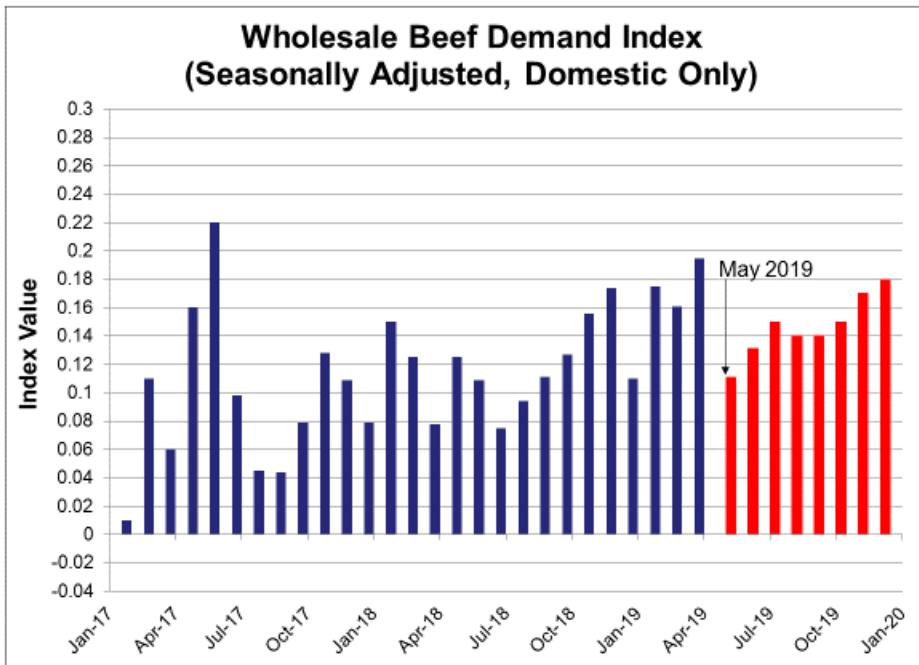
reason to let go of it, as long as it has some fundamental merit--which I think it does. There is substantial downside potential remaining in the cash cattle market between now and the end of June, which I think will eventually weigh more heavily on the spot contract. We'll see. If it doesn't turn out that way, then I will let my stop-loss do the work. It stands at \$4.75 per cwt (premium to the June) on a closing basis.

The beef market should gain some ground between now and Independence Day, due to the relatively large volume of product that has been booked for second half June and July delivery. Also, I notice that all of the major Choice middle meats are trading far below where they stood coming out of Memorial Day 2018, increasing the chances of a June rally in these cuts. My guess is that the combined Choice/Select cutout value, which was quoted today at \$220.69 per cwt, will work its way up to \$225 toward the end of June, and possibly higher. However, I do not expect the strength in the beef market to prevent the cash cattle market from sliding further. The spot packer margin index averaged about \$245 per head this past week, and in each of the last two years they peaked out near \$400. Why should they not reach similar peaks this time around?

A combined cutout value of \$225, coupled with a packer margin index of \$375 would place the Five Area Weighted Average Steer price at \$110-something.

I expect that my next bet in the cattle market will be on the long side of the August contract, for reasons that should be readily apparent from the picture on the first page. But the market is not giving me any indication that it is ready to move higher. Today's response to a much smaller-than-expected April placement figure was not what I would call "impressive". For all its intraday gyrations, this market is in a sideways trend. The last 16 trading days have been bounded essentially by \$106.50 on the lower end and \$109.50 on the upper end. The more time the market spends within these boundaries, the more significant they become. It stands to reason, then, that I will view a close above \$110.00 in the August contract as both confirmation of a bottom and an upside "breakout" that would measure to a short-term objective of about \$112.50. The ultimate objective should be somewhere in the \$115-\$116 range, which appears to be the "fair value" of this option.

Sparing you the details, I reiterate that the notion of a \$115.50 cash cattle market in August is grounded mainly in the likelihood that wholesale beef demand will restore itself to more "midrange" levels this summer, from its dismal readings here in May. The distinct pickup in forward bookings for July delivery is a strong hint that such a recovery is in order.



The sort of recovery that I suggest in the picture to the left, combined with an average weekly steer and heifer kill of 515,000-520,000, would place the combined cutout value at

\$217-\$218 per cwt in August. Add to that a packer margin index of \$250 per head (about the same as a year earlier), and the result is a cash cattle market of \$115.50.

Some of the technical scholars with whom I communicate regularly tell me that the August contract is due for one more leg downward in order to meet the objective of the descent from contract highs. They say it doesn't have to be a massive one, but could easily carry the market into new lows for this move. I can't argue against that prediction. Considering its status as the leper of the cattle market, the August contract might still be content to carry a discount of \$5 or more to the cash market a month from now; and if cash prices are where I expect them to be at that time (\$110), then a move down to \$105 or so is not really difficult to imagine.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Cattle Sltr	649,000	657,000	625,000	644,000	636,000	643,000
Year Ago	642,200	654,000	623,900	643,400	632,200	641,500
Avg Weekly Steer & Heifer Sltr	520,000	530,000	501,000	516,000	510,000	511,000
Year Ago	517,100	526,100	499,100	512,600	504,500	505,500
Avg Weekly Cow Sltr	118,000	115,000	113,000	116,000	115,000	121,000
Year Ago	113,800	116,200	114,000	119,600	117,100	125,000
Steer Carcass Weights	854	865	879	893	905	910
Year Ago	848.4	857.5	870.0	884.8	897.0	898.0
Avg Weekly Beef Prodn	517	529	508	530	529	537
Year Ago	510.2	523.2	503.3	525.3	522.0	528.0
Avg Cutout Value	\$220.50	\$221.50	\$220.50	\$217.50	\$209.50	\$209.00
Year Ago	\$224.53	\$217.10	\$204.61	\$207.50	\$204.18	\$205.70
5-Area Steers	\$118.00	\$112.00	\$117.00	\$115.50	\$111.50	\$113.00
Year Ago	\$116.36	\$110.39	\$111.87	\$110.02	\$109.89	\$112.06

*Includes holiday-shortened weeks

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