

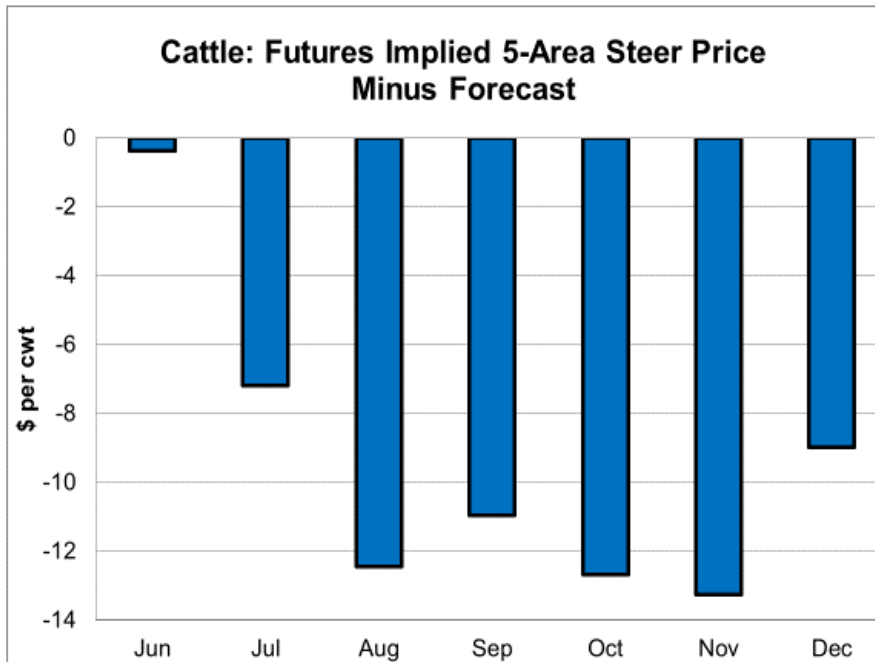
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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May 30, 2018



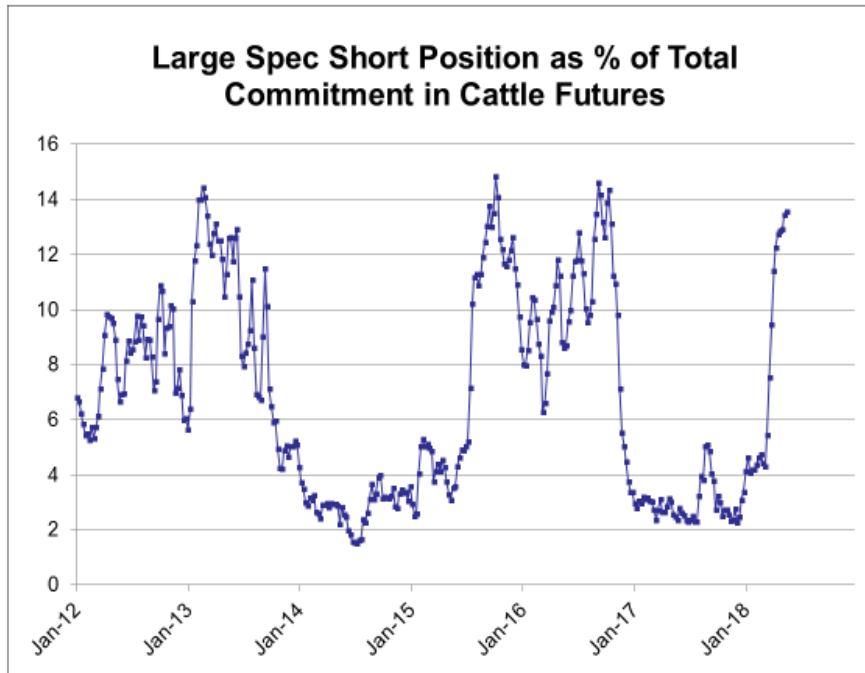
If you recall, my plan was to buy August cattle at the lower of the five- or the ten-day moving average, willing to bet on the possibility that this market established a major bottom at \$98.10 per cwt. I was surprised that it never traded at the ten-day

MA (\$100.65) yesterday, after sweeping through all support levels above that level and making new lows for the day in the final 30 minutes of the session.

I went ahead and bought the August contract this morning. Why the urgency? There is nothing urgent about it, really. My decision to relax my entry point is a matter of practicality. I am risking this trade down to a close below \$98.10. The profit potential—Honest to God—appears to be roughly 1300 points; risking 300 points instead of 200 is acceptable, given the high probability that the August contract will wind up trading far above the \$101-\$102 per cwt range that flashes on my screen this morning.

I am taking other factors into consideration as well. It seems likely that cash cattle prices will find some semblance of stability this week, and the descent into the seasonal bottom will probably be more gradual than the break that has occurred over the last three weeks (\$15 per cwt). Spot packer margins are already matching their June 2017 peak, and while packers have indeed accumulated cattle inventories through forward contracts for this time frame, the volumes traded in the negotiated market have been quite small for the past three

weeks. I would *think* that the board, with its steep discounts (especially in the August contract) would be sensitive to any sign of stability in cash prices. On a related subject, large speculators are holding a very large short position in cattle futures; no other single constituent holds a preponderous long position:



As for the beef market, it is most certainly headed downward from here, but not as far downward as the board is discounting. I am factoring into the equation a greater-than-normal decline in beef demand from June to

July, and yet the probabilities point to an average combined Choice/Select cutout value of about \$209 per cwt in both July and August....which implies a bottom of \$205, most likely occurring at the end of July. I am also factoring in weekly steer and heifer kills of 505,000-520,000 in the three non-holiday weeks of July, and something just shy of 500,000 in August. Finally, as far as the beef market is concerned, forward booking volumes for late June and July delivery have been considerably more robust than a year earlier....indicating that a decline of the sort that we witnessed in midsummer 2017 is unlikely.

The greatest risk to my bullish forecast remains the spread between cattle prices and cutout values. The shorter-term risk is the possible ballooning to preposterous levels in June—which would take cash cattle prices below \$105—and the longer-term risk is that the spread may not shrink as much as I think it will after June. But the change in direction of front-end cattle supplies and the presumed basis shift argue that packer margins should tighten considerably, especially in view how extraordinarily high they have become. For what it's worth, last year the spot packer margin index fell from an average of \$323 per head in June to \$186 in July....

Forecasts:

	Jun	Jul*	Aug	Sep*	Oct*	Nov*
Avg Weekly Cattle Sltr	662,000	618,000	627,000	613,000	620,000	617,000
Year Ago	637,900	603,800	633,800	624,400	629,500	625,700
Avg Weekly Steer & Heifer Sltr	535,000	495,000	497,000	481,000	483,000	480,000
Year Ago	514,200	488,800	511,000	502,100	500,900	498,600
Avg Weekly Cow Sltr	114,000	112,000	118,000	120,000	126,000	127,000
Year Ago	111,000	104,400	111,000	111,200	117,800	116,700
Steer Carcass Weights	861	874	885	896	902	902
Year Ago	854.0	868.5	884.6	896.0	897.8	902.6
Avg Weekly Beef Prodn	532	501	512	504	511	510
Year Ago	509.6	487.6	517.9	515.8	518.4	519.2
Avg Cutout Value	\$218.50	\$209.50	\$209.50	\$207.00	\$208.00	\$208.00
Year Ago	\$238.48	\$209.64	\$196.81	\$192.17	\$197.04	\$205.15
5-Area Steers	\$107.00	\$111.50	\$116.50	\$115.00	\$117.50	\$121.00
Year Ago	\$126.59	\$118.41	\$110.72	\$106.83	\$112.08	\$121.03

*\*Includes holiday-shortened weeks*

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