

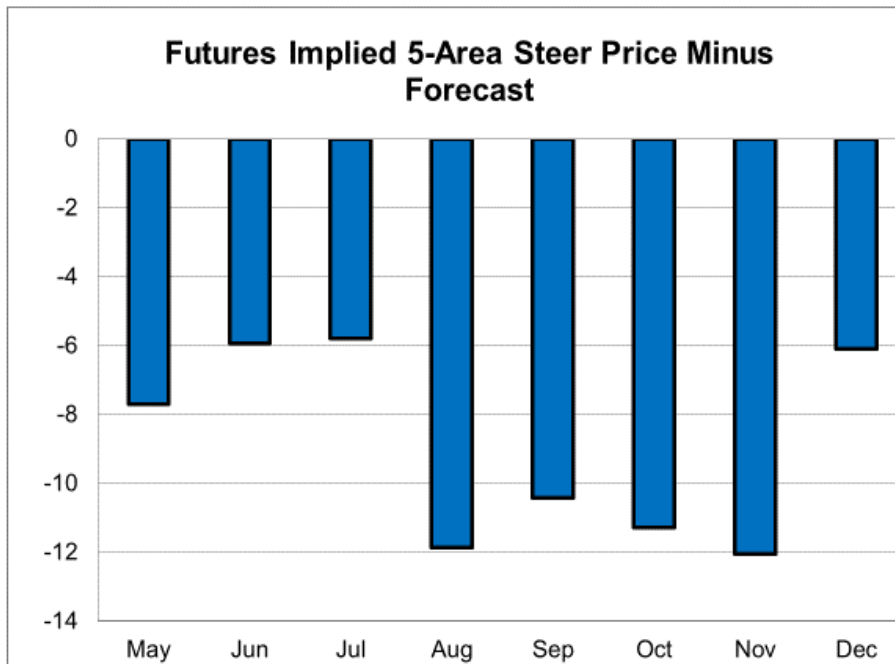
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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May 9, 2018



I remain uncommitted in the cattle market, fighting the Fear of Being Left Behind. I have become a *bit* more aggressive in my approach to the long side of the August contract—raising my buy orders

just above \$103.00 per cwt—but I still see no cause for urgency.

The price action does not suggest that this market is ready to make another major leg up just yet. For the past eleven trading days it has been in a sideways trend, bounded by \$1.03 on the low end and \$106.50 on the high end. One might reasonably say that August cattle have, for practical purposes, been in a sideways trend for nearly five weeks now, ever since they first rebounded from the contract low. In that case, the lower boundary is approximately \$101.75. Because this is the nearest meaningful support level and the only sensible place for a stop-loss, I am treating this as a sideways market covering a 475-point range. Doesn't it make sense, then, to restrict long positions to the lower half of that range? The median is \$104.12.

I am also inclined to treat this as a sideways market simply because the entire seasonal decline in cash prices still lies ahead. At this point, the most objective forecasts are those shown indicated in the table below: Five Area Weighted Average Steer prices dropping to a low of about \$110 per cwt in early July, and the combined Choice/Select cutout value bottoming out somewhere between

\$205 and \$210 per cwt in late July. This forecast assumes a seasonally typical path in beef demand; steer and heifer kills averaging 536,000 per week in June and 500,000 per week in July; and a widening of packer margins similar to that which we witnessed last year. But how do we know?

I think it best to let the futures market demonstrate how it's going to absorb the presumed decline in cash prices before I stake my bet on too many assumptions.

And yet, there is another important consideration. I have reason to be confident that the August contract is ultimately worth vastly more than the price at which it currently trades. I have explained this logic several times in the past few weeks, and it hasn't changed materially. This is an extraordinary trading opportunity. Just as I have to be careful not to risk too much money, I must also be careful not to bypass a profit opportunity of some 1100 points by trying to save 100 points on the the entry level. So, then, am I willing to buy August cattle at \$104.00 and stop myself out if they close below \$101.75? Compared with the potential profit, it is a commensurate risk.

I have so far neglected to mention the possibility of a break-out from the current trading range to the upside. I must say that I have quite hesitant to buy into strength in the cattle market right now, simply because of the preponderance of negative news that will probably emanate from the cash market (probably beginning this week). And yet, the upper boundary of the sideways trading range is clearly marked at \$106.50; the August contract has tested this resistance level three times since April 24, and has turned back from it each time. Given the number of tests and failures, I think it would be significant if the market were to now push through that barrier. I would have to place a reduced bet on such an event.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct*
Avg Weekly Cattle Sltr	647,000	665,000	624,000	638,000	621,000	629,000
Year Ago	606,400	637,900	603,800	633,800	624,400	629,500
Avg Weekly Steer & Heifer Sltr	521,000	536,000	500,000	506,000	488,000	489,000
Year Ago	490,600	514,200	488,800	511,000	502,100	500,900
Avg Weekly Cow Sltr	115,000	116,000	114,000	120,000	122,000	129,000
Year Ago	104,600	111,000	104,400	111,000	111,200	117,800

Steer Carcass Weights	850	859	872	883	894	900
Year Ago	837.8	854.0	868.5	884.6	896.0	897.8
Avg Weekly Beef Prodn	514	532	504	519	509	516
Year Ago	477.6	509.6	487.6	517.9	515.8	518.4
Avg Cutout Value	\$224.50	\$222.00	\$212.00	\$212.00	\$208.50	\$208.00
Year Ago	\$238.12	\$238.48	\$209.64	\$196.81	\$192.17	\$197.04
5-Area Steers	\$122.00	\$114.50	\$113.50	\$118.50	\$116.50	\$118.50
Year Ago	\$136.78	\$126.59	\$118.41	\$110.72	\$106.83	\$112.08

*\*Includes holiday-shortened weeks*

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