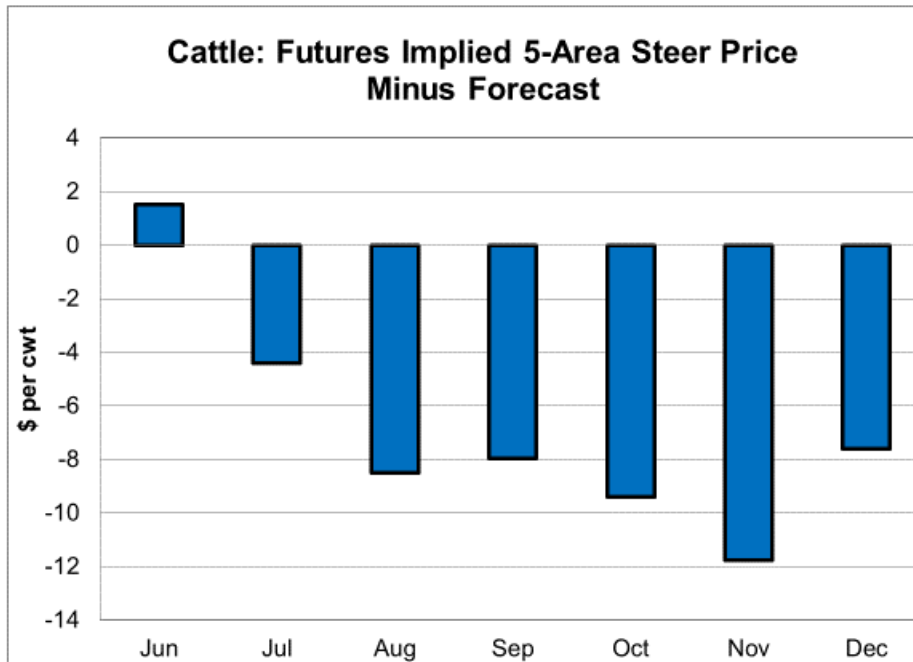


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

June 11, 2018

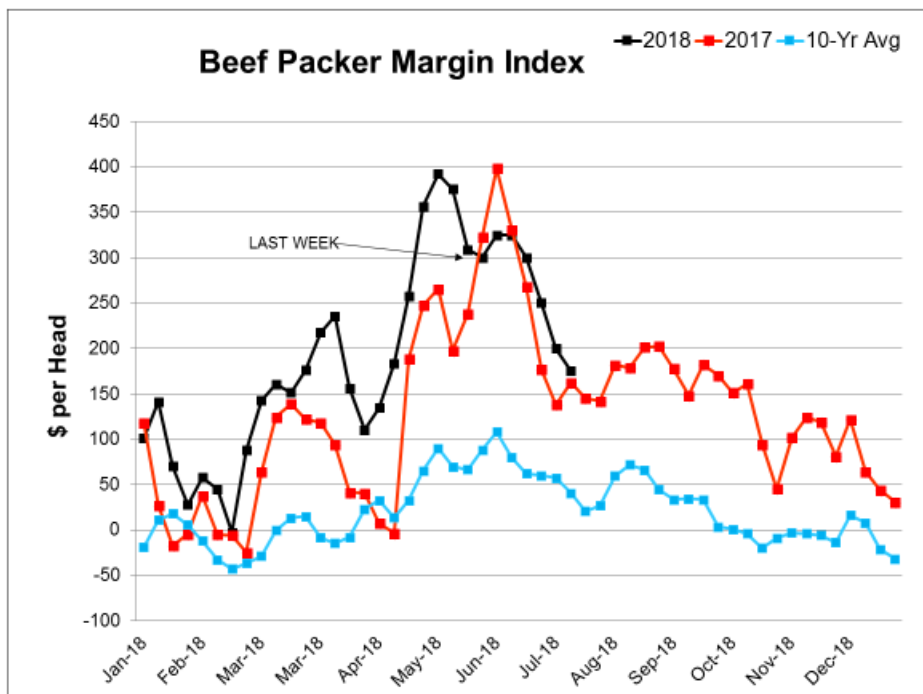


I remain long of the August contract, and I added to that position this morning in anticipation of a close above \$106.50 per cwt. It follows that if the market does not

close above \$106.50, I will dump this increment (or excrement) and do it again upon such a close. A close above \$106.50 would be a powerful signal that the market “wants” to move higher, and that my forecast of a \$117 cash market in August may not be far off the mark. It would complete a loosely-defined double bottom formation that would measure to roughly \$115. It would be equally as convincing as the top formation that was completed on March 15, from which a 1250-point decline swiftly ensued. The validity of a double bottom formation is somehow bolstered by the fact that an unusually large percentage of total open interest is held by short speculators—implying, of course, that there is a lot of potential short-covering to be done. And finally among the technical considerations is that the five-day moving average has moved above the ten-day MA, and the ten-day MA has moved above the 40-day MA; by this definition, the trend is upward.

Whether or not the August futures contract drives through \$106.50 right away, it is also quite impressive that the cash cattle market jumped nearly \$5 per cwt on Friday. In the attempt to guess how wide packer margins might become, it has always made sense to me that their widest point would be reached when cattle

supplies were most abundant, and when beef prices were still in their seasonal “sweet spot”—i.e., here in June. More precisely, the most likely time frame for the peak in packer margins would seem to be in the third week of June. But the fact that they have already contracted so sharply leads me to think that the peak is now behind us. They will probably recover somewhat in the second half of the month, but one would think that cattle feeders would be energized by the packers’ sudden willingness to pay up....perhaps an acknowledgement that they are committed to delivering large quantities of beef in the near term, and that cutting production schedules is not a viable option. And after all, packer margins remain quite favorable. And so, I have to revise my expectations in the picture below:



It seems logical that the cash cattle market would hit bottom when packer margins were topping out, and so I am now convinced that the Five Area Weighted Average Steer Price

hit bottom in the week ended May 26 at \$110.06. I expect that this price will be revisited, but not penetrated. And the near-term cash market weakness posed the greatest threat to a long position in August cattle....hence, my actions today.

The beef market, meanwhile, has not delivered any big surprises lately. The trend in the combined Choice/Select cutout value will remain downward, possibly all the way into the end of July, as the sharp, downward adjustment in strips, short loins, and ribeyes looms ahead. However, most of the chuck and round cuts, as well as ground beef and trimmings, have dropped down to price levels that can be sustained with steer and heifer kills near 540,000 per week in the second half of this month and at 505,000-510,000 in the non-holiday weeks of July. Once again, packer margins remain the key to stable-to-stronger cash cattle prices from this point forward.

Forecasts:

	Jun	Jul*	Aug	Sep*	Oct*	Nov*
Avg Weekly Cattle Sltr	661,000	617,000	626,000	614,000	622,000	619,000
Year Ago	637,900	603,800	633,800	624,400	629,500	625,700
Avg Weekly Steer & Heifer Sltr	534,000	495,000	497,000	483,000	485,000	483,000
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	858	870	881	892	898	898
Year Ago	854.0	868.5	884.6	896.0	897.8	902.6
Avg Weekly Beef Prodn	530	498	509	503	511	510
Year Ago	509.6	487.6	517.9	515.8	518.4	519.2
Avg Cutout Value	\$219.50	\$210.50	\$210.50	\$207.50	\$208.00	\$208.00
Year Ago	\$238.48	\$209.64	\$196.81	\$192.17	\$197.04	\$205.15
5-Area Steers	\$113.00	\$113.50	\$117.00	\$115.50	\$117.50	\$121.50
Year Ago	\$126.59	\$118.41	\$110.72	\$106.83	\$112.08	\$121.03

**Includes holiday-shortened weeks*

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