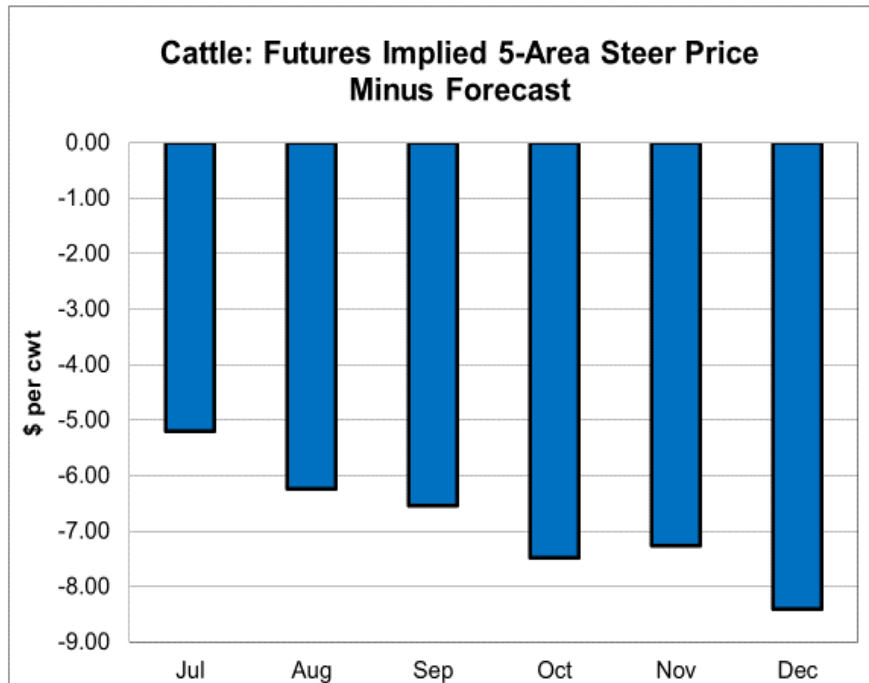


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

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I am modestly long of August cattle and will expand this into a more aggressively-sized position under the right circumstances. The upside target is approximately \$112.00, and the risk is measured down to the contract low of \$102.30. Thus the ratio of

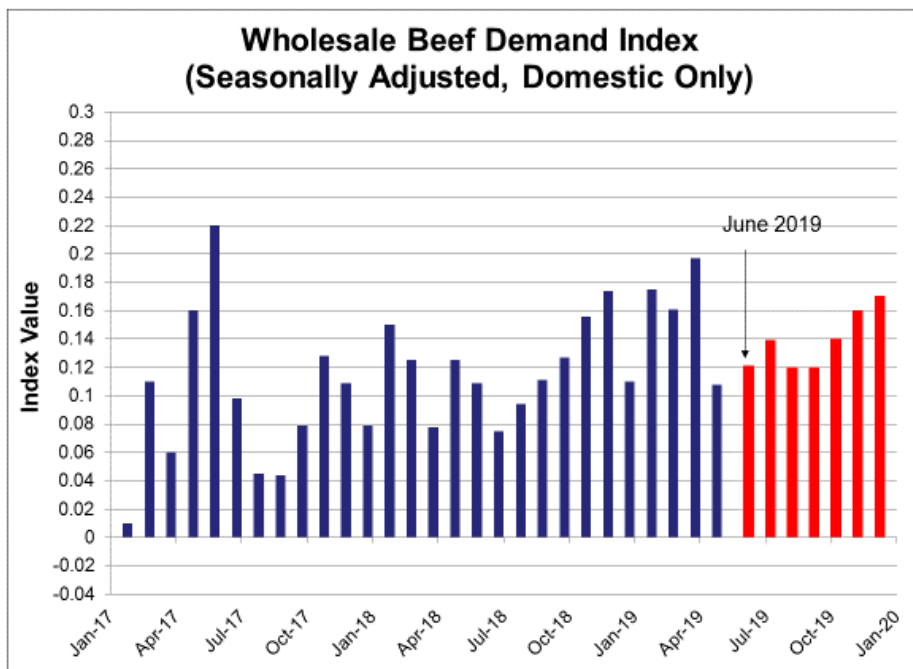
potential profit to potential loss from Friday's settlement price is nearly 4:1....exceptional by my standards.

There are two conspicuous support levels between here and the contract low. Either would be an appropriate point at which to add to the long position. The first is the developing uptrend line originating from the June 3 low of \$102.42, which today passes just below \$104.00. The second is the June 7 low of \$103.05. If my basic premise is correct--and I'm pretty confident that it is--then the risk differential between the two is inconsequential. And so throughout this week I will be a buyer as closely as possible to the trend line. By Friday it will have moved up to about \$104.60.

If the August contract is to make its way up to \$112, I doubt that it's going to be in a hurry to get there. It will be driven not by a persistently higher cash market, but rather by a cash market that just never becomes as weak as most traders anticipate. I fully expect that August futures will maintain an historically sizeable discount to the Five Area Weighted Average Steer price, averaging something on

the order of \$5-6 per cwt in July. [That would be in the same ballpark as 2014, 2016, and 2018, the three steepest discounts on record.]

Demand for beef will fade seasonally from June to July, but it still looks as though the decline will be somewhat less than normal. The change in domestic supplies (accounting for imports and exports) should match the 15-year average change at -3.4%; the 15-year average change in the combined Choice/Select cutout value is -2.8%, which in this case would place the July average at \$214 per cwt. However, in view of the fact that *seasonally adjusted* demand at the wholesale level reached a short-term cyclical low point in May and has shown only a slight improvement here in June, there is a good chance that it will be on the upswing in July, as I show in the picture below:



As you can see, I'm not talking about anything spectacular. But the general notion is supported by the fact that forward bookings for first-half July delivery have been noticeably greater than they were in

the last two years, a result of fairly attractive price offerings for that time frame. Also, the size of the break in cutout values after Independence Day is often dictated by the post-holiday setback in middle meats. But these items have not climbed any sort of cliff from which they can fall, so to speak; Choice-grade ribeyes are trading about \$.80 per pound lower than they did on May 1, and Choice strips are about \$1.70 lower. The demand pattern suggested above would place the average cutout value in July at about \$218 per cwt.

If spot packer margins were to match those of a year earlier in July, then a combined cutout value of \$218 would align with a Five Area Weighted Average Steer price of about \$119.50 per cwt. I'm thinking that they will exceed a year earlier by a considerable \$60 per head, though, because the beef market will be quite a bit stronger. Even so, this combination yields an average cash cattle

market of about \$115. That would require a bottom by the end of next week and a rather sharp bounce soon afterward. It has happened before. In fact, four times in the last twelve years has the cash cattle market jumped at least 2.5% during the week of Independence Day....

Forecasts:

| | Jun | Jul* | Aug | Sep* | Oct | Nov* |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| Avg Weekly Cattle Sltr | 660,000 | 626,000 | 644,000 | 633,000 | 640,000 | 630,000 |
| Year Ago | 654,000 | 623,900 | 643,400 | 632,200 | 641,500 | 627,400 |
| Avg Weekly Steer & Heifer Sltr | 532,000 | 505,000 | 519,000 | 509,000 | 511,000 | 501,000 |
| Year Ago | 526,100 | 499,100 | 512,600 | 504,500 | 505,500 | 498,700 |
| Avg Weekly Cow Sltr | 117,000 | 111,000 | 114,000 | 113,000 | 119,000 | 119,000 |
| Year Ago | 116,200 | 114,000 | 119,600 | 117,100 | 125,000 | 119,400 |
| Steer Carcass Weights | 853 | 872 | 886 | 898 | 903 | 903 |
| Year Ago | 857.5 | 870.0 | 884.8 | 897.0 | 898.0 | 901.3 |
| Avg Weekly Beef Prodn | 526 | 507 | 528 | 524 | 532 | 524 |
| Year Ago | 523.2 | 503.3 | 525.3 | 522.0 | 528.0 | 519.1 |
| Avg Cutout Value | \$220.00 | 218.5 | \$214.50 | \$207.50 | \$209.50 | \$214.00 |
| Year Ago | \$217.10 | \$204.61 | \$207.50 | \$204.18 | \$205.70 | \$211.78 |
| 5-Area Steers | \$112.00 | \$115.00 | \$112.50 | \$111.00 | \$113.00 | \$117.00 |
| Year Ago | \$110.39 | \$111.87 | \$110.02 | \$109.89 | \$112.06 | \$114.79 |

*Includes holiday-shortened weeks

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