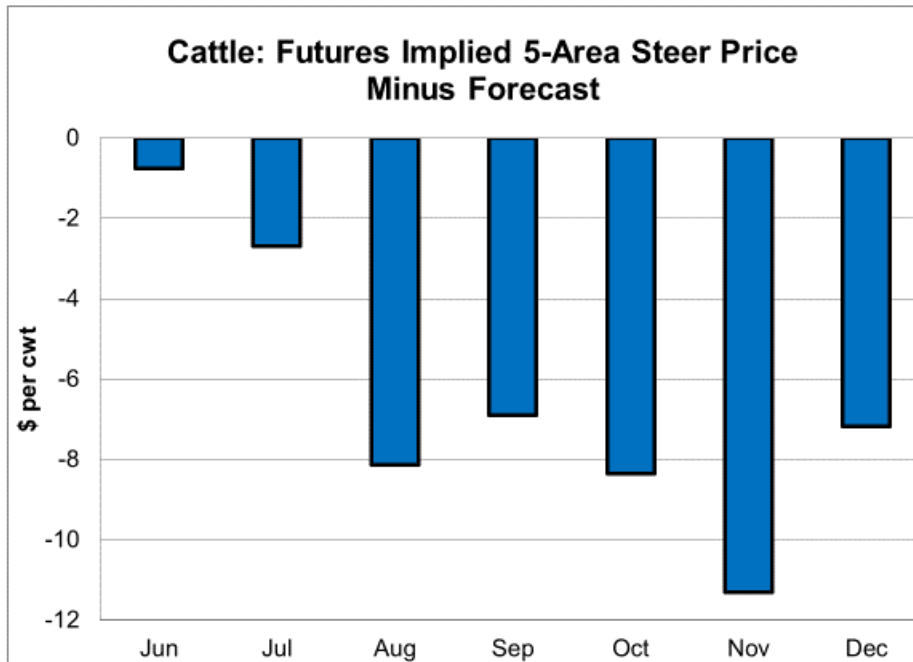


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

June 21, 2018



I plan to add to my long position in August cattle near their five-day moving average, which yesterday passed through \$105.00 per cwt. I attempted this same move last Monday

(6/11), anticipating a close above \$106.50 which did not materialize. At the time, I said that I would try it again if the market were able to settle above that price....and it did, and so I shall.

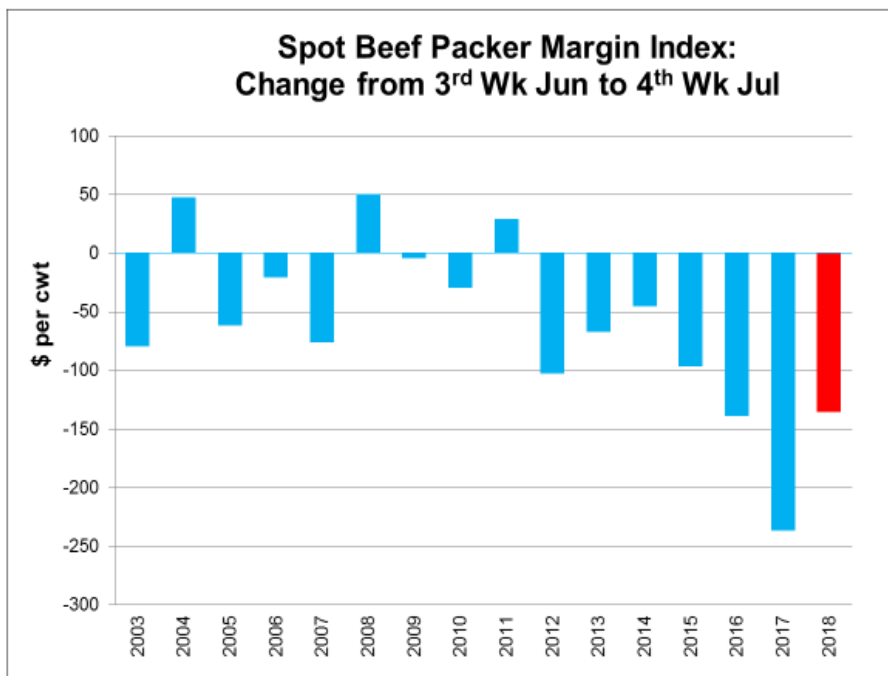
I do *not* expect that the market will now race upward, having cleared such a meaningful resistance level. The general area surrounding \$108 remains a formidable area of resistance, that price having been the point at which August cattle “pivoted” from a \$108-\$118 affair to a lower tier of \$98-\$108. Also, the news emanating from the cash market in the immediate near term probably will not be friendly, with cutout values losing ground and packers presumably not needing to buy many cattle next week ahead of the holiday. Hence, the likelihood of a significant pullback such as we have seen three times since the establishment of the major low of \$98.10 on May 18. Otherwise, I would simply buy August cattle “out of the gate” this morning.

But the market’s ability to push through a barrier that has turned it back on four separate attempts over a span of seven weeks says *something*, doesn’t it? And its gradual move into previously forbidden territory is more meaningful than it

would be if the close above \$106.50 had happened more expeditiously. I think it also hints that perhaps my expectation of a cash market above \$115 in August is not totally insane.

But before I finish displaying my technical wizardry, I remind myself that the close above \$106.50 completes a loosely-defined double bottom on the daily chart which measures up to approximately \$115. By the way, there is not much in the way of resistance between \$108 and \$115.

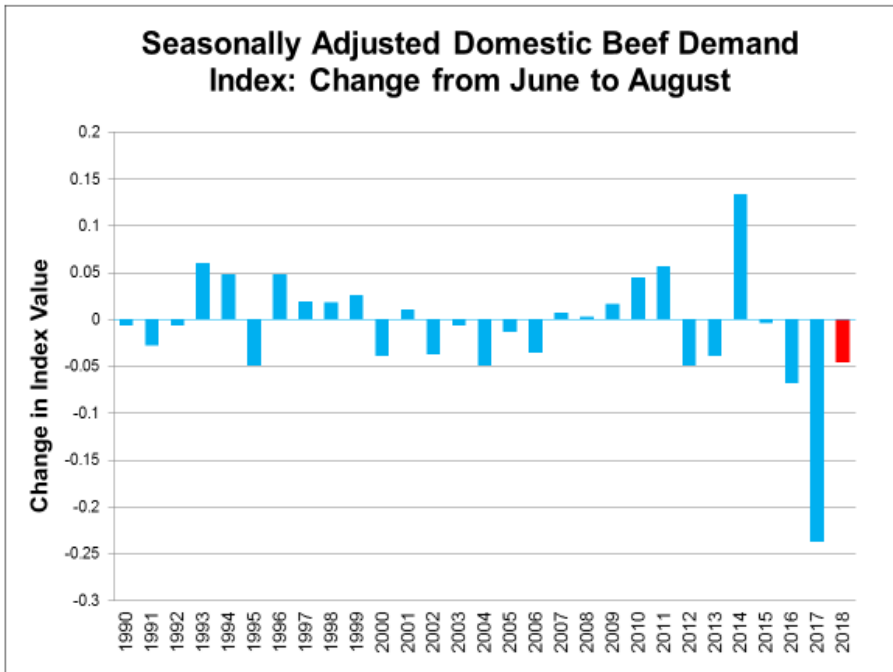
The packer margin remains the key to an advancing cash cattle market after Independence Day. Of course, I question whether spot margins will shrink as much as I think they will, but I regard this notion as quite objective—and it is not unprecedented.



It looks like this week's packer margin index will be in the \$300-\$325 per head range, which is the second-widest on record for this time of year (by far; last year it stood just below \$400). A decline of the magnitude depicted by

the red bar would take it down to about \$175 in the final week of July, which would be slightly wider than a year ago at that time. If this is paired with a combined Choice/Select cutout value of \$205 per cwt (vs. yesterday's quote of \$214.50) as I anticipate, then the Five Area Weighted Average Steer price would land at \$114.

Finally, my forecast of a combined Choice/Select cutout value dropping to \$205 per cwt during July and averaging \$210.50 in August is actually rather pessimistic with respect to beef demand. It assumes a greater-than-seasonally-normal slowdown in wholesale demand, as I show in the chart on the next page. To remind you, a perfectly average seasonal change in demand would result in a zero value in this picture.



It's not nearly as great a decline as we witnessed last year between June and August, but then prices were precariously high in June 2017 and retail prices were being ratcheted upward in a hurry. And forward

bookings for July and early August delivery are considerably more active than they were at this time last year. Frankly, the only reason I have for projecting even a moderate decline in the demand index this time around is the notion that a short-term cyclical peak is "due"....

Forecasts:

	Jun	Jul*	Aug	Sep*	Oct*	Nov*
Avg Weekly Cattle Sltr	661,000	617,000	626,000	614,000	621,000	619,000
Year Ago	637,900	603,800	633,800	624,400	629,500	625,700
Avg Weekly Steer & Heifer Sltr	533,000	495,000	496,000	482,000	484,000	482,000
Year Ago	514,200	488,800	511,000	502,100	500,900	498,600
Avg Weekly Cow Sltr	115,000	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	857	869	880	891	897	897
Year Ago	854.0	868.5	884.6	896.0	897.8	902.6
Avg Weekly Beef Prodn	529	498	508	502	510	509
Year Ago	509.6	487.6	517.9	515.8	518.4	519.2

Avg Cutout Value	\$217.50	\$208.50	\$210.50	\$208.00	\$208.50	\$208.00
Year Ago	\$238.48	\$209.64	\$196.81	\$192.17	\$197.04	\$205.15
5-Area Steers	\$111.00	\$112.75	\$117.00	\$115.50	\$118.00	\$121.50
Year Ago	\$126.59	\$118.41	\$110.72	\$106.83	\$112.08	\$121.03

**Includes holiday-shortened weeks*

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