

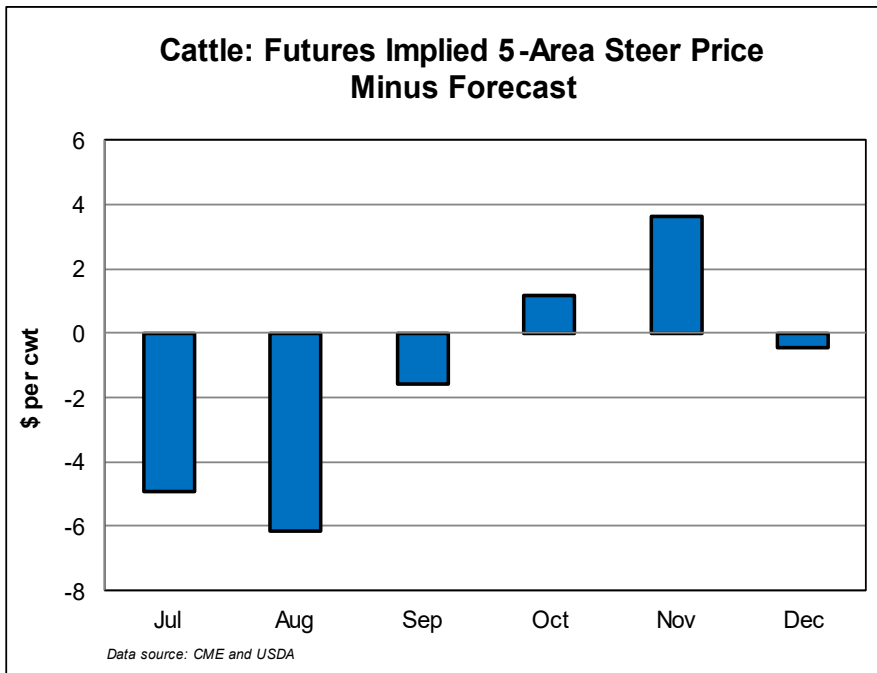
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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June 29, 2021

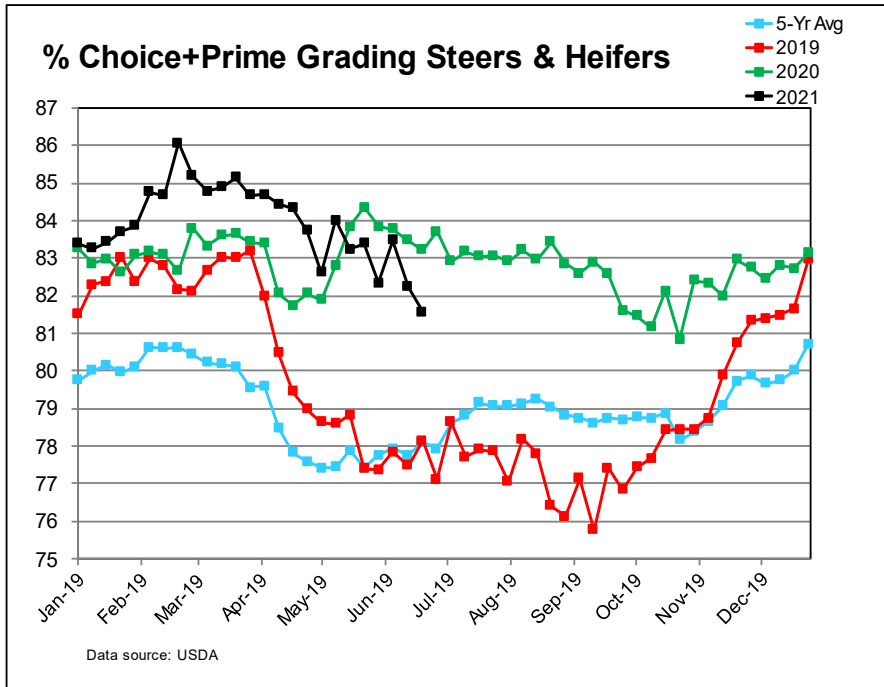


I am still approaching the August contract tentatively, but the long side of this one is getting more interesting. For a number of vague reasons, the prospects of the cash cattle market in August—especially late August—seem to be improving.

Accordingly, I am willing to reach a bit higher to establish a modest long position. Specifically, whereas I had been holding out for \$119.85, I doubt that the market will give me a chance at that price. The \$120.00 mark is an obvious support level, now made more conspicuous by the fact that the 40-day moving average passes through \$120.05. And so I am raising my sights to \$120.50 or slightly above. I will have to risk this trade down to \$117.20, but the 330-point risk is justified by the realistic possibility that this contract will make its way up to \$127-plus.

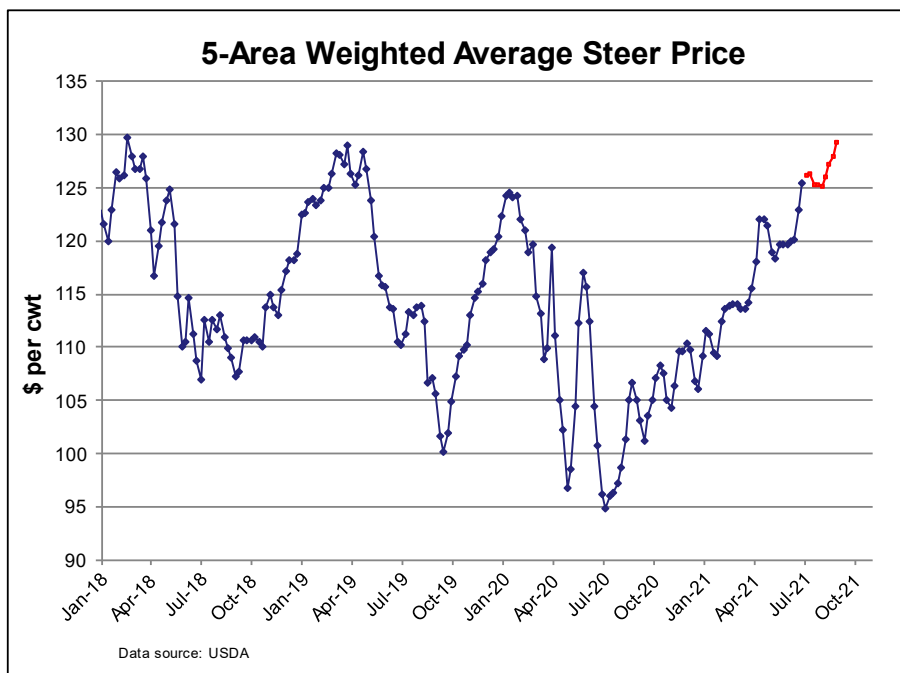
First, though, I have to remind myself that the beef market is going to be a drag on cash cattle prices all the way through July. For a while, pulling cattle prices upward is going to be like driving a boat with the anchor down. It can still move, but the progress could be slow. It looks like the supermarket beef business is going to be dry as retailers raise prices further and recapture margins, a notion that is backed up by very light forward bookings for July delivery. That said, if product costs come down as much as I think they will, then retail beef featuring could re-emerge in August—maybe not in a big way, but to some extent.

Meanwhile, there are some subtle developments that seem to be hinting at tightening cattle supplies. One is the fact that both carcass weights and the grade-out are curiously low.



It's always hard to pin an explanation on the way the grade-out is behaving, but I would *think* that if we were still dealing with a backlogged cattle supply, then *more* cattle would be falling into the Choice and Prime categories, not fewer.

Similarly, a backlog would normally be associated with lots of heavyweight cattle. Yet, as of the most recent official reading (for the week ended June 12) steer carcass weights were the lightest of the year so far. Judging from the ten-year average, they were "due" to bottom out in early May. Hmmm.

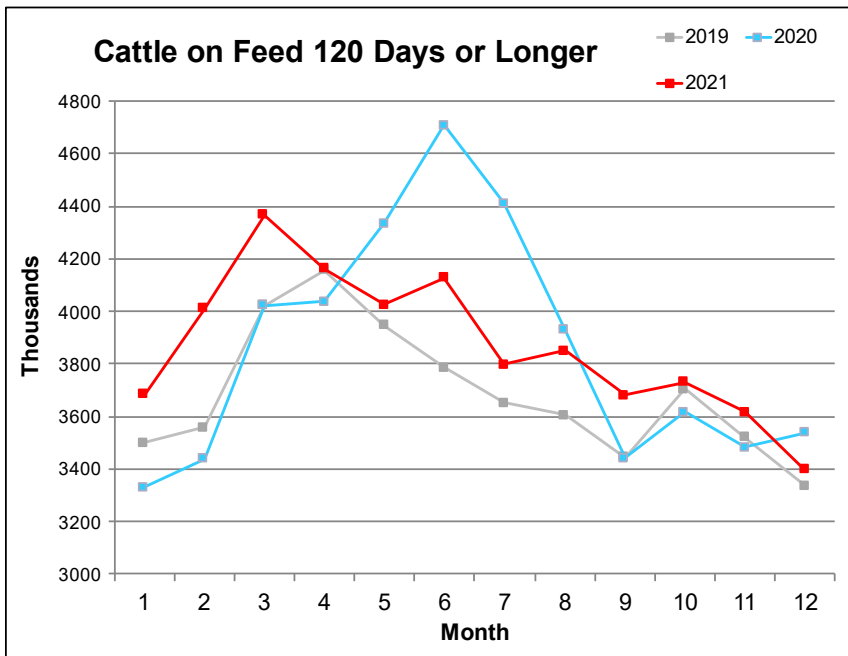


And then there is the chart of the Five Area Weighted Average Steer price, which pushed through a pretty clearly defined resistance level last week (\$125 per cwt). The obvious implication is that \$125 will now turn into a support level, and that the market is

on its way up to \$129. The chart doesn't say anything about how long it will take to get there, but the red line on the graph above offers my humble guess.

Also, I find it a bit strange that packers were able to buy only small number of cattle in the negotiated spot market last week, despite significantly higher bids. This is a very short-term consideration, but it's worth noting.

The most critical element in the forecasting equation remains the packer margin. The margin index that I calculate has dropped \$300 per head since it peaked three weeks ago, but it still has a long way to go—another \$550, to be precise—before my cattle price forecasts for August can be realized. We'll see. But it's moving in the right direction, and the declining inventories of cattle on feed 120 and 150 days or longer gives us *some* reason to think that margins will indeed trend downward from this point.



Finally, my attraction to the long side of August cattle is strengthened by the fact that as of this morning, the board trades \$4 per cwt below the cash market, which is pressing the lower extreme for the month of July.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	633,000	648,000	636,000	643,000	639,000	603,000
Year Ago	630,500	645,300	636,500	645,000	634,600	583,800
Avg Weekly Steer & Heifer Sltr	503,000	514,000	500,000	498,000	496,000	465,000
Year Ago	508,700	520,600	506,200	507,700	499,100	455,500
Avg Weekly Cow Sltr	118,000	123,000	125,000	133,000	133,000	128,000
Year Ago	111,200	113,400	119,000	126,300	125,700	119,600
Steer Carcass Weights	903	913	925	932	933	928
Year Ago	901.0	910.3	921.0	928.5	924.5	919.6
Avg Weekly Beef Prodn	523	539	535	539	538	506
Year Ago	524.0	537.9	534.3	542.5	532.7	489.1
Avg Cutout Value	\$247.00	\$247.00	\$239.00	\$235.00	\$237.00	\$240.00
Year Ago	\$201.66	\$214.29	\$218.06	\$208.35	\$224.87	\$215.26
5-Area Steers	\$125.50	\$127.50	\$126.00	\$125.50	\$126.50	\$132.00
Year Ago	\$96.62	\$104.52	\$104.01	\$106.27	\$108.94	\$108.66

\*Includes holiday-shortened weeks

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