

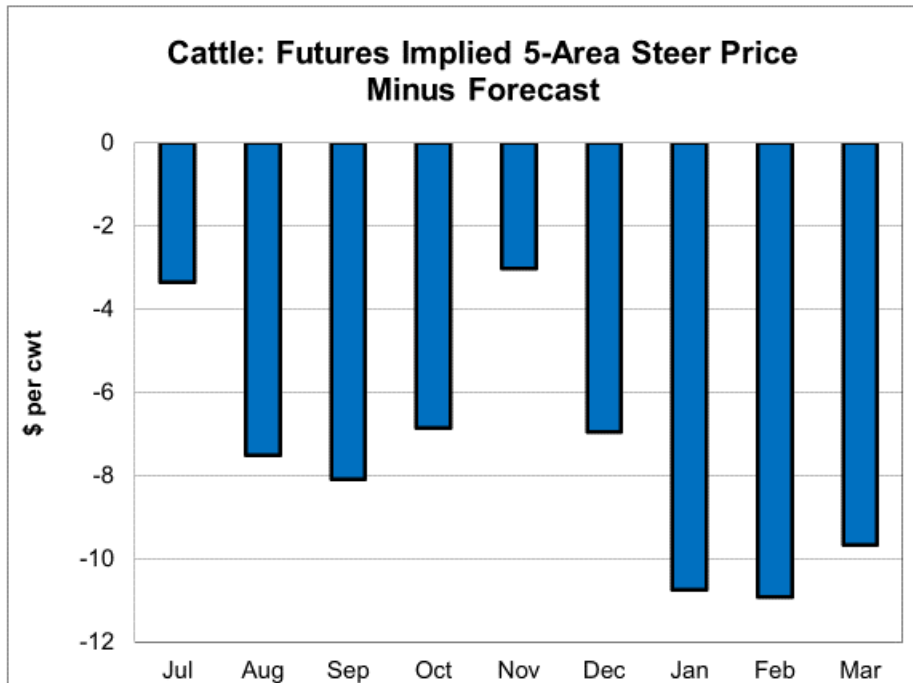
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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July 1, 2019



I re-established my moderate long position in August cattle near Friday's closing price, and will add to this position if the beef market provides

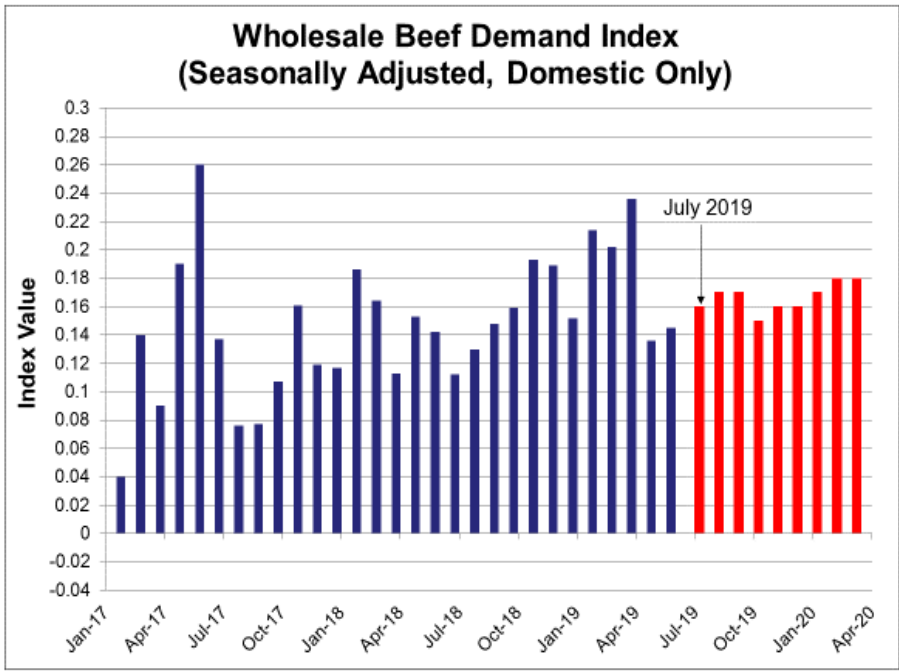
confirmation that my forecasts of a \$216 per cwt average cutout value and a \$113-\$114 cash cattle market in August are not totally insane. I don't know exactly what signal I'm looking for, but a steady cutout value would go a long way. My thesis all along has been that the seasonal decline in beef demand and prices during July would be considerably milder than in the last couple of years; and in this holiday week in 2017 and 2018 the combined Choice/Select cutout value fell 4.0% and 2.1% respectively.

I had stopped myself out of a long position on the June 21 close into new contract lows (I'm patting myself on the back now) and planned to re-establish if that glaringly negative technical signal were negated. Well, the immediately ensuing 400-point rally and the recovery back above the ten-day moving average qualifies as much more than just a bounce.

Since the previous contract low was penetrated by only 32 points, with a little imagination it might be fair to say that a close above \$107.17 would complete a double bottom formation that would measure to approximately \$112.00. I'm going to treat it as such, since this objective aligns pretty well with my cash

market forecasts. And so, if I do nothing else, I will add to my position upon a close above \$107.17.

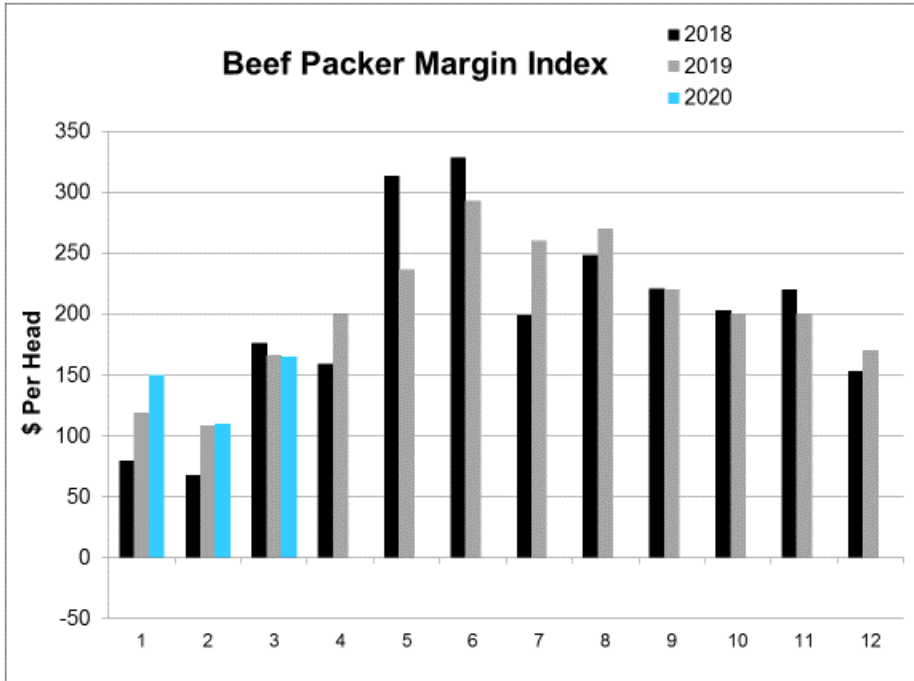
The notion that the Five Area Weighted Average Steer price will work its way upward from here (“here” would be this past week’s average of about \$110.25 per cwt) depends on two key developments. One is a modest recovery in the seasonally adjusted demand index, which would be a natural occurrence following a short-term cyclical low in May/June. My definition of “modest” is clarified in the picture below:



Forward booking activity for late July and early August has not been what I would call “outstanding”, but it has been robust enough to support this notion of a cyclical improvement in the wholesale demand index.

When combined with an average rate of steer and heifer slaughter near 520,000 in August, the demand index value shown above (.17) places the combined Choice/Select cutout value at an average of \$216.50 per cwt at that time--with beef prices above that level in the first half of the month and below that level in the second half. If the demand index were to remain equal to the June reading, then the average cutout value would be closer to \$212, and the cash cattle market would probably wind up in the \$110-\$111 range.

The other key development upon which I am depending is a normal seasonal tightening of packer margins. I am projecting that the spot packer margin index will decline from an average of \$293 per head in June to \$270 in August--which is a considerably smaller drop than we saw last year, when it fell from \$329 to \$248. I am guessing that the milder decline in beef prices will coincide with a milder decline in packer margins. This picture is shown on the next page.



This trade has an impressive resumé, enough that it warrants a bigger bet than I have on the table right now. And yet, the risk on each increment must be measured all the way down to

\$102.00, until an important support level is formed at a higher level. And until this market pushes through \$107.17, I have to treat it as a sideways trading range--and restrict additional purchases to the lower half of that range.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	631,000	648,000	640,000	645,000	634,000	606,000
Year Ago	623,900	643,400	632,200	641,500	627,400	606,200
Avg Weekly Steer & Heifer Sltr	505,000	518,000	512,000	510,000	501,000	481,000
Year Ago	499,100	512,600	504,500	505,500	498,700	479,400
Avg Weekly Cow Sltr	115,000	118,000	117,000	123,000	122,000	115,000
Year Ago	114,000	119,600	117,100	125,000	119,400	117,700
Steer Carcass Weights	869	884	895	900	900	896
Year Ago	870.0	884.8	897.0	898.0	901.3	893.8
Avg Weekly Beef Prodn	508	528	527	533	524	501
Year Ago	503.3	525.3	522.0	528.0	519.1	497.9
Avg Cutout Value	214.50	\$216.50	\$209.00	\$205.50	\$208.00	\$209.50
Year Ago	\$204.61	\$207.50	\$204.18	\$205.70	\$211.78	\$211.76
5-Area Steers	\$112.50	\$113.50	\$112.50	\$112.00	\$113.50	\$116.50
Year Ago	\$111.87	\$110.02	\$109.89	\$112.06	\$114.79	\$119.39

\*Includes holiday-shortened weeks

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