

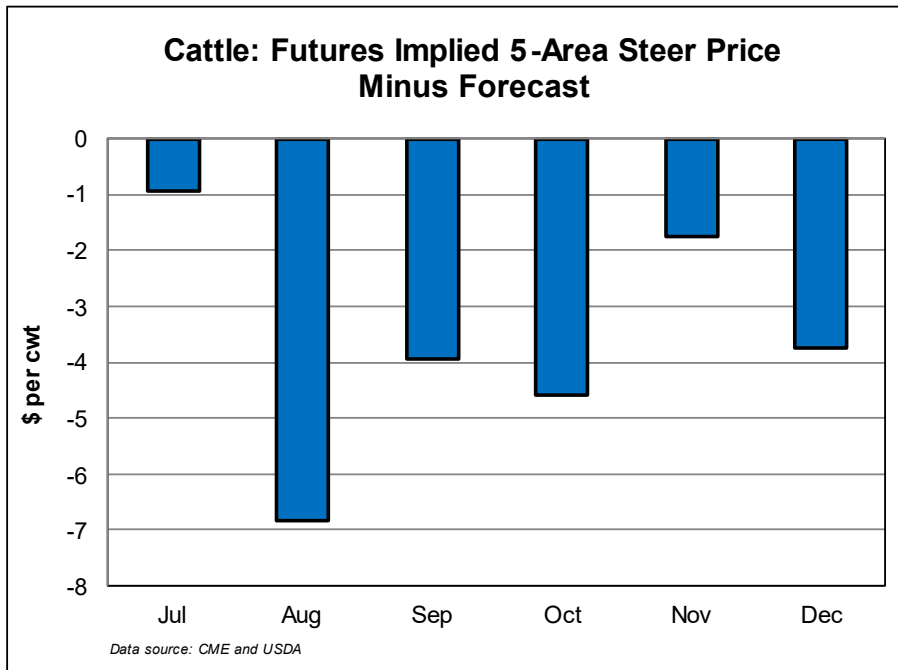
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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July 12, 2021



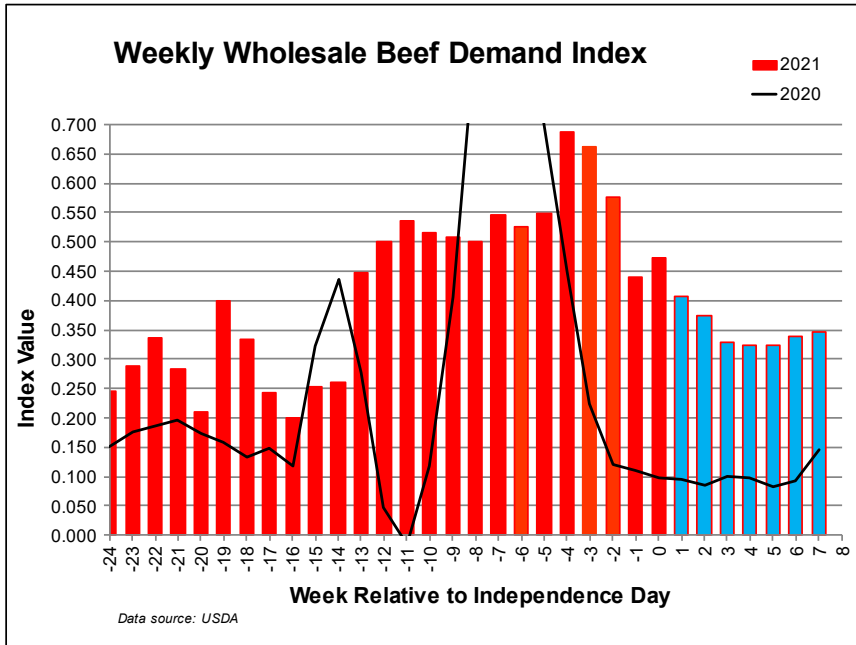
I was stopped out of my long position in August cattle upon its close below \$120.50, and so I am once again on the sidelines. Obviously, my error was in the assumption that the primary short-term trend was sideways and therefore the market

would stay within the range it had traversed over the previous three weeks. It's really no more complicated than that.

Now that prices have fallen through a major support level, this market faces some formidable technical headwinds. The downside objective of this breakdown looks like it could be around \$116.50. I come up with that number by noting that the previous trading range had been fairly well-defined, approximately \$120.50 to \$124.50; subtracting 400 points from \$120.50 measures to \$116.50. In any case, there is no conspicuous support on the chart of August cattle between \$117.22 and \$116.00. Thus, while the August contract appears to be considerably undervalued, there are compelling reasons *not* to buy it until it approaches \$116.00.

So, then, how could August futures be worth \$127? It seems like a long way off all of the sudden.

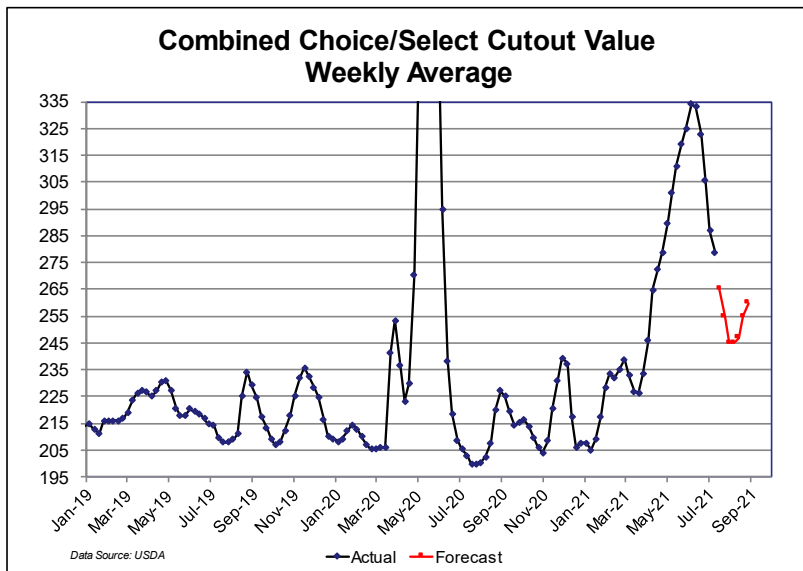
I suppose I can begin by acknowledging that the beef market is losing ground rapidly, and probably has a way to go before it "catches". However, this was widely anticipated; in fact, the descent in cutout values has actually been somewhat "stickier" than I thought it would be up to this point. What is happening here is that a sharp increase in retail prices is finally slowing the movement of product through supermarket channels. This is reflected in the weekly demand index, as shown at the top of the next page.



It looks as though wholesale beef demand will continue to underperform relative to the seasonal norm (i.e., the index will continue to decline) for another several weeks; it is coming off of some extremely lofty levels. The question is, where does it stop? It seems reasonable to me that once it has

dropped back to March-April levels, it is likely to level out. In other words, at some point, demand will once again follow typical seasonal patterns; my guess is that it will reach that point around August 1. That makes sense to me as well, because it looks as though forward prices have come down enough to regenerate *some* supermarket featuring....maybe not in the first half of August, but probably by the second half.

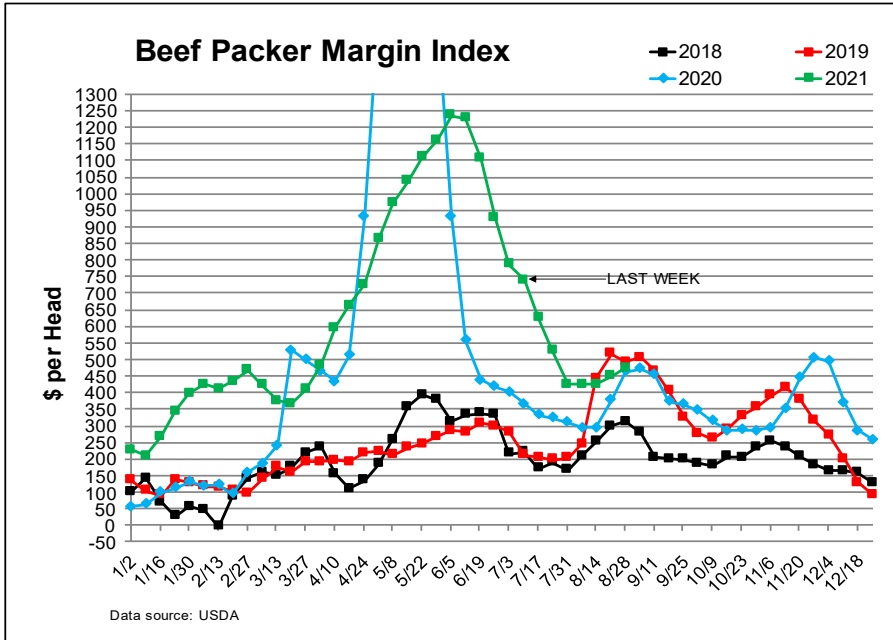
OK, so if steer and heifer kills average near 512,000 per week from now through the end of August, which is a rather benign assumption, then the suggested pattern in the demand index would bring about the following pattern in the combined Choice/Select cutout value:



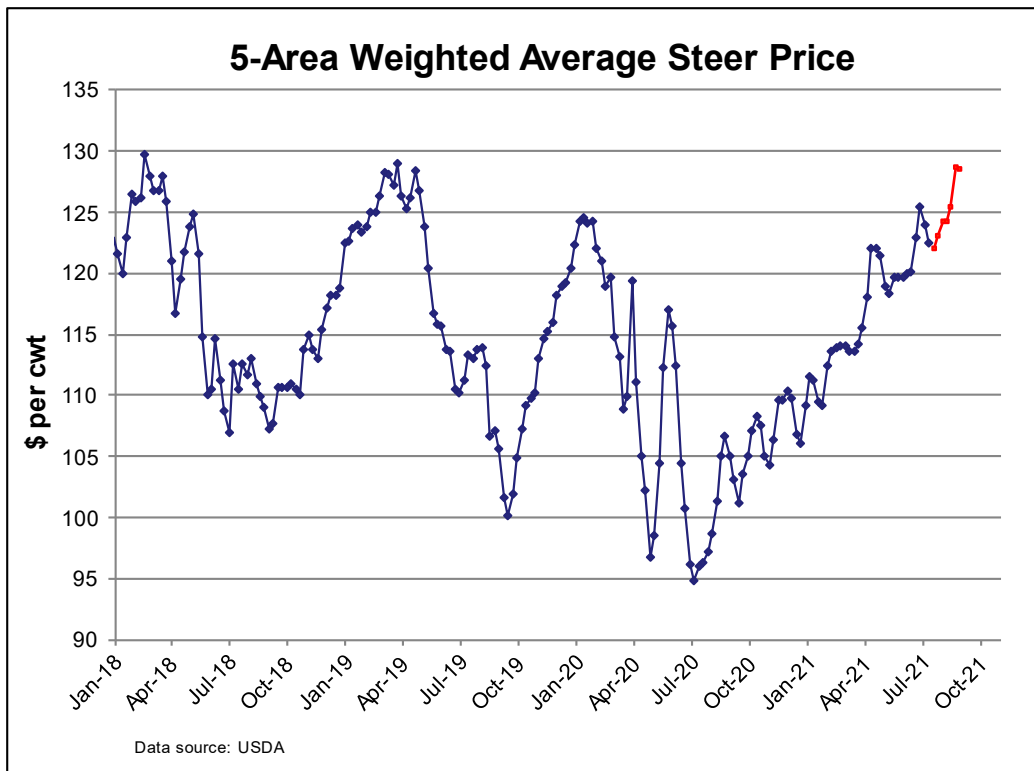
As has been the case for several months now, the greatest challenge of all has been to predict how cash cattle prices will trade in relation to the cutout value. The *direction* of the packer margin index has clearly turned downward (finally!); but this, too, has not dropped quite as fast as I had anticipated. It averaged \$740 per head last week. If it

were to remain at this level, then a Choice/Select cutout value of \$260 per cwt the end of August would align with a Five Area Weighted Average Steer price of \$110.50.

Obviously, I don't think this is very likely. If it were to drop down to \$500, which is my guess, then we would be looking at a cash cattle market of \$128 at the end of August (with the same \$260 cutout value). A \$1 per cwt discount in the futures contract to the cash market would place the former at \$127.



Finally, the Five Area Steer price has pulled back to what was formerly a resistance level on the chart (\$122.03), and it's not *that* hard to envision a market that turns around right about here and makes another leg up.



Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	631,000	643,000	630,000	631,000	625,000	594,000
Year Ago	630,500	645,300	636,500	645,000	634,600	583,800
Avg Weekly Steer & Heifer Sltr	501,000	510,000	495,000	490,000	485,000	460,000
Year Ago	508,700	520,600	506,200	507,700	499,100	455,500
Avg Weekly Cow Sltr	118,000	122,000	123,000	130,000	130,000	125,000
Year Ago	111,200	113,400	119,000	126,300	125,700	119,600
Steer Carcass Weights	897	908	920	927	928	923
Year Ago	901.0	910.3	921.0	928.5	924.5	919.6
Avg Weekly Beef Prodn	518	532	526	527	523	496
Year Ago	524.0	537.9	534.3	542.5	532.7	489.1
Avg Cutout Value	\$261.00	\$252.00	\$242.00	\$241.00	\$244.00	\$243.00
Year Ago	\$201.66	\$214.29	\$218.06	\$208.35	\$224.87	\$215.26
5-Area Steers	\$123.00	\$127.00	\$127.50	\$129.00	\$130.50	\$134.00
Year Ago	\$96.62	\$104.52	\$104.01	\$106.27	\$108.94	\$108.66

\*Includes holiday-shortened weeks

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