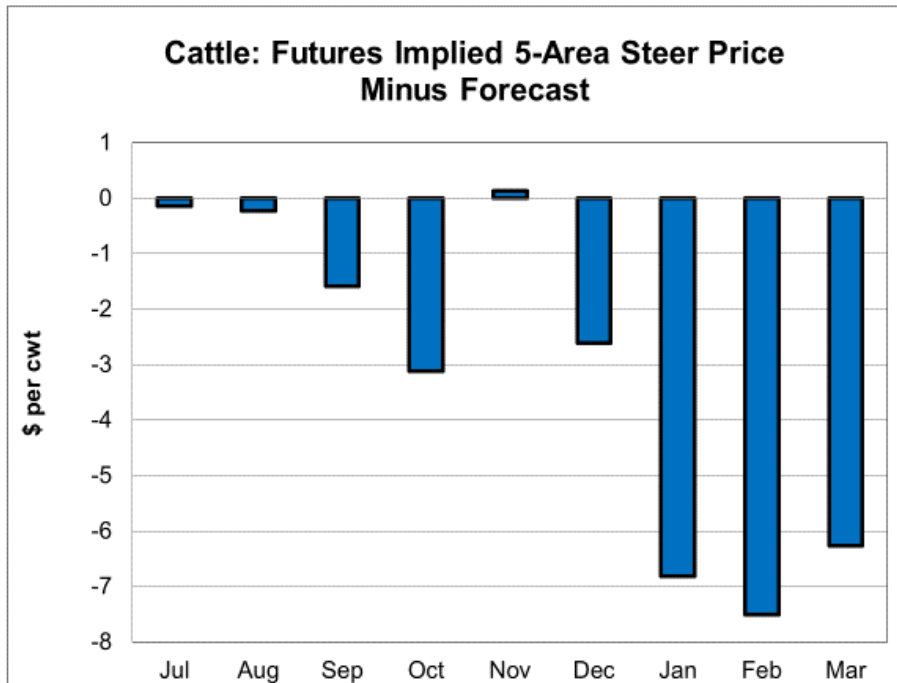


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

July 15, 2019



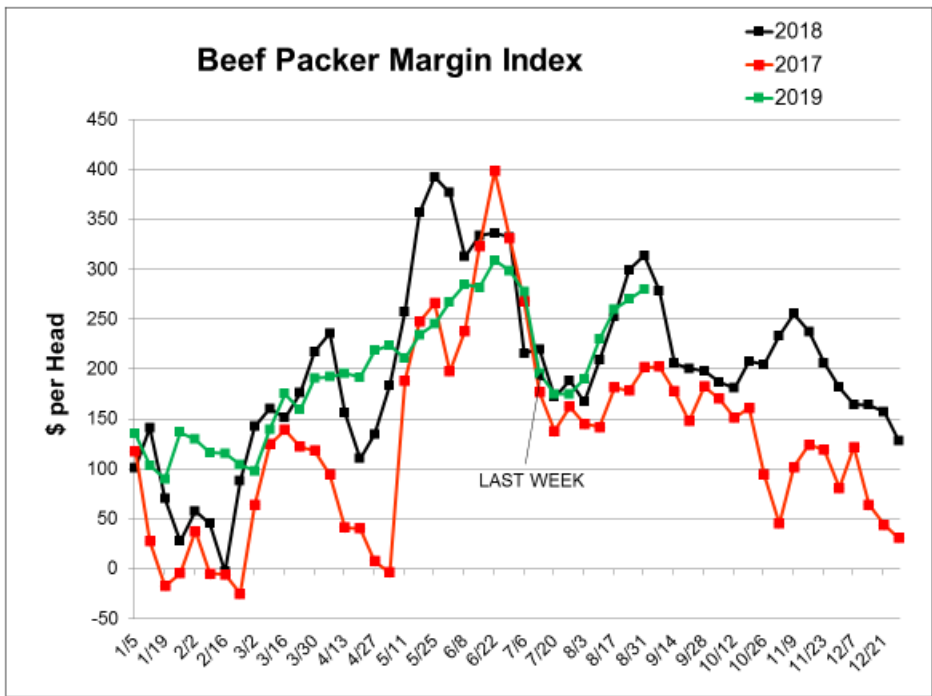
I remain aggressively long of August cattle, although I'm questioning the initial objective of \$112.00 per cwt. A close above \$110.00 would bring that objective back into focus, as there is no

discernible resistance on the daily chart between the two prices. But \$110.00 is going to be a strong barrier. And so if the opportunity is presented within the next few days, I will exit my position near that level.

The beef market is underperforming relative to my expectations so far in July, a simple fact that I am not taking lightly. Of course, the Choice middle meats have been a factor in dragging the combined Choice/Select cutout value downward; this was no surprise. What has been surprising is the weakness in ground beef, 50% lean trimmings, bottom round flats, and knuckles. These items carry a lot of weight in the cutout value calculation, and I had assume that all of them would hold firm in the post-Independence Day trade. In view of the market's performance over the past week, I have lowered my projections of wholesale beef demand for the remainder of July and the month of August.

My long position in the futures market, though, has been bailed out by a more rapid and intensive contraction in packer margins. Essentially, this has offset the lower money in the beef market stride-for-stride, such that cash cattle prices have rebounded just about as I had anticipated. [I'll chalk this one up to good

luck.] The spot packer margin index has dropped \$100 per head over the last two weeks and is on a pace to match the July 2018 average of \$199 per head:



The narrowing of spot packer margins is directly related to what appear to be very current feedlot inventories. As of the most recent official reading (the week ended June 29), steer

weights stood eleven pounds below a year ago and were the lightest for that time of year since 2011. Also, the grade-out is running below packers' expectations; this is obvious from the exceedingly heavy pressure on Select middle meat prices. Together, the carcass-weight and grade-out situations support the notion that front-end cattle supplies are tight.

The lukewarm forward booking activity for deliveries in second-half July and first-half August lead me to believe that wholesale beef demand will simply undergo normal seasonal changes between now and the end of August. That would result in a combined cutout value that essentially levels out just below Friday's quote (\$207.73) and climbs its way back up to \$212-\$213 at its next peak in the third week of August. If packer margins widen out along the way, as suggested by the picture above, then the Five Area Weighted Average Steer price will center on \$111 per cwt in August--about \$3.50 lower than it is right now, but still high enough to provide a solid floor underneath the August futures contract. I am assuming that the board will remain discounted to the cash market all along, with the discount averaging about \$1.50 per cwt during the delivery period.

I stated last week that I would keep my long positions in the August contract until it begins to lose ground against the February contract. I have reconsidered. A close above \$118.35 in February cattle would be compelling enough that upon such occasion, if I am able to let go of my long position in the August contract near \$110.00, then I will look for a place to resume that position in February

cattle. Most likely, my entry price target would be somewhere in the neighborhood of \$118.00. I am approaching this one cautiously, though, partly because it looks like the market will have to endure some “turbulence” in September, during which the recent low in the cash cattle market (\$110) could very well be taken out; and because the February contract left a gap on the daily chart at \$115.32. And so if February futures are eventually headed back to their contract high as it looks to me, it could be a while before that bus leaves the station.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	631,000	648,000	640,000	647,000	634,000	612,000
Year Ago	623,900	643,400	632,200	641,500	627,400	606,200
Avg Weekly Steer & Heifer Sltr	506,000	519,000	512,000	513,000	503,000	488,000
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	866	879	890	895	895	891
Year Ago	870.0	884.8	897.0	898.0	901.3	893.8
Avg Weekly Beef Prodn	507	526	525	533	523	504
Year Ago	503.3	525.3	522.0	528.0	519.1	497.9
Avg Cutout Value	209.00	\$210.25	\$206.00	\$206.50	\$209.00	\$208.00
Year Ago	\$204.61	\$207.50	\$204.18	\$205.70	\$211.78	\$211.76
5-Area Steers	\$113.50	\$110.50	\$110.50	\$112.50	\$114.00	\$116.50
Year Ago	\$111.87	\$110.02	\$109.89	\$112.06	\$114.79	\$119.39

*Includes holiday-shortened weeks

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