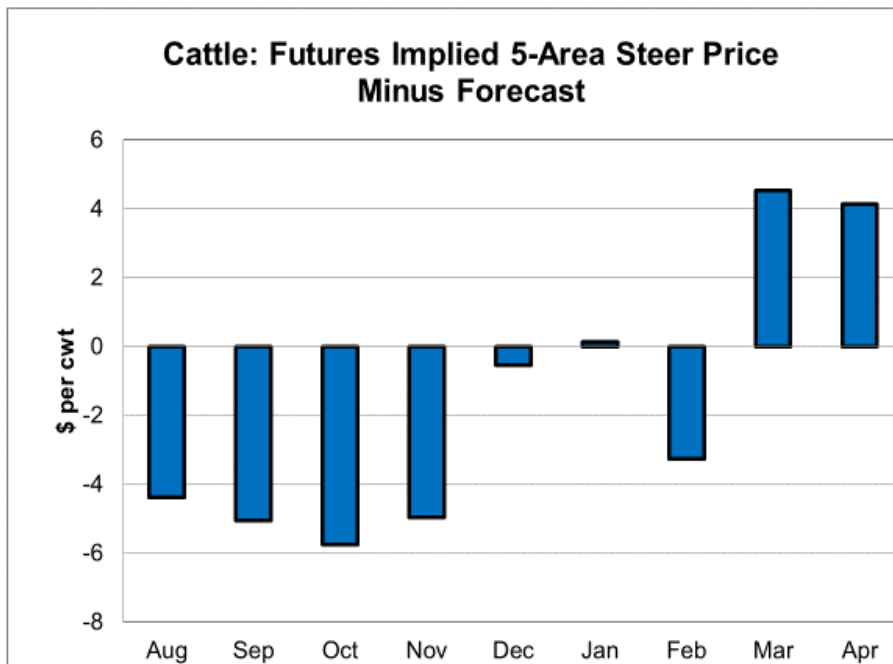


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

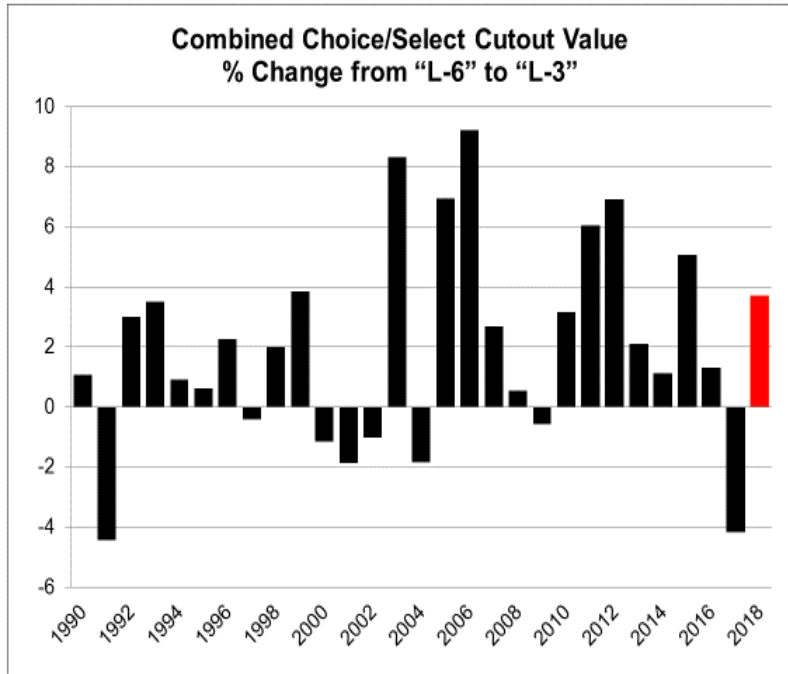
July 20, 2018



I have not yet been able to detect any fundamental factor that would derail my forecast of a \$115-\$116 average cash cattle market in August, and so I continue to hold an aggressive outright long position in that contract.

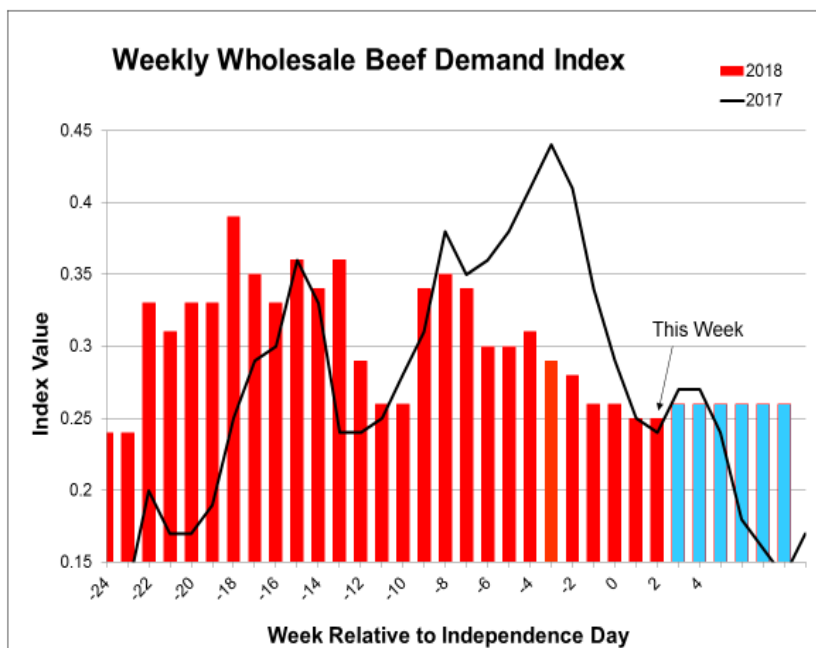
The beef market, for its part, appears to be bottoming now—at a somewhat lower cutout value than I had anticipated, but on schedule timewise. The next move will be to the upside, led by the chuck and round cuts, ground beef, and ribeyes. I am not expecting any contribution from the loin cuts or briskets, but neither do I expect them to be the drags on the cutout value that they have been since the first of the month. Strips and short loins probably have some room to the downside yet.

The most likely scenario seems to be a three-week (possibly four-week) rally that would carry the combined Choice/Select cutout value up to its nearest discernible resistance level, which is around \$210 per cwt (yesterday's quote was \$203.00). A rally of that magnitude would be above average but not really unusual, as I show in the first picture on the next page. [In that picture, "L-6" refers to the sixth week prior to Labor Day, which is next week.] The second picture suggests that a \$7-8 per cwt appreciation might be a conservative guess, in the sense that it would not require a material improvement in the seasonally adjusted demand index from its currently weak reading.



With the combined cutout rising to a peak of approximately \$211 per cwt in the week ending August 18, a spot packer margin index of \$190 per head would place the Five Area Weighted Average Steer price near \$116.50 at that time. I'll spare you the

additional graph; to place this in perspective, the packer margin index last week was \$220; a \$2 higher cash market this week—which is where it appears to be headed, based on the futures price action—would place the index at \$175; and in the middle of August 2017 it stood at \$182.



Assuming that the August contract will be trading at a discount of \$1.50-\$2.00 per cwt at that time, it follows that it will stand at \$114.50-\$115.00 four weeks from now. Now that it has cleared the major resistance zone of \$106.50-\$108.00, I see no formidable technical barrier between here and \$115.50. There will continue to be

sizeable setbacks along the way; if a lot of cattle are bought at sharply higher

money today, then I would look for such a setback early next week. But trying to take advantage of these is outside the scope of my expertise, such as it is.

Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan*
Avg Weekly Cattle Sltr	632,000	618,000	630,000	629,000	613,000	623,000
Year Ago	633,800	624,400	629,500	625,700	593,800	595,400
Avg Weekly Steer & Heifer Sltr	500,000	485,000	491,000	490,000	482,000	488,000
Year Ago	511,000	502,100	500,900	498,600	472,600	466,400
Avg Weekly Cow Sltr	119,000	121,000	127,000	128,000	121,000	126,000
Year Ago	111,000	111,200	117,800	116,700	111,600	120,400
Steer Carcass Weights	881	894	900	902	898	890
Year Ago	884.6	896.0	897.8	902.6	902.8	892.8
Avg Weekly Beef Prodn	514	507	518	520	507	513
Year Ago	517.9	515.8	518.4	519.2	495.3	492.5
Avg Cutout Value	\$208.50	\$206.75	\$206.75	\$204.50	\$199.50	\$207.00
Year Ago	\$196.81	\$192.17	\$197.04	\$205.15	\$199.67	\$206.72
5-Area Steers	\$115.50	\$115.00	\$116.50	\$119.50	\$115.50	\$121.00
Year Ago	\$110.72	\$106.83	\$112.08	\$121.03	\$120.00	\$123.36

**Includes holiday-shortened weeks*

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