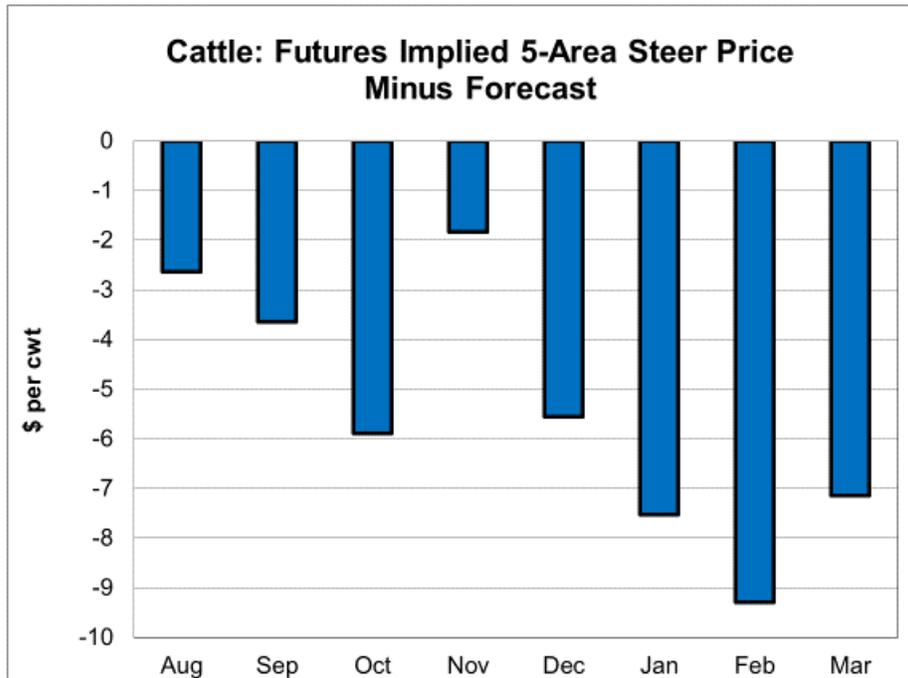


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

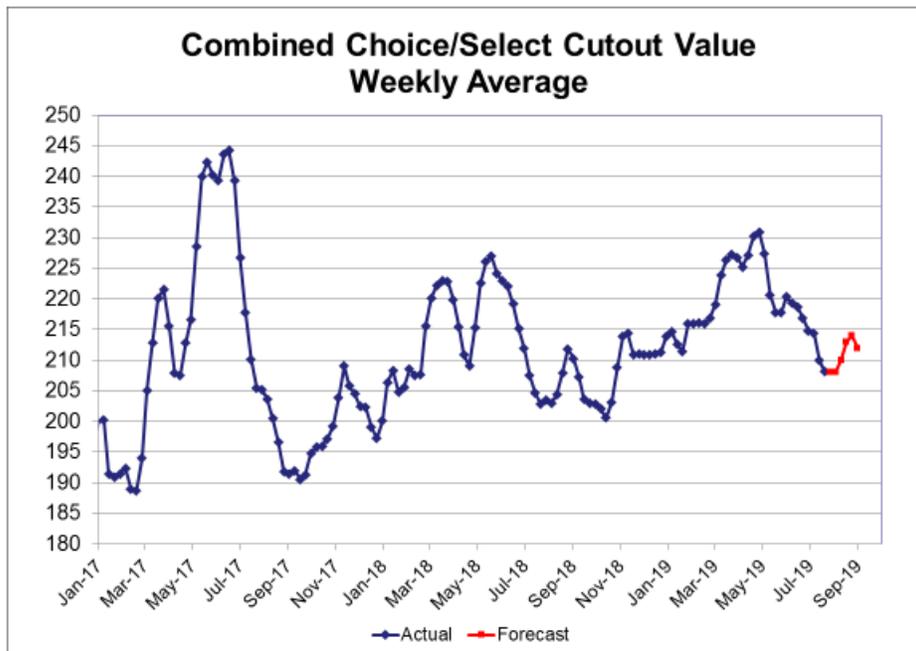
July 21, 2019



I still hold an aggressive long position in the August contract. The market has gone through what one might describe as a “quiet correction” over the past five days, and slipped

below the ten-day moving average in the process. But it remains above the formerly major resistance level of \$107, and the August contract has gained some ground vs. October and December over the past week. I see nothing in the technical picture that tells me I should abandon my position.

Nor do I see any warning signals emanating from the cash market. The weekly demand index is holding up rather well, and if it remains flat through August as I am proposing--meaning that demand simply follows its ten-year average seasonal course--then the next significant move in the combined Choice/Select cutout value will be upward, probably beginning in about two weeks. I show this picture on the next page. The next peak should be in the neighborhood of \$215 per cwt, about \$6.50 above Friday’s quote. I am assuming that steer and heifer kills will average about 518,000 across the four weeks of August, very close to this past week’s total.



I am also assuming that the presumed increase in cutout values will go into the packer's pocket. The spot packer margin index stands just above \$200 per head, and I am projecting

an average of about \$260 in August vs. \$248 a year ago. On that subject, if the packer margin index stays right where it is for the next two weeks, then the July average will wind up \$20 above a year ago. These are pretty reasonable projections, I think.

And under this scenario, cash cattle prices would show little movement, with the Five Area Weighted Average Steer price maintaining between \$111 and \$114 week by week right up to the doorstep of Labor Day. That *should* pull the August contract upward, albeit gradually, as we move into and through the delivery period.

The discount of August futures to the Five Area Weighted Average Steer price is not quite a record for this date, but it's pretty close. Only in 2014 was it wider in the third week of July than it was this time around. Now, there is a persistently wide spread between prices in the Southern Plains and prices in the Northern Plains/Corn Belt, and frankly, I don't know how this might be impacting the basis as measured by the Five Area Weighted Average. Obviously, though, we're not going to see any deliveries from from the North. But if we concentrate on the most bearish historical basis scenario and assume that August futures will still be carrying a \$2.50 per cwt discount in mid-August, then the board would nonetheless trade up to \$110.00 at that time.

I am regarding \$110.00 as a fairly conservative upside objective in August cattle, and if they were to trade up to that level sometime this week, then I would probably cut my position in half....but no more. As for the "abort" trigger, that would require some sort of bearish surprise from the beef market.

Of course, I recognize that the opportunity is greater in the February contract, and I fully intend to buy it at some point. There are two considerations that prevent me from playing this one right now. One is that there is a gap on the daily chart at \$115.32 which I expect to be filled. The other is that the cash cattle and beef markets will probably encounter some “turbulence” after Labor Day. There is a pretty good chance that the Five Area Steer price will drop below \$110 during that stretch, if only briefly. I prefer to wait for a better idea where that next low will be before I position myself for the long haul.

Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan*
Avg Weekly Cattle Sltr	646,000	636,000	639,000	629,000	601,000	602,000
Year Ago	643,400	632,200	641,500	627,400	606,200	598,700
Avg Weekly Steer & Heifer Sltr	518,000	511,000	508,000	501,000	482,000	479,000
Year Ago	512,600	504,500	505,500	498,700	479,400	470,900
Avg Weekly Cow Sltr	117,000	115,000	120,000	118,000	110,000	116,000
Year Ago	119,600	117,100	125,000	119,400	117,700	119,800
Steer Carcass Weights	879	890	895	895	891	883
Year Ago	884.8	897.0	898.0	901.3	893.8	886.8
Avg Weekly Beef Prodn	525	523	527	519	496	494
Year Ago	525.3	522.0	528.0	519.1	497.9	489.2
Avg Cutout Value	\$212.25	\$206.50	\$208.50	\$210.50	\$211.00	\$219.50
Year Ago	\$207.50	\$204.18	\$205.70	\$211.78	\$211.76	\$214.14
5-Area Steers	\$111.50	\$111.00	\$114.00	\$115.00	\$118.00	\$124.50
Year Ago	\$110.02	\$109.89	\$112.06	\$114.79	\$119.39	\$123.48

*Includes holiday-shortened weeks

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