

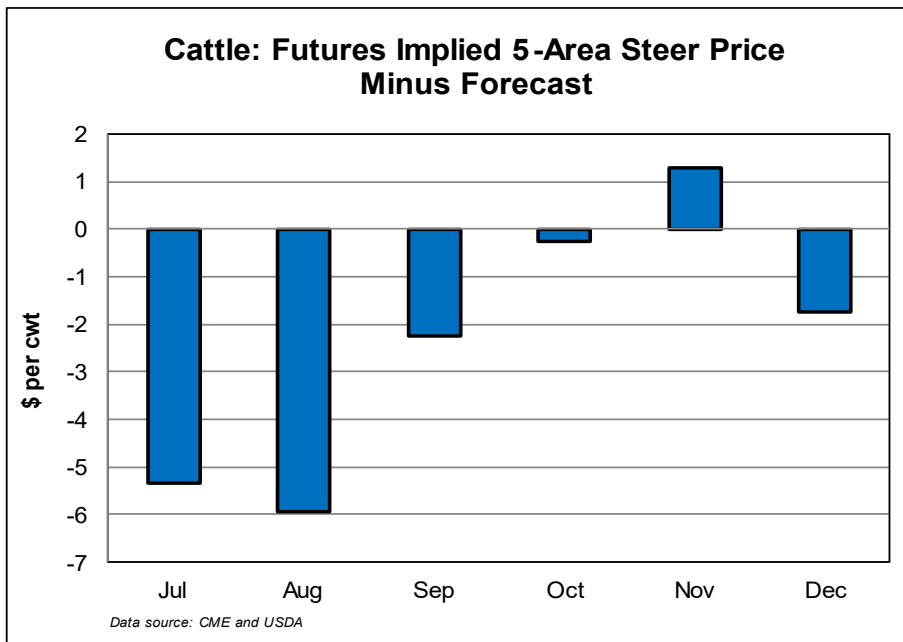
# Trading Cattle

## .... from a meat market perspective

A commentary by Kevin Bost

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July 5, 2021



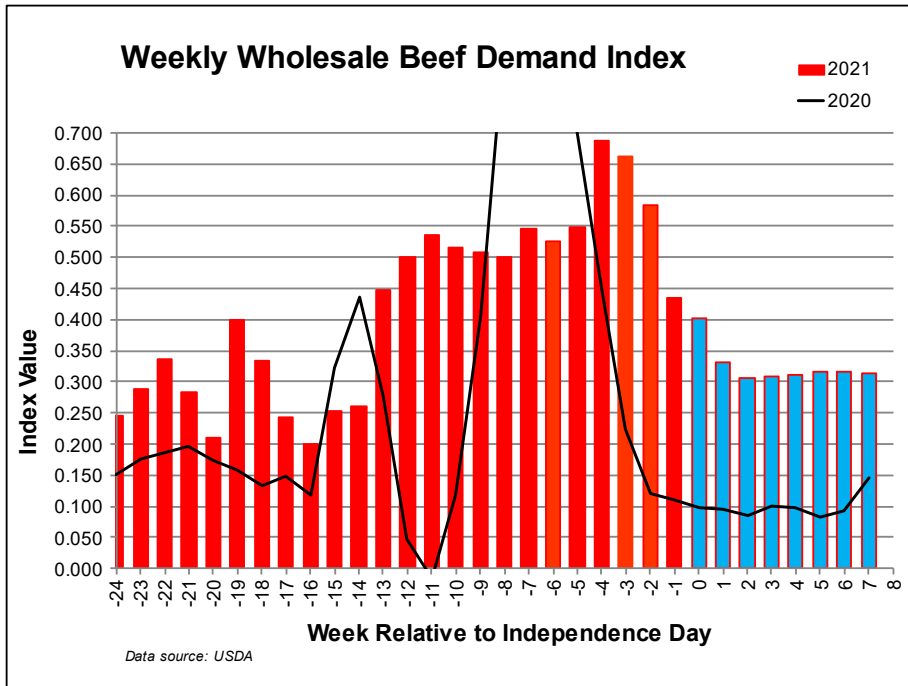
I am modestly long of August cattle, planning to expand the position at \$120.70 per cwt and/or upon a close above \$125.77; and planning to erase the blackboard completely if the market closes below \$120.50.

I should explain first of all that there is nothing magic about \$120.70. It's just that \$120.50 has become a rather obvious support level, having been earnestly tested two times in the last two weeks and now being the location of the 40-day moving average. I could place my bid at \$120.50, but I would expect a lot of company at that price.

The sideways trading range bounded by \$120.50 at the lower end and \$125.77 at the upper end has taken on more significance, now that it is two and a half weeks old. It is well enough defined that if the market were to push through either boundary, it probably would lead to a sizeable move in the same direction. A close below \$120.50 looks like it might measure down to approximately \$116.50 (hence the need for a close-only stop at \$120.50), whereas a close above \$125.77 at this point would complete a bull flag formation measuring to approximately \$129.17.

Actually, my best guess is that the cash cattle market will indeed reach \$129 by the end of August. That would result from the combination of a Choice/Select cutout value of about \$253 per cwt and a spot packer margin index of \$425 per head at that time.

Something in the low \$250's is where the combined cutout value would land in late August if steer and heifer kills were to begin the month near 505,000 and finish the month near 515,000; and if the weekly demand index were to fall back to its first quarter status and hold there, as depicted at the top of the next page.



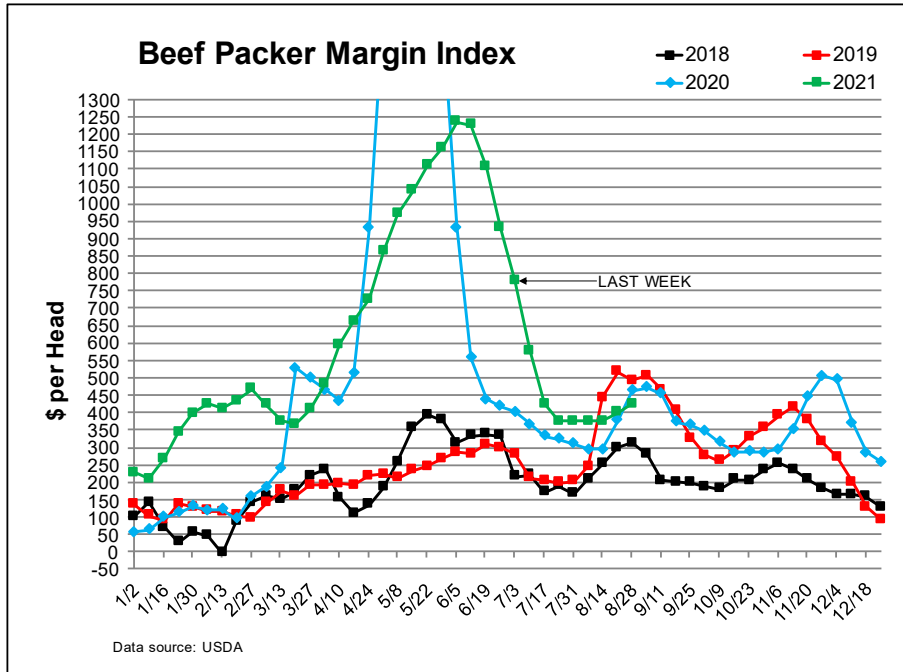
It is a pretty objective expectation, I think, if not a bit on the conservative side. If wholesale product costs lose as much ground as I think they will over the next couple of weeks, then it's quite possible that retail featuring will make a comeback of

sorts in mid- or late August (keeping in mind that larger supermarket chains would be booking second-half August features in the middle of July). The pattern suggested in the picture above assumes that demand will merely undergo typical seasonal changes between mid-July and the end of August, and that's why I would label it as "a bit conservative".

Further on the subject of meat prices and demand, I recognize that the beef market will not do my long position any favors over the next 30 days or so. The nearest support level on the chart of the combined cutout value is still \$40 away from the current quote, and I am assuming that this is where it's headed. On the other, the cutout value has already lost \$54 since it peaked on June 3, and the board is \$3.50 higher than it was back then.

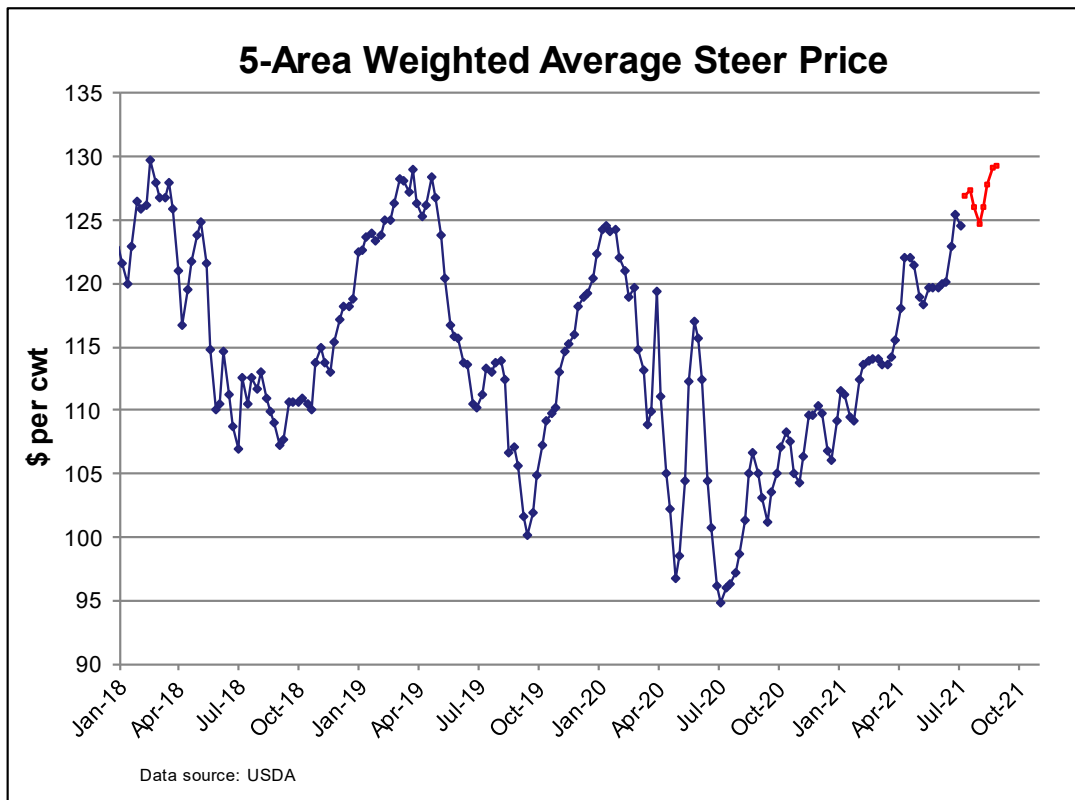
Of course, it is imperative that the distance between cash cattle and beef prices continues to narrow if August futures are to be worth any more than last Friday's close of \$122. As I show on the next page, the spot packer margin index has dropped from \$1,226 per head to \$779 per head over the last three weeks, and as I mentioned a minute ago, I am factoring in an index value of \$425 at the end of August. However, if I am off by "only" \$100 per head—i.e., if the margin index winds up at \$525 instead of \$425—then a \$253 cutout value would align with a Five Area Weighted Average Steer price of \$122. It's not *that* hard to imagine. But I'm betting that the trend will continue.

And as I discussed last week, both the grade-out and carcass weights are behaving oddly—counter seasonally, I guess you could say—and are indicative of a tightening front-end cattle supply, according to conventional wisdom. Along with the distinct decline that is occurring in cattle on feed 120- and 150 days or longer, these observations seem to provide a fundamental reason why packer margins *should* continue to narrow.



Finally, the chart of the Five Area Steer price has, in fact, already pushed through a clear-cut resistance level (\$124.47), and the next one lies at the March 2019 high of \$128.96. This past week's setback was a minor one and

appears to have matched the former resistance level. I'm guessing that this price (\$124.50) will gradually turn into a support level.



Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	630,000	645,000	632,000	634,000	626,000	594,000
Year Ago	630,500	645,300	636,500	645,000	634,600	583,800
Avg Weekly Steer & Heifer Sltr	501,000	511,000	496,000	490,000	483,000	457,000
Year Ago	508,700	520,600	506,200	507,700	499,100	455,500
Avg Weekly Cow Sltr	118,000	123,000	125,000	133,000	133,000	128,000
Year Ago	111,200	113,400	119,000	126,300	125,700	119,600
Steer Carcass Weights	898	908	920	927	928	923
Year Ago	901.0	910.3	921.0	928.5	924.5	919.6
Avg Weekly Beef Prodn	519	534	529	529	524	496
Year Ago	524.0	537.9	534.3	542.5	532.7	489.1
Avg Cutout Value	\$250.00	\$247.00	\$241.00	\$238.00	\$242.00	\$243.00
Year Ago	\$201.66	\$214.29	\$218.06	\$208.35	\$224.87	\$215.26
5-Area Steers	\$126.50	\$128.00	\$127.00	\$127.00	\$129.00	\$134.00
Year Ago	\$96.62	\$104.52	\$104.01	\$106.27	\$108.94	\$108.66

\*Includes holiday-shortened weeks

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