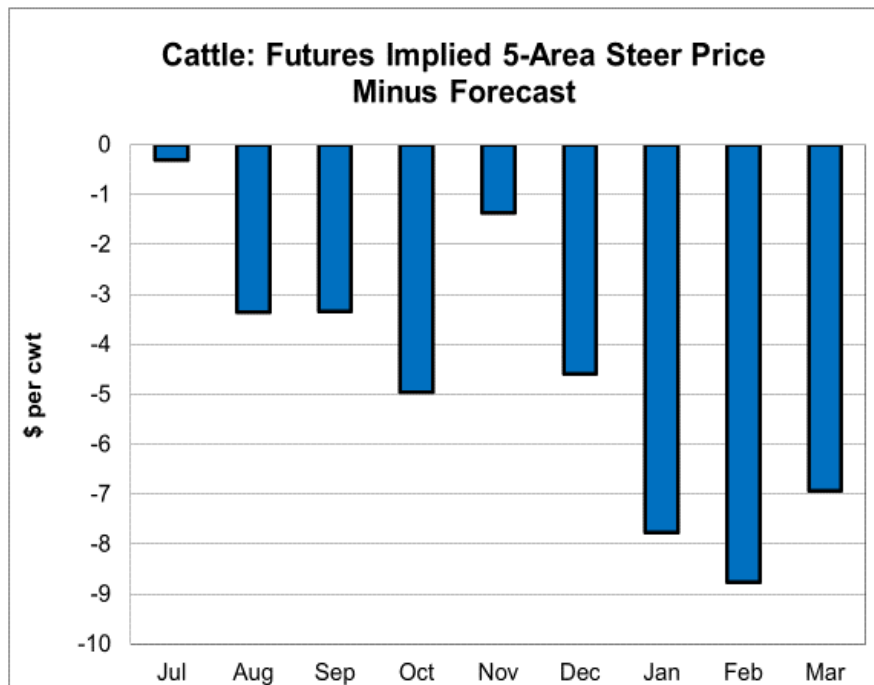


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

July 7, 2019

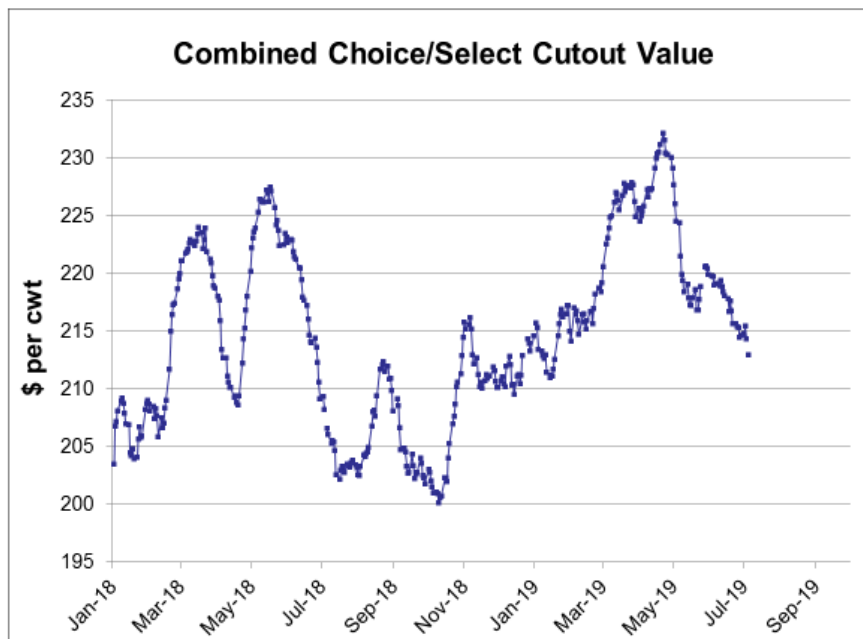


I am aggressively long of August cattle with an upside target of approximately \$112.00 per cwt. In the picture at left I'm suggesting that the "fair value" of this contract is about \$110.50; this is derived from the expectation of

an average cash price of \$112 during August and an average futures close that is \$1.50 below the cash market. [In each the last four years, the futures discount has been between \$1.25 and \$1.80.] But let's face it: if the August contract is able to close above \$110.00, an obviously important resistance level, then there is not much to prevent it from reaching \$112.00 before it's finished. Also, since a close above \$107.17 would constitute a breakout from a five-week long, roughly 500-point trading range, it would seem to set up an objective of about \$112.00.

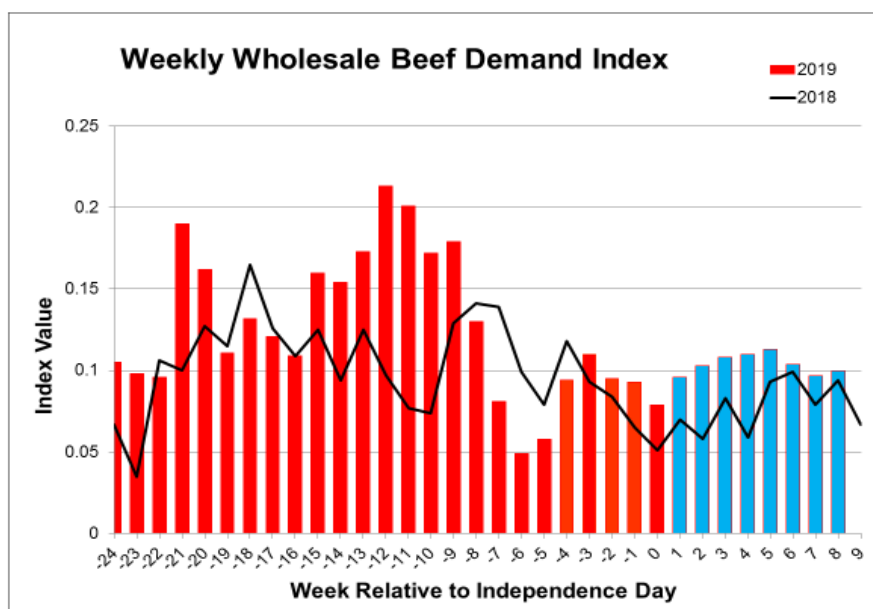
The market has not yet managed to close above \$107.17 (the high of June 12), but if it does, then a new, major support level will be formed in the neighborhood of \$106.00. A gap was left on the daily chart Friday at \$106.15, and the 40-day moving average currently passes through \$105.72. I am willing to add to my position in that price range, but *only* after the resistance at \$107.17 is penetrated on a closing basis. At that point, my stop-loss trigger can be moved upward; until that happens, though, my long positions must be risked all the way down to the contract lows. In other words, as long as my stop-loss trigger remains at \$102, my position has reached its capacity.

I have actually lowered my sights in the beef market, simply because it did not hold up quite as well last week as I had expected. Friday's quote of the combined Choice/Select cutout value (\$212.93 per cwt) was down \$1.73 from the



previous week's close....not a great big deal by itself, but the chart appears to be headed for \$210, and I have to honor the signal: Of course, there is a distinct seasonal tendency for the cutout value to lose ground during the three weeks following Independence Day, and a

move from \$213 to \$210 would be quite ordinary. However, the risk of a major decline in beef prices from this point is very small. That's because it would require nothing more than a typical seasonal change in wholesale beef demand to bring about a \$5 recovery in the combined cutout value, from \$210 back to \$215, between late July and the third week of August.



This is a rather conservative projection, considering that the seasonally adjusted demand index is just now coming off a cyclical low point; and that forward bookings for first-half August delivery are fairly stout--both of which

suggest that retail pricing will become a bit more aggressive.

For reasons that should be obvious from the picture on the first page, the February contract is attracting my attention. At this early stage of the game, my best guess is that the cash cattle market at that time will be in the same neighborhood as it was in February 2019--i.e., somewhere in the mid-\$120's. I am factoring into the equation steer and heifer kills of 475,000 per week (vs. 470,000 a year earlier); total beef production that is up 0.7%; and critically, first quarter 2020 beef exports that are 15% higher. The latter assumption is, of course, tied to the notion that Chinese demand for imported beef will continue to grow, and that there will be at least an ancillary benefit to U.S. exporters. I will pay attention to the chart of the August/February spread; as long as this spread is trending either sideways or higher (August gaining vs. February), my bets will remain in the August contract.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Cattle Sltr	630,000	648,000	639,000	645,000	635,000	610,000
Year Ago	623,900	643,400	632,200	641,500	627,400	606,200
Avg Weekly Steer & Heifer Sltr	505,000	518,000	511,000	511,000	503,000	486,000
Year Ago	499,100	512,600	504,500	505,500	498,700	479,400
Avg Weekly Cow Sltr	114,000	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	869	883	894	899	899	895
Year Ago	870.0	884.8	897.0	898.0	901.3	893.8
Avg Weekly Beef Prodn	507	527	526	533	525	504
Year Ago	503.3	525.3	522.0	528.0	519.1	497.9
Avg Cutout Value	211.00	\$213.00	\$205.50	\$206.50	\$208.50	\$208.00
Year Ago	\$204.61	\$207.50	\$204.18	\$205.70	\$211.78	\$211.76
5-Area Steers	\$112.50	\$112.00	\$110.50	\$112.50	\$113.50	\$116.50
Year Ago	\$111.87	\$110.02	\$109.89	\$112.06	\$114.79	\$119.39

**Includes holiday-shortened weeks*

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