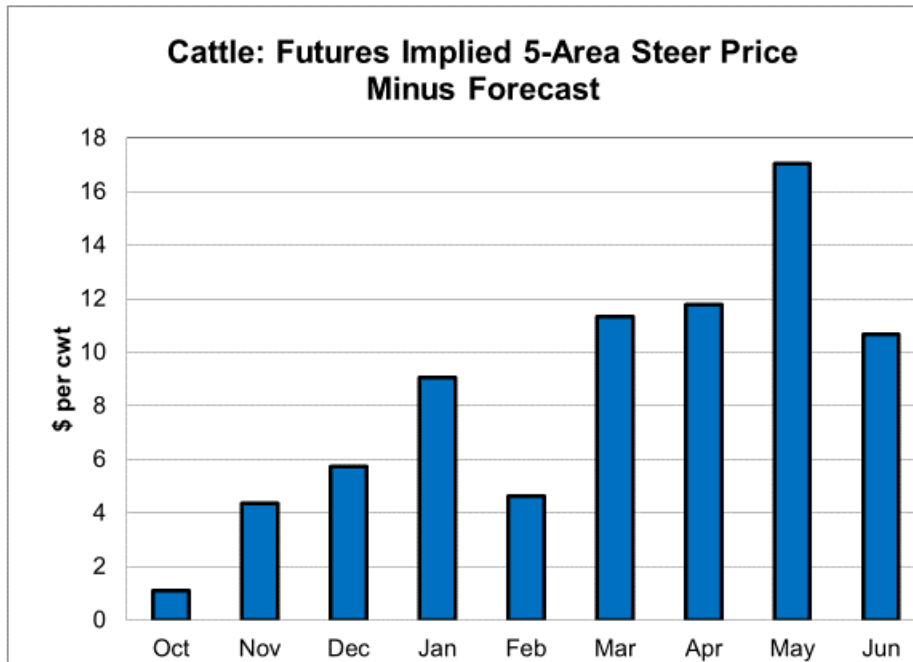


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

September 26, 2018



As I promised to myself, I will cover my short position in June cattle tomorrow, now that it has closed into new contract highs. I'm not thrilled about it, of course, but today's price action looks too

much like the beginning of another leg up, especially since the market broke out of a seven-trading-day consolidation. I will make another run at this position before long, because the profit opportunity is extraordinary; as best I can tell, the June contract is ultimately worth something in the neighborhood of \$106 per cwt. But as a long-time friend and trader so aptly stated it today, "Outside money is driving the back end right now, and they don't care if it's \$10 overpriced." Or \$20 or \$30, he might as well have added.

As usual whenever my prescribed stop-loss points are breached, I considered the purchase of October cattle against the short position, since I have been trying to enter the October/April bull spread anyway. But no. I want to treat these as two separate trades.

Among the bullish considerations, at least in the near term, is that the next substantial move in the cash cattle market will be upward. The chart of the Five Area Weighted Average Steer price appears to be on its way up to a pretty well-defined zone of resistance at \$114.66-\$116.73, an area which is well within reach according to the most objective cash price forecast I can muster in



October-November. Spot packer margins are wide for this time of year, so there is room for them to tighten beyond my expectations. And the beef market quite likely will turn upward next week and rally for about three weeks thereafter.

Although I anticipate that this rally in the combined Choice/Select cutout value will stall this side of \$210 per cwt (today's quote is \$202.45), I don't know that it will. Anyway, the upcoming strength in the cash market could "lift all boats", so to speak; therefore I have to give the benefit of the doubt to the bullish-looking chart pattern.

As the chart on the first page depicts, the April contract appears to be slightly more overvalued than the June contract. So, then, why would I not make my next bet on the short side of the former? I don't have a good reason. At the moment, I don't know where my next entry point will be; but it probably will *not* be a "pick-a-price" number on the way up. When the time is right, I will choose whichever contract is farthest from its ultimate value at the time.

Forecasts:

	Sep*	Oct	Nov*	Dec*	Jan*	Feb
Avg Weekly Cattle Sltr	632,000	637,000	634,000	610,000	622,000	613,000
Year Ago	624,400	629,500	625,700	593,800	595,400	594,200
Avg Weekly Steer & Heifer Sltr	501,000	498,000	495,000	479,000	484,000	479,000
Year Ago	502,100	500,900	498,600	472,600	466,400	465,800
Avg Weekly Cow Sltr	120,000	128,000	129,000	122,000	129,000	125,000
Year Ago	111,200	117,800	116,700	111,600	120,400	119,500
Steer Carcass Weights	897	902	906	906	898	891
Year Ago	896.0	897.8	902.6	902.8	892.8	884.0
Avg Weekly Beef Prodn	521	526	527	509	515	506
Year Ago	515.8	518.4	519.2	495.3	492.5	488.1
Avg Cutout Value	\$204.00	\$205.00	\$201.50	\$201.00	\$209.50	\$208.00
Year Ago	\$192.17	\$197.04	\$205.15	\$199.67	\$206.72	\$212.70
5-Area Steers	\$110.50	\$113.00	\$114.50	\$114.00	\$117.50	\$117.50
Year Ago	\$106.83	\$112.08	\$121.03	\$120.00	\$123.36	\$127.65

**Includes holiday-shortened weeks*

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