

Daily Livestock Report

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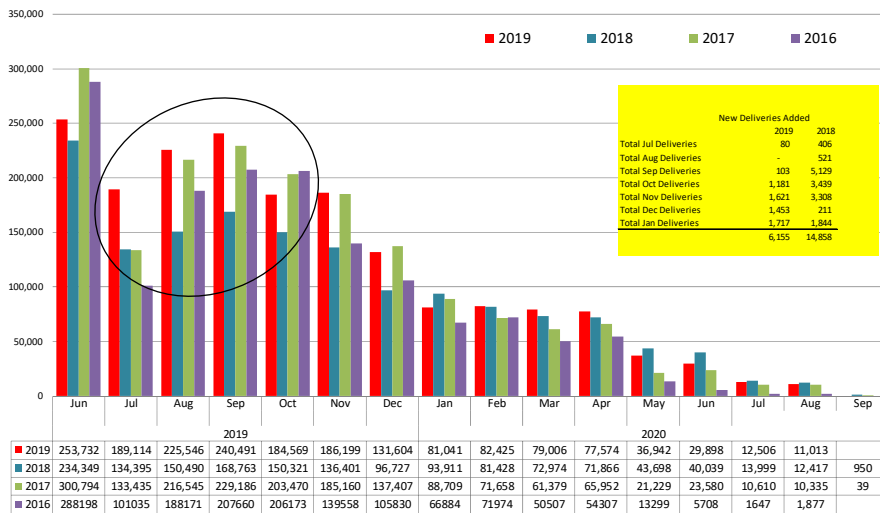
Fed cattle futures were higher yesterday even though it was a rather slow day in terms of fundamental news. There was no special announcement on exports or a sudden jump in the cutout or any report pointing to a supply imbalance in the future. Rather, some market participants think the rally was **mostly due to money flow and an oversold market.** It will be interesting to see what USDA shows in its comprehensive cattle report this afternoon, particularly with regard to the number of fed cattle that packers have bought for delivery 15-30 days out. The last report, for week ending June 3, was a bit surprising, showing packers paid a slightly higher price (\$185.37 dw) for cattle delivering towards the end of the month than for cattle scheduled for delivery in the first two weeks of June (\$184.38). The selloff last week and the big basis may have induced some selling but it will be interesting to see how much the picture has changed. What we are fairly confident at this point is that packer margins got better last week. Assuming a dressed weight fed cattle price of \$183/cwt and a comprehensive cutout of \$217.68 results in a **gross packer margin of around \$394/head, the highest so far this year** but below the \$438/cwt for the same week last year. Packer margins have steadily improved in the last few weeks and this should incentivize higher fed slaughter in the next few weeks.

One of the weekly USDA reports that we regularly review is the one that deals with **packer forward cattle purchases.** This is a relatively recent report and with only a few years worth of data so it is difficult to use it to infer price relationships. But it may be useful to infer risk perception. Market participants will not come out and tell you what they are thinking about the market out front but one can look at what they do and use that as a basis for understanding. At this time packers

have accumulated a significant forward cattle position for the summer and early fall. As the chart below shows, packers currently have contracted 226k head of cattle for delivery in August compared to 151k head they had bought at this time last year and 229k head two years ago. It is interesting that packers have more cattle bought for delivery in that month than in 2017 even though in 2017 beef prices were dramatically higher than they are today. The position for September is even bigger. Since the beginning of April packers have added about 61k head to their August position. Last year during this period they added just 5,100. In 2017 there was a similar increase in the number of cattle purchased for late summer and early fall (see table to the right). It would seem that packers perceive more upside risk at this time and we can only speculate as to why that is. It could be that they see better demand and want to make sure they have covered a larger percentage of the cattle that they need. This demand could be through exports, especially with ASF potentially changing global meat trading. And better demand could also result from robust domestic features, both at retail and foodservice. Beef purchases for delivery 90days or further into the future have increased in recent weeks. For the last four weeks packers have sold an average of 422 loads/wk on that basis, 67% more than the same period a year ago. This could be beef secured by retailers for Labor Day features or by foodservice operators for fall needs. But **packers don't have a crystal ball with regard to demand.** They perceive higher risk and try to position themselves correctly. The downside risk comes from participants overestimating demand risk. If that happens, then the additional cattle supplies they have purchased could depress demand for cattle in late summer and pressure prices lower.

Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of June 10, 2019 and Comparable Period in Previous Years. Source: USDA MPR System



Packer Forward Positions added Since April 1. Head

Source: USDA-AMS Mandatory Price Reporting System. Weekly Data.

Deliv. Month	2019	2018	2017	2016	2015
Jun	46,687	33,482	91,684	75,294	
Jul	60,945	8,363	29,511	10,358	27,657
Aug	60,293	5,290	57,679	26,524	51,092
Sep	60,528	19,551	51,919	40,344	39,969
Oct	26,510	16,474	66,768	50,528	40,657
Nov	48,231	25,025	99,584	43,555	51,831
Dec	28,659	12,563	70,750	28,536	58,964
Jan	18,557	13,825	34,339	13,020	49,938
Feb	20,734	12,145	22,242	17,192	42,467
Mar	30,166	11,255	30,171	20,709	21,169
Apr	32,067	18,258	30,052	28,585	26,921
May	27,541	16,525	21,190	8,786	6,681

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