



May 30, 2008

Good Morning from the Chicago Mercantile Exchange,

### **Cash Cattle Situation and Outlook:**

The cash feedlot trade was lightly tested yesterday in the northern dressed market of Nebraska and Iowa, with a few thousand head of cattle selling for \$1.50 in the meat, which would be steady with last week. It looks as though the cattle were sold to one of the smaller Omaha packers, as most of the majors are still only bidding \$92 live and \$1.48 dressed in both the north and the south. I would assume that packinghouse buyers will get a little more serious about doing business today and mover their bids closer to feedlot offering prices of \$96-\$97 live and \$1.53 dressed. I don't think we will trade cattle as high as feedlots are offering them at, but it does look like it should be a steady to higher trade at \$95-\$96 live and \$1.50 dressed. The futures market sold off a little bit yesterday in what appeared to be some anticipation of a softer cash beef and cattle market next week, which would be plausible given rumblings out of the beef market about middle meat values being too high and packers taking hours out of production late this week and next. We will look for a mostly steady to higher fed cattle market this week with values backing off a little next week. Going home for the weekend, fed cattle, slaughter cows, and feeder cattle selling through the auction markets continue to bring steady to higher money. I would look for fed cattle prices to slip a little next week, however demand for slaughter cows and bulls along with feeder cattle should help to support those prices.

### **Cash Beef Situation and Outlook:**

Yesterdays kill was estimated at 128,000 head, which would be 3,000 head above last week and even with the same day a year ago. The week-to-date kill stands at 391,000 head, which would be 117,000 head below last week at this time due to the holiday, with the industry looking for a 620,000 head production week. The boxed beef market was mixed yesterday with the choice cutout closing \$.66 lower to settle at \$155.91 and the select cutout closing \$.07 higher to settle at \$152.76. Sales volume was good with 423 loads of beef sold (186.83 loads of choice fab cuts, 123.27 loads of select fab cuts, 49.09 loads of trim, and 64.12 loads of grinds). The choice/select spread settled at \$3.15 a loss of \$.73.

We started to see a few discounts surface in the beef market yesterday, most notably in the choice rib and round markets. Buyers were indicating that items like rib roasts, ribeyes, and inside rounds were a little over priced given the level of demand coming out of the Memorial Day holiday and as such were only interested in doing business on said items at lower money. Loin values held together yesterday as there is still some interest in bone-in strips to deliver into the middle of June. There were also a few discounts starting to develop in the ground beef and short rib markets yesterday, which also helped to push cutout values lower. We should probably look for a little pull back in the cash beef market early

next week, as buyers seem to feel comfortable with their inventory positions now that Memorial Day is behind us. Weekly export sales information is going to be delayed this week due to the holiday.

### **Futures Market Situation and Outlook:**

June live cattle settled at \$95.95 a loss of \$.77, August live cattle settled at \$100.92 a loss of \$.70, and the October live cattle settled at \$107.45 a loss of \$.62. In the feeder cattle pit, August feeder cattle settled at \$115.45 a loss of \$.35, September feeder cattle settled at \$116.27 a loss of \$.32, and the October feeder cattle settled at \$117.02 a loss of \$.30. The reported CME feeder cattle index for 5/28/08 was \$109.10 a gain of \$.39.

Yesterdays live cattle volume saw 31,255 contracts trade in the pit and 9,292 contracts trade on Globex. Live cattle open interest declined 791 contracts to come in this morning at 295,985. Yesterday's feeder cattle volume saw 2,512 contracts trade in the pit and 207 trade on Globex. Feeder cattle open interest gained 139 contracts to come in this morning at 31,366.

It was a rather choppy low volume day in the live and feeder cattle pits yesterday with the market trading both sides of unchanged early only to sell off going into the close on profit taking from recent gains in the market and commercial hedging. We have had a pretty good run in the cattle futures market the last couple of weeks, fueled largely buy fund buying, however with most other commodity markets down hard yesterday, I think we saw some fund selling come into the cattle markets yesterday. Couple that with ideas the cash beef and fed cattle markets might cool off a little going into next week and accounts were looking at the sell side of the ledger during yesterday's futures session. It certainly looks like these beef packers might get a little tough to do business with next week and possibly the week after, so I would probably look for fat cattle futures to have a \$1-\$2 correction to the downside going into next week. Overall I still like the cattle market both from a cash and futures standpoint, however it can't go straight up everyday forever, so a pull back could be in order. It might not hurt to be short a few August live cattle going into next week for a quick trade to the downside. I still like being bull spread June cattle against August and October, along with being bull spread feeder cattle. The feeder cattle futures are likely going to follow the fat cattle futures lower, however technicals and fundamentals remain very positive to the feeder cattle market and I would use any \$1-\$2 pull back in August feeder cattle futures as a buying opportunity going into late summer as I think August feeder cattle will make new all time highs above \$120 before they go off the board. Look for a mixed open to live and feeder cattle futures this morning, with some further weakness likely coming into the market by the close. Have a Good Weekend and Trade Well!!!

Any one wanting a more detailed report on the cattle and beef markets including fundamental, chart and technical analysis, plus spec/hedge recommendations for packers, processors, producers, and meat buyers feel free to contact me by phone or e-mail to set up a free trial.

There is risk in trading futures and options.

Have a Good Day,

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