



## DAILY LIVESTOCK REPORT

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September 10, 2019



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### Feeders Expected to Lose to Fats

#### LEAN HOGS:

Cash will be called lower as packers continue to preserve processing margins. It would be extremely rare for margins to narrow at this time of year. Hogs are coming to town in record numbers. The cutout was down \$1.41....cash will be lower today. Futures volume on yesterday's poor close was 88,300 with open interest contracting by 2,200. On the first day of the Goldman Roll the Oct lost 7,200 in open interest. Look for additional pressure in futures. Last week the Oct contract actually traded above the CME lean hog index for a minute. This was a gift to the hog producer. Sell a bounce today if it occurs with the Dec contract the better play from the short side than the Oct. AFS continues to spread in Asia. Hog prices in China are four times higher than the U.S. When does China come back into our market in a big way? Sometime this fall, as product weakens, they'll make a huge purchase for delivery next year. In the meantime, Oct hogs may test 5000 in the weeks ahead....is your operation prepared for this? Dec hogs should have a four in front of them. It's called oversupply.

#### LIVE CATTLE:

The weekly kill is projected to come in at only 648,000 compared to 656,000 last year. Cattle are being backed up daily. Cherry picking by the packer is seeing cash bids drop almost daily. Cash was slightly traded at 97 in the north yesterday. Beef is expected to weaken further this week. Yesterday's futures volume was large at 129,600 with open interest up only 400. The Oct LC saw open interest drop over 9,800 cars. Moving forward, I'm expecting LC to show some traction in the short term. We've started taking profits on short Oct LC positions and liquidating long puts. Prices in front month futures have not been this low since the fall of 2010. Look for feeders to weaken substantially relative to live cattle. Selling feeders is the best opportunity in the short term. Massive losses on close outs should be displayed via declining demand at the auction barns for replacements. For reference the CME feeder index stands at 13777 with Oct futures closing yesterday at 12980. A test of 12000 is likely.

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