

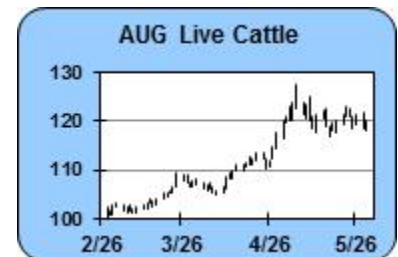


DAILY LIVESTOCK COMMENTARY Wednesday May 31, 2017

DAILY CATTLE COMMENTARY 05/31/17

May see short-term bounce; low weights and wide basis

The longer-term trend for the cash cattle market into the late summer remains bearish and the trend should be down but the short-term cash market and beef market tone is mixed. Packer margins are good and they may need more live inventory for next week's slaughter. In addition, weights are improving but from very low levels and this may have helped the beef market from falling further in the past few weeks. The market experienced some follow-through selling early in the session yesterday day from Friday's weak action, but managed to recover to close moderately higher on the day. The early selling pushed August cattle down to the lowest level since May 18th. April placements at 11% above last year were the highest April placement figure in 14 years and this has traders nervous over the potential to see increasing beef production into the late summer. Heavier-weight placements added to the bearish tone for the market which could help boost beef production for the August to October time frame. Traders will monitor cash markets this week after trading \$132-\$133 last week. With the massive basis, traders expect cash to break at least \$2.00 or shorts could get nervous.



The COT report showed a record high net long position from speculators which leave futures vulnerable to aggressive long liquidation selling if support levels are violated. USDA boxed beef cutout values were down 37 cents at mid-session yesterday and closed 21 cents lower at \$245.39. This was down from \$247.88 the prior week and the lowest since May 10th. Slaughter came in above expectations at 117,000 head. This brings the total for the week so far to 120,000 head, down from 231,000 last week at this time but up from 117,000 a year ago. The USDA sees an increase in beef production from the second quarter to the third quarter of 325 million pounds. This would be the second highest increase for that quarter on record, with only 2005 being higher. If weights turn higher and placements stay strong, beef production could be even higher. Third quarter beef production is currently expected to reach 6.82 billion pounds, up 5.4% from last year and a nine-year high. August 2005 cattle hit a peak of 86.85 on May 17th of that year and traded down to under 79.00 by early July.

TODAY'S MARKET IDEAS:

The turn higher yesterday suggests that the market may not be ready to begin another leg down just yet. However, rallies still look like selling opportunities. August cattle resistance comes in at 122.12 and 123.37, with 116.77 and 113.45 as the next key support.

NEW RECOMMENDATIONS:

Sell the August/December cattle spread at 332 (Buy Dec and sell August) with an objective of 77. Risk a total of 90 points from entry.

PREVIOUS RECOMMENDATIONS:

Long August Cattle 119.00/112.00 bear put spread and also short August cattle 129.00 call from even money. Look for a gain of 750 points on the spread, and risk a total of 180 points.

CATTLE COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

LIVE CATTLE (AUG) 05/31/2017: Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The daily closing price reversal up on the daily chart is somewhat positive. The market has a slightly positive tilt with the close over the swing pivot. The next downside objective is 117.300. The next area of resistance is around 120.900 and 121.570, while 1st support hits today at 118.770 and below there at 117.300.

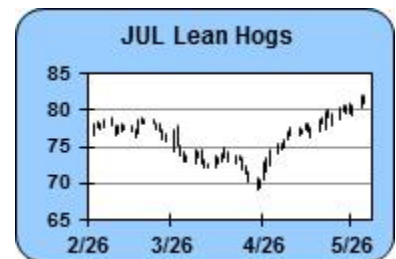
FEEDER CATTLE (AUG) 05/31/2017: The crossover up in the daily stochastics is a bullish signal. Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. A positive signal for trend short-term was given on a close over the 9-bar moving average. The daily closing price reversal up is a positive indicator that could support higher prices. A positive setup occurred with the close over the 1st swing resistance. The near-term upside objective is at 153.856. The next area of resistance is around 152.437 and 153.856, while 1st support hits today at 147.413 and below there at 143.807.

DAILY HOGS COMMENTARY

05/31/17

Strong run up in cash and product prices but bigger supply ahead

The market has remained in an overbought condition for the last few weeks but the steady rise in open interest has kept the charts looking bullish. The advancing pork cut-out value and higher cash trend has been the key supportive factors for the rally and a weaker tone to both markets yesterday helped to spark some profit-taking. Western Corn Belt cash was \$71.91 yesterday, down 32 cents. USDA pork cutout values, released after the close yesterday, came in at \$89.53, down 19 cents from Friday but up from \$88.08 the previous week.



The USDA estimated hog slaughter came in at 440,000 head yesterday. This brings the total for the week so far to 442,000 head, down from 881,000 last week at this time but up from 436,000 a year ago. The CME Lean Hog Index as of May 25th was 76.34, up 9 cents from the previous session and up from 75.55 the previous week. While traders see a seasonal decline in slaughter as a positive force short-term, the USDA sees pork production for the 3rd quarter to increase by 140 million pounds from the 2nd quarter. This would be the largest increase for the quarter since 2009 and just a bit higher than last year. In 2009, August hogs were in a steep downtrend and posted contract lows on August 12th. Last year, August hogs peaked-out on June 15th and fell to a contract low on August 10th. July hogs closed sharply lower on the session yesterday but the market managed to remain inside of Friday's range. Spec selling (thought to be profit-taking) helped to pressure the market. Talk of the overbought technical condition of the market and ideas that there could be a lull in demand after the holiday may have added to the selling pressure.

TODAY'S MARKET IDEAS:

Exports will need to be strong to keep product prices high, and the April data from China was bearish. A jump in cold storage and the outlook for a jump in pork production in the 3rd quarter are seen as potential negative forces as well. Third quarter pork production is expected to be up 4.8% from last year and this could be higher if cheap corn equates to higher weights. Short-term traders might watch for a technical sign of a top soon. August hogs experienced a key reversal yesterday and aggressive short-term traders can sell with key support back at 77.07 and 75.65. Also, consider selling calls and buying puts.

NEW RECOMMENDATIONS:

* Sell August Hog 84.00 call and also buy August Hog 77.00 put for a net credit (premium received) of 20 points. Look for a gain of 390 points from entry and risk a total of 110 points on the entire position.

PREVIOUS RECOMMENDATIONS:

None.

PORK COMPLEX TECHNICAL OUTLOOK:

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LEAN HOGS (JUL) 05/31/2017: The daily stochastics have crossed over down which is a bearish indication. Daily stochastics turning lower from overbought levels is bearish and will tend to reinforce a downside break especially if near term support is penetrated. The market's close above the 9-day moving average suggests the short-term trend remains positive. The market setup is somewhat negative with the close under the 1st swing support. The next downside objective is 80.020. The next area of resistance is around 81.570 and 82.350, while 1st support hits today at 80.420 and below there at 80.020.

DAILY TECHNICAL STATISTICS

	CLOSE	9 DAY RSI	14 DAY RSI	14 DAY SLOW STOCH D	14 DAY SLOW STOCH K	4 DAY M AVG	9 DAY M AVG	18 DAY M AVG	45 DAY M AVG	60 DAY M AVG
MEAT COMPLEX										
LCQ7	119.850	50.57	54.21	42.16	42.02	120.03	120.33	120.62	115.10	112.47
FCQ7	149.925	50.70	52.61	34.31	36.22	149.17	149.83	150.76	144.88	141.07
LHN7	81.000	68.13	66.40	89.57	88.47	80.83	80.21	78.97	75.54	76.00

Calculations based on previous session. Data collected 05/30/2017

Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

Contract		Support 2	Support 1	Pivot	Resist 1	Resist 2
MEAT COMPLEX						
LCQ7	Live Cattle	117.270	118.750	119.420	120.900	121.570
FCQ7	Feeder Cattle	143.806	147.412	148.831	152.437	153.856
LHN7	Lean Hogs	80.000	80.400	81.170	81.570	82.350

Calculations based on previous session. Data collected 05/30/2017

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