



DAILY LIVESTOCK COMMENTARY

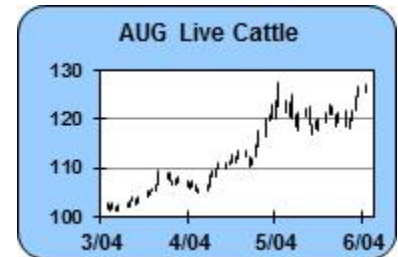
Tuesday June 06, 2017

DAILY CATTLE COMMENTARY

06/06/17

Specs hold record high net long, beef continues to advance

The continued advance in the beef market will make it a difficult environment to expect weakness in cash cattle short-term. USDA boxed beef cutout values were up \$2.18 at mid-session yesterday and closed \$3.11 higher at \$248.35. This was up from \$245.60 the prior week and beef is at the highest since May 16th. August cattle experienced choppy and two-sided trade yesterday before finishing slightly higher. The market traded moderately higher after beef prices jumped at mid-session. Beef prices typically move lower in June. August cattle



are trading near a \$10 discount to last week's cash market as compared with the 5-year average for this time of the year near \$5.00. Beef prices have not fallen off much in the past few weeks and packer margins are very strong which has kept a firm tone for the cash market outlook. This will keep packers wanting to move as many cattle as possible over the short-term. Weights are already low. With retailers booked for much of their needs, bearish traders expect the beef market to drop sharply over the near-term. Beef exports for the month of April reached 218.3 million pounds from 234.0 million in March but still up from 189.1 million pounds last year. Cumulative weekly beef sales for 2017 have reached 399,600 tonnes, up 15.1% from last year's pace. The USDA estimated cattle slaughter came in at 116,000 head yesterday. This was up from 3,000 last week and up from 110,000 a year ago as this time. The Commitments of Traders reports as of May 30th showed the "combined" spec and fund net long position has hit a new record level at 131,405 contracts.

TODAY'S MARKET IDEAS:

We expect beef prices and cash markets to work lower into the fall but the short-term situation remains supportive. Fill-in beef demand was apparently strong after the holiday weekend. Speculators hold a record net long position which leaves the market vulnerable to an aggressive long liquidation sell-off "once" the beef market peaks. The outlook into the third quarter is bearish but the near-term news remains positive. August cattle support is at 123.42 with 127.50 resistance. If the market takes out the early May highs, 131.57 is next technical target.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

* Exited 3-way long August 119.00/112.00 bear put spread and also short August cattle 129.00 call position for a loss 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) 06/06/2017: Daily stochastics have risen into overbought territory which will tend to support reversal action if it occurs. The market's close above the 9-day moving average suggests the short-term trend remains positive. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside objective is at 127.900. With a reading over 70, the 9-day RSI is approaching overbought levels. The next area of resistance is around 127.020 and 127.900, while 1st support hits today at 125.400 and below there at 124.620.

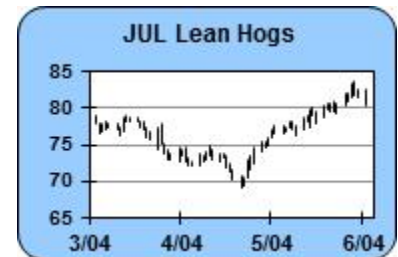
FEEDER CATTLE (AUG) 06/06/2017: Rising stochastics at overbought levels warrant some caution for bulls. The market's short-term trend is positive on the close above the 9-day moving average. With the close higher than the pivot swing number, the market is in a slightly bullish posture. The near-term upside objective is at 162.312. The next area of resistance is around 161.225 and 162.312, while 1st support hits today at 158.525 and below there at 156.913.

DAILY HOGS COMMENTARY

06/06/17

Lull in demand from China and Mexico could spark sell-off

The supply fundamentals into the heart of the summer look bearish but the surge in pork values to the highest level since 2014 has supported the strong gains for the month of May. The June 1st key reversal combined with the bearish supply outlook could turn the trend down as long as China does not re-emerge as a major buyer of US pork. USDA pork cutout values, released after the close yesterday, came in at \$90.39, down 37 cents from Friday but up from \$89.72 the previous week. July hogs closed sharply lower on the session



yesterday and closed below the 9-day moving average for the first time since April 24th. Ideas that the export demand might not be as strong as expected and long liquidation selling has pressured the market to trade sharply lower on the day. The market is still operating under the negative influence of the reversal on Thursday and Friday's monthly export data was disappointing; especially sales to Mexico and China. Pork values have been very strong in the past week and while pork values are at the highest level since late 2014, pork production is well above the last two years. Pork values are the current leading indicator for the market.

Futures are overbought technically and the COT report showed specs building a hefty net long position. The CME Lean Hog Index as of June 1st was 77.34, up 55 cents from the previous session and up from 76.25 the previous week. The USDA estimated hog slaughter came in at 440,000 head yesterday. This was up from 2,000 last week and up from 408,000 a year ago as this time. While traders see a seasonal decline in slaughter as a positive force over the short term, the USDA is forecasting pork production to increase by 140 million pounds between the 2nd and 3rd quarters. This would be the largest increase for that period since 2009, just a bit higher from last year. This would also be the second highest increase in 13 years. In 2009, August Hogs were in a steep downtrend, and they posted contract lows on August 12th. Another similar year was 2016, when August Hogs posted a contract high on June 16th and a contract low on August 10th. Opposite years to this year include 2001 (rallied to a contract high into expiration- see this week's newsletter) and 2014 (contract high at 133.37 in July).

TODAY'S MARKET IDEAS:

The selling this week is confirmation of the key reversal last week and leaves a bearish tilt to the technical set-up. Longer-term exports to Mexico and China are bullish forces but the temporary lull in demand and a bear trend for China pork prices since March are bearish forces. Close-in resistance for July hogs is at 81.87 with key support back at 78.07 and 76.37. August hog resistance is at 81.82 with 77.72 as initial key support. Consider selling a bounce.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

Short August Hog 84.00 call and also long August Hog 77.00 put for a net credit (premium received) of 37 points. Look for a gain of 390 points from entry and risk a total of 110 points on the entire position.

PORK COMPLEX TECHNICAL OUTLOOK:

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LEAN HOGS (JUL) 06/06/2017: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The market's short-term trend is negative as the close remains below the 9-day moving average. There could be some early pressure today given the market's negative setup with the close below the 2nd swing support. The next downside target is now at 78.850. The next area of resistance is around 81.470 and 83.020, while 1st support hits today at 79.400 and below there at 78.850.

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	126.200	70.22	67.32	68.61	82.98	124.66	122.23	121.14	116.67	113.98
FCQ7	159.875	68.72	65.04	65.65	82.86	157.06	152.94	151.21	146.97	143.23
LHN7	80.400	52.55	56.72	81.73	71.50	81.89	81.21	80.01	76.27	76.30

Calculations based on previous session. Data collected 06/05/2017

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	124.600	125.370	126.250	127.020	127.900
FCQ7	Feeder Cattle	156.912	158.525	159.612	161.225	162.312
LHN7	Lean Hogs	78.820	79.370	80.920	81.470	83.020

Calculations based on previous session. Data collected 06/05/2017

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