



DAILY CATTLE COMMENTARY
02/15/17

In position for resumption of uptrend as discount too wide

With the stiff discount of futures to the cash market, the market is trying to price in a major shift in beef production higher from the first quarter to the 2nd quarter. However, the downshift in production from the 4th quarter into the first quarter is still providing the cash market with strength. This clash of shifting supply forces may keep the market volatile. Beef production from the 4th quarter to the 1st quarter is expected to show the largest drop on record of 643 million pounds as compared with 174 million down last year. Some studies would show that an average cash price for the 1st quarter of \$126 is in order. After the smaller production in the 1st quarter, production increases by 665 million pounds into the 2nd quarter as compared with 252 million pound increase last year. Some scatter studies for 2nd quarter average price would show a price of \$112 as reasonable. The market closed sharply higher on the session yesterday as the early weakness in June cattle to the lowest level since December 15th failed to attract new selling interest.



A surge in hog prices helped to support active buying in cattle late yesterday and a strong close. Talk that the four day break was "too far, too fast" and ideas that the discount of futures to the cash market has already discounted the weak short-term cash fundamentals helped to support as well. Traders also see packer margins are weak enough that packers may back away from the cash this week to push cash lower and weather is also seen as a negative force. The USDA estimated cattle slaughter came in at 113,000 head yesterday. This brings the total for the week so far to 226,000 head, up from 221,000 last week at this time and up from 203,000 a year ago. USDA boxed beef cutout values were up 20 cents at mid-session yesterday and closed 10 cents higher at \$188.36. This was down from \$189.96 the prior week.

TODAY'S MARKET IDEAS:

With the big discount to the cash and the strong economy and hopes that cash will remain steady to slightly lower for a few weeks, buyers could get more active. The outside-day sweeping reversal is also a positive technical indicator. April cattle buying support is at 113.55 with 116.20 and 117.15 as near-term targets. Buying support for June cattle is at 103.72, with 106.37 and 107.15 as short-term targets.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

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 (APR) 02/15/2017: Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The market's short-term trend is negative as the close remains below the 9-day moving average. The market's close above the 2nd swing resistance number is a bullish indication. The next downside target is 111.700. The next area of resistance is around 114.920 and 115.420, while 1st support hits today at 113.070 and

below there at 111.700.

FEEDER CATTLE (MAR) 02/15/2017: The daily stochastics gave a bullish indicator with a crossover up. The stochastics indicators are rising from oversold levels, which is bullish and should support higher prices. The market's short-term trend is positive on the close above the 9-day moving average. Market positioning is positive with the close over the 1st swing resistance. The next upside target is 125.931. Short-term indicators suggest buying pullbacks today. The next area of resistance is around 125.237 and 125.931, while 1st support hits today at 122.763 and below there at 120.982.

DAILY HOGS COMMENTARY

02/15/17

Bird Flu issues on the rise and could support demand shift

The basis supply fundamentals suggest that the market could see a significant break over the near-term but this idea is dependent on a sluggish export market, especially to Mexico, and some easing in pork belly prices. One potential factor which could change ahead is demand for US pork from Asia or Europe which is struggling with spreading bird flu issues. A normal bird flu season is not a big issue but once the human death toll mounts, there could be a dramatic drop in poultry consumption which could shift to improving pork demand. In China, 79 people died in January which is four times higher than the same month last year. The Center for Infectious Disease Research and Policy at the University of Minnesota last week estimated that China had at least 347 human infections so far this winter which passed the record of 319 seen three years ago. April hogs closed sharply higher on the session yesterday and recouped all on Monday's losses. A surge to a new high for pork bellies plus strength in loins and hams helped to support sharply higher trade.



The concerns that trade issues with Mexico will increase have subsided and the strength in pork product is helping to support renewed bullish enthusiasm for hog futures. Cash prices were a bit higher which added to the bullish tone. Hog slaughter came in below trade expectations at 434,000 head. This brings the total for the week so far to 879,000 head, down from 886,000 last week at this time but up from 853,000 a year ago. The CME Lean Hog Index as of February 10th was 74.11, up 60 cents from the previous session and up from 70.95 the previous week. USDA pork cutout values, released after the close yesterday, came in at \$85.08, up 35 cents from Monday and up from \$84.72 the previous week. This is the highest pork cut-out value since July 26th.

TODAY'S MARKET IDEAS:

Traders will monitor pork values closely over the near-term for any indications of an uptick in demand from Asia. June hog close-in resistance is at 79.80, with 75.02 and 73.37 as key support. April hog resistance is at 72.05 with 65.92 as initial key support.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

1) Short April hogs from 71.40 with an objective of 66.02. Risk to 72.67. 2) Short June hog 84.00 call from 220 with an objective of zero. Risk to 290. 3) Long June Hog 74.00 put from 237 with an objective of 392. Risk to 187.

PORK COMPLEX TECHNICAL OUTLOOK:

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LEAN HOGS (APR) 02/15/2017: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The close above the 9-day moving average is a positive short-term indicator for trend. With the close over the 1st swing resistance number, the market is in a moderately positive

position. The next downside objective is 69.450. The next area of resistance is around 72.100 and 72.670, while 1st support hits today at 70.500 and below there at 69.450.

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										
LCJ7	114.000	42.44	44.76	25.65	21.78	113.63	114.72	115.85	115.40	114.11
FCH7	124.000	48.11	47.07	21.12	22.95	122.88	123.21	125.23	125.99	125.06
LHJ7	71.270	58.75	58.74	73.93	71.59	70.71	70.87	69.66	68.59	67.01

Calculations based on previous session. Data collected 02/14/2017

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						
LCJ7	Live Cattle	111.670	113.050	113.550	114.920	115.420
FCH7	Feeder Cattle	120.981	122.762	123.456	125.237	125.931
LHJ7	Lean Hogs	69.420	70.470	71.050	72.100	72.670

Calculations based on previous session. Data collected 02/14/2017

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