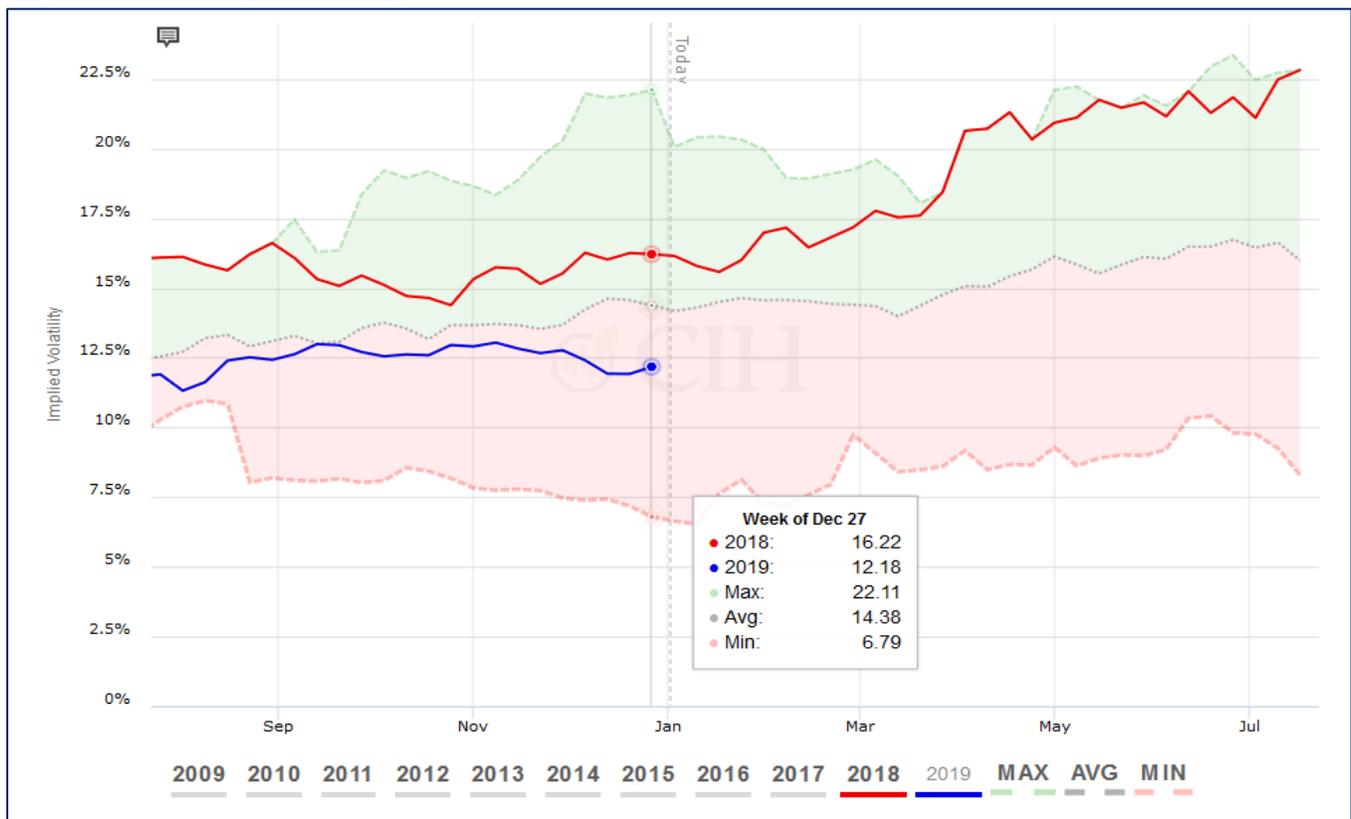


Beef Margin Watch: December



Live cattle prices moved higher over the second half of December due to strength in cash prices while feeder cattle and feed markets remained largely range-bound with limited feature. USDA reported November frozen beef inventories in Cold Storage at 514.7 million pounds, down 0.2% from October compared to the average build of 1.9% over the past 10 years. Compared to 2017, beef inventories were up 6.1% in November, with all of this increase in the form of boneless trim which is consistent with the expansion of cow slaughter this year. The data confirms strong consumer demand and supports the firm tone in the cash market recently. The feeder cattle market meanwhile has witnessed falling cash prices over the past several weeks across major regions for 700-800 pound feeders. This is despite nearby futures trading steady to slightly higher over the same period as optimism rises for Q1 feeder cattle demand. One interesting feature of the option market for deferred live cattle contracts is the historically low level of implied volatility which is allowing for cheaper protection to be established against placements. At just around 12%, August implied volatility is below last year's level of 16% for this time of year and below the 15-year average of around 15% seasonally. The thaw of U.S.-China trade tensions has raised optimism that a truce can be reached before the March 1st deadline. There was news that a recent telephone call between President Trump and Premier Xi made progress towards more sensitive issues ahead of negotiating teams meeting again next week in Beijing. The feed market has been quiet lately, although there is a possibility that China may move to import more feedstuffs from the U.S. if a trade pact is reached. Our clients continue to consider adding delta with slightly higher trade in cattle prices while maintaining strong feed hedges.

August Live Cattle Implied Volatility



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