Update on Livestock Markets

March 27, 2023

Something happened on the way to steadily higher livestock prices in 2023!!

The Legend of the Lemmings

Actually, it was several somethings. The most important was that livestock got caught up in the mass hysteria of the lemmings – i.e., the funds – both ways: the lemmings had all decided livestock were going higher and built large net longs in February and early March. Then they reversed course!

They now remain net long cattle, but sold off 28,600 of their longs the week ending March 24, the largest liquidation ever by funds. They actually switched to net short lean hogs by almost 17,000 contracts, their largest net short position since 2007.

At least two factors triggered the sell-off. The first was they had already started panic selling corn and soy. Their pessimism spread to the livestock industry, in part by the bank failures in the US and, last week, in part because of the Fed's decision to raise interest rates by another .25%. That caused them to shiver with recession fears, thereby raising concern about demand for red meat. That sent some hog contracts to contract lows and cattle contracts to Fibonacci retracement support planes.

Some Perspective on the Fundamentals

Biologists know that lemmings actually don't commit mass suicide as the legend suggests, but some get crushed by the mob and others drown when it crosses lakes or rivers. Some crushing and drowning might be averted in the next rally by looking at some fundamentals.

Cattle The beef market is clearest. January 1 inventories were down 3% for both breeding and market inventories. Early January marketings were up from last year, which was explained by "tax cattle" being held over. Subsequently, marketings have dropped off and year-to-date they are down 2.6%. The March Cattle on Feed Report says they are down 4% and placements down 7%. So, the supply side is fairly current and doesn't appear to be bursting at the seams going forward. If the inventory numbers are in the ball park, marketings should be down for some time since the breeding herd is down 3%. Profitability of finished cattle could pull more heifers into the breeding herd, but that would contribute to higher slaughter prices since those heifers won't be in feed lots.

The issue is assessing demand. The charts show that cattle and hogs have been spooked by potential recession several times. This one had the biggest price effect, especially for hogs. What seems to get missed is that the US and Canada continue to enjoy strong job and wage growth. That gives conditions that should bolster demand. Recession won't hurt it until it actually happens.

April live cattle futures dipped under $161 last week while cash prices were $163 - $166. Do you see the lemming effect here?

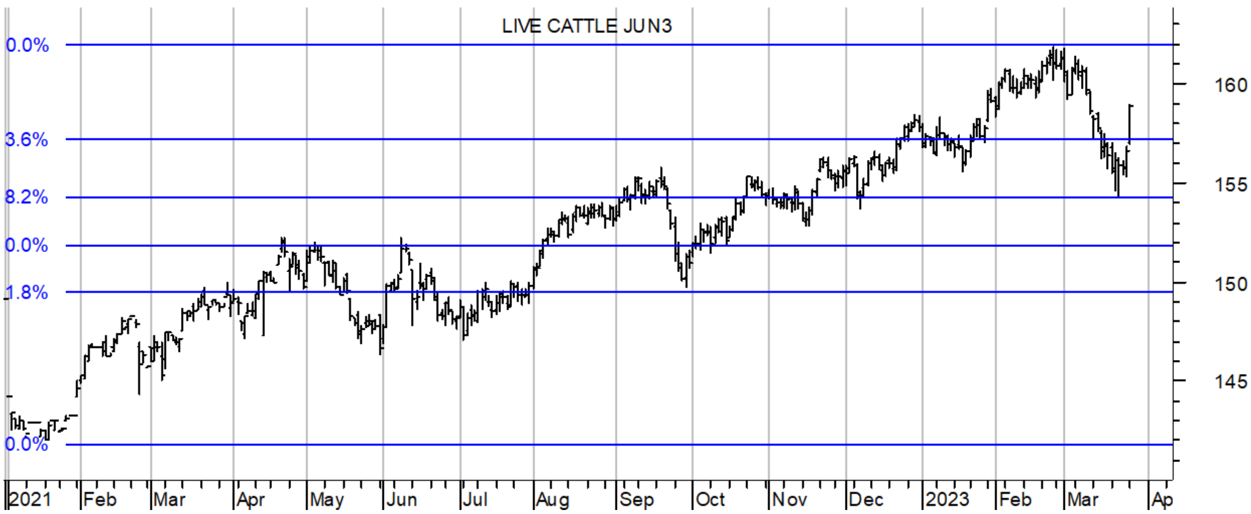
Hogs The most recent (December) Hogs and Pigs Report said that US inventories of market hogs were two percent lower than last year. Either that report failed to include all the pigs, or farmers have pushed them through the system faster because slaughter is cumulatively 1.6% ahead of last year. Hopefully, we will get some clarification Thursday when the next H&P Report is released.

This supply side issue is really the only fundamental that is out of line with higher prices and it is marginal at best.

What's Next?

The June live cattle chart shows the drop to $154, the 38.2% retracement on March 22, then after hovering for a day, a new rally started. Today, March 27th, the biggest question is whether the rally will carry to or through resistance at the contract high $161.90? Some analysts believe cattle prices will reach $170 in short order. We prefer to let the chart tell us where it's going and be prepared to take action. If it can't get through $161.90, we would sell futures just below it with stops just above it.

If it does go through, the first likely resistance is $167.50.



The June lean hog chart shows prices fell below $88, almost to their contract lows on March 23rd before recovering the past two days. If the market continues to recover, the clearest potential resistance areas are the 61.8% retracement at $95.80, the 50% at $98.45, and the 23.6% at $104.50.