



## **If your portfolio is a Dog diversify into Cows & Pigs**

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As we have repeatedly voiced, commodities are in a bull market, but prices will not go straight up. Furthermore, the smart money moves from sector to sector; rotating from one sector to another when the fundamentals change, technicals swing, weather shifts, or even in some instances seasonally. We feel that in addition to the agriculture and softs markets, the livestock markets *i.e.* live cattle, feeder cattle, and lean hogs could be at the beginning of a historic run to much higher prices.

### **Cattle**

A cheap dollar, expensive grain and the growth in demand of world protein should continue to promote a strong environment for exporting cattle. The surge in grain and fuel prices for cattle operators has pushed producers out of the business as well as helped temporarily cause more short-term production. While this has kept short-term supply relatively high, future production could be more limited due to fewer players within the marketplace.

Low placements in the spring, gradually improving exports, a sharp drop in imports and the outlook for declining supply ahead, are all key bullish fundamental forces for the market looking forward. Elevated corn prices in June motivated cattle feedlot managers to reduce placements, which were down 9.0%. Small placements in the months of March to June should cause beef supplies to drop sharply in the September to December period. The low value of the dollar has discouraged imports and encouraged US beef exports. The fact that the first shipments of US beef in 4 years arrive in Korea this week should also support. During the January to May period, beef imports dropped by 22% and beef exports surged by 34%. We hate to be so elementary, but it really boils down to supply and demand.

Generally cattle prices make their summer lows in late summer and begin to move higher by late August or September. The traditional end to outdoor grilling season (Labor Day) can temporarily deplete grocer stocks just as the return to school and the approach of cooler weather can increase retail beef consumption. Past performance is not indicative of future results. For the last 4 years feeder cattle have attempted a run to and through the \$120 level and failed sometime between August and October. We believe that 2008 is the year where we get through that level and reach record highs. For October feeder cattle the 100 day moving average comes in at 112.50 and we will be adding length for clients as long as that level holds on the board. October live cattle have been consolidating around the 50% Fibonacci retracement level for the last week or so in what we expect to be a pause before the next leg lifts prices back to \$110-112. The current market is oversold, stochastic and MACD support a move higher and as long as last week's low of 103.80 holds, we like being long.

## Lean hogs

Pork has remained cheap in the US for quite some time but we feel that's about to change. The cheap US dollar relative to currencies in countries in which we trade pork has started to stimulate exports and reduce pork imports. For the first 4 months of 08', pork exports have expanded by 52% and imports have dropped by 12%. It is our opinion that foreign pork end users will continue to buy US hogs until prices move higher. Just like the cure for high prices is higher prices, if prices go to low enough levels they entice increased demand.

Given the increase in grain prices over the past several months coupled with record high shipping rates, many grain importing countries have started to see a shift to more pork imports and less pork production. Additionally, the steady slide lower in the US dollar, a short term shortage of pork in China (due to blue ear disease 07' and earthquakes in 08'), and mounting world protein demand, the USDA may in fact be underestimating the potential of US exports, which of late have really started to surge. Another currency impact could be the fact that the Canadian dollar's strength has begun to diminish the incentive for Canadian producers to export pigs to the US. Given the declines in pork supply and the more vigorous export growth we anticipate to see higher hog prices.

October lean hogs futures have rallied 16 of the last 25 years in September, making this the second strongest month for pork. The best Septembers follow August weakness so if we pullback from overbought levels, which looks likely in the short term, we would suggest buying the dip. In the last 25 years there have been 12 occasions in which October hogs have declined into August. Following these down Augusts, October hogs have gained 10 times in September or 83% of the time. The average September rally under such circumstances has been stronger (+6.048 cents), while the average September breaks have been modest (-1.485 cents/lb.). Past performance is not of indicative results. Summarizing, we view any potential August weakness as a great buying opportunity. October lean hogs have traded between 71.50 and 74.50 now for the better part of 2 weeks, not wandering far from the 100 day moving average as we have been accumulating longs for customers via options and futures.

The real issue for cattle and pork producers is whether they can hang on long enough for prices to catch up with costs where money can be made instead of lost. We recognize that producers can only shed so much blood before they have had enough. MB Wealth expects that the excessive losses of 08' to be offset by profits into 09' for producers and speculators alike that can navigate these trades successfully.

It is for these reasons that livestock looks so attractive, on any pullbacks buy dips. To get specific trading strategies on lean hogs, live or feeder cattle or any other commodities you wish to play contact us at <http://www.mbwealth.com/contact.html> or (888)-920-9997. [www.mbwealth.com](http://www.mbwealth.com)

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