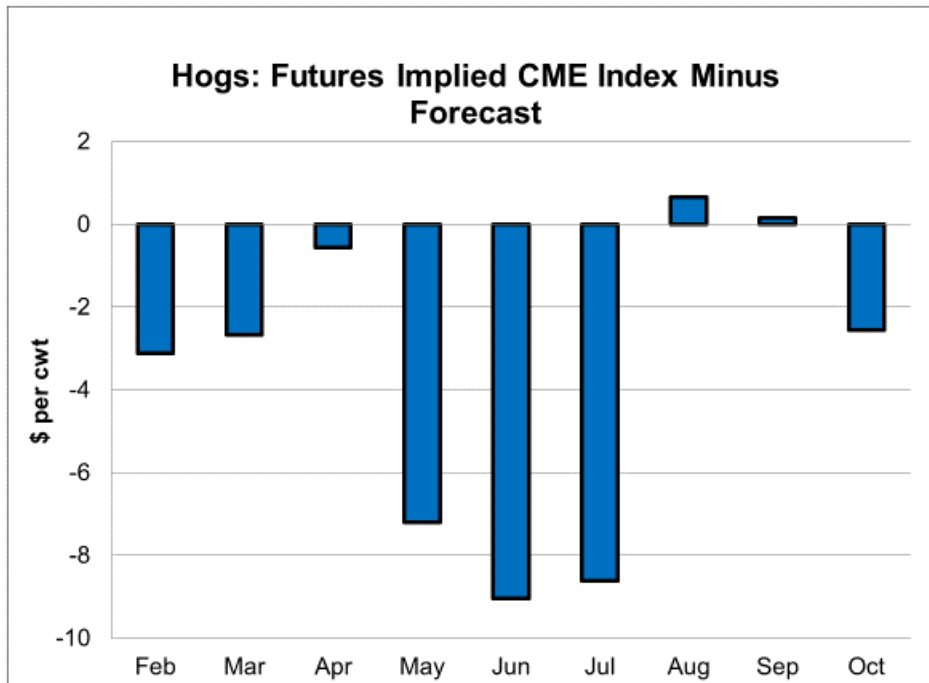


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

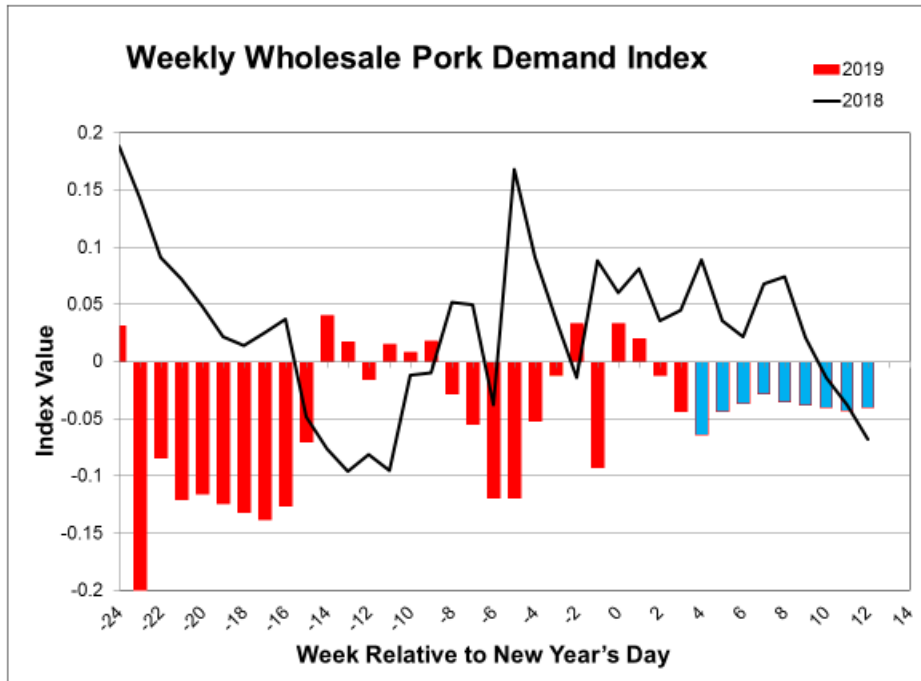
January 27, 2019



The February contract finished Friday below an obviously important support level (\$58.77), and so I shall exit my long position tomorrow. Even though this contract

now holds zero premium to the CME Lean Hog Index, and even though it seems likely that the Index will work its way upward over the final three weeks of trading in the February contract, I have to recognize that this is just *my current perception*. Last week I told myself plainly that a close below \$58.77 would be an undeniable signal that my forecast was seriously flawed....and that still holds true.

The flaw is in my assumption regarding wholesale pork demand. While hog slaughter so far is unfolding pretty much as suggested by USDA's summer pig crop estimate; and while packer margins are tightening "on schedule"; the pork cutout value—and I'm referring to hams and bellies in particular—has become surprisingly weak in relation to production levels. This "underperformance" is reflected in the short-term demand index, which I show on the next page. In this graph, the final red bar represents the week just ended:



Because I don't fully understand why demand has slumped here in January, I have to adopt the *status quo* as the most objective assumption regarding wholesale pork demand—

the pattern depicted by the blue-colored bars. Under this scenario, the cutout value would still move gradually upward from here, but it would reach only \$71 per cwt by the first of March....and it would be no higher than that at the *end* of March. If quoted gross packer margins at that time are about \$14 per cwt (vs. this past week's average of \$14.82), then the CME Index would stand at \$61-something at the beginning of April.

This, of course, offers a perspective on the April futures contract....namely, that the board may not be undervalued at Friday's settlement of \$62.12. I am playing April hogs from the short side, purely on the merit of a very convincing technical breakdown. This market is oversold and might very well find temporary support in the \$62 area; but if it duplicates the range in which it traded from mid-August until January 16 (call it roughly \$65.50 to \$72.00), then it will fall to \$59 or so before it's finished. In any case, it's quite likely that any immediate recovery will be followed by another leg down.

Friday's selloff left a gap on the daily chart at \$63.42, and there is a pretty good chance that it will be filled soon....as in, sometime this week. But just above that gap lies a now-formidable resistance level at \$64.00, and above *that*, of course, is the monumental "breakdown point" of \$65.40. I will seriously consider adding to the short position somewhere in the neighborhood of \$64 if the opportunity presents itself.

Forecasts:

	Feb	Mar	Apr	May*	Jun	Jul*
Avg Weekly Hog Sltr	2,453,000	2,453,000	2,403,000	2,321,000	2,284,000	2,244,000
Year Ago	2,396,090	2,403,610	2,370,400	2,258,700	2,220,400	2,160,700
Avg Weekly Barrow & Gilt Sltr	2,385,000	2,385,000	2,335,000	2,255,000	2,215,000	2,180,000
Year Ago	2,330,170	2,338,350	2,304,900	2,195,200	2,154,700	2,099,000
Avg Weekly Sow Sltr	61,000	61,000	61,000	59,000	61,000	57,000
Year Ago	58,640	58,540	58,500	56,600	58,400	54,700
Cutout Value	\$70.25	\$71.00	\$74.00	\$85.00	\$92.00	\$93.50
Year Ago	\$78.04	\$72.71	\$68.08	\$73.59	\$83.18	\$82.70
CME Lean Hog Index	\$61.50	\$62.00	\$63.00	\$76.00	\$86.00	\$88.00
Year Ago	\$71.61	\$63.51	\$56.47	\$66.77	\$81.13	\$78.73

**Slaughter projections include holiday-shortened weeks*

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