

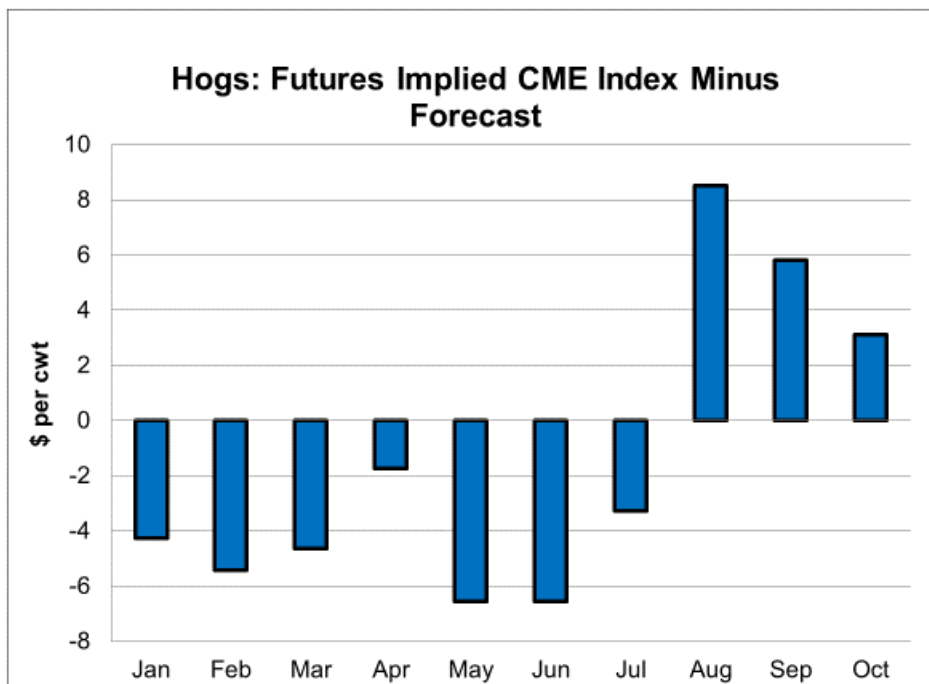
## Trading Hogs

### .... from a meat market perspective

A commentary by Kevin Bost

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January 7, 2019

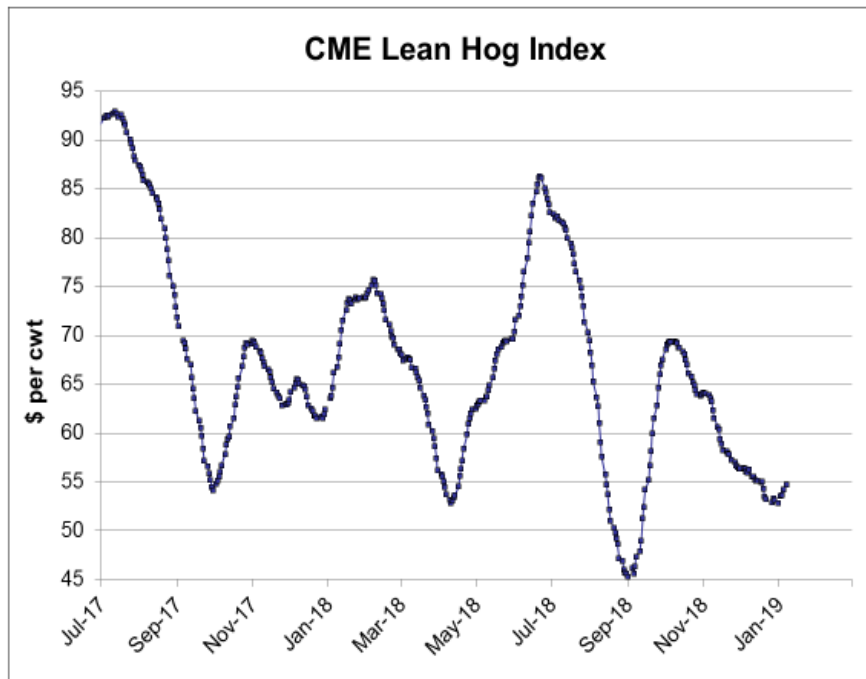


I am long of the February contract and now risking the trade down to a close below \$60.00 per cwt. My original stop-loss point was \$59.00, but the market has formed what I

regard as a compelling bottom formation clearly establishing \$60.00 as a new, major support level; if that support were to give way at this stage of the game, then the chart would take on a distinctly bearish look. More importantly, it would be a glaring signal that my prognosis is seriously flawed.

As I pointed out last week, the case for a \$67-\$68 CME Lean Hog Index in February depends heavily on a narrowing of packer margins. I'll spare you the graph today, and summarize the situations as "so far, so good". The quoted gross packer margin did indeed tighten by a little more than \$1 per cwt this past week, averaging \$21. But much more will be required, and soon. My forecast assumes that it will average \$13 in February, compared with \$11.51 in February 2018. Currently it is running about \$1.60 above a year ago, and I suppose that from this angle, one could say that it's on track. I'm sure you know this already, but it is quite common for packer margins to tighten significantly between early January and mid-February.

I am most encouraged that the CME Index looks like it has turned upward. I estimate that the single-day Index value for tomorrow's kill will be just shy of \$55 per cwt, which would be its highest level in three weeks. Thus the Index would have to gain an average of about \$.40 per day to reach \$67 by the time the February contract goes off the board. It's also worth mentioning that the nearest resistance level on the chart of the CME Index is \$69.42. Of course, the chart doesn't tell us anything about how soon it will get there:



Although I am not counting on a whole lot of help from the pork cutout value, I would be (unpleasantly) surprised if it did not make some sort of upward move in the week ahead. This week's kill should be relatively large at

2,550,000-2,570,000, but it should drop back to 2,500,000 immediately after that. At the same time, I would *think* that demand for hams, bellies, and loins will strengthen at current price levels. And for what it's worth, the cutout value has gained ground significantly in the week after the New Year's holiday in seven of the past ten years.

The February contract has been consistently settling in the lower half of its daily range, but this doesn't bother me; from my perspective, it is trumped by three consecutive closes above the ten-day moving average. I fully expect that the gap on the daily chart at \$64.45 will be filled sometime this week. If so, then I am inclined to step aside temporarily. This is a question that I have considered thoroughly, and it's hard to identify the virtue of selling out at \$64-something while the upside target of \$67-\$68 remains intact. All I can say is that the chances of being left behind are not great—i.e., that the ultimate objective is likely to be achieved gradually—and so if the fundamental conditions remain favorable, I would intend to be “fully loaded” again soon.

Forecasts:

	Jan*	Feb	Mar	Apr	May*	Jun
Avg Weekly Hog Sltr	2,462,000	2,438,000	2,448,000	2,403,000	2,321,000	2,284,000
Year Ago	2,339,270	2,396,090	2,403,610	2,370,400	2,258,700	2,220,400
Avg Weekly Barrow & Gilt Sltr	2,395,000	2,370,000	2,380,000	2,335,000	2,255,000	2,215,000
Year Ago	2,273,500	2,330,170	2,338,350	2,304,900	2,195,200	2,154,700
Avg Weekly Sow Sltr	60,000	61,000	61,000	61,000	59,000	61,000
Year Ago	57,620	58,640	58,540	58,500	56,600	58,400
Cutout Value	\$73.50	\$75.50	\$76.50	\$78.50	\$86.00	\$92.50
Year Ago	\$80.74	\$78.04	\$72.71	\$68.08	\$73.59	\$83.18
CME Lean Hog Index	\$62.00	\$67.50	\$68.50	\$68.50	\$80.00	\$88.00
Year Ago	\$70.97	\$71.61	\$63.51	\$56.47	\$66.77	\$81.13

*\*Slaughter projections include holiday-shortened weeks*

*Trading Hogs* is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523 or Kevin\_Bost@comcast.net; or visit our website at [www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com).

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