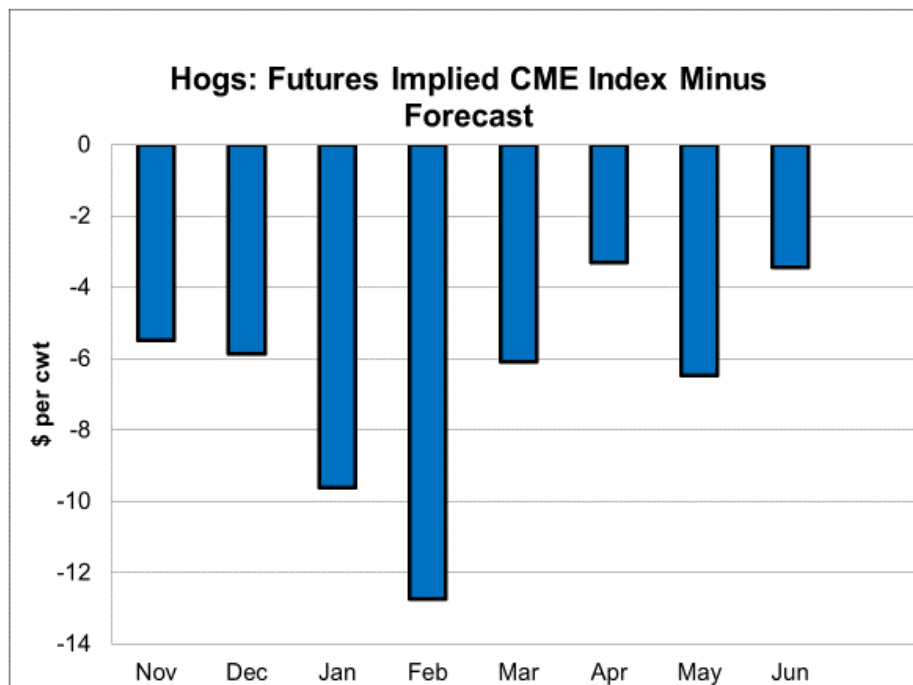


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

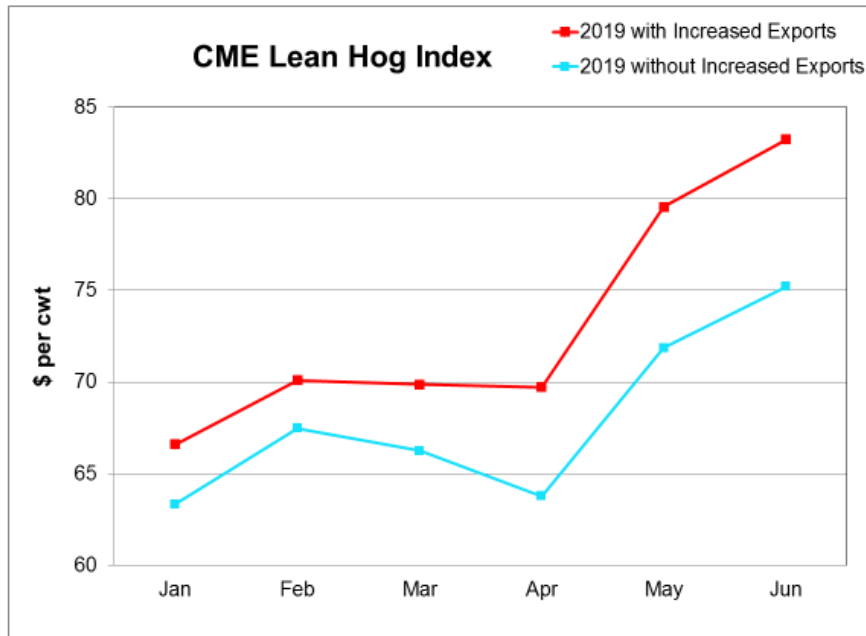
October 22, 2018



Keeping in mind that my cash price forecasts assume that there will be a sizeable increase in U.S. pork exports to China as early as the first quarter, I am keenly interested in the long side of February hogs. I am also interested in the long February / short April spread.

There is only one way to check my sanity in this instance, and that is to focus on the ultimate value of the February contract in the *absence* of any surge in Chinese imports within the next four months. It is a *fairly* straightforward adjustment, but not *completely* so. Wholesale pork demand would be stronger if domestic supplies are reduced by exports, because the market would be in transition to a rather sudden change in supply. [I hope this makes sense.] Anyway, the “null hypothesis” includes a small downward adjustment in the demand index projection.

But let’s assume that U.S. pork exports to China/Hong Kong/Taiwan remain at their current pace, except for normal seasonal changes. That would probably place them near 25 million pounds in January and 35 million in February. Combined with an average weekly kill of about 2,450,000 at that time (+2.2% from a year earlier), that would bring the forecast of the pork cutout value down to about \$75 per cwt, and the forecast of the CME Lean Hog Index down to \$67.....still far above this morning’s trade level of \$59-something. By the way, the cash hog price forecast would leave unchanged the assumption of a gross packer margin of \$13 per cwt, compared with \$11.51 in February 2018. In the picture below I contrast the two pricing scenarios—one with a sharp increase in exports, and one without.



Following Friday's close below the major support level of \$59.50, there is little on the chart that would seem to block February hogs from moving down to fill its gap at \$56.57. The most solid support that I would trust as I try to "catch a falling knife" would be \$54.67, which was the top end of the outside range/reversal on the day that the

contract low was established. And so for now, my planned entry point stands at \$55.00. If the market demonstrates that it will not reach that far, then I'll raise my target. There is certainly enough upside potential that I can wait for that to happen without wrecking the risk: reward ratio.

Separately, I plan to buy the February/April spread at a February discount of \$7.00 per cwt. As I mentioned in my last *Trading Hogs* letter, the greatest that the February discount has averaged during November is \$7.31, in 2008. The ultimate values of these two contracts appear to be pretty close together. I would sleep better if I were to enter this spread with the February contract trading at \$55.00 or lower, but this is not a prerequisite.

Forecasts:

	Nov*	Dec*	Jan*	Feb	Mar	Apr
Avg Weekly Hog Sltr	2,572,000	2,477,000	2,463,000	2,448,000	2,458,000	2,418,000
Year Ago	2,422,100	2,420,500	2,339,270	2,396,090	2,403,610	2,370,400
Avg Weekly Barrow & Gilt Sltr	2,505,000	2,410,000	2,395,000	2,380,000	2,390,000	2,350,000
Year Ago	2,357,600	2,356,000	2,273,500	2,330,170	2,338,350	2,304,900
Avg Weekly Sow Sltr	59,000	59,000	60,000	61,000	61,000	61,000
Year Ago	57,300	56,800	57,620	58,640	58,540	58,500
Cutout Value	\$72.50	\$74.25	\$77.50	\$79.75	\$79.25	\$79.50
Year Ago	\$81.18	\$79.14	\$80.74	\$78.04	\$72.71	\$68.08
CME Lean Hog Index	\$55.00	\$57.50	\$66.50	\$71.50	\$71.00	\$69.00
Year Ago	\$65.88	\$63.28	\$70.97	\$71.61	\$63.51	\$56.47

**Slaughter projections include holiday-shortened weeks*

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