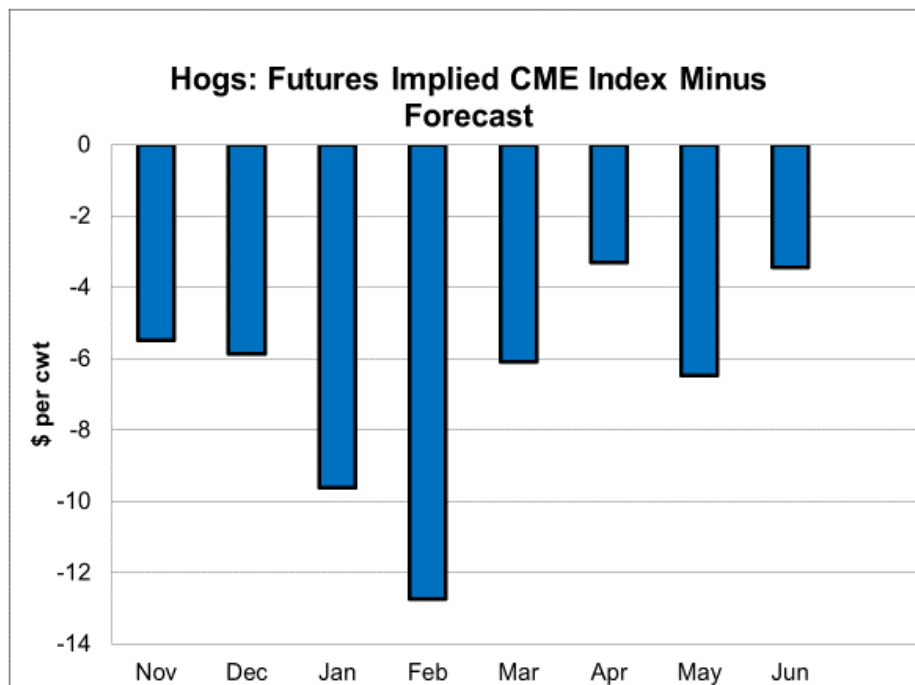


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

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Apparently I had the right idea about buying February hogs, but I didn't make any money from it. That is the price to be paid for my abundantly cautious approach to the hog market, which is still warranted by the mystery surrounding future pork exports.

My forecasts continue to reflect the scenario in which U.S. pork exports expand from their (estimated) September rate of 440 million pounds to 600-625 million pounds per month next spring. Some of that increase is seasonal, but much of it is due to a swell in Chinese imports of pork, whether they come initially from the U.S. or another exporting bloc. [There are only four major exporters in this world: the U.S., the European Union, Canada, and Brazil.] Under this scenario, the February contract remains undervalued despite last week's big rally; the December, April, and June contracts appear to be fairly-priced.

Undervalued as the February contract may be, I am precluded from placing a bet right now because the apparent profit potential does not justify the risk. Clearly, a long position in February hogs would have to be risk down to at least a close below \$58.77, which is \$7.60 per cwt below Friday's close. Enough said. If this market is indeed headed for \$71.50, then the most I could pay would be \$63, and even that price would barely bring the profit: risk proposition up to 2:1. Considering how tenuous are *all* assumptions regarding net domestic pork supplies, wholesale pork demand, and packer margins, the proposition would have to present something in the neighborhood of 4:1 odds. In that case, we're looking at an entry point of \$61.25. That's something I would consider, although I would keep in mind that there remains a gap on the daily chart at \$56.57. In the current environment, almost any price is "fair game".

An alternative to an outright long position in February hogs is the long February/short April spread, which appears to have some fundamental merit. I had been targeting an entry point of a \$7.00 per cwt discount of February to April, and at the moment it is difficult to identify a point to which I could justifiably raise that target; there is no discernible support on the spread chart between Friday's close and \$6.77, which was the low of October 18—just seven trading days ago. Here, too, I have to proceed with caution.

Meanwhile, the pace of decline in the CME Lean Hog Index has slowed in the last few days, but it's still going down. At this point, my guess is that the bottom will be somewhere in the neighborhood of \$55 per cwt. But who knows? The most likely timing of the low looks like the week of Thanksgiving, which is still four weeks away. I will be more confident of this prediction when we get closer to the holiday.

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	\$74.00	\$74.75	\$77.50	\$79.50	\$79.00	\$79.00
Year Ago	\$81.18	\$79.14	\$80.74	\$78.04	\$72.71	\$68.08
CME Lean Hog Index	\$57.00	\$58.50	\$66.50	\$71.50	\$71.00	\$68.50
Year Ago	\$65.88	\$63.28	\$70.97	\$71.61	\$63.51	\$56.47

**Slaughter projections include holiday-shortened weeks*

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