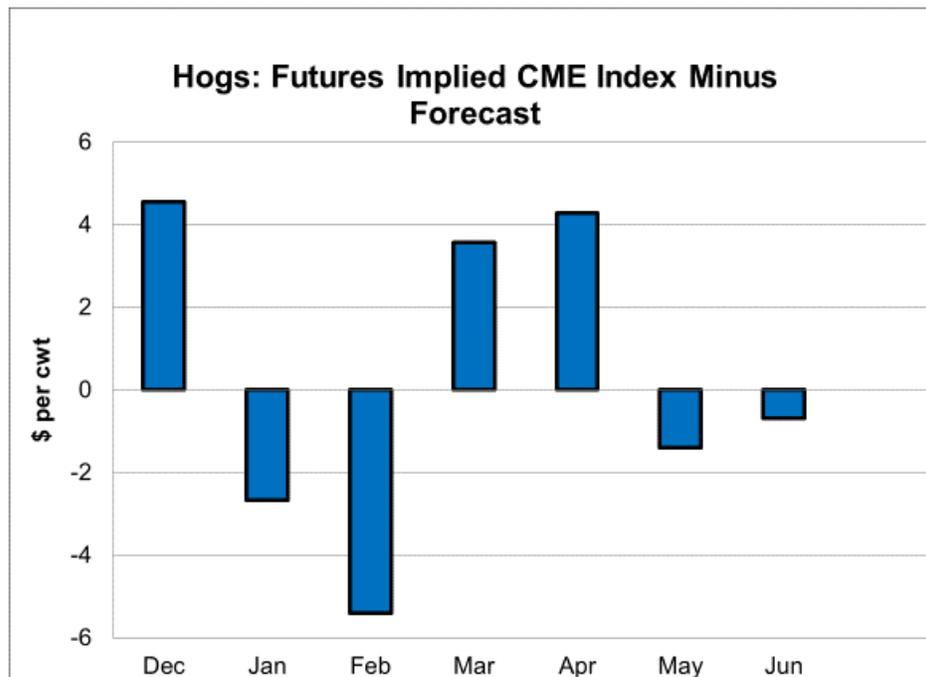


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

November 18, 2018



It is frustrating to watch the February contract move decidedly upward, toward my notion of ultimate value, without cashing in a penny. But hey—as I've said before, it's

the price one pays for being duly circumspect in a market whose outlook is exceptionally cloudy. The fear of being left behind is unproductive and has no place in my trading strategy.

Time to adjust. It appears that the February contract remains undervalued, even after Friday's big rally. And so, an outright long position is still quite worthy of consideration. If this market is indeed worth something Northward of \$70 per cwt, then it probably will hold above \$62.00 from this point forward. This has been an important price in February hogs ever since last spring. And so, any bet that I make will be risked down to a close below \$62.00. My intention at the moment is to buy in the neighborhood of the ten-day moving average, which Friday passed through \$62.30. No doubt, if I am to be afforded the opportunity to buy at the ten-day average, it will be somewhere above \$62.30. As long as the upside target of \$72 remains realistic; and if I'm using a sub-\$62.00

surrender point, then a 4:1 profit-to-risk proposition (which I still regard as “table stakes” in this volatile environment) would require an entry point of approximately \$63.50 (assuming that there would be a fair amount of “slippage” in the stop-loss execution). And so this, quite simply, will be my plan. I think there is a pretty good chance that this opportunity will come along—sooner rather than later—because the market on Friday left a gap on the daily chart at \$63.97.

The CME Lean Hog Index is losing ground every day, but I look for the downward momentum to dissipate by the end of next week, probably around \$55 per cwt. [As best I can tell, the single-day Index value for Monday’s kill will be near \$58.25.] The pork cutout value might very well be on bottom right now: with the exception of bellies, every major product is trading at a major support level, and even the bellies do not appear to be headed significantly below \$1.10 per pound....I am told that freezer demand is quite strong at that price level. It would not be surprising to see the ham market gain *some* ground before holiday buying is completed, although I’m not expecting much. Bone-in loins at 75¢, boneless picnics at 48¢, and 72% lean trim below 40¢ seem unsustainably cheap for any post-Thanksgiving period.

Meanwhile, gross packer margins are surprisingly low for the second consecutive week, and I’m not sure why that is. I assume that they will widen by about \$5 per cwt by the first week of December, which would explain how the CME Index loses another \$3 while the cutout value holds steady and then begins to strengthen. My guess is that once the Index reached \$55, it will find a home there for several weeks (as it has had a tendency to do in November/December in recent years)....

....which brings up the notion of selling December hogs and buying February hogs. As the chart on the first page suggests, there appears to be a fundamental foundation for this trade. This spread has been highly volatile lately, which probably means that it won’t take long to find out if it’s going to be a winner or a loser. Clearly, though, the November 9 and November 12 premium of \$3.70 to the February contract is the nearest meaningful place for a stop-loss. It finished Friday at \$6.67. On the other hand, the August 27 high of \$10.70 is seemingly within reach. OK, so applying the same 4:1 odds prerequisite would require an entry point of around \$5. I seriously doubt that I will have the chance to buy a \$5 February premium, but I stand ready.

Forecasts:

	Nov*	Dec*	Jan*	Feb	Mar	Apr
Avg Weekly Hog Sltr	2,536,000	2,467,000	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	2,469,000	2,400,000	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	\$70.00	\$70.25	\$76.50	\$78.00	\$75.50	\$77.50
Year Ago	\$81.18	\$79.14	\$80.74	\$78.04	\$72.71	\$68.08
CME Lean Hog Index	\$59.00	\$55.75	\$67.50	\$72.00	\$67.50	\$67.50
Year Ago	\$65.88	\$63.28	\$70.97	\$71.61	\$63.51	\$56.47

**Slaughter projections include holiday-shortened weeks*

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