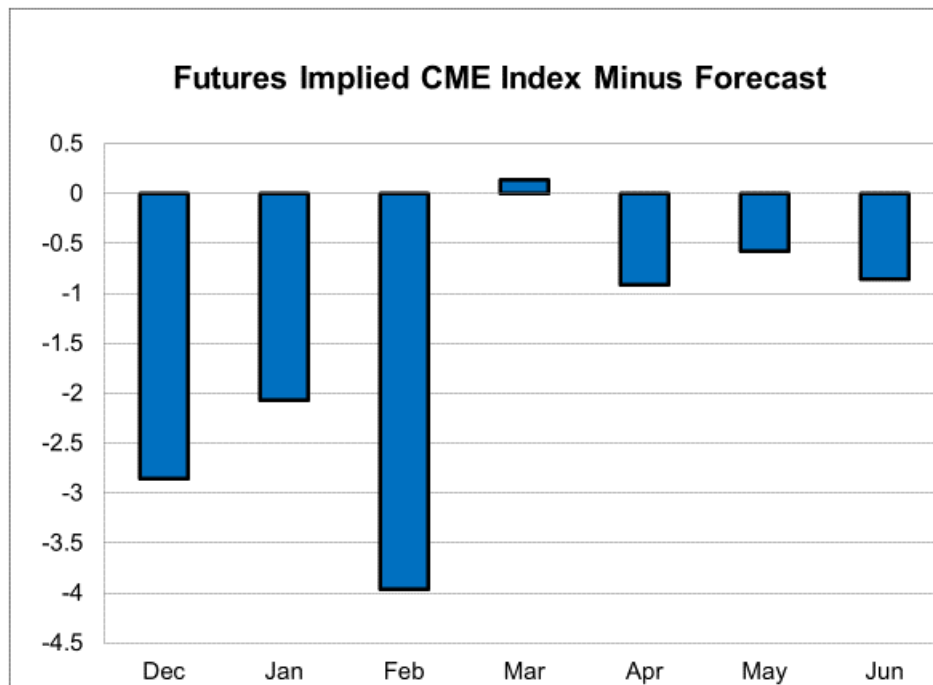


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

November 20, 2017

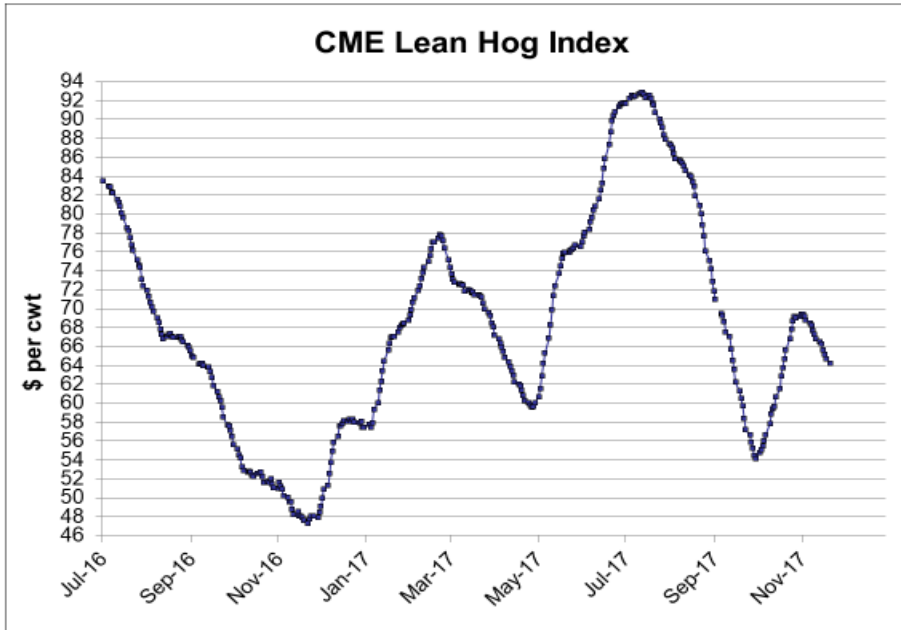


It turned out to have been a decent idea to buy December hogs and sell April hogs early last week, and for that I will pat myself on the back....but make no money. I missed the opportunity, as the bull spread leaped out of the gate last Monday and never looked

back. Oh well. At this point, I am no longer interested. The profit-to-risk ratio is unacceptable at the current spread of \$10.50 per cwt premium to the April, and if the spread were to fall back to its low (\$12.45) this late in the game, then it would probably be signaling a serious problem in the cash market....in which case I would not want to be betting on the bull spread.

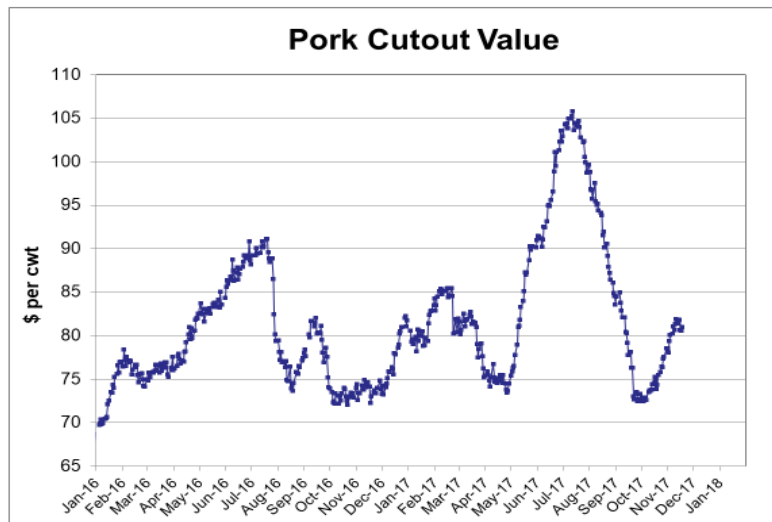
OK, so what *is* there to do in the hog market that has a solid foundation in both fundamental and technical aspects? One possibility might be a "strangle" (I *think* that's what it's called), selling both puts and calls in the soon-to-be-expiring December contract. With an objective assessment that the CME Lean Hog Index will stand near \$63 in the second week of December and with the chart showing major support at \$60.00 and major resistance just south of \$64.00, these strike prices are of interest. On Friday, the \$60 puts finished at \$1.40 per cwt and the \$64 calls at \$.47....not bad, if my estimations are in the right ballpark. The single-day Index for today's kill (to be reported tomorrow) is close to \$64.25, placing December futures at a discount of about \$3.50 to the cash market. This is somewhat unusual; not since 2004 have December futures traded at a discount to the CME Index in the fourth week of November, and at that time the discount was only \$1.74. This consideration is perhaps the strongest underpinning of the notion that support at \$60.00 will continue to hold.

But there is hardly a question that the near-term direction of the cash market is downward. Since the first of November, the Index has been losing an average of \$.40 per cwt per day. Packer margins have widened along the way, with the quoted gross margin finishing this past week at \$+21.48 per cwt. There is reason to think that it will widen further, as hog slaughter has fallen below expectations (based on the the size of the spring pig crop) here in November; and carcass weights appear to have climbed two pounds above a year ago as of last week. I am hesitant to assume so, but hog supplies have been pushed into the post-Thanksgiving period.



Meanwhile, the chart of the pork cutout value seems to have topped out on November 10 at \$81.92 per cwt. It was quoted about \$1 per cwt below that level on Friday. Pork belly prices have now approached a significant resistance level

(approximately \$1.40 per pound), and are vulnerable to a substantial setback if kills jump up to 2,550,000-plus next week, which they should. Trimmings and boneless picnics are also susceptible to a break. One would think that ham prices should be able to bounce back to some degree over the next three weeks, after dropping 10¢ per pound in the last five trading days. There is a mild but clear tendency for this to happen; they have gained ground during this period in seven of the last ten years. As for loins and butts, a steady call seems to be in order.



Forecasts:

	Nov*	Dec*	Jan*	Feb	Mar	Apr
Avg Weekly Hog Sltr	2,497,000	2,559,000	2,417,000	2,376,000	2,372,000	2,321,000
Year Ago	2,515,100	2,370,900	2,361,900	2,327,100	2,326,700	2,285,400
Avg Weekly Barrow & Gilt Sltr	2,428,000	2,490,000	2,350,000	2,310,000	2,305,000	2,255,000
Year Ago	2,447,000	2,306,000	2,297,700	2,262,400	2,260,900	2,220,200
Avg Weekly Sow Sltr	62,000	62,000	61,000	59,000	60,000	59,000
Year Ago	61,000	58,500	59,900	58,400	58,900	58,100
Cutout Value	\$79.75	\$78.50	\$77.00	\$79.50	\$78.00	\$78.50
Year Ago	\$73.81	\$78.38	\$80.18	\$84.08	\$80.20	\$74.86
CME Lean Hog Index	\$65.75	\$65.50	\$67.50	\$71.50	\$71.00	\$73.00
Year Ago	\$49.07	\$56.77	\$63.80	\$74.16	\$71.50	\$62.60

**Slaughter projections exclude holiday-shortened weeks*

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