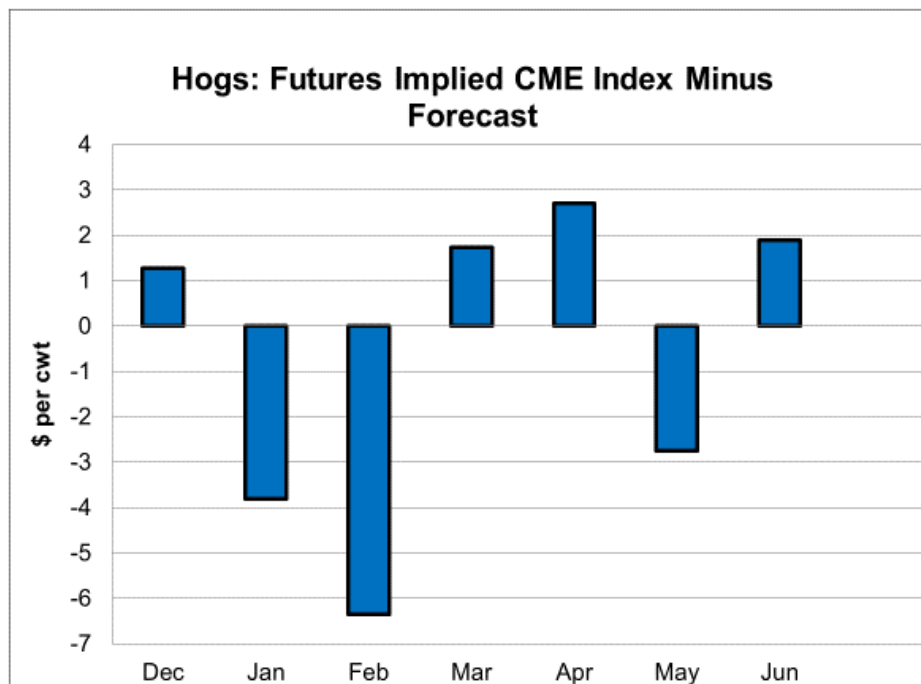


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

November 25, 2018



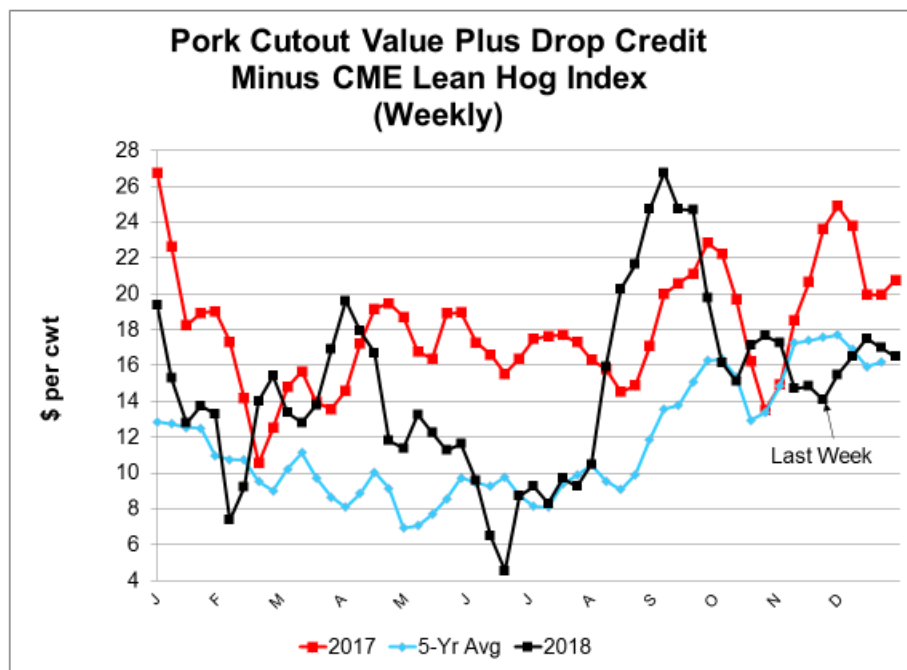
Considering that no one seems to have a very good idea how long it will be before export demand blossoms and begins to materially affect pork prices, buying the February contract near \$64.00

per cwt is somewhat of a gamble. Yet, it is a controlled risk that I am willing to take, because it seems doubtful that China would wait around for the situation to become dire before taking action. All I *think* I know is that if I include an 11-12% year-over-year increase in first quarter U.S. pork exports in the pricing equation, the February contract appears to be worth about \$73; if exports merely match those of a year earlier (which is their current pace), then February futures are worth only about \$70. The difference is not huge, but it is significant from a risk/reward standpoint.

Clearly, \$62.00 has become an important price level in February hogs. When that level was penetrated on November 13/14, the market almost immediately raced into new contract highs. And so, I think a close back below \$62.00 would be meaningful....and therefore a good place for a stop. With an upside target of \$73.00 and a risk down to \$61.50 (including some "slippage" in the escape

hatch), a 4:1 profit-to-loss ratio would dictate an entry point of \$63.80 or below. I am willing to bend this rule just slightly, since there is a gap on the daily chart at \$63.97 which could provide support.

The risk posed to any sort of long position by the daily shelling of lower cash prices has been greatly reduced. The CME Lean Hog Index has not hit bottom just yet, but my guess is that it's only about a dollar away. [It looks as though the single-day index calculation for Monday's kill will be about \$57.25.] If I'm wrong about this, then it will be due to wider-than-expected packer margins. Indeed, I have just about given up on the prospect of gross margins becoming anywhere near as wide as they did in late November/early December 2017. You're probably weary of looking at this chart week after week, but here it is again:



Meanwhile, I am quite confident that the pork cutout value has reached a practical bottom. If wholesale pork demand merely undergoes normal seasonal changes from its

currently dismal reading, and if hog slaughter peaks out this coming week somewhere near 2,650,000, then the cutout value will gain roughly \$2.50 per cwt between now and the second week of December. Only the bellies would appear to have any significant downside potential from Friday's quote (\$1.05 per pound), and yet I perceive that storage interest is quite strong at current price levels.

Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Hog Sltr	2,476,000	2,463,000	2,448,000	2,458,000	2,418,000	2,336,000
Year Ago	2,420,500	2,339,270	2,396,090	2,403,610	2,370,400	2,258,700
Avg Weekly Barrow & Gilt Sltr	2,410,000	2,395,000	2,380,000	2,390,000	2,350,000	2,270,000
Year Ago	2,356,000	2,273,500	2,330,170	2,338,350	2,304,900	2,195,200
Avg Weekly Sow Sltr	58,000	60,000	61,000	61,000	61,000	59,000
Year Ago	56,800	57,620	58,640	58,540	58,500	56,600
Cutout Value	\$69.00	\$76.50	\$78.50	\$76.00	\$77.00	\$84.50
Year Ago	\$79.14	\$80.74	\$78.04	\$72.71	\$68.08	\$73.59
CME Lean Hog Index	\$57.00	\$68.00	\$72.50	\$69.00	\$68.50	\$80.00
Year Ago	\$63.28	\$70.97	\$71.61	\$63.51	\$56.47	\$66.77

**Slaughter projections include holiday-shortened weeks*

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