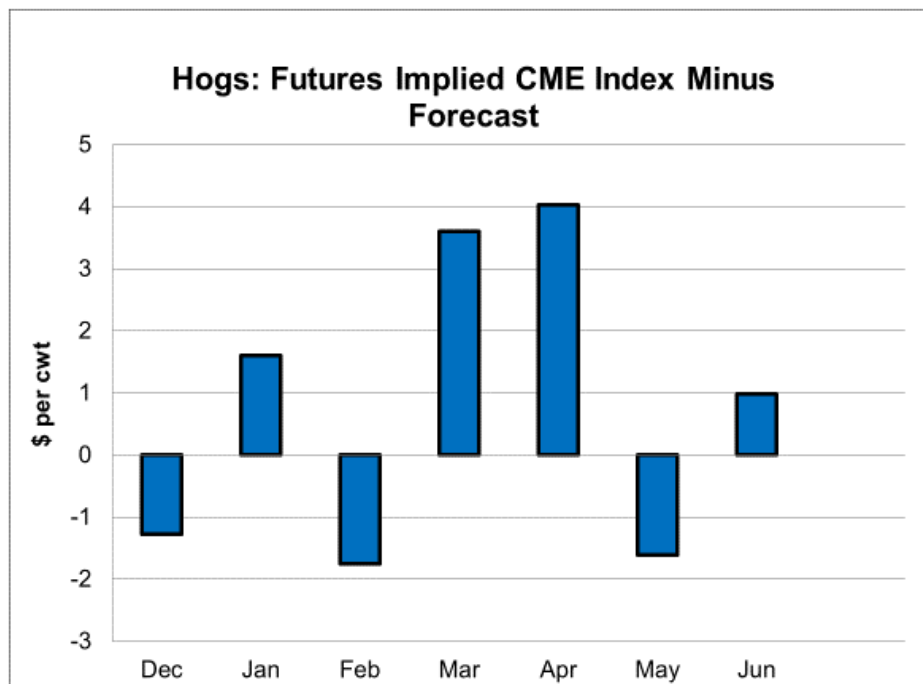


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

December 10, 2018



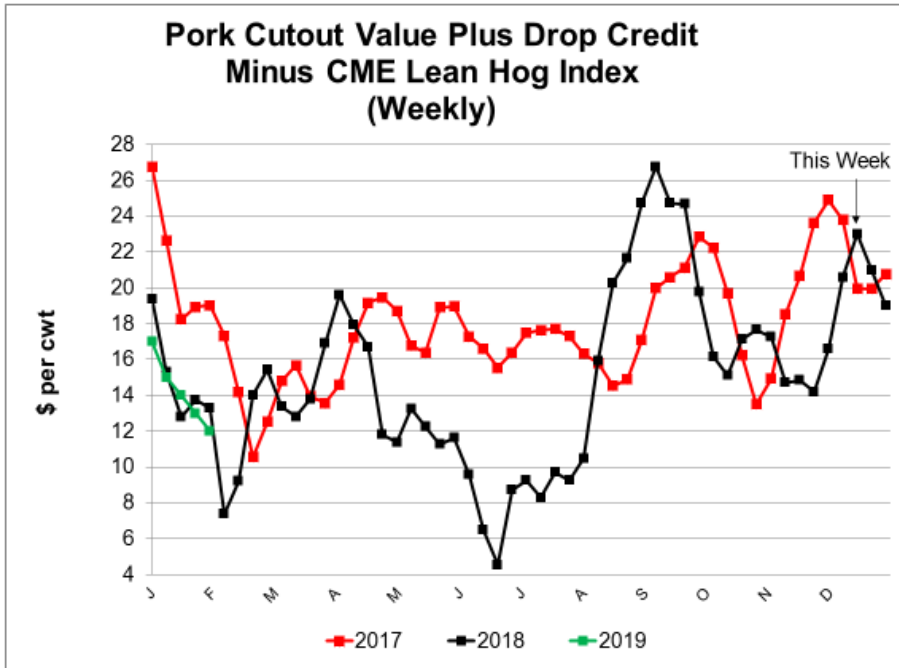
Currently I have no commitment in the hog market, having let go of hold a long position in the February contract last week. My impetus for doing so was, quite simply, a breakdown of the CME

Lean Hog Index into new lows for the move. I had assumed that it had bottomed after holding steady between \$56.36 and \$56.48 per cwt for five days. I estimate that the single-day Index for today's kill lies just above \$55.

This is not a big deal in the broader picture, as the cash hog market is still, most likely, in the process of establishing its fourth quarter low. The cutout value has clearly done so already, and packer margins have widened dramatically over the past three weeks. Thus, cash hog prices will be able to begin a seasonal uptrend without any help from the pork market for the next several weeks. Under these circumstances, I can trade this market only from the long side.

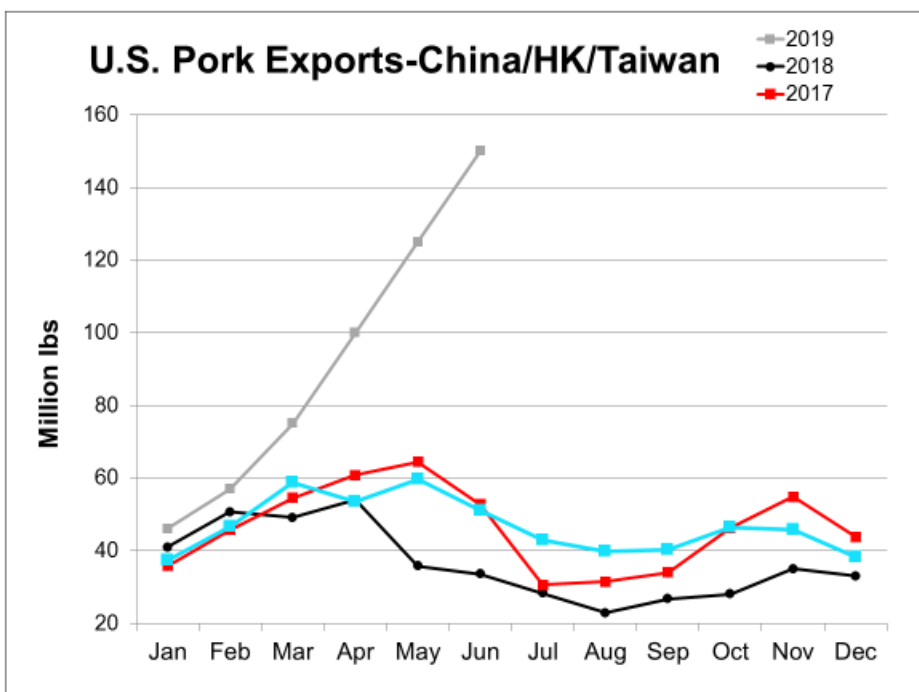
The profit opportunities in the futures market are not big at current price levels, especially in view of the extraordinary uncertainty surrounding export demand. Without going into great detail, I have adopted the assumption—on the counsel of those closer to the situation than I—that there will be not great surge in

Chinese imports of pork until the springtime....perhaps March. My humble projections of U.S. exports to China are displayed in the second graph on this page.



Under this assumption, it looks like net domestic pork supplies in February will be about 1% smaller than a year earlierthat is, if USDA's summer pig crop estimate was on the

mark. The latter notion itself is called into question, after a sizeable "underkill" here in the fourth quarter.



Anyway, the stage seems to be set for a rather strong recovery in wholesale pork demand from very weak readings in November. In contrast to the situation in the beef

market, supermarket pork featuring should be prolific well into January. A return of the seasonally adjusted wholesale demand index to its October levels is not that difficult to imagine, is it? If it does so, then the cutout value is probably worth about \$76 per cwt in February; and if packer margins match those of a year earlier, then a \$76 cutout would align with a CME Index of \$69-\$70.

The only trading opportunity I am seriously considering at the moment is the long side of February hogs (once again), this time counting on the November 28 low (\$63.85) as a backstop. If the upside target is \$69.50 and the risk is down to \$63.85, then the entry point would have to be at or below \$65.00 in order to bring the potential profit-to-risk ratio into acceptable proportion.

Forecasts:

| | Dec* | Jan* | Feb | Mar | Apr | May* |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Avg Weekly Hog Sltr | 2,459,000 | 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 | 2,394,000 | 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 | \$72.25 | \$73.50 | \$76.00 | \$75.00 | \$76.00 | \$83.50 |
| Year Ago | \$79.14 | \$80.74 | \$78.04 | \$72.71 | \$68.08 | \$73.59 |
| CME Lean Hog Index | \$56.25 | \$64.00 | \$69.50 | \$68.00 | \$68.00 | \$78.50 |
| Year Ago | \$63.28 | \$70.97 | \$71.61 | \$63.51 | \$56.47 | \$66.77 |

**Slaughter projections include holiday-shortened weeks*

Trading Hogs is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523 or Kevin_Bost@comcast.net; or visit our website at www.procurementstrategiesinc.com.

Information herein is derived from sources believed to be reliable, with no guarantee to its accuracy or completeness. Opinions expressed are subject to change without notice. Each investor must consider whether this is a suitable investment. All funds committed should be risk capital. Past performance is not necessarily indicative of future results.