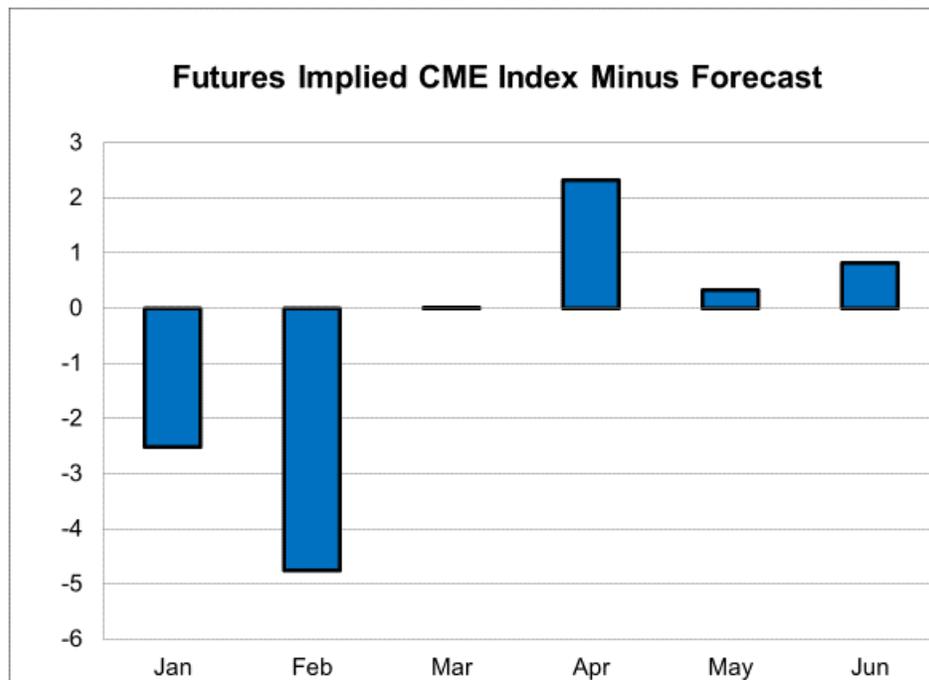


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

December 12, 2017



My only position in the hog market at the moment is an outright short of the April contract. I intend to cover this position near the 100-day moving average of \$71.15—the nearest discernible support level on the chart—with further intentions to re-establish if

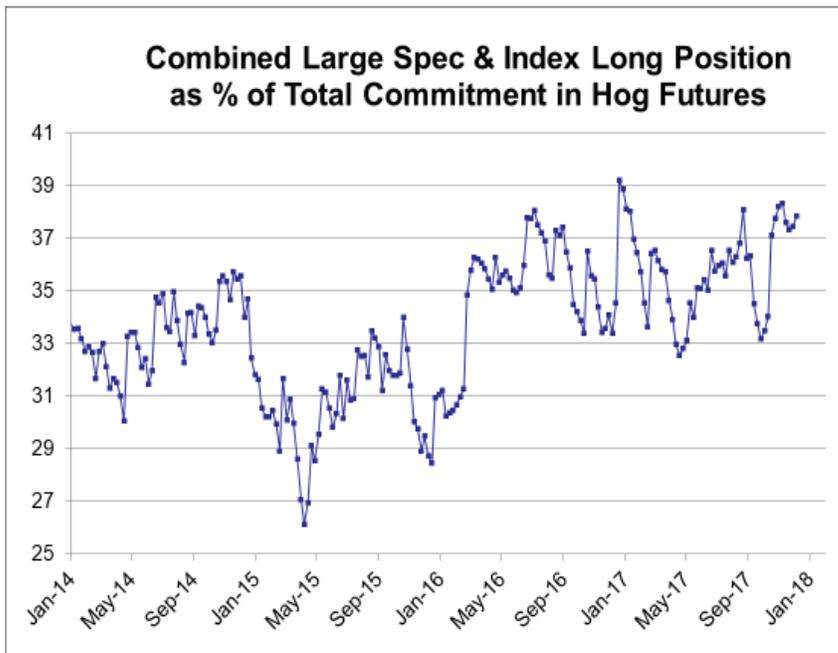
this market closes below \$70.62. Penetration of this support would complete a massive double top formation which would measure down to about \$65.35. Objectively, the April contract appears to be worth more than that, but the technical implications of such a double top would be so compelling that they would overwhelm any other consideration, at least in the near term. And then, of course, supplies could be bigger and/or pork demand weaker and/or packer margins wider than I am anticipating....

On that subject, both the CME Lean Hog Index and the pork cutout value appear to have begun another leg down, however extensive or however short-lived it may be. In the case of the former, the nearest support level lies at \$62.82, the November 24 low. There is nothing on the daily chart between that price and the September low of \$54.16. Even if hog slaughter corresponds nicely with the existing summer pig crop estimate, and even if packer margins match those of a year earlier—quite unlikely, considering the additional slaughter capacity—then domestic wholesale pork demand would have to undergo its second-greatest decline on record between now and April in order to land the CME Index below \$55 per cwt at that time. Such a prospect must certainly be classified as “extreme”, and therefore improbable. But I have seen odder things happen in the hog market.

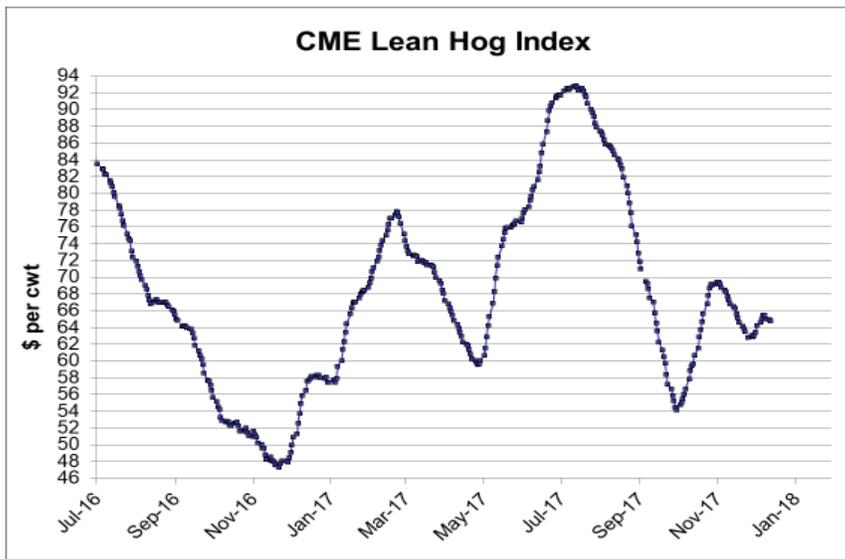
Anyway, the near term direction of the cash hog market should be downward for the next four weeks, and should not mount a material recovery until the seasonal tightening of packer margins begins in earnest. A lot can happen in the futures market in four weeks' time. If for some reason I do not sell April hogs outright on a close below \$70.62, then I will at least buy puts.

Some other ancillary considerations:

- a) Together, large speculators and long index funds account for 38% of the total "pie", which is quite large by historical standards....representing a battery of potential long liquidation;
- b) The Hogs and Pigs report is only ten days away, and I do not care to hold any sizeable position through this report, no matter how compelling the case;
- c) The pork belly has gained too much ground too quickly, in my opinion, and this stalwart could "drag" for quite some time. It has begun to roll over within the last few days.



Finally, the first picture piques my interest in the long February / short April spread, although I will be cautious in my approach to this trade in light of all the things just mentioned. I had initially planned to enter this spread near \$5.00 per cwt premium to the April contract, but there is a gap on this chart at \$6.00, which might be in play....



Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Hog Sltr	2,546,000	2,431,000	2,366,000	2,372,000	2,321,000	2,296,000
Year Ago	2,370,900	2,361,900	2,327,100	2,326,700	2,285,400	2,250,200
Avg Weekly Barrow & Gilt Sltr	2,476,000	2,365,000	2,300,000	2,305,000	2,255,000	2,230,000
Year Ago	2,306,000	2,297,700	2,262,400	2,260,900	2,220,200	2,185,200
Avg Weekly Sow Sltr	62,000	60,000	59,000	60,000	59,000	59,000
Year Ago	58,500	59,900	58,400	58,900	58,100	57,900
Cutout Value	\$80.75	\$77.75	\$79.75	\$77.50	\$77.00	\$81.50
Year Ago	\$78.38	\$80.18	\$84.08	\$80.20	\$74.86	\$84.92
CME Lean Hog Index	\$63.25	\$67.00	\$71.50	\$70.50	\$69.50	\$77.00
Year Ago	\$56.77	\$63.80	\$74.16	\$71.50	\$62.60	\$72.28

**Slaughter projections exclude 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 (cell), (224) 227-6281 (office) or Kevin_Bost@comcast.net; or visit our website at www.procurementstrategiesinc.com.

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