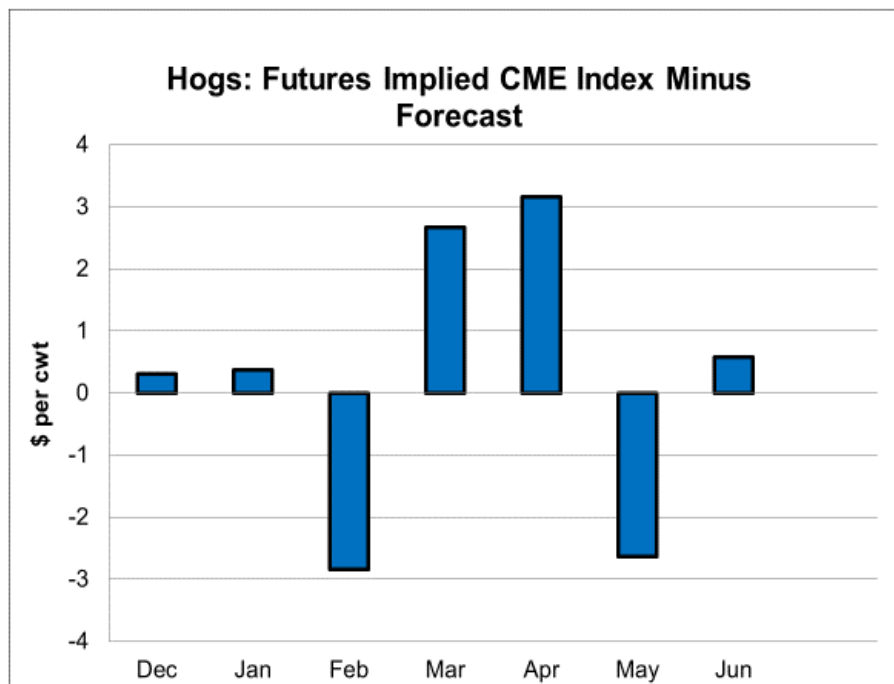


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

December 2, 2018



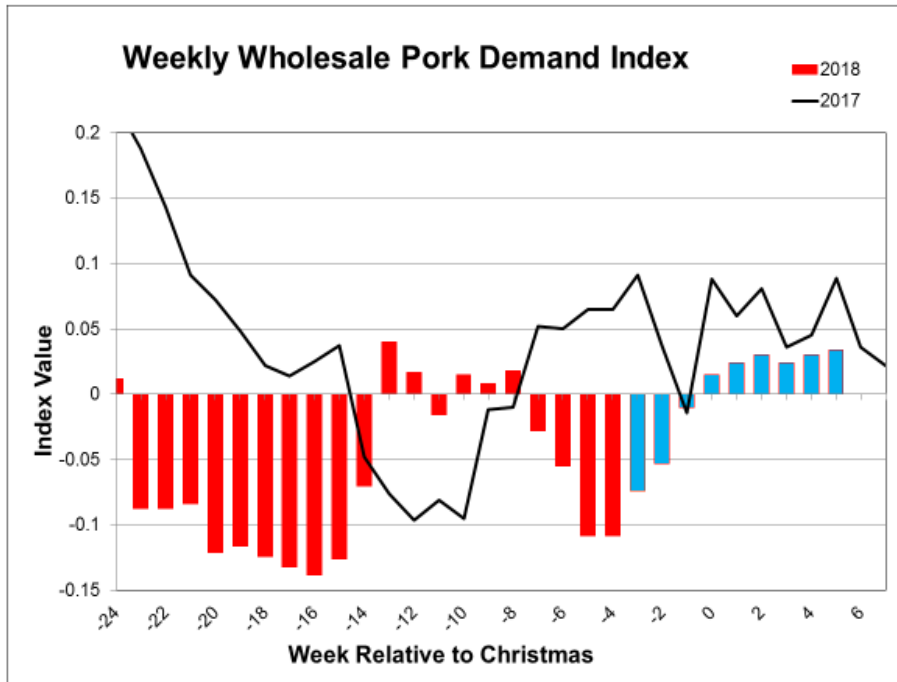
I hold a moderate long position in February hogs, with a close-only stop at \$63.85 and an upside objective of approximately \$70.50. Actually, if the market moves directly to \$70.00 from here, I will step aside at that price.

I halfway expect a direct move up to \$70 or so, because the CME Lean Hog Index appears to have hit bottom (my guess is that the single-day Index value for Monday's kill stands just above \$56), and the cutout value is probably headed upward from this point. Also, the chart of February hogs looks as though it has "reloaded" for another push into new high ground, after making a contract high on November 20 and then pulling back 565 points. The outcome of the G-20 summit seems to point to some sort of détente with respect to the U.S./Chinese trade war, and perhaps renewed purchases of pork beginning sooner rather than later. The news, in other words, should be positive; and so, if I'm right about this, then the February contract should not close back below \$64.00....hence the higher stop-loss trigger than I had originally placed.

I am aware that the board is carrying hefty premiums to the CME Index. As of Friday's close, the February contract stood nearly \$11.50 per cwt above the

Index; the biggest premium ever recorded in the first week of December (since the carcass weight-based futures contract came into existence) was \$9.32 in 2008. Frankly, though, I'm not too concerned about this, because of the special circumstances created by African Swine Fever.

My forecasts *do* include some rather optimistic assumptions regarding wholesale pork demand. In the picture below I show my projections of the weekly demand index through January, with the last red bar representing the week just ended:



Clearly, I am assuming a swift and sizeable recovery in demand between now and January, but considering the depths from which it is (presumably) recovering, and considering the strong prospect of

aggressive retail featuring during the holidays and beyond, these demand expectations seem reasonable. Besides, I'm only talking about a restoration of the demand index to its October readings. Anyway, this makes for an above-average rally in the cutout value over the next two months.

I am mildly interested in the long February/short April spread because of the picture on the first page. However, even if the fundamentals do indicate that the February contract should be trading at a premium to the April, as I suggest in the table below, I must say that I do not have a lot of confidence in my current assessment of the ultimate value of the April contract. If the April premium widens to \$6.00 again, the risk will be limited to about 100 points. Under those conditions, a bet can be justified.

Forecasts:

	Dec*	Jan*	Feb	Mar	Apr	May*
Avg Weekly Hog Sltr	2,491,000	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	2,425,000	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	\$71.00	\$74.25	\$77.00	\$75.50	\$76.50	\$84.50
Year Ago	\$79.14	\$80.74	\$78.04	\$72.71	\$68.08	\$73.59
CME Lean Hog Index	\$58.50	\$65.00	\$70.50	\$65.50	\$68.50	\$79.50
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.