

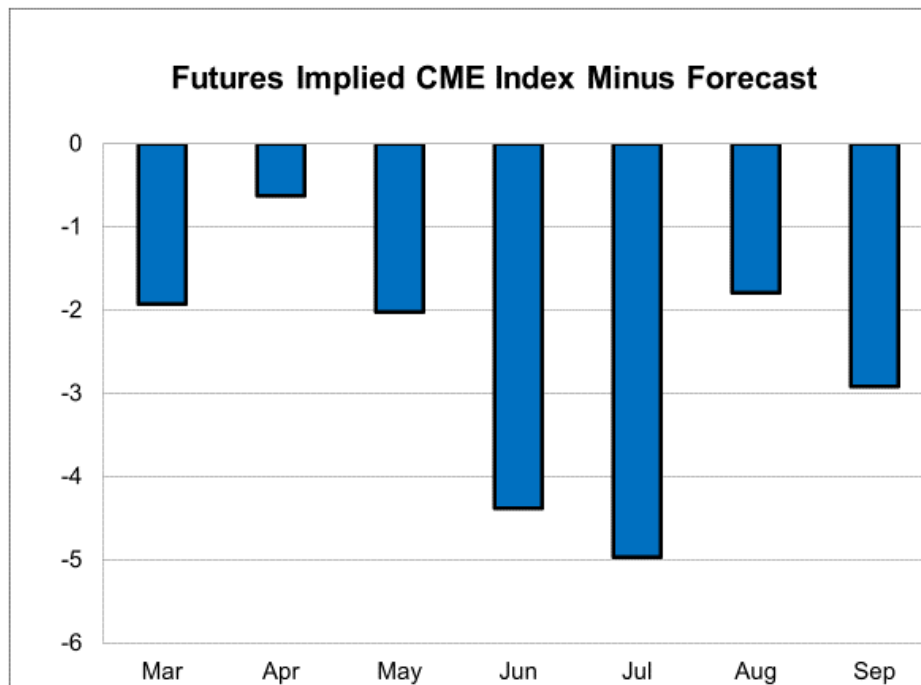
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

---

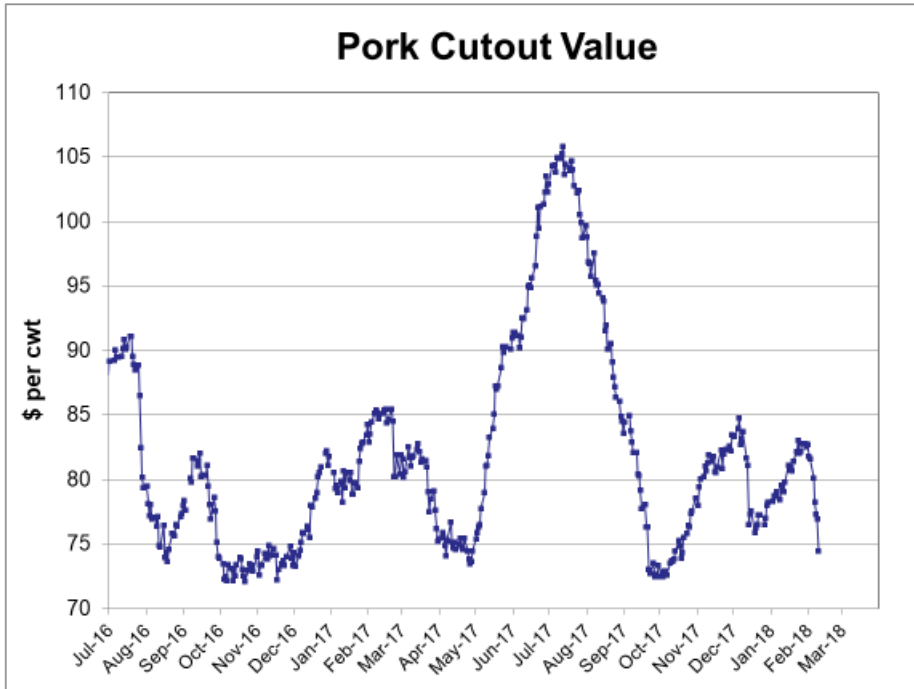
February 12, 2018



I sold the April contract in moderate quantity today at \$70.50 per cwt. I will risk this position up to a close above \$71.70, as \$71.67 was the low end of the outside range posted on February 2. Now that the market has closed five times below that range, a close back within it would signal a test of

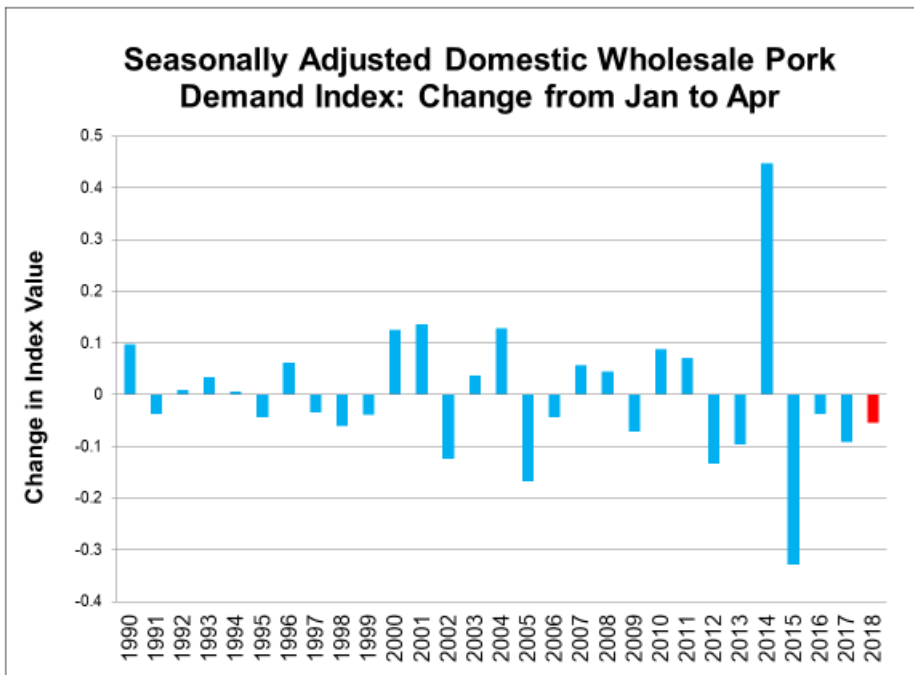
the upper end (\$74.12). The area between \$70.62 and \$70.97, being a former range of massive support, should now represent strong resistance. My downside target is somewhere in the neighborhood of \$67.00.

While my short-side bet is merely an attempt to “pile on” to a powerfully bearish technical formation in the absence of any fundamental backing, I am now thinking more seriously about a long position. I have my eye on the gap on the daily chart of April hogs at \$66.35. One main reason why this idea appeals to me more than it did a week ago is because hams and bellies—and therefore the pork cutout value—are breaking down earlier and more precipitously than I had anticipated. Bellies have drawn within 10¢ per pound of what very well could be their ultimate low (\$1.08-\$1.10), and 23-27-pound hams have already reached the level at which I had anticipated a post-Easter bottom. There may be more downside potential in these two items than I perceive; but if so, it’s not likely to amount to much. Correspondingly, the cutout value is now within a couple dollars of the major lows established in late September 2017; in April 2017; and in October 2016. Unless I am severely overestimating demand, it will not spend any appreciable amount of time below that level. In any case, it makes sense that an earlier breakdown in the cash markets would lead to an earlier bottom.



To refresh your memory, I am basing my forecast of a \$72.50 average CME Index in April on the notion that the change in wholesale pork demand from January to April will be weaker than seasonally normal—just not as much as it was last year. It probably qualifies as a

conservative assumption. It is displayed graphically in the picture below.



I am also assuming that packer margins will relax somewhat, from last week's quoted average of +\$7.38 per cwt to \$12. [It averaged \$14.89 in January vs. \$21.65 a year earlier; and in April 2017 it was \$17.61.] Of course, if margins do not expand from their

current reading, then it would make for a higher CME index than I am forecasting.

Respecting the picture on the first page, I will probably wait for the \$66.35 gap at to be filled in the April contract, but use that as a trigger to buy June hogs instead.... It would probably be trading in the \$76.50 to \$77.00 range.

Forecasts:

	Feb	Mar	Apr	May*	Jun	Jul*
Avg Weekly Hog Sltr	2,363,000	2,358,000	2,362,000	2,323,000	2,278,000	2,291,000
Year Ago	2,327,100	2,326,700	2,285,400	2,250,200	2,183,400	2,211,300
Avg Weekly Barrow & Gilt Sltr	2,296,000	2,290,000	2,295,000	2,255,000	2,210,000	2,225,000
Year Ago	2,262,400	2,260,900	2,220,200	2,185,200	2,117,200	2,149,300
Avg Weekly Sow Sltr	60,000	61,000	60,000	61,000	61,000	59,000
Year Ago	58,400	58,900	58,100	57,900	58,800	55,000
Cutout Value	\$74.50	\$76.75	\$79.00	\$85.00	\$91.00	\$88.50
Year Ago	\$84.08	\$80.20	\$74.86	\$84.92	\$97.04	\$103.48
CME Lean Hog Index	\$71.25	\$70.00	\$72.50	\$80.50	\$85.00	\$83.00
Year Ago	\$74.16	\$71.50	\$62.60	\$72.28	\$86.09	\$91.47

*\*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](mailto:Kevin_Bost@comcast.net); or visit our website at [www.procurementstrategiesinc.com](http://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.