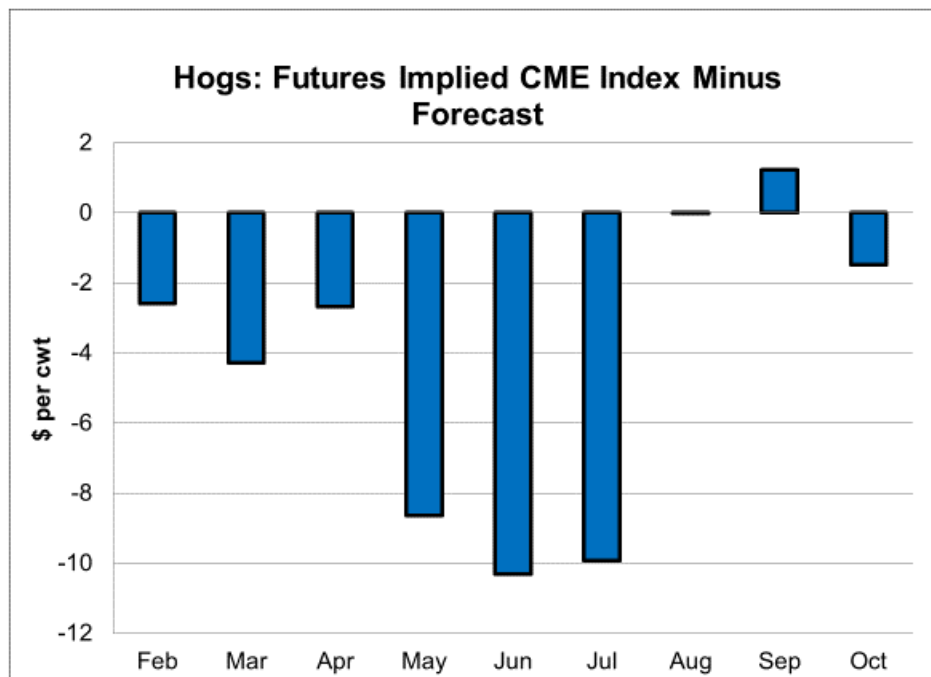


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

February 2, 2019



Having been stopped out of a long position in February hogs a week ago, my only bet on the table at the moment is on the short side of the April contract. I'll reiterate that this is

purely a technically-motivated trade, since April futures actually appear to be somewhat undervalued. There is no discernible support in this market between here and about \$58.50. Also, if one can loosely define the broad range from which the massive breakdown occurred as \$65.50-\$72.00, then a downside objective might be approximated at \$59.00. That's about the extent of my technical wizardry. So, then, I hope to cover my short position somewhere in the neighborhood of \$59.00....but given the likely undervaluation in the April contract, I'll be quick to cover upon a relatively minor violation of resistance. I'm thinking that this resistance level might be Friday's high of \$60.87.

Before I go any further, I should say that I have no immediate plans to buy either the June or July contract. The notion that these may be vastly underpriced is dependent on the assumption that there will have been a surge in export sales by then....and this is a fairly likely scenario, I think. I'm just not willing to bet my

money on it just yet. Too much uncertainty. For the time being, I am restricting my trades to the front end.

On that subject, just about all of the “Swine Fever” premium has been deflated, which is natural for a market that stands around waiting for something to happen. What if there is still no material increase in exports to China by June? If I factor in an export volume of 35 million pounds to China/Hong Kong/Taiwan in June, compared with 34 million in June 2018 and my current projection of *125 million*, then net domestic pork supplies would be nearly 3% larger than a year earlier; and if wholesale pork demand were also to match the year-earlier pace, as opposed to jumping in response to the shortened domestic supply; then the pork cutout value would average about \$82 per cwt in June, and the CME Index would average \$76-something....which is where the board trades right now.

At what point, then, would I be willing to buy June hogs? Frankly, I don't know at this point. But the board would have to be substantially undervalued relative to the “null hypothesis”; and given that the June chart has broken down similarly to the April contract and the trend now points downward, my entry point would probably be \$72.00 or lower.

As for the long side of the April contract, my forecast of a \$63 average CME Index in April *does* include a significant increase in exports (not nearly as much as in June, however), but does not assume any material increase in domestic demand by then—nothing beyond the seasonal norm. If I factor in a flat export picture, then the “fair value” of the April contract is reduced to about \$61. Thus, I probably would not buy April hogs outright anywhere above \$58.25. I must say that I am enticed by the existence of a gap on the daily chart at \$63.42, which has an excellent chance of being filled eventually.

An alternative to an outright long position in April hogs is the long April/short June spread (in the spreads, also, I am staying in the front end of the market), which made a new low of \$16 per cwt on Friday. I probably don't need to tell you that this is an extraordinary June premium, to say the least; only three times has it even been in the same ballpark in the first week of February: in 2008 (\$13.53); 2009 (\$12.32); and 2015 (\$11.80).

Until there is some solid evidence that the cash hog market is ready to resume its uptrend that began in the final week of December, the bull spread might be preferable; I would enter the spread if the April contract drops down to \$58.25 instead of buying the April at that price.

Forecasts:

	Feb	Mar	Apr	May*	Jun	Jul*
Avg Weekly Hog Sltr	2,490,000	2,463,000	2,403,000	2,321,000	2,284,000	2,244,000
Year Ago	2,396,090	2,403,610	2,370,400	2,258,700	2,220,400	2,160,700
Avg Weekly Barrow & Gilt Sltr	2,422,000	2,395,000	2,335,000	2,255,000	2,215,000	2,180,000
Year Ago	2,330,170	2,338,350	2,304,900	2,195,200	2,154,700	2,099,000
Avg Weekly Sow Sltr	61,000	61,000	61,000	59,000	61,000	57,000
Year Ago	58,640	58,540	58,500	56,600	58,400	54,700
Cutout Value	\$69.25	\$71.50	\$74.00	\$85.00	\$92.00	\$93.50
Year Ago	\$78.04	\$72.71	\$68.08	\$73.59	\$83.18	\$82.70
CME Lean Hog Index	\$59.00	\$61.50	\$63.00	\$76.50	\$86.50	\$88.00
Year Ago	\$71.61	\$63.51	\$56.47	\$66.77	\$81.13	\$78.73

**Slaughter projections include holiday-shortened weeks*

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