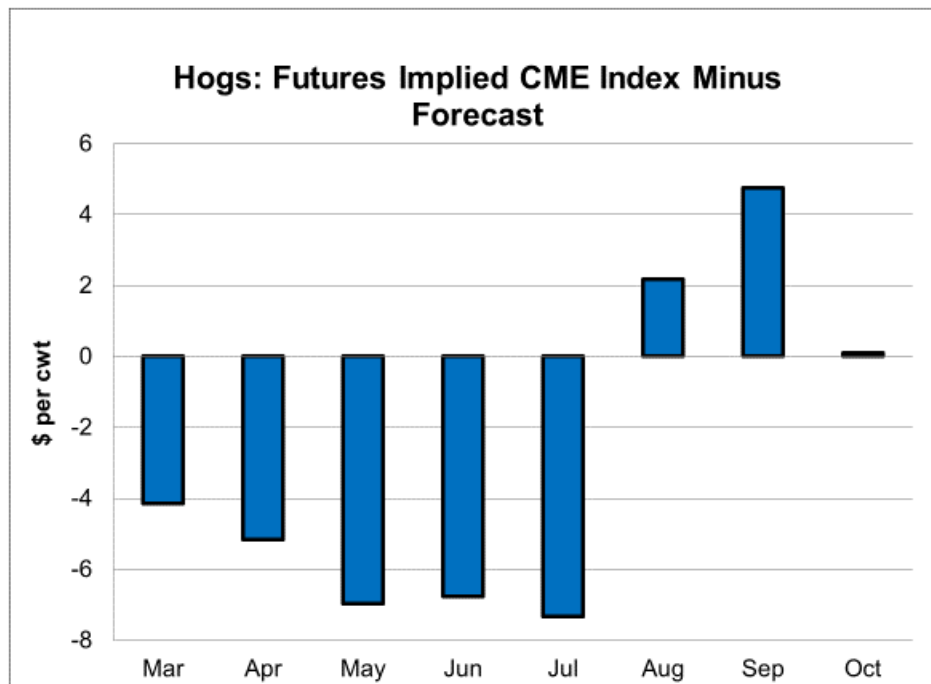


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

February 25, 2019

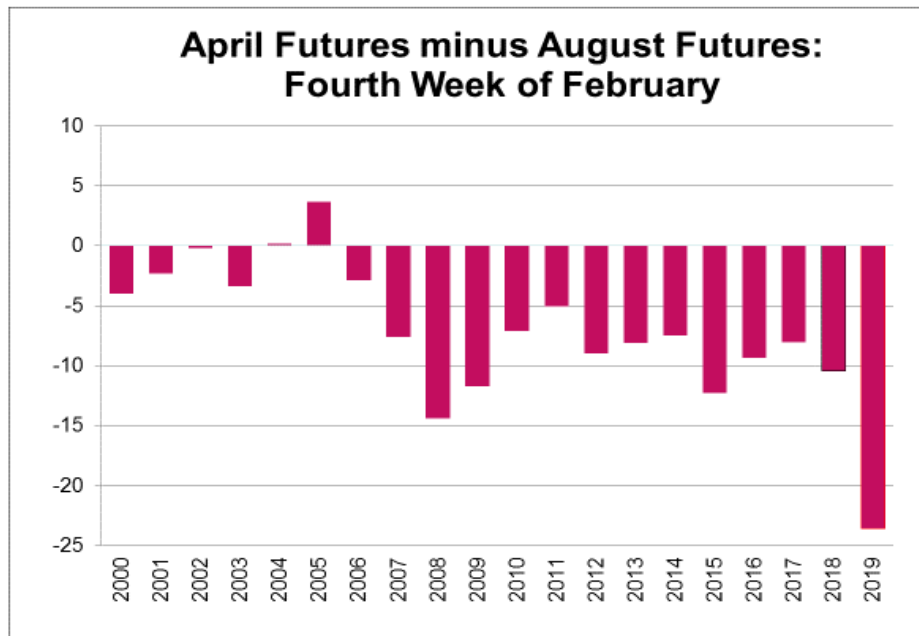


My general approach to the hog market is to confine outright long or short positions to the front end of the market-- unless I can buy the June or July contracts near \$70.00, at

which point the market will have priced in zero "export premium" due to African Swine Fever in China. But I am increasingly drawn to the long April/short August spread.

The basic merits of this spread are summed up in the picture above and the picture on the next page. My assessment of "fair value" in the August contract includes both an enormous increase in U.S. pork exports by that time--562 million pounds, up from the current pace of 495 million and up 28% from a year earlier--and a rather sharp recovery in domestic wholesale pork demand, the two of which would presumably go hand-in-hand. And yet, even by this standard, August futures appear to be overvalued. In contrast, the April valuation assumes a slight year-over-year decrease in exports.

The second picture speaks for itself. I think it's fair to say that the \$23 premium of August over April futures is extraordinarily steep right now.

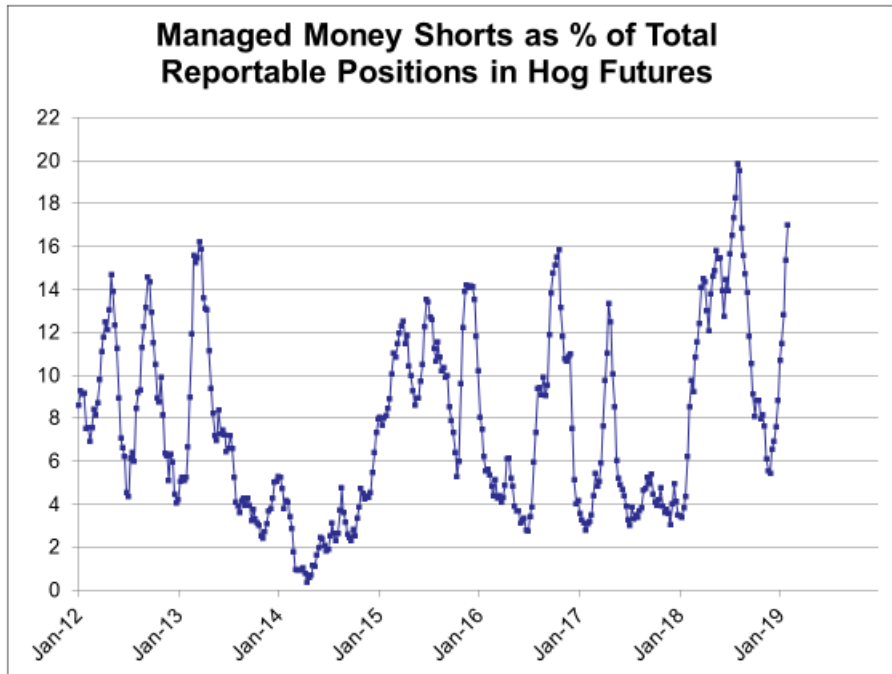


The April/ August spread would not be nearly as appealing if the probabilities favored a continuation of the downtrend in cash prices. But as best I can tell, they do not. And so this

spread, as risky as it can be, serves as a proxy for an outright long position in the April contract. And lately, the April contract has not been kind to those betting from the long side.

But that situation will change, and in view of the extremely weak demand readings at present, that change is likely to come sooner rather than later. My forecast of an average CME Lean Hog Index of \$56.50 per cwt in March-- compared with the current estimate of approximately \$52.50 for today's kill-- assumes a very gradual and rather modest recovery in demand. Importantly, it also assumes that hog slaughter will taper off to 2,480,000 in March and 2,410,000 in April. Of course, it is possible that slaughter will not decline at all, but we're talking about probabilities here. And this projection best aligns with the summer and fall pig crop estimates. The first material "uptick" in the Index will be pivotal.

Finally, the short position among managed money traders has become preponderant. The Commodity Futures Trading Commission is still catching up on its *Commitments of Traders* reports and the numbers are three weeks old, but the most recent reading showed that the percentage of total open interest held by "Managed Money Shorts" was approaching the highs that it reached last August....when the market was establishing a major low. At the same time, the short position held by commercial traders was small and getting smaller.



Forecasts:

	Feb	Mar	Apr	May*	Jun	Jul*
Avg Weekly Hog Sltr	2,507,000	2,478,000	2,409,000	2,326,000	2,289,000	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	2,439,000	2,410,000	2,340q,000	2,260,000	2,220,000	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	\$62.50	\$65.00	\$72.00	\$81.50	\$88.50	\$91.50
Year Ago	\$78.04	\$72.71	\$68.08	\$73.59	\$83.18	\$82.70
CME Lean Hog Index	\$53.50	\$56.50	\$60.50	\$72.50	\$82.50	\$86.00
Year Ago	\$71.61	\$63.51	\$56.47	\$66.77	\$81.13	\$78.73

*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.

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