

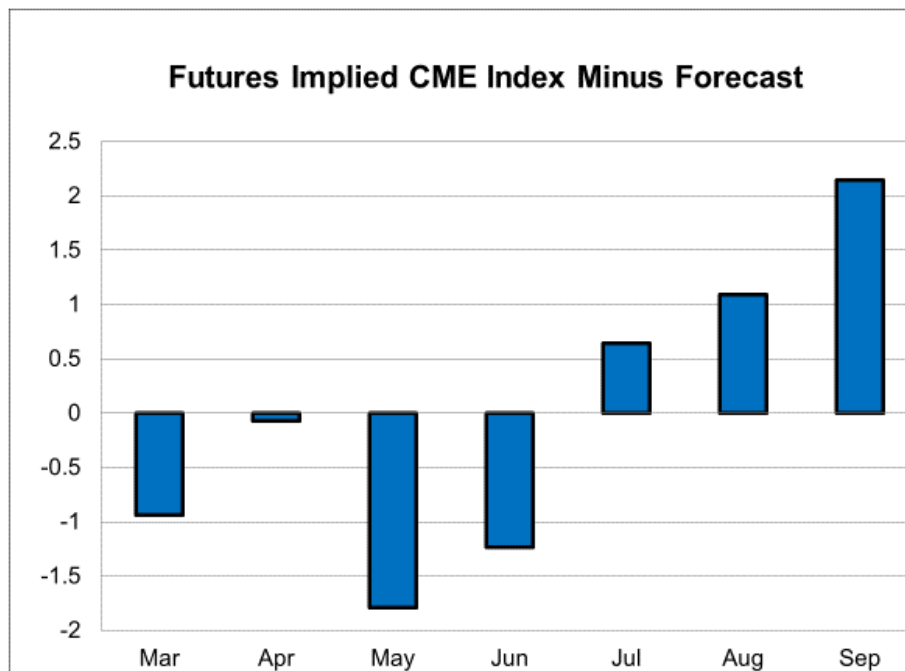
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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February 27, 2018

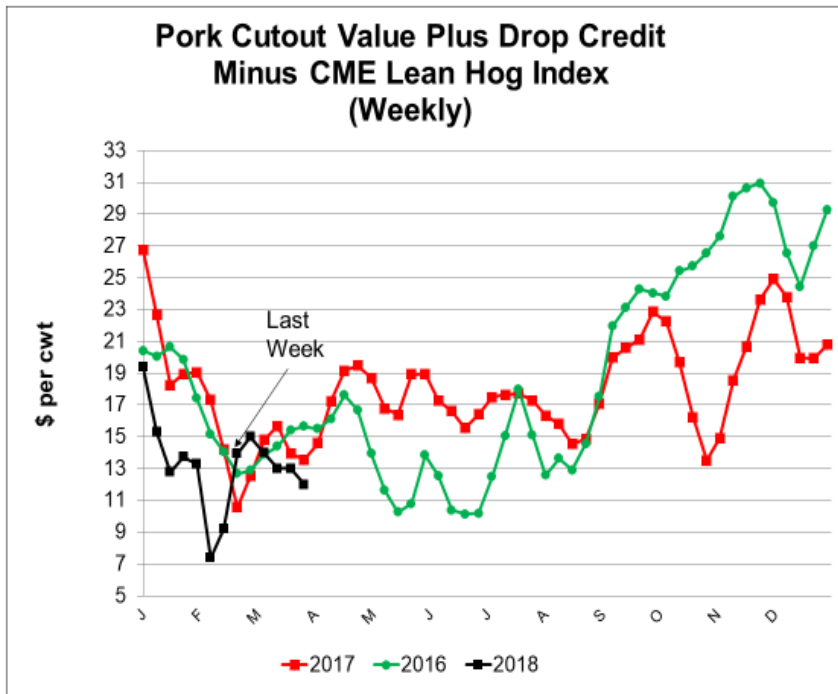


I have given up on the downside target of \$66.50 and abandoned my short position in April hogs, because of the market's ability to rally above its ten-day moving average and subsequently drive through the previous week's high. Since I was short of a market that did not appear to be fundamentally

overvalued and I was betting purely on a swift extension of technically-driven downward momentum, these were "deal-killers". The short-term trend has shifted from downward to sideways. Time to look toward the next trading opportunity.

At the moment, I don't know what that might be. The picture above does not inspire any visions of a "pot of gold at the end of the rainbow".

Some of the key variables in the near-term forecasting equation are pointing in different directions. To begin with, packer margins have suddenly ballooned. I have a hard time understanding why this has happened. Quoted gross packer margins fell below a year earlier last September, and remained there through the week ended February 17.... perfectly reasonable, given the additional slaughter capacity that came on line last fall. But over the last two weeks, they have gone from +\$7 per cwt to about +\$16.50, where they stood as of yesterday. This compares with +\$13 at this time in both 2017 and 2016. Is this a temporary condition? I have to think so, since the basic packer competition-related conditions that have been in place since last fall have not changed materially. Now, if spot margins were to remain this "narrow" for several more weeks, I would begin to think differently. But in the meantime, I will expect them to shrink by roughly \$3 per cwt over the next two weeks. This, of course, would allow cutout values to lose that much ground without pushing hog prices any lower.



The CME Lean Hog Index for today's kill stands in the neighborhood of \$68.50. This would be an odd place for the market to bottom, since there is no discernible support on the chart until \$65.51. However, the negotiated hog price yesterday registered its first uptick in eleven trading days.... a faint signal, perhaps, but not one to be ignored.

I am surprised by the recent resilience of the pork cutout value, but I still have to think that its next significant move will be downward. In view of the belly market's springtime behavior in the last two years, and given the significant year-over-year increase in belly supplies in the months ahead, prices likely will have to come down in order to keep supply and demand in balance. Also, with a wary eye on the rumored ham business with China, I expect that ham prices—in accordance with their very consistent seasonal tendency—will decline into the final week of March. The nearest support level on the chart of the cutout value lies in the neighborhood of \$75 per cwt, which would require a simultaneous trade at \$.55 per pound in hams and \$1.20 in bellies, with all else holding steady. A stronger underpinning in the cutout value lies at about \$72.50, which would probably require a sub-\$1.10 belly market. Even after a \$3 per cwt reduction in packer margins, a \$72.50 cutout value would place the CME Index at \$64.50. It's not out of the question.

Partly because of the lingering gap on the daily chart of April hogs at \$66.35, I am more inclined to be a seller at the high end of the recent trading range (near \$72.00) than a buyer at the low end (\$68.50). But if I do either, my profit objective will be rather small—something like 150 points.

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Hog Sltr	2,373,000	2,362,000	2,323,000	2,278,000	2,291,000	2,392,000
Year Ago	2,326,700	2,285,400	2,250,200	2,183,400	2,211,300	2,304,600
Avg Weekly Barrow & Gilt Sltr	2,305,000	2,295,000	2,255,000	2,210,000	2,225,000	2,325,000
Year Ago	2,260,900	2,220,200	2,185,200	2,117,200	2,149,300	2,241,600
Avg Weekly Sow Sltr	61,000	60,000	61,000	61,000	59,000	59,000
Year Ago	58,900	58,100	57,900	58,800	55,000	55,500
Cutout Value	\$77.75	\$77.00	\$83.00	\$89.00	\$88.00	\$88.50
Year Ago	\$80.20	\$74.86	\$84.92	\$97.04	\$103.48	\$91.67
CME Lean Hog Index	\$70.00	\$70.00	\$78.00	\$83.50	\$82.50	\$82.00
Year Ago	\$71.50	\$62.60	\$72.28	\$86.09	\$91.47	\$81.41

*\*Slaughter projections exclude holiday-shortened weeks*

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