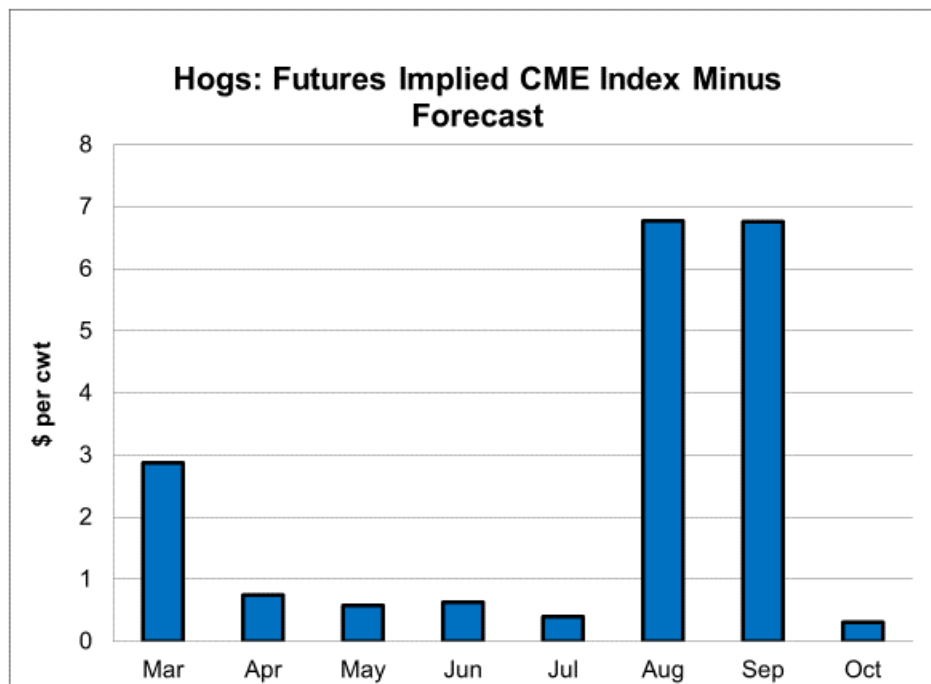


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

March 10, 2019



I am temporarily dropping the long leg of the April/August spread, with the expectation of either buying the April contract again around \$58.50 or replacing it with the June

contract. From a fundamental standpoint, the merits of the bull spread using either of the two long legs appear to be approximately equal, but there are some subtle differences.

One consideration is that the hog market in general is subject to a massive amount of short-covering--owing, of course, to the heavy concentration of short positions among Managed Money traders--and open interest in the April contract is still considerably larger than in the June contract. Thus the short-covering support could be greater in the April. But I also imagine that the April/August spread would perform best if the April contract were to be charging upward into expiration, and I am a bit doubtful that this will be the case. April futures have already priced in an \$8 per cwt rally in the CME Lean Hog Index within the next five weeks. Since packer margins have been widening, not shrinking, over the past two weeks, the pork cutout value would probably also have to gain \$8 per cwt in order to push the CME Index above \$60 by the middle

of April. Only once before (in the “PEDv Year” of 2014) has the cutout value rallied that much from the first week of March to the second week of April. And it’s not *that* hard to imagine, since the pork market has been in a “demand-building” mode since the first of the year....but once again, the board has already discounted as much.

The June contract, on the other hand, closed Friday above an obviously significant resistance level (\$78.00) and appears to be headed upward. Strong support should now be found somewhere in the neighborhood of \$76.75. At Friday’s close, June hogs stood \$2.50 per cwt below the August contract; if the cash hog market has finally begun a major leg up, as I suspect, then I really don’t see why the June contract could not eventually move to a premium.

As for the August contract by itself, the ultimate value naturally depends on how much export business can be generated by then. And that question remains quite the mystery, even to those who are much closer to the situation than I. But my humble forecast of a \$74 per cwt average CME Index in August includes the assumptions that exports to China/Hong Kong/Taiwan will be running at a pace of 100 million pounds per month by then, vs. 47 million pounds here in March and 23 million pounds a year earlier; exports to Mexico, 150 million pounds vs. 135 million in March and 141 million a year earlier; and total U.S. pork exports of 548 million pounds vs. 551 million pounds in March and 438 million a year earlier. [In case you’re wondering, there is a pronounced seasonal tendency for shipments to Korea and Australia, and therefore total exports, to decline from March to August.] Anyway, the board has discounted either a much greater rate of exports or a considerably stronger rate of domestic demand. The two would most likely go hand-in-hand. Anyway, this contract is bumping up against the primary downtrend line originating from the contract high, and so far has only shifted into a sideways mode.

In any case, I will not waste much time re-establishing the bull spread. I have no taste for the naked short side of any part of the hog market at this stage of the game, with the cash markets just now beginning to recover from a severe state of depression.

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Hog Sltr	2,495,000	2,408,000	2,325,000	2,288,000	2,243,000	2,457,000
Year Ago	2,403,610	2,370,400	2,258,700	2,220,400	2,160,700	2,423,700
Avg Weekly Barrow & Gilt Sltr	2,428,000	2,340,000	2,260,000	2,220,000	2,180,000	2,390,000
Year Ago	2,338,350	2,304,900	2,195,200	2,154,700	2,099,000	2,358,200
Avg Weekly Sow Sltr	60,000	60,000	58,000	60,000	56,000	59,000
Year Ago	58,540	58,500	56,600	58,400	54,700	58,100
Cutout Value	\$67.00	\$71.25	\$78.00	\$84.50	\$87.50	\$86.50
Year Ago	\$72.71	\$68.08	\$73.59	\$83.18	\$82.70	\$69.05
CME Lean Hog Index	\$54.75	\$59.75	\$68.50	\$77.50	\$79.50	\$74.00
Year Ago	\$63.51	\$56.47	\$66.77	\$81.13	\$78.73	\$55.46

**Slaughter projections include holiday-shortened weeks*

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