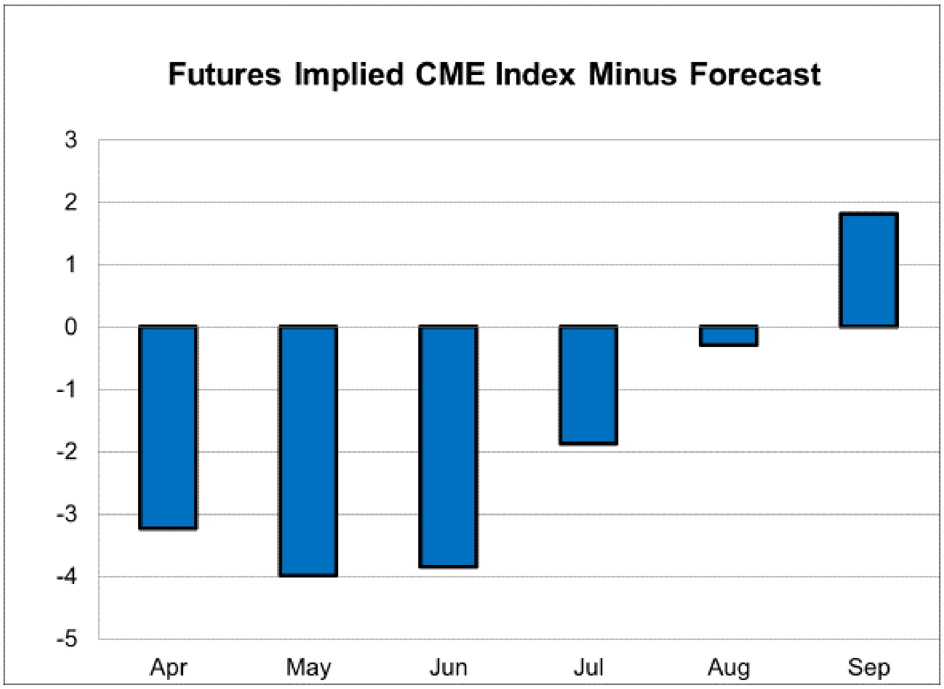
Trading Hogs
…. from a meat market perspective

A commentary by Kevin Bost

March 15, 2018

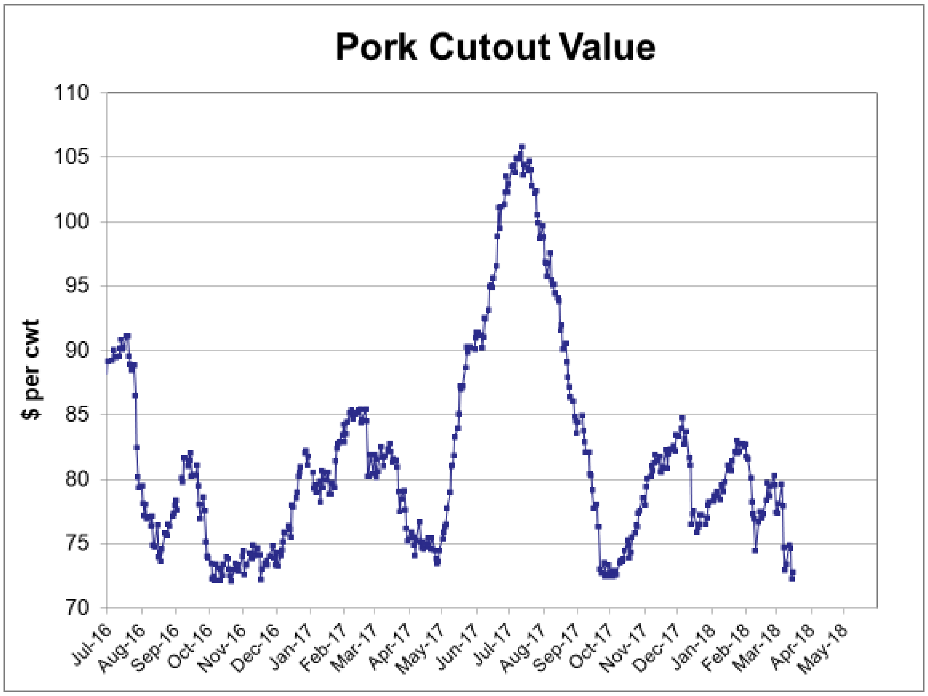


I am buying April hogs as closely to $65.50 as possible, expecting this contract to fill the gap it left on the daily chart on February 28 at $69.80. I will risk the trade down to two consecutive closes below the current contract low ($65.05).

This market is not what I would call "vastly undervalued", but there is a good chance that the pork cutout value has practically exhausted its downside potential. This is the primary reason why I am willing to place a bet at this time. This afternoon, 23-27 pound hams were quoted at $.54 per pound, the approximate location of five previous major lows since February 2017, including last year's post-Easter bottom. Now, there is no rule that says ham prices have to stay above a year earlier; but so far in 2018, they *have* averaged about a nickel higher. Skin-on pork bellies were quoted today at $1.04 per pound, very near an obvious support level. Among the remaining pork products, I can identify none which seem poised for a signifcant move in either direction through the balance of the month.

Of course, we're trading hogs and not pork, and so I am depending on packer margins to stay about where they are for the next four weeks in order to "stop the bleeding" in the cash hog market, with quoted gross margins averaging $12 per cwt vs. $14.84 and $15.68 over the same periods in 2017 and 2016, respectively. Thus, if the cutout value begins to appreciate in the first week of April as I expect, it should pull the cash hog market up along with it.

My guess is that the single-day CME Lean Hog Index for tomorrow's kill will be about $64.70 per cwt. I must admit, it is a bit unsettling that the nearest discernible support level on the chart lies at $61.48, which was the low of December 27. If the Index is to lose another $3 before it hits bottom, then this long position will probably not work out so well. But this is why we use stop-loss protection, right?



Finally, my perception is that the April contract will probably not manage to break decisively into new contract lows unless it is dragged downward by the cash markets. I say this because the long position among large speculators is very small, comprising only 12.3% of the total "pie"—and that was as of Tuesday, March 6; quite likely, it is smaller than that today. The point is that there does not seem to be enough fuel for long liquidation to plunge this market sharply lower in the absence of any bearish "news". Also, I notice that on a closing basis, April hogs have lost 125 points, and they have yielded this ground grudgingly.

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Hog Sltr	2,388,000	2,363,000	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	2,320,000	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	$73.50	$75.75	$81.50	$88.50	$88.00	$88.00
Year Ago	$80.20	$74.86	$84.92	$97.04	$103.48	$91.67
CME Lean Hog Index	$66.25	$69.00	$76.75	$83.00	$82.50	$81.25
Year Ago	$71.50	$62.60	$72.28	$86.09	$91.47	$81.41

**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 or Kevin_Bost@comcast.net; or visit our website at www.procurementstrategiesinc.com.