

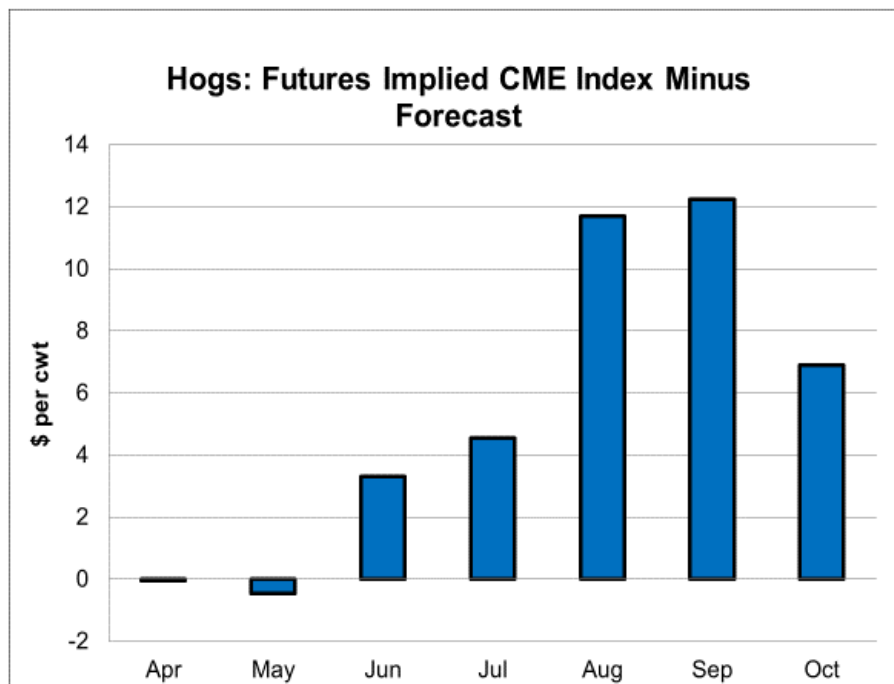
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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March 31, 2019



I have no money on the table in the hog market right now, but I am contemplating a trade on the long side of the June contract. I refer to it as a “trade” as opposed to a “position”, because the board does not appear to be

undervalued. As you probably know by now, it is very rare that I would consider buying a market that is not trading substantially below my cash price forecast. I make exceptions to this rule only when the technical case is compelling.

This is a rather vague observation, but I don't think I have ever seen a livestock market that has exploded upward to the extent that this one has, and then immediately given it all back--creating something on the chart that looks like a very tall poplar tree. Even if the futures market has already reached its ultimate peak (which is questionable), it's highly likely to challenge that peak before long.

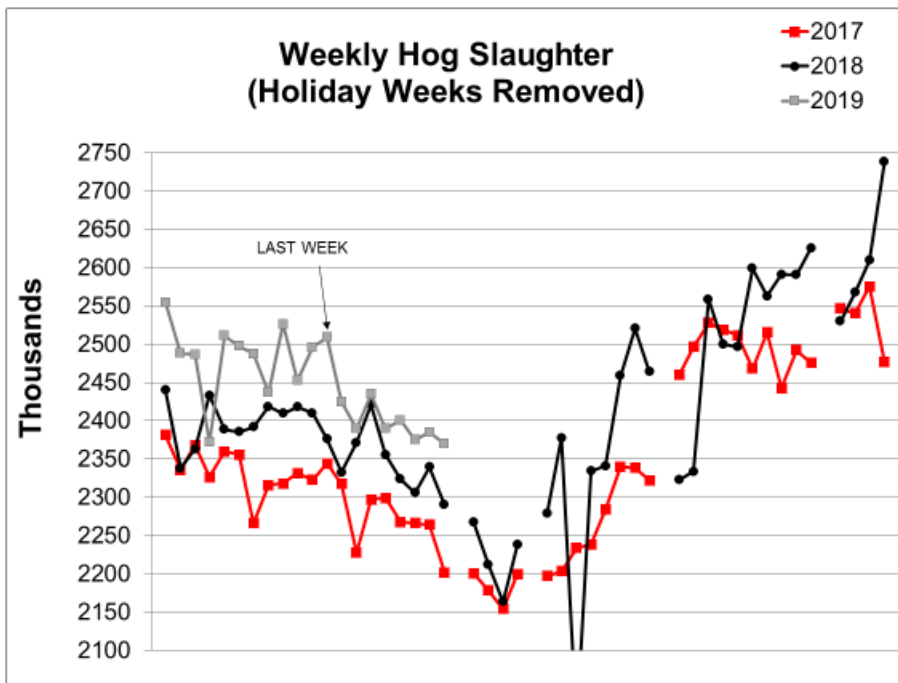
I notice that in the June contract, a 50% retracement of the rally from its “launching point” (\$75.80 per cwt on March 8) to the contract high (\$97.82) would be \$86.80. If measured from the major bottom at \$72.20 (February 20), a 50% retracement would be \$85.00. I'm not sure whom I should consult for a ruling on this matter, but I am inclined to attach more significance to the former.

Obviously, the previous contract high of \$85.52 is now a natural support level, and an important one.

And so let it suffice to say that I am looking for the current pullback in June hogs to stop somewhere in the \$86-\$87 range, followed by a test of the contract high....or at minimum, a rebound to the ten-day moving average. As of Friday's close, that average stood at \$92.20. Thus, even a relatively modest rebound would present a sizeable profit opportunity. Since I would essentially be betting that \$85.52 will provide a solid floor for the time being, it would make sense to place the close-only stop at \$85.50.

Apart from nebulous anticipation of further, massive purchases of U.S. pork, is there any fundamentally-based motivation for buying June hogs right now? Well, yes....maybe.

Up to this point, the rally in the cash market has been fueled by demand at the wholesale level. A major part of it has been ignited by meat processors and end-users (and perhaps importers) rushing to get covered. But a part of it was also a natural result of the cheap prices that prevailed in January and February. Hog slaughter, although it has gyrated from week to week, has not yet begun its seasonal decline. This bullish influence still lies ahead; and if USDA's estimate of the fall 2018 pig crop is accurate, then it should "kick into gear" very soon:



The pork cutout value lost its upside momentum late last week, but there is a good chance that it will resume its uptrend as production tapers off. Packer margins, though, have

narrowed considerably within the past week--temporarily, I think--and so there is

a good chance that the CME Lean Hog Index will not keep pace with gains in product prices for a while.

A week from now, this entire discussion may be irrelevant. If this buying opportunity is to be presented, then it probably will happen within the next few days. If my buy orders are not filled, then I will be content to stay on the sidelines until I am able to enter on my own terms. I have to remind myself that as carefully as I have considered all factors in the forecasting equation, I do not have the usual level of confidence in *any* of them, except for hog slaughter; export volumes, wholesale pork demand, and packer margins are wildly moving targets right now. Until supply and demand come into closer balance, trading hog futures on the basis of my price forecasts is a little too much like gambling.

Forecasts:

	Apr	May*	Jun	Jul*	Aug	Sep*
Avg Weekly Hog Sltr	2,410,000	2,324,000	2,287,000	2,247,000	2,462,000	2,521,000
Year Ago	2,370,400	2,258,700	2,220,400	2,160,700	2,423,700	2,359,000
Avg Weekly Barrow & Gilt Sltr	2,343,000	2,260,000	2,220,000	2,185,000	2,395,000	2,455,000
Year Ago	2,304,900	2,195,200	2,154,700	2,099,000	2,358,200	2,294,600
Avg Weekly Sow Sltr	59,000	57,000	59,000	55,000	59,000	58,000
Year Ago	58,500	56,600	58,400	54,700	58,100	56,500
Cutout Value	\$86.00	\$92.00	\$94.00	\$97.50	\$95.00	\$88.50
Year Ago	\$68.08	\$73.59	\$83.18	\$82.70	\$69.05	\$74.33
CME Lean Hog Index	\$77.50	\$82.00	\$85.00	\$87.50	\$81.50	\$70.50
Year Ago	\$56.47	\$66.77	\$81.13	\$78.73	\$55.46	\$55.31

*\*Slaughter projections include holiday-shortened weeks*

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