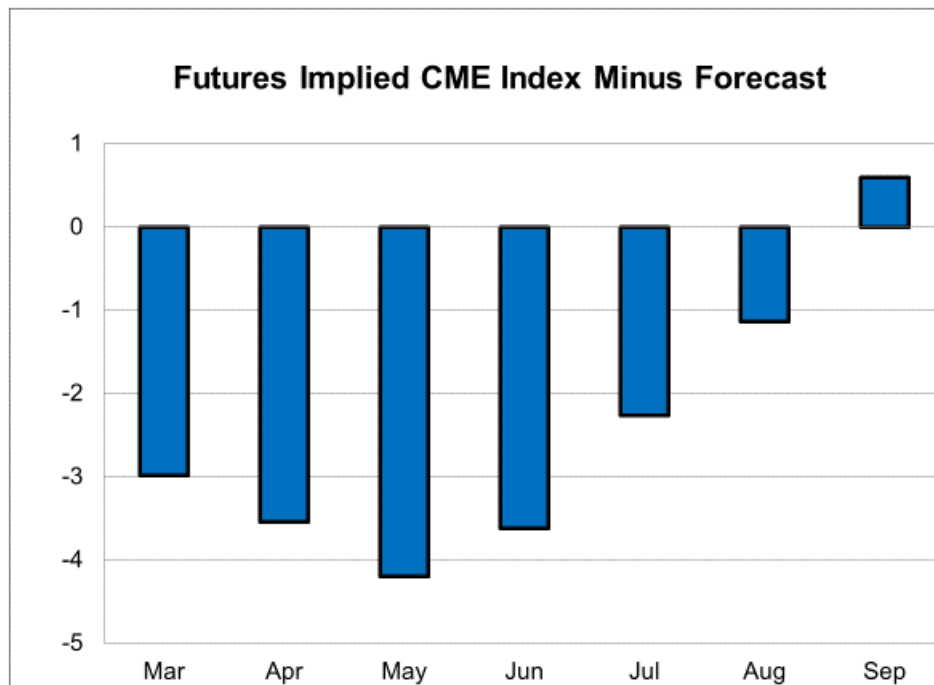


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

March 7, 2018

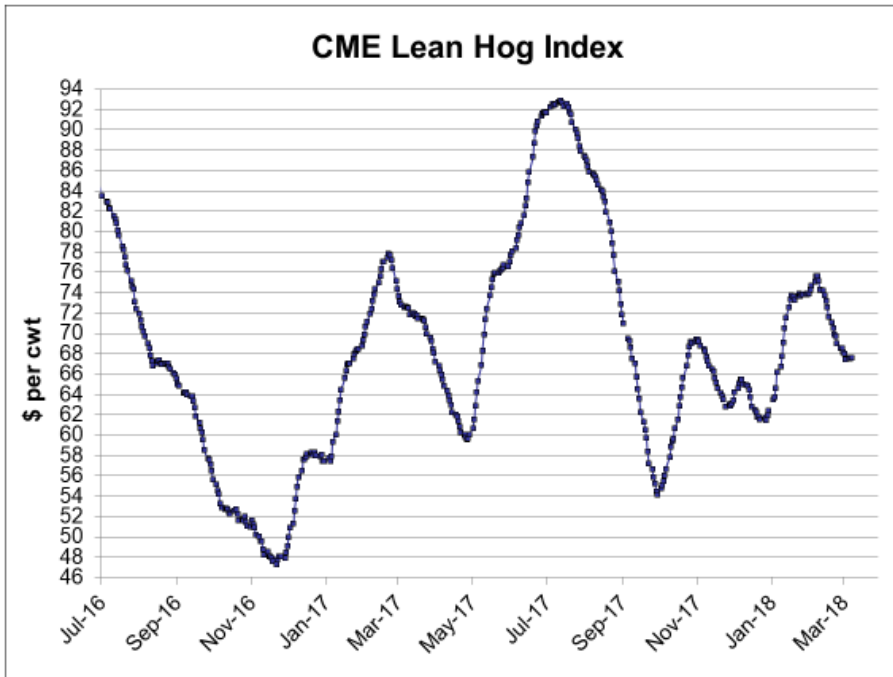


I intend to place a bet on the long side of the April contract if it trades down to the gap it left on the daily chart on August 31. If it doesn't get that low, then I'll have to reassess. I do not view this as a huge opportunity, but my best guess is that the April contract is worth approximately

\$71, making for a good chance that the gap left last Wednesday (\$69.80) will be filled. And so, a profit potential of 350 points and a risk of 150 or so presents an acceptable proposition.

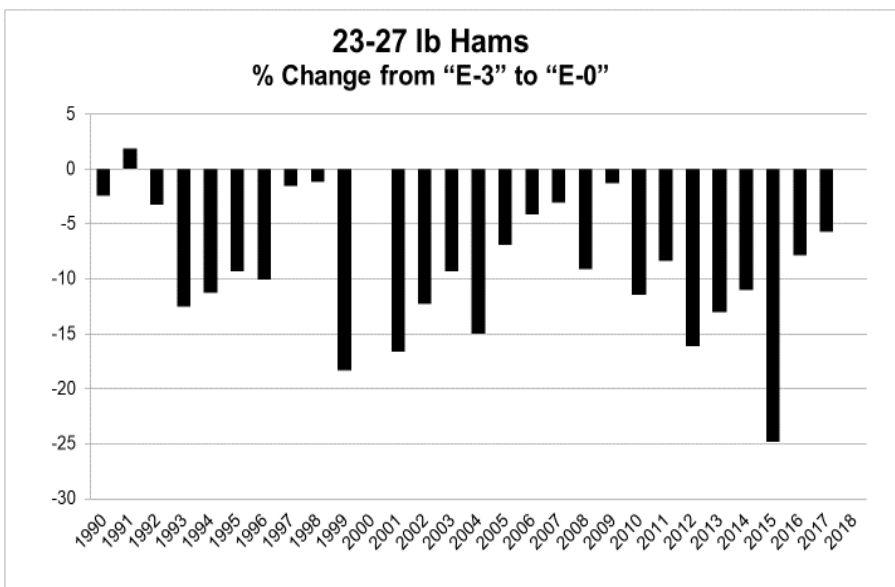
Gaps, gaps, gaps. Sometimes I place too much faith in them, but the truth is that the livestock markets are very consistent about filling them eventually. And observing the charts from a distance, it is obvious that this is a market that has established a major top and is trending downward. The breakdown of support at \$70.62 was a *big* deal. It is only my humble assessment of fundamental value that prevents me from thinking that prices are not going a lot lower.

On that subject, I estimate that the single-day CME Lean Hog Index for today's kill stands at about \$67.60, which positions the futures-to-cash basis at zero. On Monday we saw the first uptick in the Index in 19 trading days. Considering the price level, this is probably a signal that the cash market is "catching". However, that doesn't necessarily mean that it will turn around immediately; it could still be trading at this level two weeks from now. Also, I notice that there is no discernible support on the chart if the CME Index between here and \$65.44. And, it seems likely that the pork cutout value will go down until the ham market bottoms out—most likely in the final week of March.



The ham market is critical to the behavior of the cash hog market and the futures market over the next several weeks. I am aware of the possibility that extraordinary export business (to China) could prevent ham prices from following their extremely consistent

seasonal path in the near term, which I show in the picture below. But I am not privy to any details regarding the size of this export business, and so I just have to let the market give me the answer. It goes without saying that I am paying very close attention to ham prices. In the picture, "E-3" designates the third week prior to Good Friday, the week we are in right now.



I am convinced that pork belly prices will have more work to do to the downside in order to generate sufficient demand for the spring and summer, and will remain subdued throughout the month of March.

Of course, packer margins remain a very important determinant as well. My assumption is that quoted gross margins will narrow from their current reading of +\$15.50 per cwt to +\$12 by the end of the month. If, somehow, they were to remain where they are right now, then the CME Index probably *would* work its way down to \$65-something before the April contract expires....

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Hog Sltr	2,377,000	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	2,308,000	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	\$78.00	\$77.75	\$82.00	\$88.50	\$88.00	\$88.00
Year Ago	\$80.20	\$74.86	\$84.92	\$97.04	\$103.48	\$91.67
CME Lean Hog Index	\$69.50	\$71.00	\$77.50	\$83.00	\$82.50	\$81.50
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.

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