

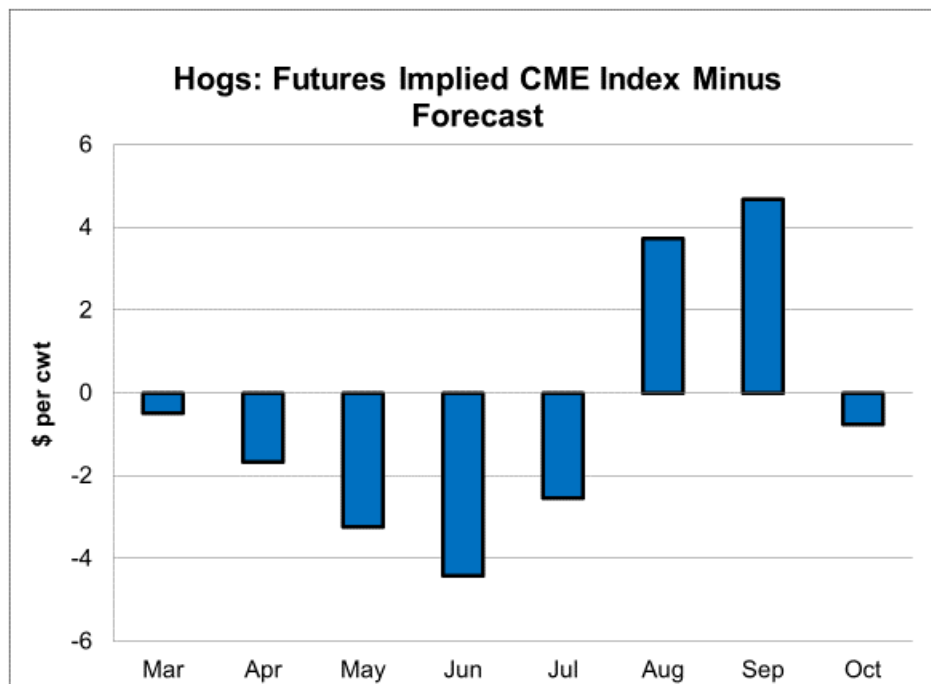
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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March 7, 2019



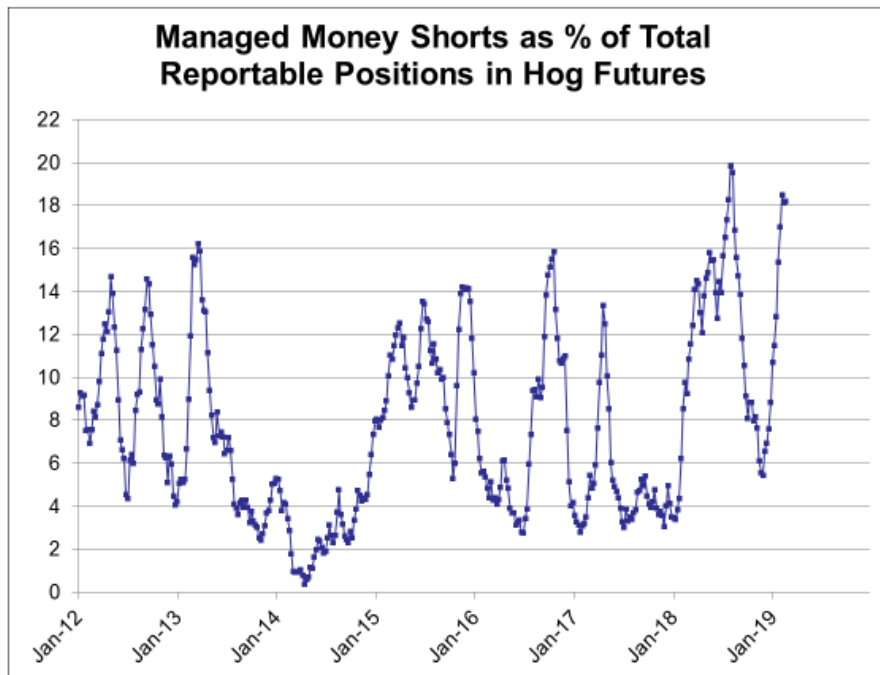
I should begin by saying that the signals in the hog market are blurry and hard to make out....and dangerous to bet on. I guess what I'm saying is that I don't have a high degree of confidence

in my own forecasts right now. The one general theme that I regard as most reliable is that the market has done quite a bit of work over the last two months to build demand; and so I am willing to approach the front end of the board only from the long side. If there are any surprises in store, they are likely to be of the bullish sort.

I also consider that the short side of the hog market is "bet down" pretty hard by managed Money traders, as I show in the picture on the next page. This does not mean that a rally is imminent; but it does leave the market susceptible to a massive wave of short-covering, which could drive the April contract higher than is fundamentally justifiable. Here in the first half of March, there is nothing to prevent the April basis from widening further.

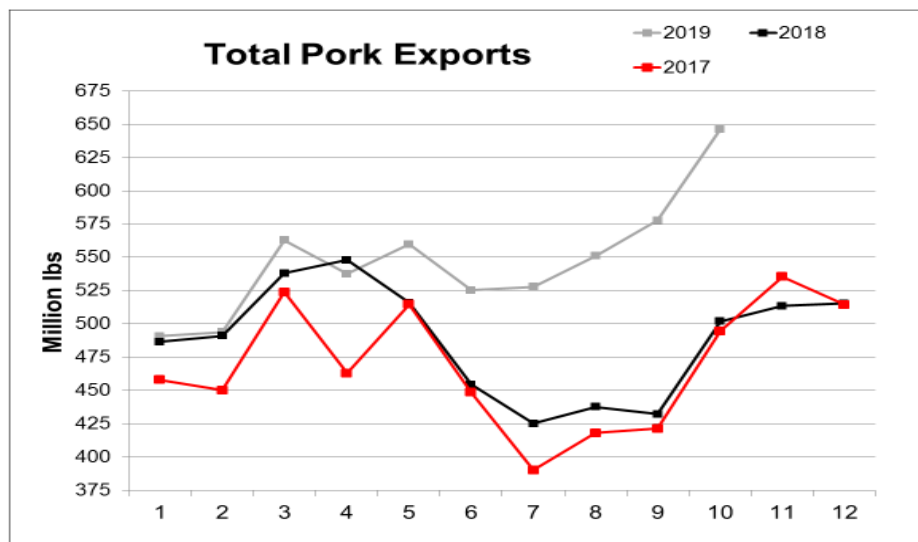
Currently I hold a long April/short August spread, which I have to risk all the way down to the contract low of \$25 (April discount). I can find no meaningful support

level above that price. The upside potential is considerable and rather “wide open”; the greatest discount at which the April contract has ever expired was \$17.40 per cwt, in 2008. If there is to be a demand-led surge in pork prices within the next couple of weeks, then the April contract could draw much closer to the August.



The \$78.00 mark has become an obviously important one on the daily chart of June hogs, and so I am willing to buy this contract outright if it closes above that level. Otherwise, I

find nothing worth betting my money on in the hog market. My forecast of an \$80 CME Lean Hog Index includes the assumption that U.S. pork exports will begin to ramp up noticeably by June and grow rapidly from that point, as I show in the next picture.



But who knows? It could be the fourth quarter before that happens. If that's the case, then the summer contracts are quite a bit overvalued.

How much overvalued? Taking a purely econometric approach, if I substitute the export projections shown on the previous page with year-earlier volumes shipped to Mexico and China, and make some according reductions to domestic wholesale demand, I come up with forecasts of \$72-something for the CME Index in June; \$71 in July; and \$65 in August. Is this scenario realistic? It's not *that* hard to imagine. At the moment, I am willing to bet neither on it nor against it....with the exception of buying June hogs on a close above \$78, as I mentioned above.

Forecasts:

	Mar	Apr	May*	Jun	Jul*	Aug
Avg Weekly Hog Sltr	2,481,000	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	2,414,000	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	\$65.25	\$70.00	\$78.50	\$87.00	\$88.50	\$86.50
Year Ago	\$72.71	\$68.08	\$73.59	\$83.18	\$82.70	\$69.05
CME Lean Hog Index	\$54.50	\$58.75	\$69.25	\$80.00	\$80.50	\$75.00
Year Ago	\$63.51	\$56.47	\$66.77	\$81.13	\$78.73	\$55.46

*\*Slaughter projections include holiday-shortened weeks*

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