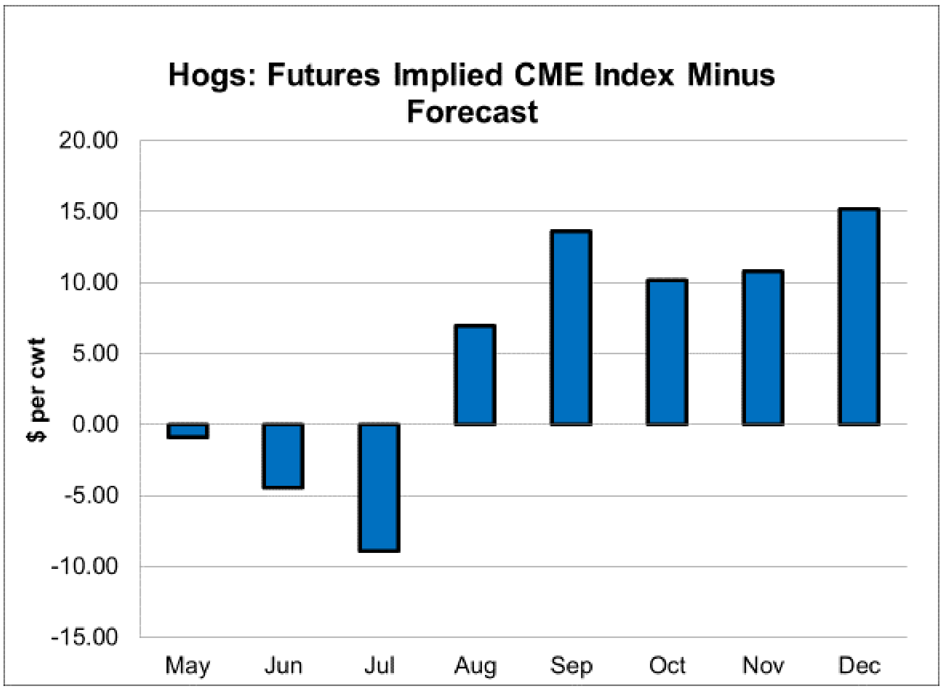
Trading Hogs
…. from a meat market perspective
A commentary by Kevin Bost

April 15, 2019

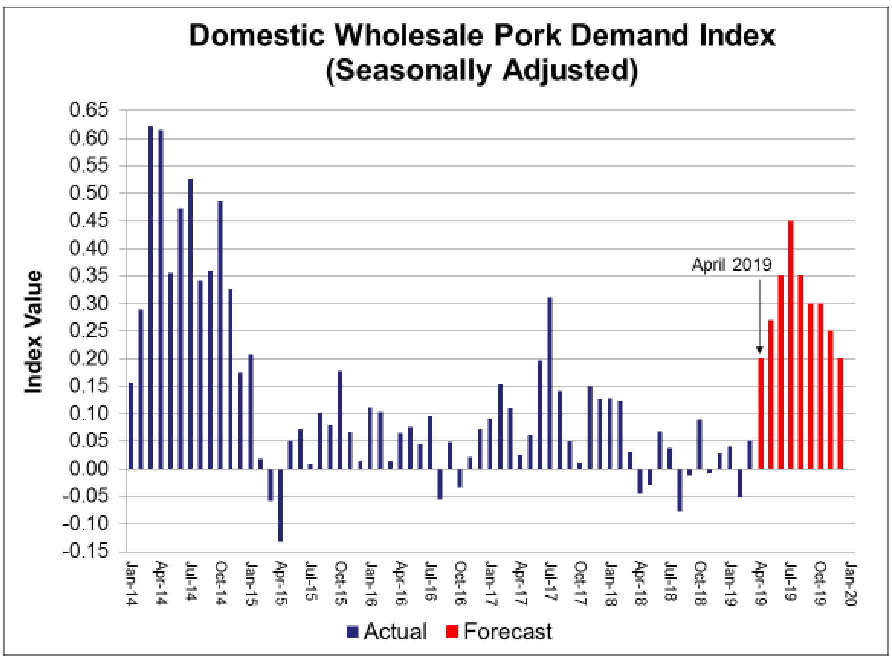


I hold no position in the hog market at this time. I have a low degree of confidence in the projections of pork exports and wholesale demand upon which the forecasts in the table below are based, so I have no immediate plans to establish outright long or short positions for the "long haul". Thus, my approach is to factor both exceedingly bullish and bearish alternatives into the equation, and use these to identify general price areas in which a position would be warranted.

Before I head in that direction, I will say that there is one short-term trade that I will make if given the opportunity. There remains a gap on the chart of the June contract at $91.50. Last Wednesday's low of $93.52 has turned into a support level of some significance, and the uptrend line originating from the March 7 low passes through approximately the same price zone (actually, I have it at $93.75 tomorrow and $94.55 on Thursday. There is nothing in the way of support between $93.52 and $91.50. And so I will follow a print below $93.52, stopping myself out if It closes above that price and otherwise expecting a 200-point profit. I do not normally describe such short-term plays in this report, but hey--200 points are worth an effort.

OK, so on to the extremes. First of all, my “baseline” projection is that U.S. pork exports to China/Hong Kong/Taiwan will average 137 million pounds per month from May through December vs. 30 million a year earlier. I would regard as “overly conservative” a May-December average of 105 million pounds per month, with the lower constraint being China’s obvious need of imported pork and the ability of non-U.S. countries to supply it; and an “overly aggressive” figure would be 155 million, with the upper constraint being China’s inadequate freezer capacity and distribution systems for chilled and frozen product.

As for demand projections, I’ll have to show you a picture so that you can put the extreme possibilities in perspective. The “baseline” projection is displayed below:



This is somewhat arbitrary, but the bullish extreme would be if the demand index were to take the same shape as I show in the picture, only it would be shifted upward so that the 2014 all-time peaks were matched.

The bearish extreme, naturally, would be if the demand index were to remain flat, equal to the value prevailing here in April.

Pairing the two extremes of *both* variables would amplify the price effect. When I do that, I come up with the following “worst- and best-case” scenarios:

	Worst Case		Best Case	
	Cutout Value	CME Index	Cutout Value	CME Index
June	$95.00	$89.00	$118.00	$112.00
July	$96.00	$88.50	$127.50	$120.00
August	$93.50	$81.50	$116.00	$104.00
October	$87.00	$75.00	$103.50	$91.50
December	$85.00	$71.00	$94.00	$80.00

Having calculated these prices completely objectively, I am surprised by how close the futures market is to some of these extreme price levels. *Not* surprisingly, none of the 2019 contracts are anywhere near their "worst-case" price levels. But both the October and December contracts are trading above the prices that I would define as unrealistically high; the August contract stands only $2 per cwt below its "best-case" price level.

Does this create a big trading opportunity from the short side? Not just yet--not for my money, anyway. The market can remain vastly overvalued for a long time, especially under the uniquely bullish circumstances with which it is dealing today. Who would be an aggressive seller in the back end of the hog market under these circumstances? They would be hard to find, I think. However, the August contract--being the nearest of the group--certainly warrants a closer look.

Forecasts:

	Apr	May*	Jun	Jul*	Aug	Sep*
Avg Weekly Hog Sltr	2,398,000	2,314,000	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	2,331,000	2,250,000	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	$98.50	$109.00	$118.00	$107.00	$98.00
Year Ago	$68.08	$73.59	$83.18	$82.70	$69.05	$74.33
CME Lean Hog Index	$80.50	$91.00	$103.00	$110.50	$95.00	$82.00
Year Ago	$56.47	$66.77	$81.13	$78.73	$55.46	$55.31

**Slaughter projections include 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.