

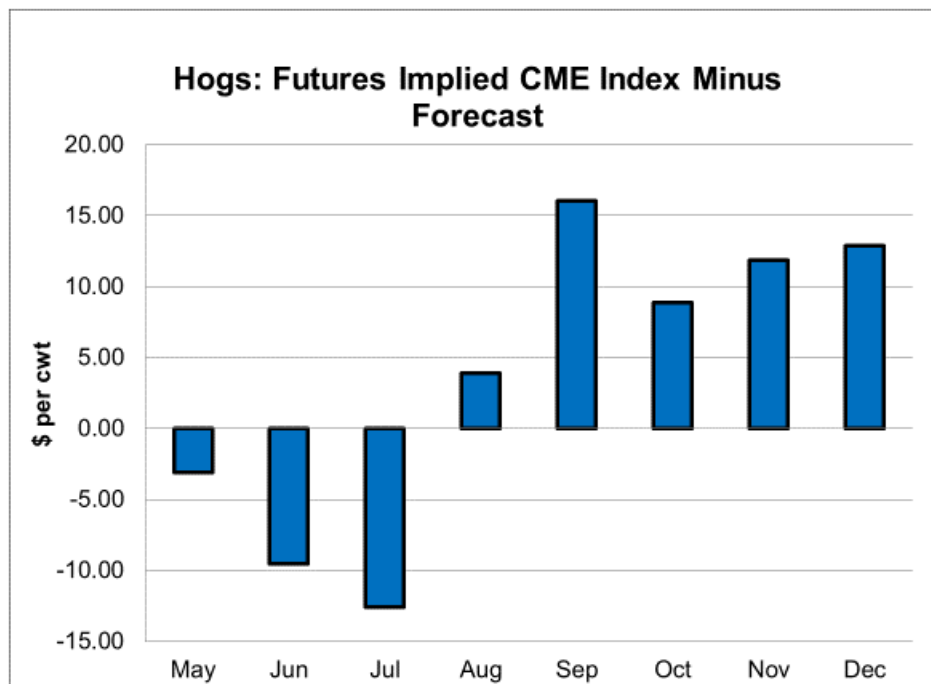
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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April 24, 2019



Now that the front end of the futures market has established what can be regarded as a major resistance level and has become more aware of the premium that it

carries over the cash market, my attention is turned to a possible long-side play in either the June or the July contract. I should say “position” instead of “play”, because I intend this to be one that will stay in the portfolio for several weeks--provided that I don't get stopped out, of course.

Let's consider for a moment the size of the premium on the board. With the CME Lean Hog Index for today's kill at about \$83.50 per cwt, the June contract currently holds a premium of roughly \$9. That's not outrageous at all. In each of the last four years, the June premium stood between \$9.50 and \$13.00 in the fourth week of April.

I consider also that there does not seem to be a huge wave of potential long liquidation in the offing, as exists in the cattle market. Long positions among managed money traders currently account for slightly more than 15% of all reportable positions, which is rather small relative to its range of the past year.

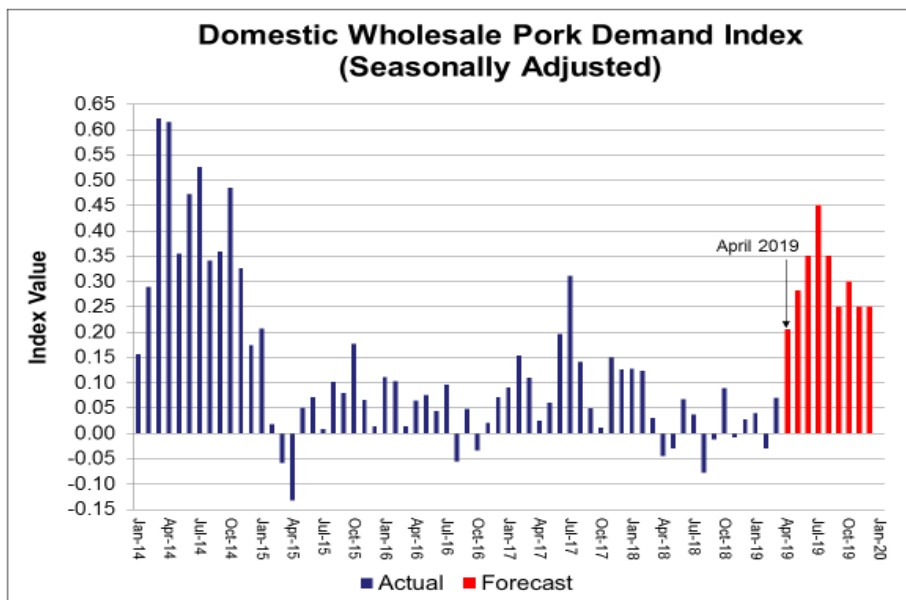
Among all *long* positions, managed money traders account for just under 30%. Swap traders (which function as commercial traders) account for about the same percentage.

Specifically, I plan to buy July hogs outright upon a test of the 40-day moving average, which this morning passes through \$91.70. The stop-loss point is well-defined, that being a close below \$89.57 (the low of April 1). In this market, a 250-point risk is about as small as it gets. Frankly, I see no reason why the market should trade down to that level; if it doesn't so be it. But I can identify no meaningful support between yesterday's low and the 40-day average. Anyway, I have a backup plan in place.

My "backup" plan is to sell June \$88 puts. They currently trade in the neighborhood of \$3.00 per cwt. When/if it becomes apparent that I will not have the opportunity to buy the July contract, I will sell the puts. My reason for selling the June options (as opposed to July) should be obvious.

As far as upside objectives are concerned, it's hard to believe that the June and July contracts could be as vastly undervalued as my forecasts are indicating. I remind myself that while the forecasts shown in the table below are as thorough and objective as I can muster, let's face it--they still contain an unusual amount of uncertainty.

The key to the notion of a \$102 average CME Index in June and \$110 in July is whether or not demand for pork at the wholesale level (domestic demand, I'm taking about) continues to grow. I showed you this picture last week, but I'll show it again:



The projections incorporated into the forecast would push the pork cutout value up to an average of \$117- something in July. Since this leap in demand

prompted by the reality of the pork shortage in China and its implications for U.S. export business is still young, it seems quite unlikely that the growth would stop right here. [Refer to the pattern that unfolded in 2014.] If, however, the seasonally adjusted demand index were to hold at its April levels and all other variables in the equation were held constant, then the cutout value would only make it up to about \$97 in both June and July; and the CME Index would average near \$90. This gives me a bit more confidence in taking the risk that I am proposing.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Hog Sltr	2,314,000	2,287,000	2,247,000	2,462,000	2,521,000	2,615,000
Year Ago	2,258,700	2,220,400	2,160,700	2,423,700	2,359,000	2,550,000
Avg Weekly Barrow & Gilt Sltr	2,250,000	2,220,000	2,185,000	2,395,000	2,455,000	2,545,000
Year Ago	2,195,200	2,154,700	2,099,000	2,358,200	2,294,600	2,480,900
Avg Weekly Sow Sltr	57,000	59,000	55,000	59,000	58,000	62,000
Year Ago	56,600	58,400	54,700	58,100	56,500	61,100
Cutout Value	\$98.50	\$108.00	\$117.50	\$107.00	\$95.00	\$96.00
Year Ago	\$73.59	\$83.18	\$82.70	\$69.05	\$74.33	\$78.56
CME Lean Hog Index	\$91.00	\$102.00	\$110.00	\$94.50	\$78.50	\$84.00
Year Ago	\$66.77	\$81.13	\$78.73	\$55.46	\$55.31	\$66.89

*\*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](http://www.procurementstrategiesinc.com).

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