

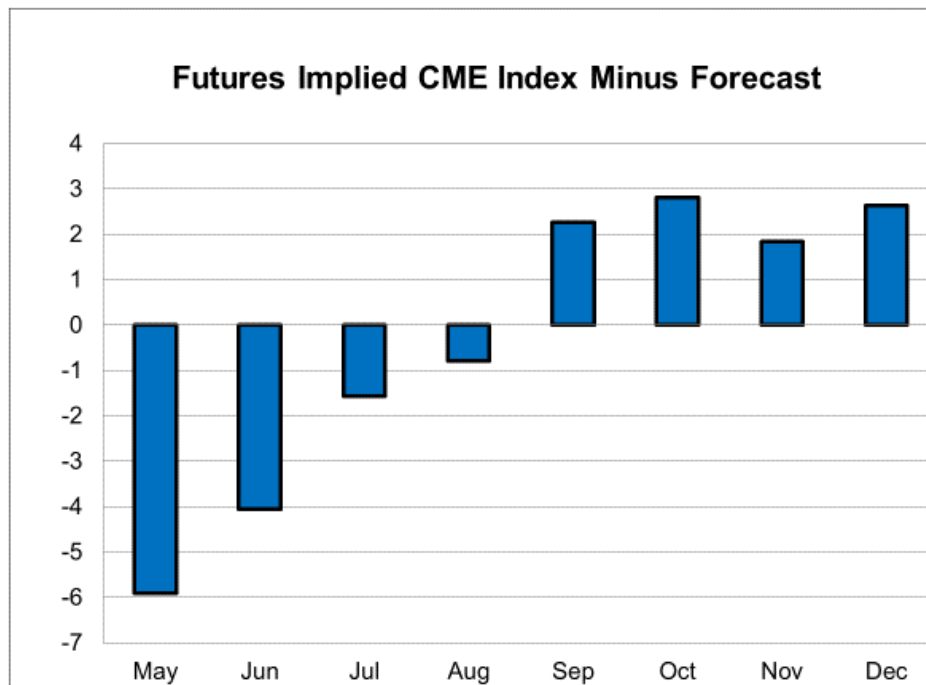
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

---

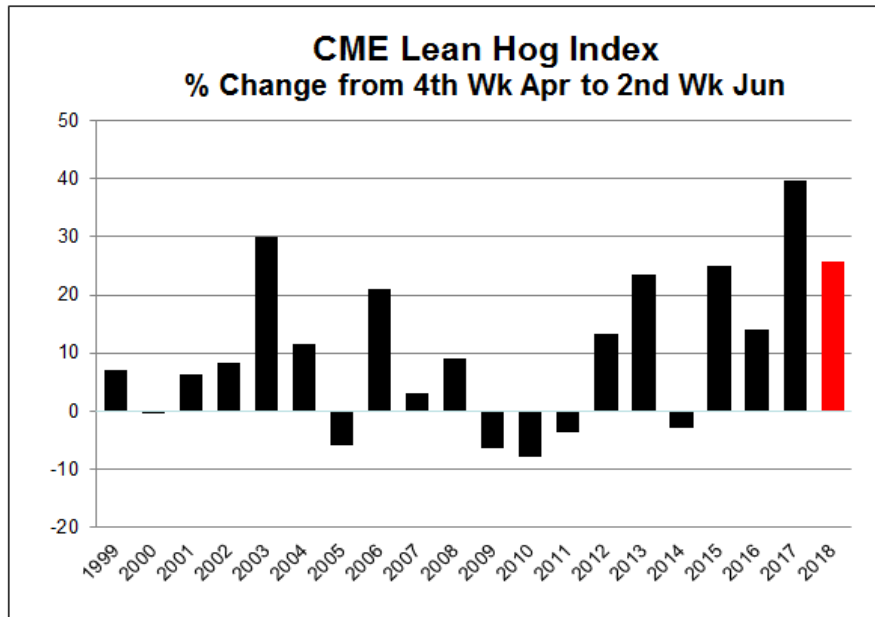
April 27, 2018



My only position in the hog market at the moment is long of the June/October spread. What I think I see here is a spread that is fundamentally worth roughly \$15 per cwt vs. the current \$8; and a chart that appears to have bottomed out. Why should this not be worth a bet? I

will stop myself out of this position if the spread registers two closes within \$7.70, and so my risk is sufficiently small in relation to the potential profit. My objective is approximately \$12. I think I mentioned last week that in five of the last six years the June premium wound up at a minimum of \$10 by the expiration date; and in four of those years it finished between \$11.50 and \$16.50.

The not-so-attractive angle to this trade is that the prospect of an overpowering cash hog market over the next six weeks is slim, and the June contract, of course, carries a very big premium. Yet, we have not yet reached May 1, and the CME Lean Hog Index has indeed gained more than \$9 per cwt since it established its low on April 10. In order to achieve my forecast of a \$77 CME Index in mid-June, it would have to mount an above-average rally between now and then, as I show in the picture on the next page. That forecast incorporates a cutout value of slightly more than \$85 per cwt which, I realize, is quite a distance from today's noon quote of \$68.88. However, pork prices are exceptionally well-positioned to attract supermarket features in May, especially loins. My forecast also assumes that quoted gross packer margins will be \$13 per cwt at that time, compared with \$11.50 currently and \$16.61 in the second week of June 2017. In this assumption, I might even be a bit conservative. So there seems to be enough remaining strength in the June contract to allow it to gain ground against the back end of the market.



Up to this point, the risk: reward ratio has not been low enough for me to seriously consider an outright long position in June hogs.... but we're getting closer. Realistically, a long position would have to be risked down to a close below the contract low of \$70.25— preferably, a close below \$70.00. The upside objective would be

\$77.00. By the way, June hogs left a gap on the daily chart on Monday at \$77.32. In order to bring the risk: reward parameters into proper alignment, I would have to buy the June contract below \$71.75. I notice, though, that there is no meaningful support level on the chart between \$71.75 and \$70.25; and so until such a support level is established, I will wait for something below \$71.00. If given the opportunity, I will effect this long position by closing out the short October leg of the spread and retaining the long leg.

Not to be forgotten is the fact that the short position among large speculators is approaching 14% of the total "pie", which is the largest share in a year and a half. Naturally, this implies a large amount of potential short-covering....

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Hog Sltr	2,332,000	2,278,000	2,296,000	2,397,000	2,535,000	2,581,000
Year Ago	2,250,200	2,183,400	2,211,300	2,304,600	2,494,800	2,503,700
Avg Weekly Barrow & Gilt Sltr	2,265,000	2,210,000	2,230,000	2,330,000	2,465,000	2,510,000
Year Ago	2,185,200	2,117,200	2,149,300	2,241,600	2,429,000	2,436,800
Avg Weekly Sow Sltr	60,000	61,000	59,000	59,000	62,000	63,000
Year Ago	57,900	58,800	55,000	55,500	57,800	59,300
Cutout Value	\$79.00	\$84.75	\$84.00	\$85.00	\$77.50	\$75.50
Year Ago	\$84.92	\$97.04	\$103.48	\$91.67	\$77.89	\$74.51
CME Lean Hog Index	\$70.25	\$76.50	\$76.00	\$76.00	\$64.50	\$62.00
Year Ago	\$72.28	\$86.09	\$91.47	\$81.41	\$62.02	\$61.73

\*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](mailto:Kevin_Bost@comcast.net); or visit our website at [www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com).

Information herein is derived from sources believed to be reliable, with no guarantee to its accuracy or completeness. Opinions expressed are subject to change without notice. Each investor must consider whether this is a suitable investment. All funds committed should be risk capital. Past performance is not necessarily indicative of future results.