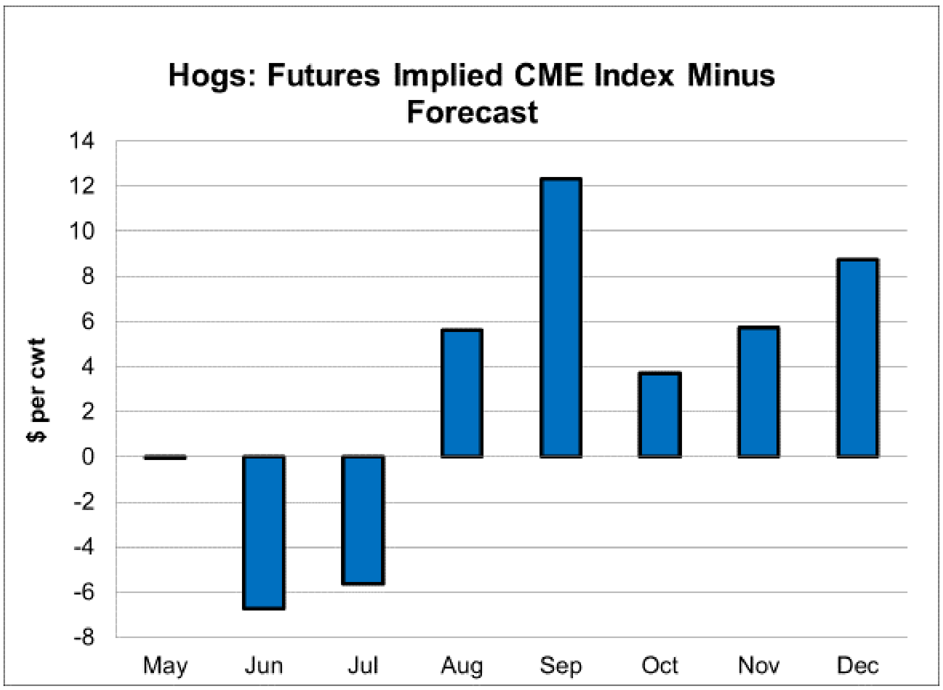
Trading Hogs
…. from a meat market perspective

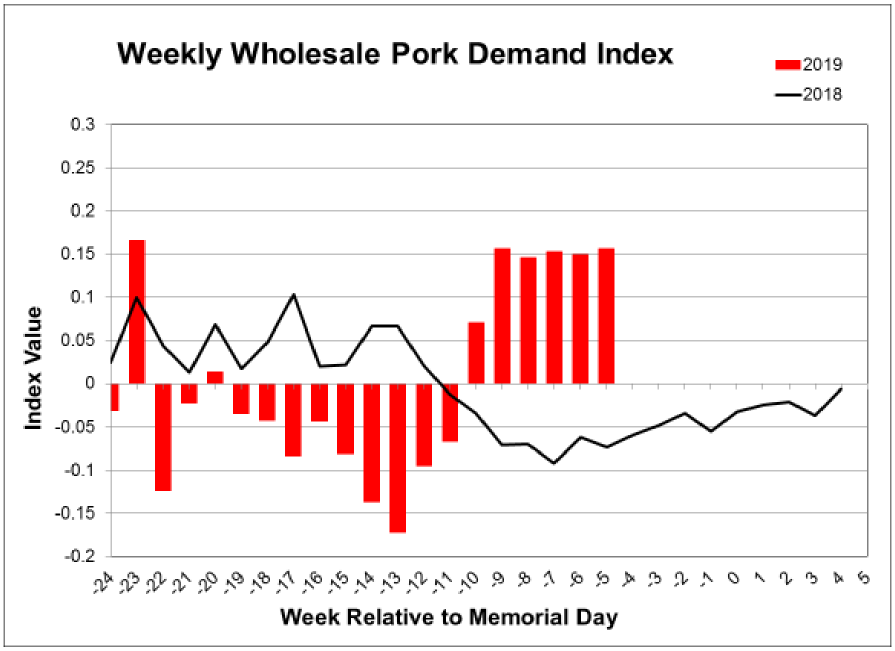
A commentary by Kevin Bost

April 28, 2019



I am modestly short of June $88 puts, intending to buy the June contract outright as closely to $86.00 as possible. My stop-loss on the latter will be a close below $85.00.

I had initially planned to buy July hogs at the 40-day moving average, but you'll notice that I have lowered my sights for the cash market in that time frame….by quite a bit. Why? Simply because demand has leveled out, at least temporarily. It is obvious that the initial "feeding frenzy" in the pork market ended four weeks ago, and since then, demand has merely followed a normal seasonal path. This is illustrated by the flat pattern in the seasonally adjusted demand index shown on the next page. I suspect that there will be another leg up in the demand index (meaning an increase in demand substantially beyond the seasonal norm) at some point, but I don't know when that will happen. And since I am betting my money from the long side of the table, I want to err toward the conservative end of the spectrum.



I am favoring the June contract over the July contract also because the spread between June and July hogs is extraordinarily wide ($4.70 premium to the July vs. the 15-year average July premium of $1.05 in the first week of May); and because it is nearer to a major support level (approximately $86.00). Although the CME Lean Hog Index--currently at about $84.25--is subject to a setback this week, due to surprisingly tight packer margins, the June contract will probably be willing to maintain a sizeable premium. In each of the last five years, June futures averaged anywhere from $7 to $12 over the CME Index in the first week of May.

I consider that if the weekly demand index were to remain perfectly flat at this past week's value all the way into the second week of June, then the cutout value would be situated between $95 and $96 per cwt when the June contract expires. And if the quoted gross packer margin widens from the current $4.86 per cwt to $10 in mid-June as I am guessing, then the CME Index would wind up at about $91. [Of course, a narrower packer margin would make for a higher CME Index.] I can't say that this would be a "practical worst case" scenario, but it would definitely be on the pessimistic side.

As usual, if the June contract does not test its $86 support level on this round of weakness, I do not intend to raise my buy orders. That's why I made my initial move in the short put position.

A couple of final observations: one, that the June contract left a gap on the daily chart at $91.55 last Thursday, which I fully expect to be filled; and two, that the long position among managed money traders accounts for just over 15% of the total reportable position, which is relatively small. Thus, the type of massive long liquidation that beset the cattle market this past week is probably not a major threat.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Hog Sltr	2,319,000	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	2,255,000	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	$92.00	$100.00	$105.00	$101.50	$95.50	$96.00
Year Ago	$73.59	$83.18	$82.70	$69.05	$74.33	$78.56
CME Lean Hog Index	$87.00	$95.50	$99.00	$89.00	$78.00	$85.00
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.