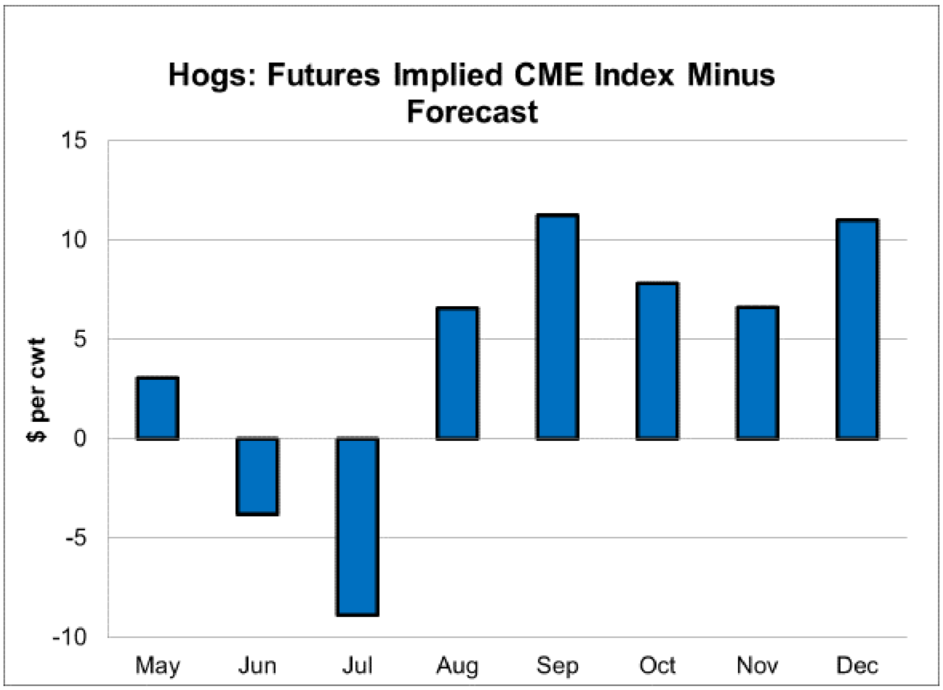
Trading Hogs
…. from a meat market perspective
A commentary by Kevin Bost

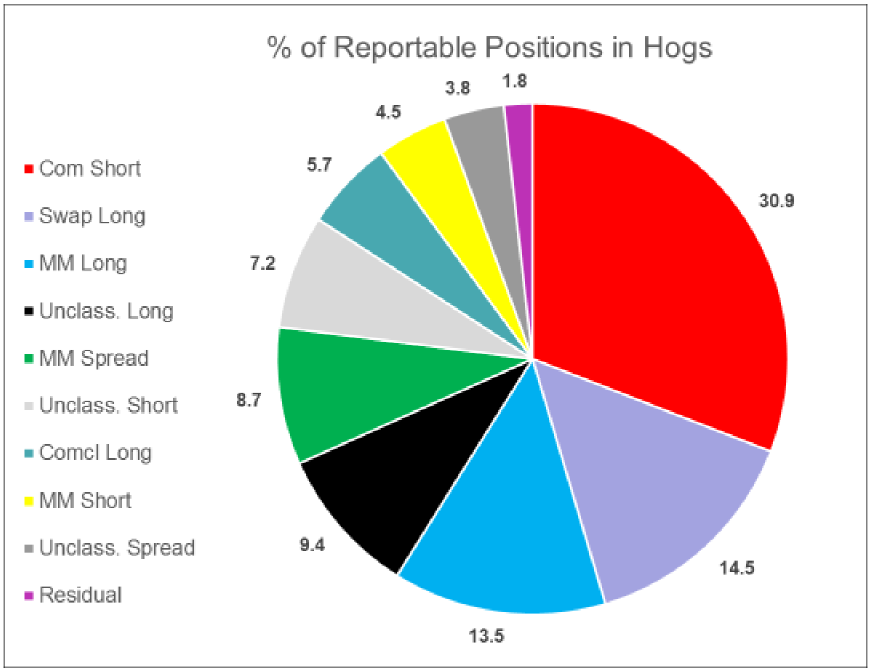
April 8, 2019



I have no bets on the table in the hog market at the moment. My general strategy, though, will be to buy the June contract on breaks and sell the August contract on rallies. And in the current environment, the requisite breaks and rallies must be *big*.

One observation: in the last few weeks, short hedge positions have increased dramatically while the managed money fund positions (both long and short) have shrunk to a very small percentage of the total reportable position. I show this picture on the next page. There is room, then, for the funds to increase their participation. Given the exiting technical picture, they would more likely be buyers than sellers. After all, the June and July contracts closed into new highs on Friday.

So, then, how high is "too high"? Well, I have made an attempt to answer this question by adjusting the equation to include the most bullish projections of exports and wholesale pork demand that seem practical at this time. [See this week's edition of *Meat Markets under a Microscope*.] To summarize, I am plugging in year-over-year increases in U.S. exports to China/Hong Kong/Taiwan of 250% in the second quarter; 520% in the third quarter; and 490% in the fourth quarter, based on private estimates that I regard as credible; and I am assuming that wholesale pork demand will approach, but not quite match, its 2014 peaks. [2014 was the year in which the Porcine Epidemic Diarrhea virus slashed hog supplies by as much as 8%.]



The result is shown in the table below. It suggests that the board has already priced in such a bullish set of conditions--and then some.

But of course, that doesn't mean that the futures market cannot go higher still. I expect that it will. And yet, there will be periods during which the market finds a temporary equilibrium, such as we witnessed over the past week. During these periods, there will be opportunities to approach the August contract from the short side, but only with well-defined risk limitations. The pullbacks will be swift and extensive. Price-wise, I don't know where that point will be. I will let the 30- and 60-minute charts tell me. I do notice, however, that August hogs have left a gap on the daily chart at $95.67 per cwt, which is very likely to be filled at some point.

As for the possibility of buying the June contract, this one, too, has left a gap at $91.50. While I am not willing to *bet* that this gap will be filled (hence the restriction of short positions to the August contract), I think I would have to *see* it filled before I buy anything. Obviously, a long position in June hogs would have to be risked down to $86.00; and so choosing an entry point will be a matter of comparing the risk down to $86.00 with a conservative upside target….which may be, according to my humble forecast, somewhere in the neighborhood of $103.

Forecasts:

	Apr	May*	Jun	Jul*	Aug	Sep*
Avg Weekly Hog Sltr	2,418,000	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	2,351,000	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	$84.00	$95.50	$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	$80.00	$88.00	$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.