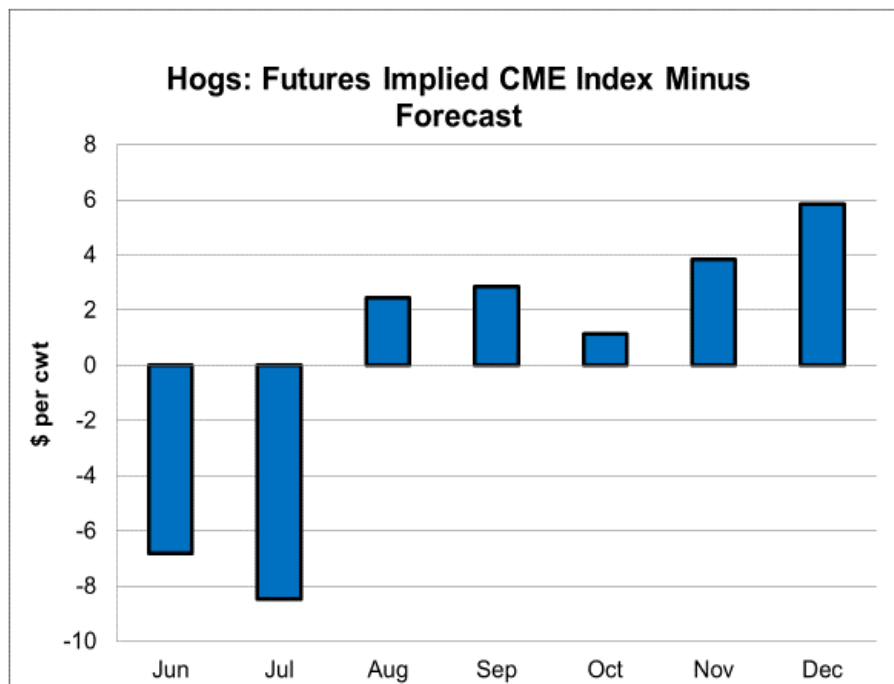


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

May 13, 2019



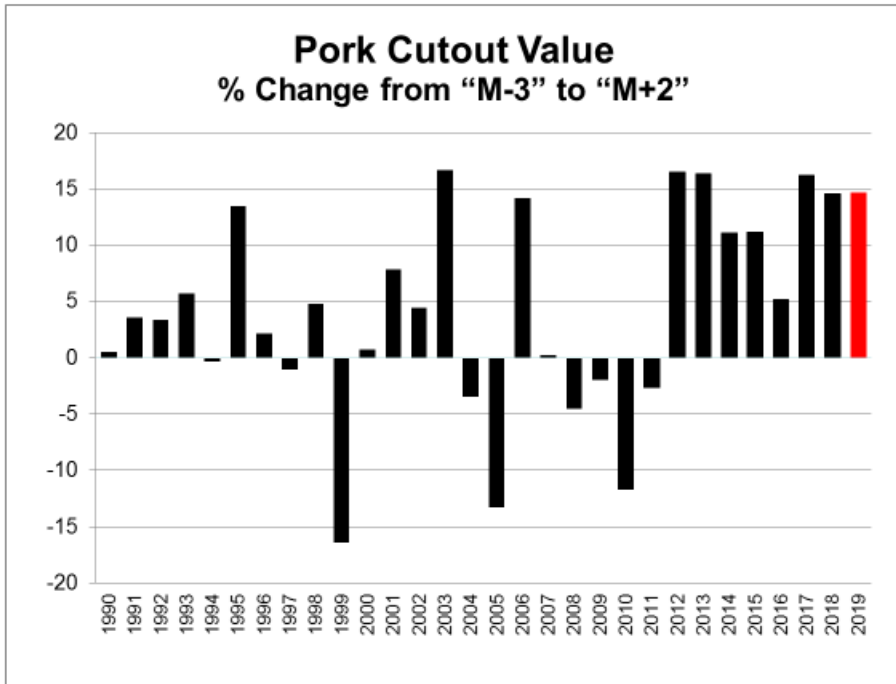
My only position in the hog market remains moderately short of the June \$88 puts. Since I have an extraordinarily low degree of confidence in my forecasts at the moment, I am confining my bets to the nearby

contract. With only five weeks remaining until the June contract expires, its fate *should* be dictated by the direction of the cash market more so than by the swings in sentiment regarding trade negotiations.

Along that line, I am encouraged by the faint signals I am seeing right now. The CME Lean Hog Index appears to be moving back toward its April 24 high of \$83.74 per cwt following two weeks of retracement; in fact, it looks like the single-day value for today's kill stands at about \$83.50. The chart suggests that penetration of \$83.74 would mark the beginning of another major leg upward.

The equivalent resistance level in the pork cutout value lies at the April 23 high of \$88.92. The current quote is still \$2.76 per cwt below that level, but the bellies, loins, and hams (which collectively account for more than 65% of the total carcass weight) all appear to be on solid ground and moving upward.

My Honest-to-God best guess is that the cutout value will be in the neighborhood of \$98 per cwt in the second week of June. To achieve this target would require one of the stronger advances on record between now and then. [Last week was the third week prior to Memorial Day, or “M-3”, and the June futures contract expires two weeks past the holiday, or “M+2”.]



I regard this as realistic, though, because I expect that the quantity of pork being set aside for shipment to China will grow week by week while hog supplies are shrinking seasonally

at the same time. Also, it is likely that pork will dominate supermarket meat features through the balance of May, and quite possibly beyond. The result should be a stronger-than-seasonally-normal change in demand at the wholesale level.

But since I am playing this market from the long side, I have to consider the more bearish possibilities. Let's see....I think that under the circumstances, and in light of recent history, we might regard a 5% gain in cutout values, such as we witnessed in 2016, as a quite pessimistic scenario. In that case, the cutout value would land at about \$89.50 in the second week of June. And that would require a significantly *weaker* than normal change in demand between now and then. If packer margins were to remain where they are right now, then an \$89.50 cutout value would align with a CME Index of about \$87.50. Under this scenario, the short position in \$88 puts still looks like a decent bet. An outright long position at \$86.00 would also seem to be justifiable from this angle. However, I will not hold both positions at the same time. I would consider swapping out the short puts for an outright long position under the right conditions....but at the moment, I'm not sure just what those conditions would have to be.

Forecasts:

| | May* | Jun | Jul* | Aug | Sep* | Oct |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Avg Weekly Hog Sltr | 2,309,000 | 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 | 2,245,000 | 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 | \$88.00 | \$99.50 | \$103.00 | \$100.50 | \$94.50 | \$95.00 |
| Year Ago | \$73.59 | \$83.18 | \$82.70 | \$69.05 | \$74.33 | \$78.56 |
| CME Lean Hog Index | \$85.00 | \$96.50 | \$99.00 | \$90.00 | \$79.00 | \$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 Grover 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.

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.