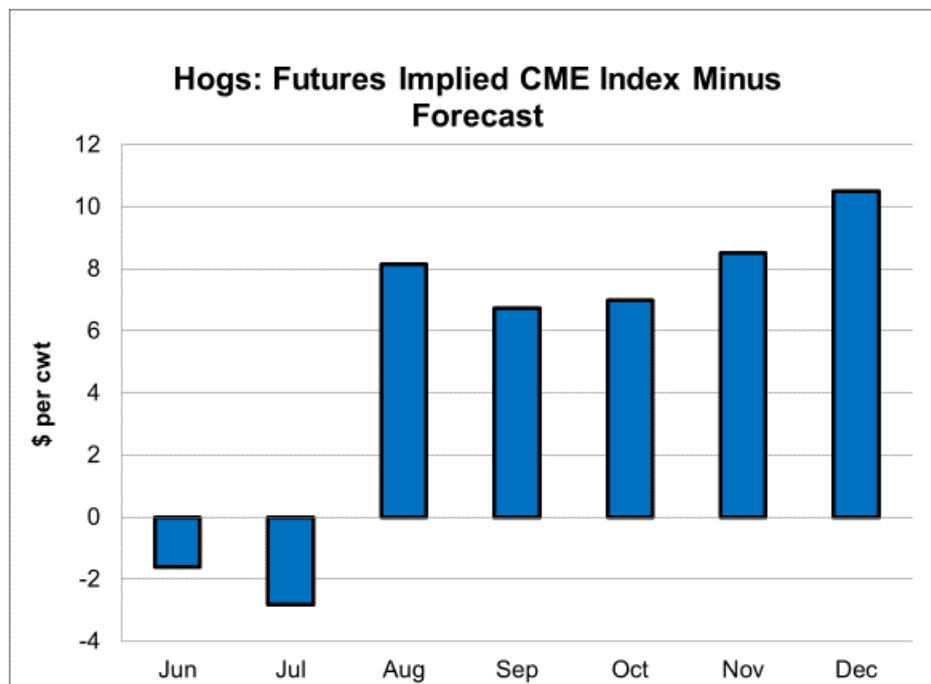


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

May 19, 2019



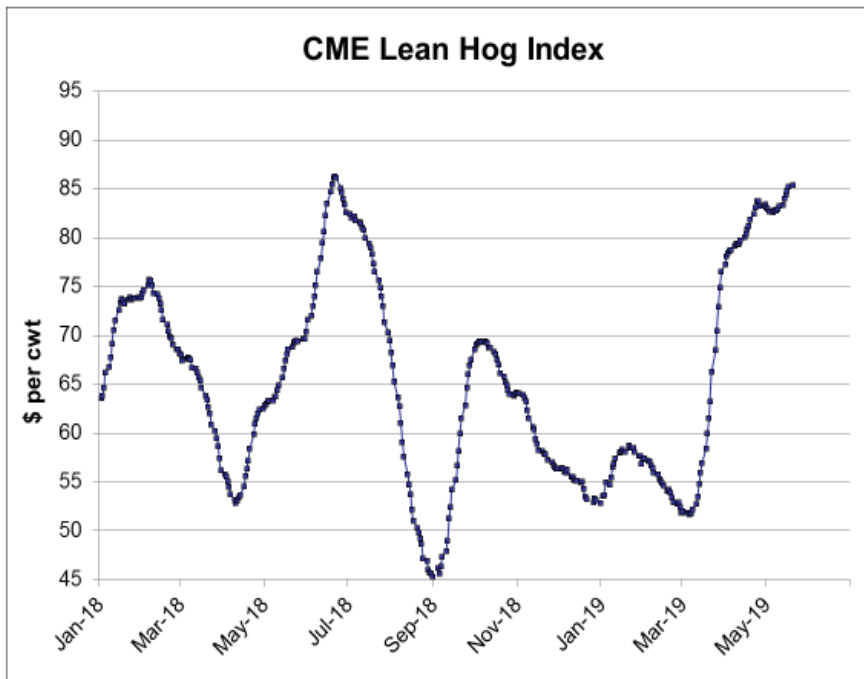
My only position in the hog market remains short of the June \$88 puts. The chances of a CME Lean Hog Index greater than or equal to \$88 in the second week of June

appear to be high, and until that changes, I will continue to hold them. The only exception would be if a more attractive long-side opportunity were to surface. I have been studying one such opportunity, but its credentials do not, at the moment, trump those of the short June put position.

I'm talking about buying the July contract outright. The main attraction of this proposition is that the market closed Friday above a well-defined downtrend line originating from the contract high, and there is no respectable resistance on the chart between here (\$93.00) and about \$96.00. Also to its credit is the fact that the CME Index has cleared its previous high after a two-week pause/setback and is working its way higher. Once this Index begins to move in one direction or the other, it tends to "run" for a protracted period of time.

On the other hand, the cutout value turned back from its previous high this past week, and packer margins are surprisingly tight--which leaves little room for cash

hog prices to advance from this point unless they are sponsored by the pork market. [My estimate of the single-day Index for Monday's kill is about \$85.50.] There is a high probability that the cutout value will make another major leg up from here--I'm guessing that it will amount to roughly \$20 per cwt--but it's not clear when that rally will get underway. I would be more ready to buy the board outright if the cutout value were able to push through its April peak, as the CME Lean Hog Index has.



One not-so-favorable aspect of this proposition is that the July futures chart, while it seems to have confirmed a major low at \$87.75, does not scream that it is ready to rally immediately. The nearest meaningful place for a stop-loss

trigger would be a close below \$90.00, and I'm not sure I could count on a rally beyond \$96.00 any time soon. Thus, if I were able to buy July hogs at \$92.00, then I would be risking something more than 200 points in exchange for a 400-point potential profit...which is just "OK", but not quite adequate in light of the points just discussed. Now, if the board were to rally to \$96.00 and *then* pull back to \$92 or so, I would be much more interested.

A separate play that I am considering more seriously is the long July/short October spread. I do not regard this one as a first cousin to the short June put position, since its success would not be entirely dependent upon a near-term advance in the CME Index. Therefore, I do not consider the two positions to be mutually exclusive. I intend to buy the June/October spread if it closes above \$8.00 per cwt (premium to the July) with an objective of \$12.00. My stop-loss would be a close back below \$6.00. True, this trade would present the same 2:1 profit-to-risk ratio as the outright long July position, but the chances of success would be--I *think*--greater.

Forecasts:

	May*	Jun	Jul*	Aug	Sep*	Oct
Avg Weekly Hog Sltr	2,304,000	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	2,241,000	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	56,000	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	\$86.50	\$97.50	\$99.50	\$96.00	\$91.00	\$89.50
Year Ago	\$73.59	\$83.18	\$82.70	\$69.05	\$74.33	\$78.56
CME Lean Hog Index	\$84.50	\$94.00	\$96.00	\$86.00	\$76.00	\$78.50
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.

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.