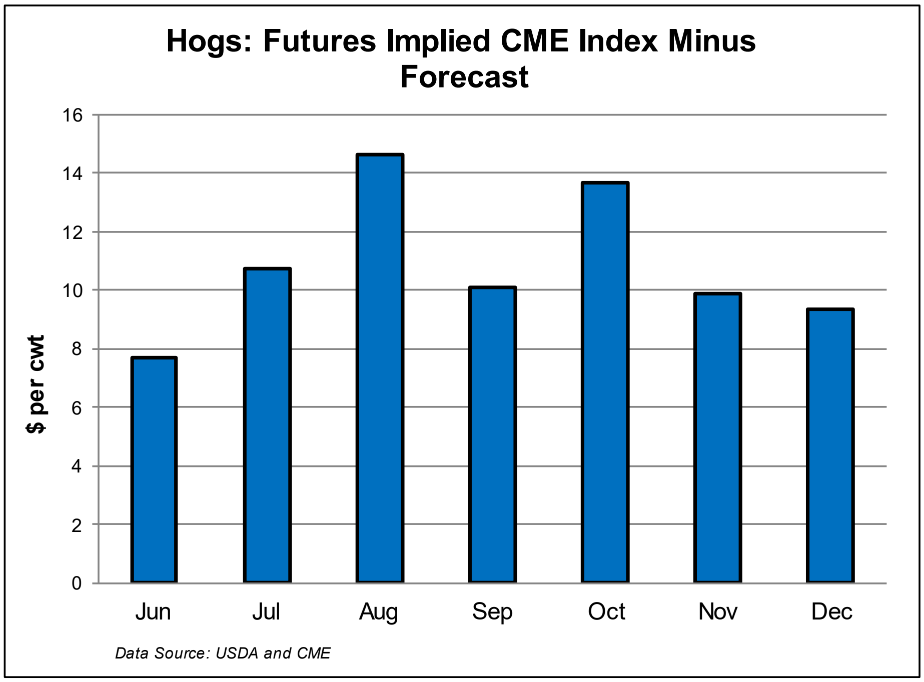
# *Trading Hogs*
## *…. from a meat market perspective*
*A commentary by Kevin Bost*

May 23, 2021




The ability of both the July and August contracts to power into new contract highs on Friday was impressive, and the message is clear. Yet I remain modestly short of August hogs, deviating from my original plan to cover up on a close above $111.00. It was not an easy decision to make. So why, then, am I still short?

The price action on the board, judged on its own, is signaling that the market is making another major leg upward. The last one measured $15.02 per cwt, and if duplicated, this one would measure to $119.40. I certainly do not intend to sit through another 700-point rally from here.

However, there seems to be a good chance that at the very least, I will have an opportunity to exit this trade at a considerably better deal than Friday's close offered; I have in mind the previous (proving to be temporary) top of $110.25. And there is reason to think that although one would expect some follow-through on Monday, the market could be peaking out at $112-something. [How many times have you heard me say *that*?]

What would preclude August hogs from marching on up to near $120, posthaste?

Well, for one, we have just witnessed a major basis adjustment. One week ago, August futures stood a full $7 per cwt below the CME Lean Hog Index; today they are carrying a slight premium. In last week's report I made mention of the fact that an August discount of $5 or more was exceptionally steep for the middle of May, and so it was not surprising to see the board rebound….just not quite so enthusiastically. The long-term average for the fourth week of May is a premium of $1.22, so one could say that the current premium is normal.

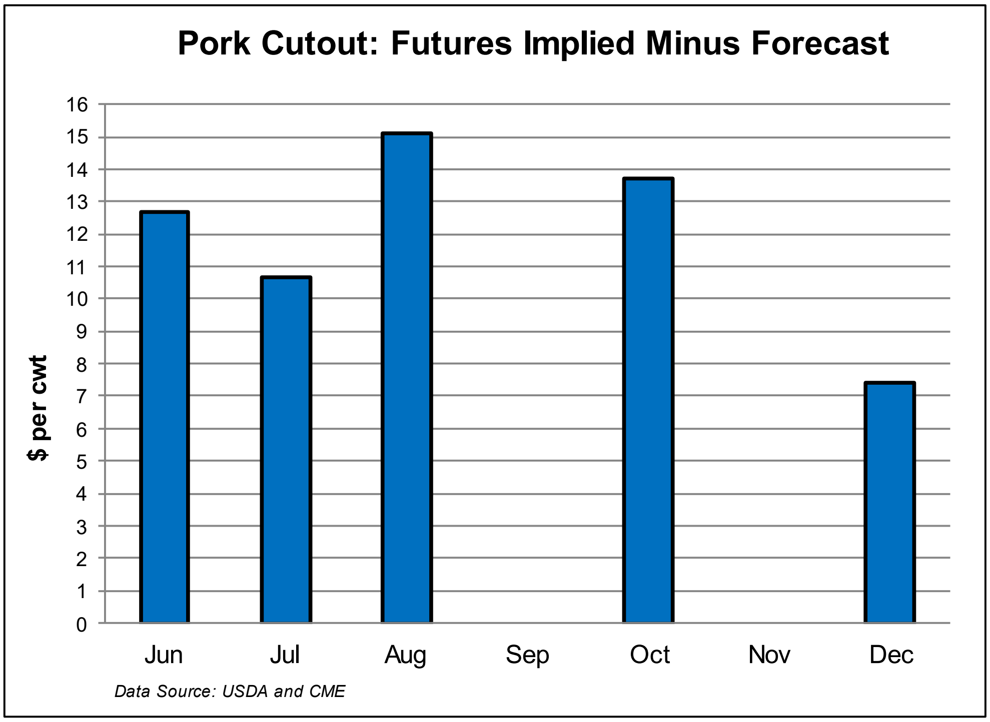
The major shift in basis alone would not preclude another leg up in August futures, but it is made more significant by the fact that the CME Index has leveled out. It reached $111.00 for the first time on May 11 and now, nine trading days later, it is quoted just $.25-.50 per cwt above that mark. True, it appeared to have leveled out at the end of April, and there turned out to have been more gas in the tank. So I'm a bit mistrustful, but still….

More compelling, though, are: a) the fact that packer margins widened out significantly this past week as packers have been able to bid down the negotiated portion of the Index; and b) the strong probability that both the pork cutout value and the Index will start to lose ground in the week ahead. It is hard to envision the board launching into major leg up if the cash markets are eroding.

In regard to the cutout value—which made a new high for this move on Friday, by the way—the leadership is now in the hands of the "retail" fresh pork cuts. The cutout value made another leg up over the past two weeks, measuring $7.66 per cwt. During this time, bone-in loins rallied $.14 per pound, and boneless loins went up $.21; pork butts gained $.29; and spareribs added $.32. Meanwhile, the bellies, hams, and lean trimmings inched upward by an average of only $.02 per pound. There is a pronounced tendency for the fresh retail cuts as a group to set back significantly over the upcoming two-week period, commonly by 5-10%.

Of course, it is possible that none of these factors will turn out bearishly, and so I will not allow myself very much "overtime" to exit my short position if the pressure on the cash market does not show itself within the next couple of days. But if it *does* (show itself, I mean), then the selloff on the board over the next two weeks could be a big one. After all, how long has it been since the CME Index declined on a weekly average basis? I'll give you a hint: it was in December. The boat full of managed money traders have had no fundamental impetus to liquidate or even lighten up their positions since the first of the year.

Finally, I notice what I *think* might be an extraordinary opportunity on the short side of the June cutout value contract. It closed Friday at $124.50 per cwt, $3.64 above the current quote. As I mentioned, there is a good chance that loins, butts, and ribs will drag the cutout value downward from here, in which case it would probably be making its next low in the week ending June 12—about when the futures contract will be expiring. The downside target could be as low as $111.




Forecasts:

| | Jun* | Jul* | Aug | Sep* | Oct | Nov* |
|---|---|---|---|---|---|---|
| Avg Weekly Hog Sltr | 2,365,000 | 2,295,000 | 2,493,000 | 2,517,000 | 2,677,000 | 2,651,000 |
| Year Ago | 2,533,800 | 2,453,300 | 2,599,400 | 2,521,200 | 2,695,800 | 2,611,300 |
| Avg Weekly Barrow & Gilt Sltr | 2,295,000 | 2,230,000 | 2,425,000 | 2,450,000 | 2,610,000 | 2,585,000 |
| Year Ago | 2,461,200 | 2,386,700 | 2,528,400 | 2,452,400 | 2,627,100 | 2,546,100 |
| Avg Weekly Sow Sltr | 63,000 | 59,000 | 61,000 | 60,000 | 61,000 | 59,000 |
| Year Ago | 67,200 | 61,300 | 65,300 | 63,100 | 62,700 | 59,600 |
| Cutout Value | $112.00 | $111.00 | $103.50 | $95.50 | $90.00 | $86.00 |
| Year Ago | $68.90 | $67.44 | $72.11 | $84.90 | $94.11 | $81.10 |
| CME Lean Hog Index | $106.50 | $106.00 | $95.50 | $83.00 | $78.50 | $72.50 |
| Year Ago | $48.89 | $48.27 | $54.81 | $68.39 | $77.37 | $69.51 |

**Slaughter projections include holiday-shortened weeks*

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