

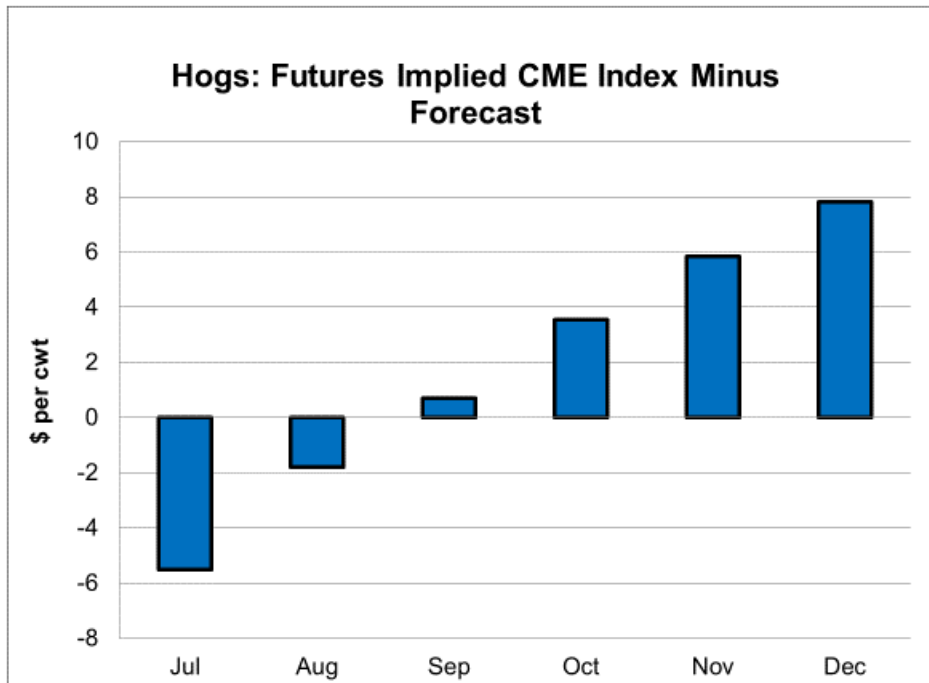
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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June 16, 2019



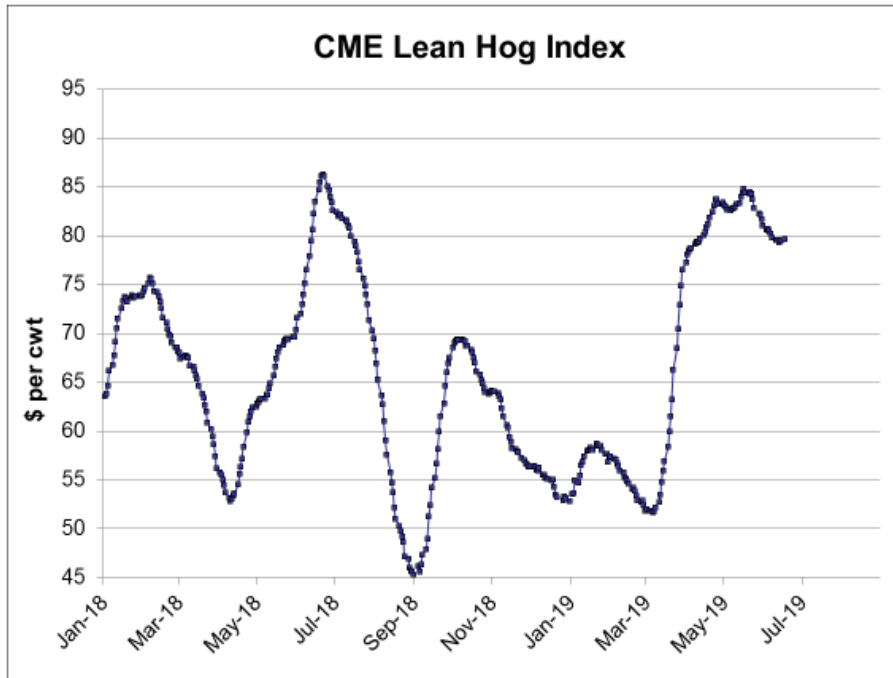
I bought Friday's close in the July contract, thus I am once again modestly long of this market. The justification for this position is clear and simple: the CME Lean Hog Index

has held steady for seven consecutive trading days, including my estimate of something just above \$79.50 for Monday's kill. I am interpreting this as an indication that the pullback in the Index, which began on May 17 and has measured roughly \$5 per cwt, is finished; and if that turns out to be true, then the two-month long downtrend in the July contract has finally run its course.

Also figuring into my decision are the vague notion that \$80 will provide some psychological support, and the fact that Friday's selloff brought the July contract down to a fairly well-defined channel line formed by connecting the lows of May 7; May 28; and loosely, June 3.

Since I have but one reason to be placing a bet at this time, if that reason disappears--i.e., if the CME Index resumes its downtrend--then my bet comes off.

Otherwise, the uncertainty surrounding the hog market is swirling wildly. At the moment, I have little confidence in my projections of *any* of the key variables in the pricing equation--pork demand, packer margins, and now all of the sudden, hog slaughter. My guess is that these variables will come together to fuel another leg up in cash prices that will carry the July contract back up to \$88.00. The critical resistance level now stands in the neighborhood of \$85.00, an area which includes the ten-day moving average and an important downtrend line on the daily chart. A single close above \$85.00 would validate the \$88.00 objective.



But this long position is on a very short leash. What troubles me most is the size of the kills in the last two weeks. At 2,417,000 and 2,431,000, they were respectively 7% and 10% above

a year ago. If USDA's winter pig crop estimate is reasonably accurate, then we are in for a big drop in production which, of course, would be bullish. But it's always possible that the pig crop was vastly understated. Frankly, I would have to flip a coin to decide which scenario is more likely.

In view of the huge production levels ('huge' within the seasonal context, that is), the cutout value has done well to hold steady. Thus, the short-term demand readings are actually pretty stout. But could the market withstand a string of kills in this range without losing ground? Doubtful. My understanding is that carcass production (for export to China) is running near a pace of 75,000 per week, though, and this volume is not likely to subside; if anything, it will probably grow as we move through the summer, reducing the amount of product available on the domestic market.

As for gross packer margins, this past week's average (\$8.80 per cwt) moved above a year earlier for the first time since the week ended March 23. My

forecasts assume that they will hover around \$9.50 in July vs. \$9.12 in July 2018, but here again, I have a very limited amount of confidence in this projection.

Despite all the caveats, I make no apologies for placing this small bet. It hinges on a clearly-defined premise and the risk is sufficiently small in relation to the profit potential.

Forecasts:

	Jun	Jul*	Aug	Sep*	Oct	Nov*
Avg Weekly Hog Sltr	2,382,000	2,262,000	2,467,000	2,516,000	2,615,000	2,587,000
Year Ago	2,220,400	2,160,700	2,423,700	2,359,000	2,550,000	2,498,800
Avg Weekly Barrow & Gilt Sltr	2,317,000	2,200,000	2,400,000	2,450,000	2,545,000	2,520,000
Year Ago	2,154,700	2,099,000	2,358,200	2,294,600	2,480,900	2,433,500
Avg Weekly Sow Sltr	58,000	55,000	59,000	58,000	62,000	59,000
Year Ago	58,400	54,700	58,100	56,500	61,100	57,300
Cutout Value	\$85.50	\$91.00	\$92.00	\$86.00	\$83.50	\$81.00
Year Ago	\$83.18	\$82.70	\$69.05	\$74.33	\$78.56	\$69.41
CME Lean Hog Index	\$81.75	\$87.00	\$82.50	\$71.50	\$71.50	\$67.50
Year Ago	\$81.13	\$78.73	\$55.46	\$55.31	\$66.89	\$59.17

*\*Slaughter projections include holiday-shortened weeks*

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