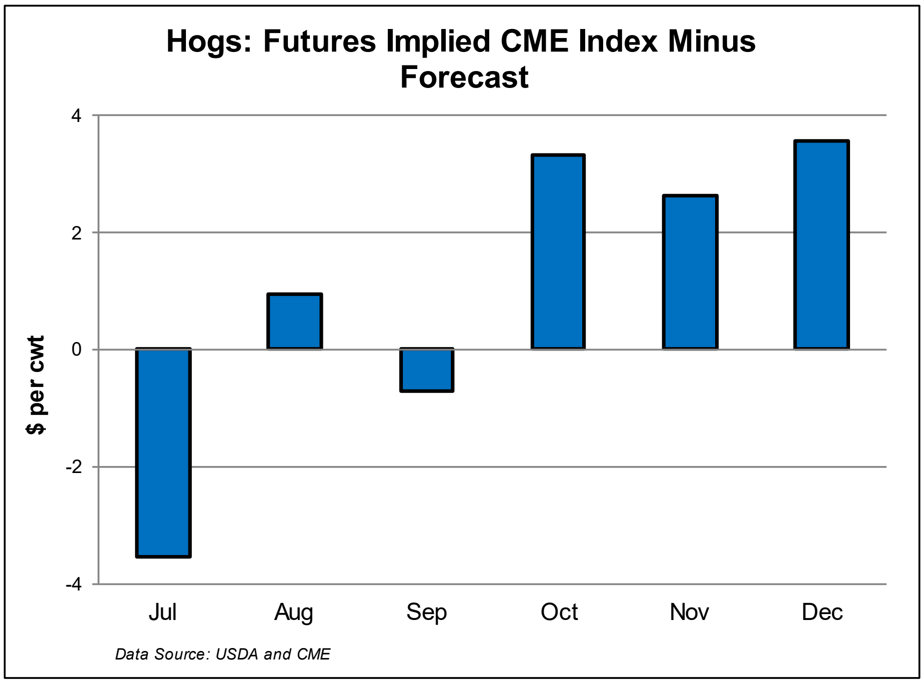
Trading Hogs
…. from a meat market perspective
A commentary by Kevin Bost

June 20, 2021



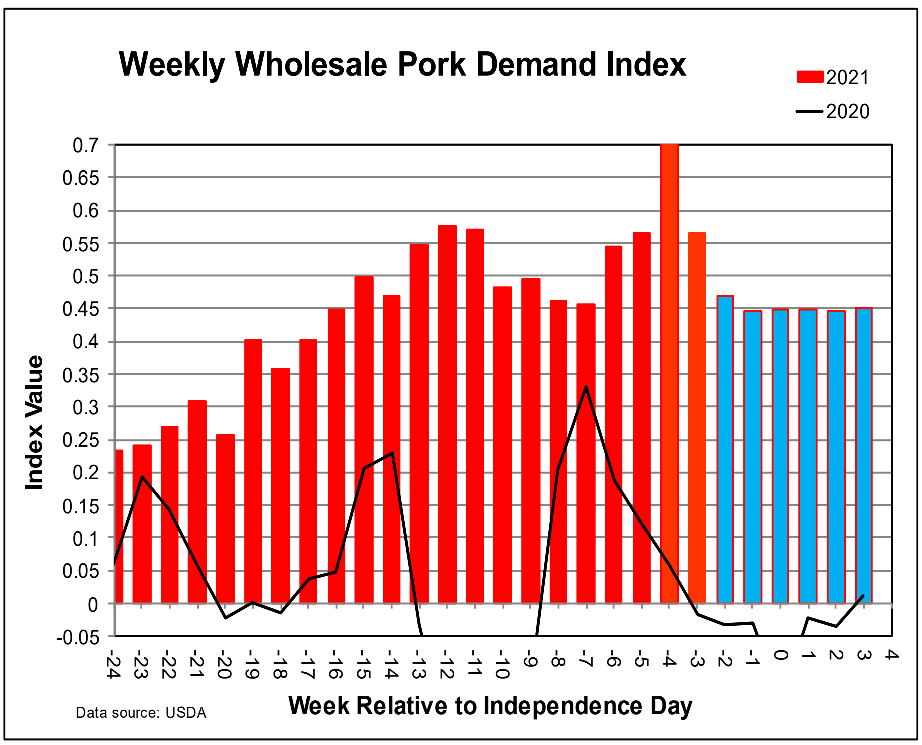
The picture to the left looks a lot different than it did when I last published *Trading Hogs* two weeks ago. Since then, the August contract has gone from "greatly overvalued" status to "fairly priced", which leaves me with no compelling reason to be short at the moment. I also consider that the board has dropped more than 1200 points in the last six trading days and suddenly stands $8 per cwt below its ten-day moving average, not to mention almost $12 under the CME Lean Hog Index. With the *Hogs and Pigs* report to be released in a few days, the best place to be at the moment is on the sidelines.

I doubt that either the August or the October contract is finished going down just yet, so I am hoping for a rally into which I can sell. This must be approached as a brand-new trade, not as an appendix to a previous one. The conditions must be right.

First of all, I emphasize that the forecasts shown in the table at the bottom of this report are predicated on the assumption that the winter pig crop was counted accurately by USDA the first time around; and that the first count of the spring pig crop will be similar to that which was indicated in March, about 1.5% smaller than a year ago. Of course, if the winter pig crop is materially revised (which I do not expect), or the spring pig crop turns out to be much different from the previous indication, then the forecasts will change.

On that subject, it is worth mentioning that after two full production weeks, hog slaughter so far in June is actually running a bit larger than I had anticipated but does not warrant any adjustment to summertime kill projections; and it certainly offers no evidence that problems with Porcine Reproductive and Respiratory Syndrome were worse than the winter pig crop estimate suggests. The jury is still out on that question, though. But if kills during June-August align closely with the pig crop numbers, then they should take a step downward in July, to approximately 2,370,000 per week (from 2,440,000 in the last two weeks). That might be enough to allow the pork cutout value to level out after this week and trend sideways through July.

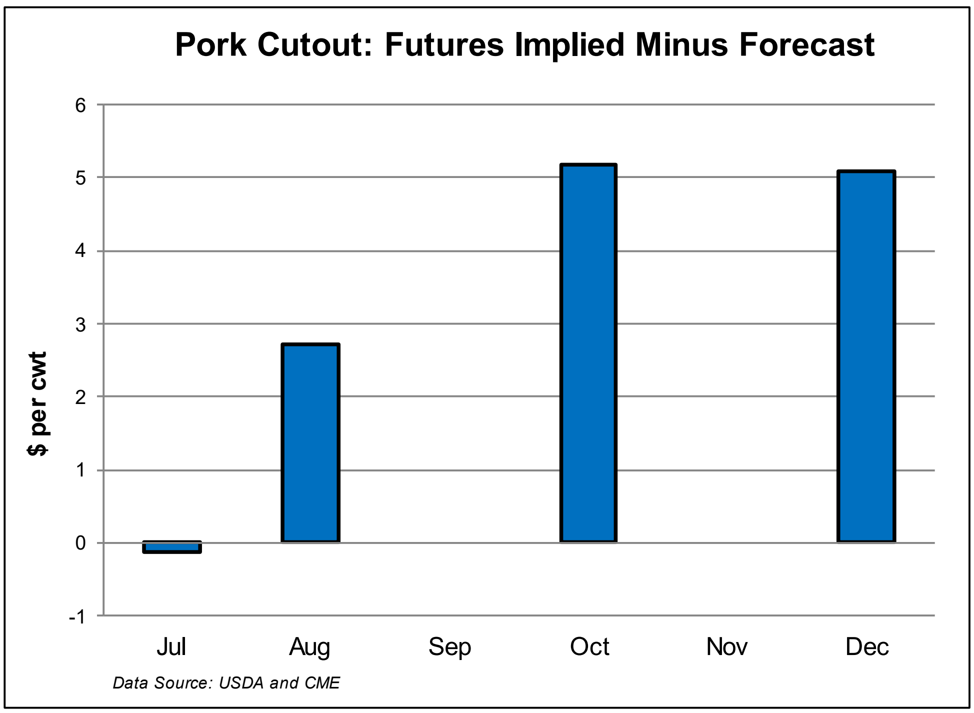
More specifically, if the weekly demand index follows the course that I am suggesting in the picture below—i.e., if wholesale pork demand follows a seasonally normal path after this coming week—then sort of production I just described would keep cutout values between $115 and $120 per cwt for the next six weeks and keep the CME Index between $110 and $113 through the month of July.



The prospect of a $113 cash hog market at the end of July is realistic, and warns me not to be too anxious about re-entering the August contract from the short side. Of course, there is no theoretical limit on how big the discount in August futures can be at the end of July, and I fully expect cash prices to trend downward through the month of August.

I notice that the August contract left two gaps on the daily chart on the way down: one at $111.70 and another at $116.25. Ideally, the higher gap would be filled, and I would sell August hogs aggressively at that point, and the market would proceed to make another major leg downward. But it's not going to happen that way. Right now, I cannot think of a good reason why the August contract would rebound all the way back to $116.25. The lower gap at $111.70, however, is very much in play. In fact, I would be surprised if this one were *not* to be filled. I notice that from last week's low of $106.50, a 50% retracement of the current leg down would measure to $113.52; the ten-day moving average passed through $114.70 on Friday (on its way down); and the previously major uptrend line will cross through a range bounded by $115.00 and $115.85 over the next three days. Somewhere in the midst of this broad spectrum of technically significant price points, I intend to sell August hogs again….if the opportunity is granted. I intend to do so on a scale-up basis, in small increments.

My intuition tells me that the error term in my forecast of cash prices in July and August is more likely to be negative than positive—in other words, my forecasts are more likely to be too high than too low. I have to remember just how far prices have gone over the last four months, and how vast the vacuum underneath the market could be if supplies continue to outweigh demand through the summer—even if the excess is relatively small. I also consider that although total open interest declined by some 12,000 contracts last week, the long position held by managed money traders is probably still very large. There could be a lot more "house cleaning" to do.



Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,295,000	2,483,000	2,522,000	2,677,000	2,651,000	2,534,000
Year Ago	2,453,300	2,599,400	2,521,200	2,695,800	2,611,300	2,446,000
Avg Weekly Barrow & Gilt Sltr	2,230,000	2,415,000	2,455,000	2,610,000	2,585,000	2,470,000
Year Ago	2,386,700	2,528,400	2,452,400	2,627,100	2,546,100	2,381,300
Avg Weekly Sow Sltr	59,000	61,000	60,000	61,000	59,000	58,000
Year Ago	61,300	65,300	63,100	62,700	59,600	59,300
Cutout Value	$118.50	$112.00	$102.00	$96.00	$89.50	$89.50
Year Ago	$67.44	$72.11	$84.90	$94.11	$81.10	$74.93
CME Lean Hog Index	$112.00	$103.50	$90.00	$85.00	$76.00	$76.00
Year Ago	$48.27	$54.81	$68.39	$77.37	$69.51	$63.39

**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.