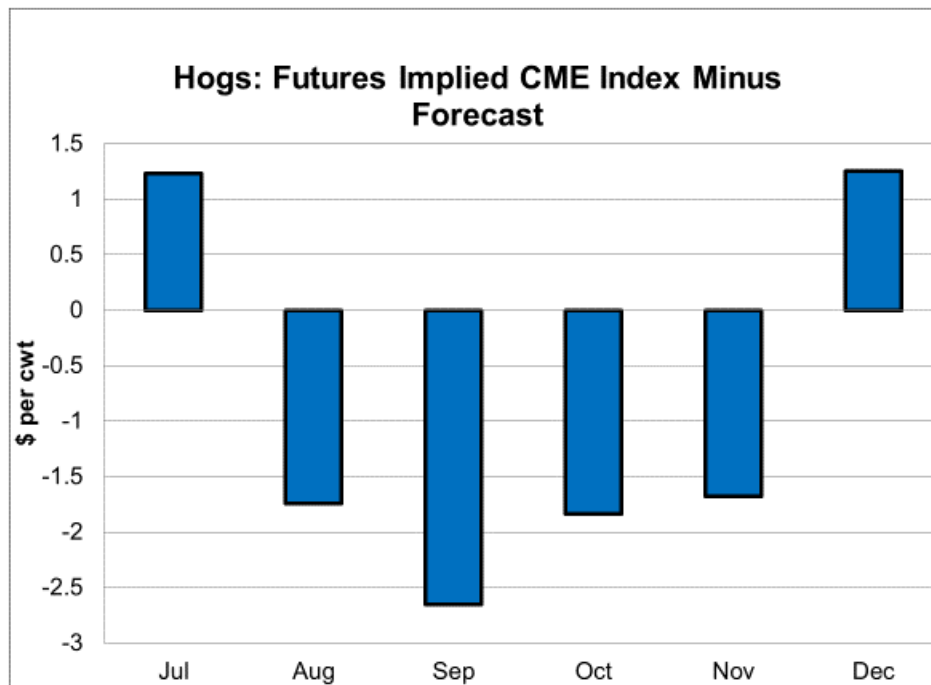


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

June 24, 2018

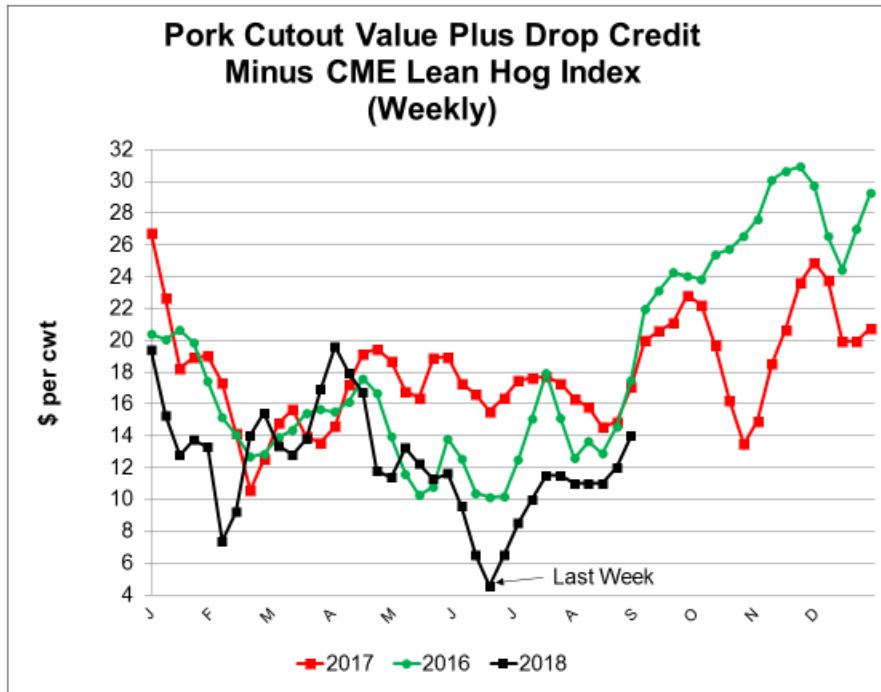


As usual, I am reluctant to hold any position through a *Hogs and Pigs* report unless it is in the nearby contracts. This one is no exception, as my “slate is clean” at the moment. Besides, a purely objective cash market forecast reveals nothing on

the board that is substantially over-or undervalued.

But I am more inclined to be a seller on rallies in the hog market, even though the August and October contracts are dipping into “undervalued” territory. I thought that April 2018 hogs were too low entering their final stages of life, and I got “punched in the gut” trying to play that one from the long side. Likewise, I thought the June and July contracts were too high at the time that the cash hog market began its seasonal appreciation; I did not bet any money on that notion, but I was wrong about it. And so, I am a bit “gun-shy” about buying anything just as the cash market is peaking.

And It does indeed look as though the CME Lean Hog Index has rolled over. My estimate of the Index value for Monday’s kill is down some \$.65 per cwt from last Thursday’s peak—not much, but at this stage of the game, and considering that packer margins have become very tight, it seems likely that the Index has begun what will turn out to be a long string of successive downticks. Roughly \$7 of the last \$15 per cwt gain in the Index has “come out of the packer’s pocket”, so to speak, and that much could be put back in rather quickly—in other words, the cash hog market could lose \$7 or so without the cutout value losing hardly any ground at all. I do, in fact, anticipate a basically sideways trend in the cutout value and a lower Index value at the same time.



As capriciously as the spread between hog and pork prices has been behaving lately, trying to forecast it has been a “crap shoot”. I cannot honestly say that I would be shocked if the gross margin measurement shown in the picture at left were to

remain near its current standing through August (\$5 per cwt), nor would I be shocked if it were to match those of a year ago in August (\$15.72). The difference, of course, would be enormous. Matched with an average cutout value of \$83.50 as I am forecasting, the August contract would be worth about \$84 in the former case; in the case of the latter, it would be worth only \$73. I am focusing on the packer margin because this is the element in the equation that has been most surprising.

Meanwhile, there is no trace of support on the chart of the CME Lean Hog Index between here and about \$70, and the chart offers no clue of how long it might take to get there. For all I know, it could happen before the August contract goes off the board.

On the other hand, it is difficult to ignore the fact that large speculators hold a big short position in the hog market, and the short position held by commercial traders is very small. I view both of these as potentially bullish factors that could be unleashed upon, say, a bullish *Hogs and Pigs* report or news of a “cease fire” in the foreign trade battle with China. [The latter would not be of great fundamental influence, but the *perception* could certainly influence the futures trade.] Also in the back of my mind is that a gap remains open at \$67.35 on the daily chart of October hogs. It seems a mile away, but it is another reason to be cautious.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,202,000	2,375,000	2,476,000	2,577,000	2,608,000	2,617,000
Year Ago	2,127,700	2,304,600	2,420,500	2,503,700	2,422,100	2,420,500

Avg Weekly Barrow & Gilt Sltr	2,140,000	2,310,000	2,410,000	2,510,000	2,540,000	2,550,000
Year Ago	2,068,800	2,241,600	2,357,500	2,436,800	2,357,600	2,356,000
Avg Weekly Sow Sltr	55,000	57,000	58,000	59,000	60,000	59,000
Year Ago	52,100	55,500	55,500	59,300	57,300	56,800
Cutout Value	\$83.50	\$83.50	\$78.00	\$76.00	\$73.00	\$70.00
Year Ago	\$103.48	\$91.67	\$77.89	\$74.51	\$81.18	\$79.14
CME Lean Hog Index	\$78.50	\$77.00	\$65.00	\$63.00	\$58.00	\$55.00
Year Ago	\$91.47	\$81.41	\$62.02	\$61.73	\$65.88	\$63.28

**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.

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