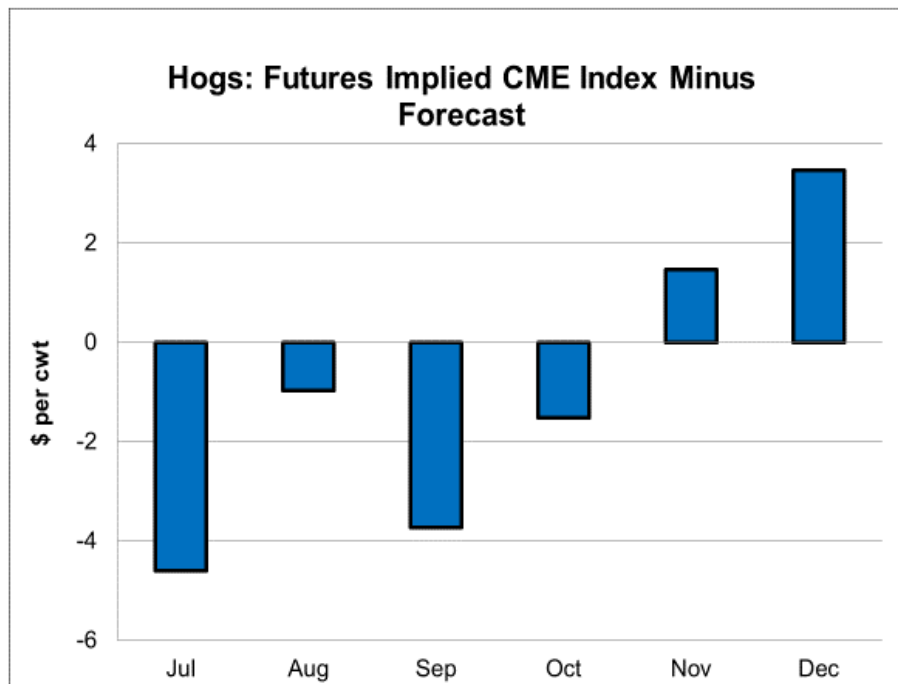


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

June 26, 2019



The extraordinary degree of uncertainty surrounding the hog supply makes it impossible to trade the futures market based on cash price forecasts right now, which is what I do....and so there is no place for my trading

capital in this environment.

The issue is whether the shockingly high rate of production here in June is mainly due to a short-term backlog of market-ready hogs, or if producers started to breed more sows last August in response to the breaking news of massive death loss in the Chinese pig herd. Naturally, if it's the former, then prices are going up from here; and if it's the latter, then prices are going down. I must say that I'm a bit doubtful that producers would react so quickly to what were just rumors at the time, since there are so many physical plant and financial considerations involved. But do I want to be my money on it? Not yet.

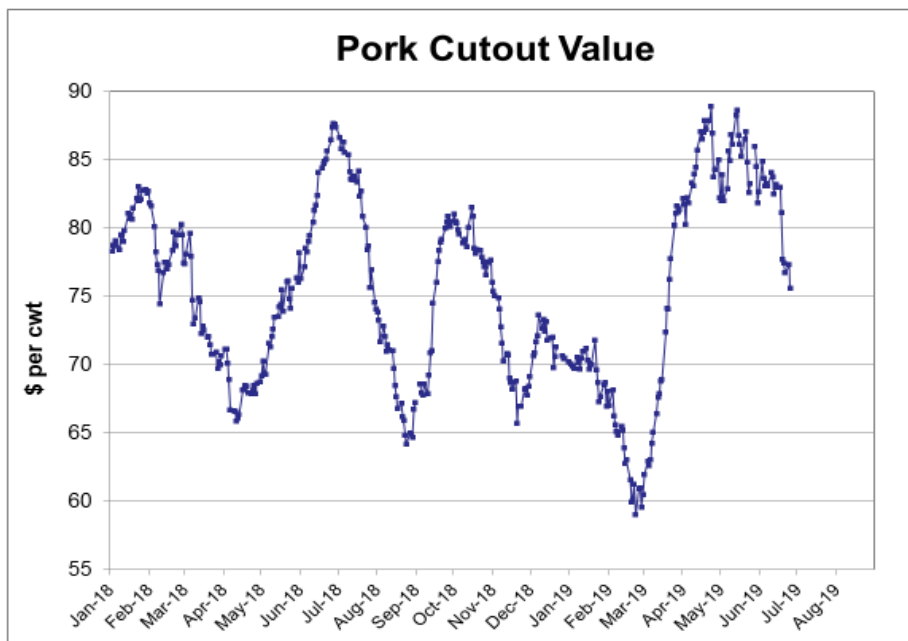
I also doubt that Thursday's *Hogs and Pigs* report will answer the question. Of course, any increase in the breeding herd that may have occurred last summer/fall *should* have already been reflected in the March report. But such discrepancies have popped up before; and when they have, previous pig crop

estimates have not been revised until those pig crops have been slaughtered. So if there is to be an upward adjustment in the winter pig crop estimate, it probably won't be reported until September. In the meantime, we are left to guess.

Presently, I am basing my forecasts on the assumption that hog slaughter this summer will be very large in relation to the existing winter pig crop estimate--the largest, in fact, since 1995. That would place the June-August kill nearly 6% above a year earlier. [The December-February pig crop was estimated to be up 2.8%.] That would still mean that there will be a big drop in hog slaughter in July--from 2,449,000 last week to an average of about 2,335,000 over the four weeks following the holiday. This, in turn, would bring supply and demand into balance at a considerably higher cutout value than we are looking at today. Hams and bellies, by the way, have pulled back into likely support levels.

I am inclined to trade this market from the long side, simply because the summer 2019 contracts are now trading lower than they were when the "China Hype" took hold back in March, and the prospect of greatly expanded exports is as real as it was back then. The board obviously had discounted a steeper ramp-up in exports than we have seen so far, but they *are* growing. For all I know, my projection that U.S. pork exports to China/Hong Kong/Taiwan will reach 150 million pounds per month this fall (from 58 million in April) just might be too conservative. Anyway, it seems like the "wild card" factors in the road ahead are most likely to be of the bullish sort.

For now, though, the behavior of cash hog and pork prices shows no sign that they are ready to bottom out and turn around.



The chart of the pork cutout value is decidedly bearish. The nearest major support level lies in the \$70.00-\$73.50 per cwt area, \$2-\$5 below yesterday's quote.

Likewise, the CME Lean Hog Index spent two weeks trading sideways within a narrow range--which I was *sure* to be a precursor to another leg up--and then fell through the bottom of that range. The nearest support on this chart clearly lies at \$70 per cwt.

I'm searching for a signal that the August contract--which is where my primary interest now lies--has finally hit bottom. That could be a big, high-volume, outside range/reversal on the futures chart, or it could be another flattening out of the CME Index. I would be more anxious to follow such a signal if the August contract were more undervalued than it's showing in the chart on the first page. I would also be much more anxious to buy something if fund traders were preponderantly short of the hog market, as they were coming into March. But as of the latest reading (last Tuesday), the short position among managed money traders accounted for only 6.5% of the total reportable position, compared with 17.7% on March 5.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,277,000	2,487,000	2,526,000	2,615,000	2,587,000	2,518,000
Year Ago	2,160,700	2,423,700	2,359,000	2,550,000	2,498,800	2,454,400
Avg Weekly Barrow & Gilt Sltr	2,215,000	2,420,000	2,460,000	2,545,000	2,520,000	2,450,000
Year Ago	2,099,000	2,358,200	2,294,600	2,480,900	2,433,500	2,389,000
Avg Weekly Sow Sltr	55,000	59,000	58,000	62,000	59,000	60,000
Year Ago	54,700	58,100	56,500	61,100	57,300	58,700
Cutout Value	\$82.25	\$87.00	\$85.50	\$83.50	\$81.50	\$81.50
Year Ago	\$82.70	\$69.05	\$74.33	\$78.56	\$69.41	\$71.53
CME Lean Hog Index	\$78.50	\$77.00	\$71.00	\$71.50	\$67.50	\$66.50
Year Ago	\$78.73	\$55.46	\$55.31	\$66.89	\$59.17	\$54.71

**Slaughter projections include holiday-shortened weeks*

Trading Hogs is published weekly by Procurement Strategies Inc., 99 Grover 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.