

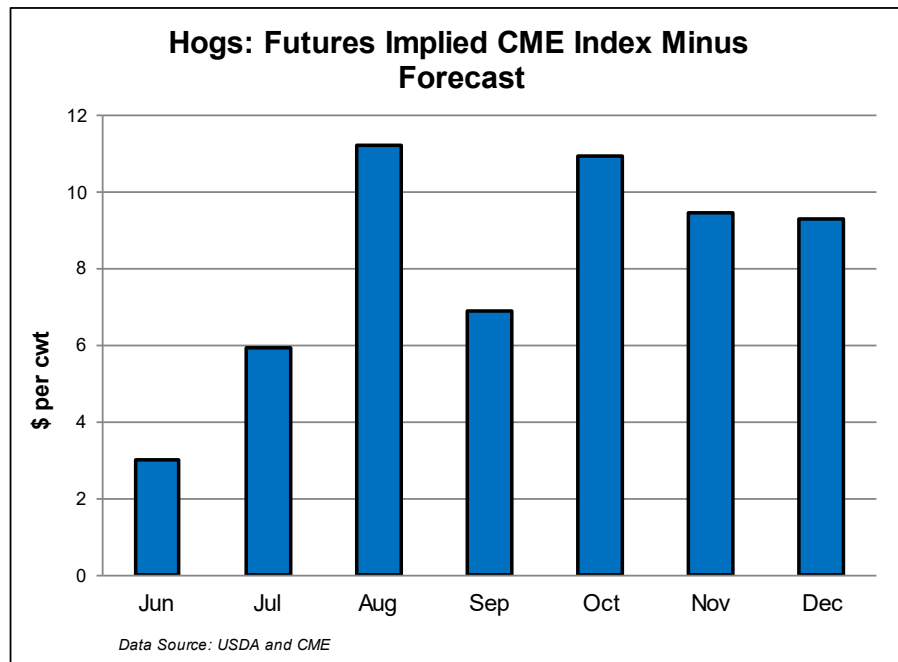
Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

June 6, 2021

Please note: Trading Hogs will not be published next week, as I'm taking a rare week off to visit my daughter (and to catch three days of racing at Gulfstream Park, not necessarily in that order). I hope you don't mind.



I have raised my forecast of cash hog prices multiple times in the last three months as I try to account for stronger-than-expected pork demand, and yet the picture to the left has not changed much. Quite simply, the board is still discounting cash price levels that are unlikely to be reached, according to the probabilities as I calculate them.

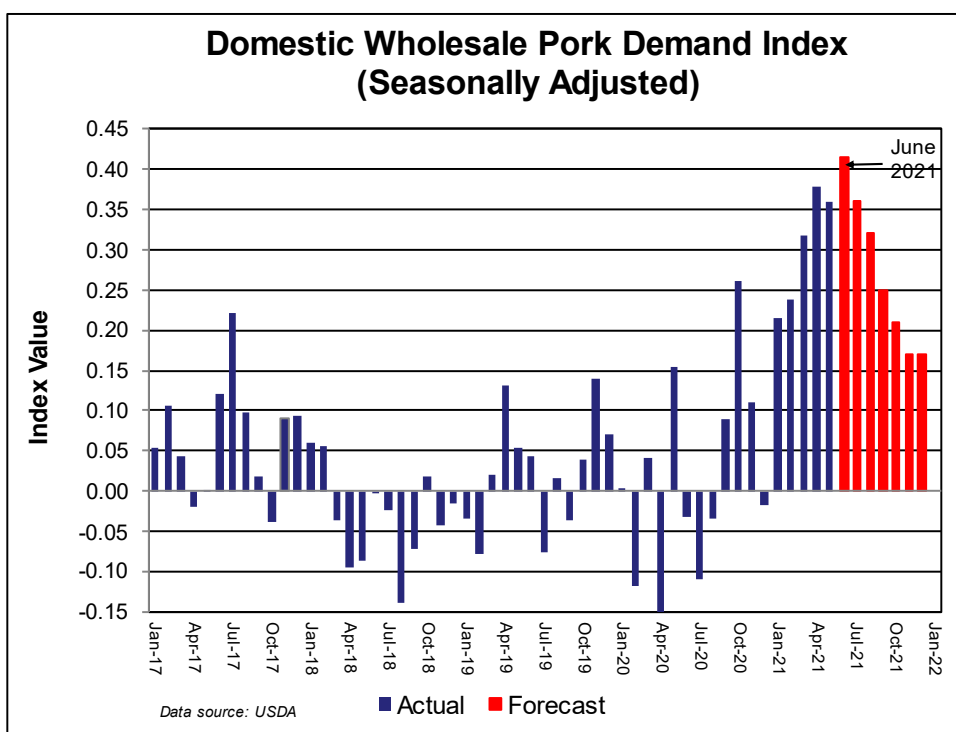
Under such circumstances, how else can I trade this market except from the short side? I have made four unsuccessful attempts to do so, dating back to mid-February. But the "frustration factor" alone is no reason for me to stop trading in accordance with the probabilities. I just have to make sure that I'm doing everything I can to measure those probabilities accurately.

So let's take a revised look at how I am arriving at the forecast of a \$104-\$105 average CME Lean Hog Index in August. First of all, I have to recognize that the August contract will probably go off the board at a price that is above the average for the month, as I assume that the cash market will be trending downward in August. Based on the history, and tweaking a bit toward the conservative side, my guess is that the

difference will be 3%; i.e., if the pork cutout value is to average \$112.50 in August, then it is likely to be 3% above that mark, or \$116, on August 13.

I am still plugging into the equation average weekly kills of 2,400,000 in the non-holiday weeks of June; 2,370,000 in the non-holiday weeks of July; and 2,483,000 in August. Of course, there is a possibility that hog supplies will be smaller than this, but these are the approximate rates that are indicated by USDA's winter pig crop estimate; and hog slaughter during March-May seems to have confirmed that the fall pig crop count was accurate. Remember, I'm aiming for the most likely scenario.

The demand projection is the real "swing factor", as this variable is solely responsible for the difference between actual cash prices in April/May vs. my previous forecasts.



In the picture to the left I show the seasonally adjusted demand index projections contained in my current forecast. Basically, I am assuming that "core" demand for pork at the wholesale level—demand not relating to seasonal factors—will

make a new high here in June; by July it will slip back to where it stood in May; and by August it will have returned to where it stood in March. All of these demand projections are very strong by pre-2021 standards.

Since I am approaching the market from the short side, I have to examine the more bullish of the "what if" scenarios. The greatest upside risk clearly lies in the hog slaughter and demand variables. [Projections of packer margins and export volumes are already conservative compared with the *status quo*, such that any adjustment to these variables would be superfluous.]

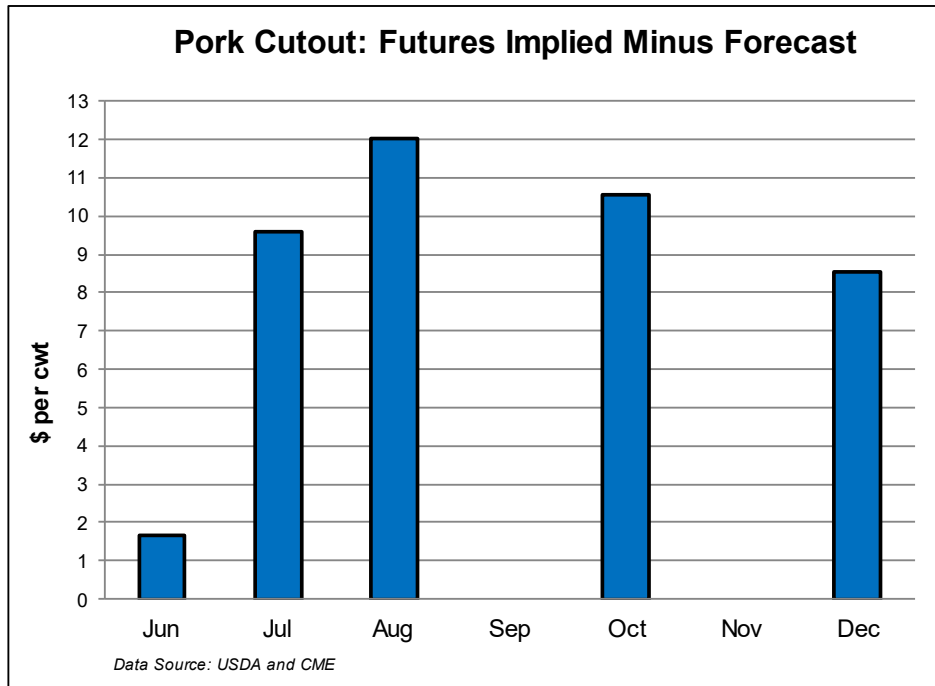
So instead of plugging in slaughter rates that are consistent with the existing winter pig crop estimate, let's use figures that would place June-August kills nearly record low in relation to the winter pig crop estimate.

And instead of assuming that the demand index will recede as I suggested above, let's say that in both July and August it will match the April peak (which was the highest reading we have seen so far).

	June Forecast	June Bullish Extreme	July Forecast	July Bullish Extreme	August Forecast	August Bullish Extreme
Non-Holiday Slaughter	2,400,000	2,375,000	2,370,000	2,335,000	2,483,000	2,450,000
Demand Index Value	.415	.415	.360	.379	.32	.379
Pork Cutout	\$126.00	\$127.00	\$121.00	\$124.00	\$112.50	\$119.50
CME Index	\$115.00	\$116.00	\$114.50	\$118.00	\$104.50	\$111.00

So in the extreme bullish scenario, the ultimate value of the August futures contract would be 3% above \$111, or \$114-\$115 per cwt. Against this backdrop, I notice that the nearest meaningful support level on the August futures chart is \$115.00, and the next is in the neighborhood of \$110.00. Both are very much in play from a fundamental perspective.

My intention is to sell August hogs again at \$120, provided that the cash markets do not deliver any bullish surprises before we get there, as they did at this time last week. I'll let you know if there are any material changes in this strategy.



Forecasts:

	Jun*	Jul*	Aug	Sep*	Oct	Nov*
Avg Weekly Hog Sltr	2,315,000	2,295,000	2,483,000	2,522,000	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	2,247,000	2,230,000	2,415,000	2,455,000	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	\$126.00	\$121.00	\$112.50	\$102.50	\$96.00	\$89.50
Year Ago	\$68.90	\$67.44	\$72.11	\$84.90	\$94.11	\$81.10
CME Lean Hog Index	\$115.00	\$114.50	\$104.50	\$90.00	\$85.00	\$76.00
Year Ago	\$48.89	\$48.27	\$54.81	\$68.39	\$77.37	\$69.51

*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.

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.