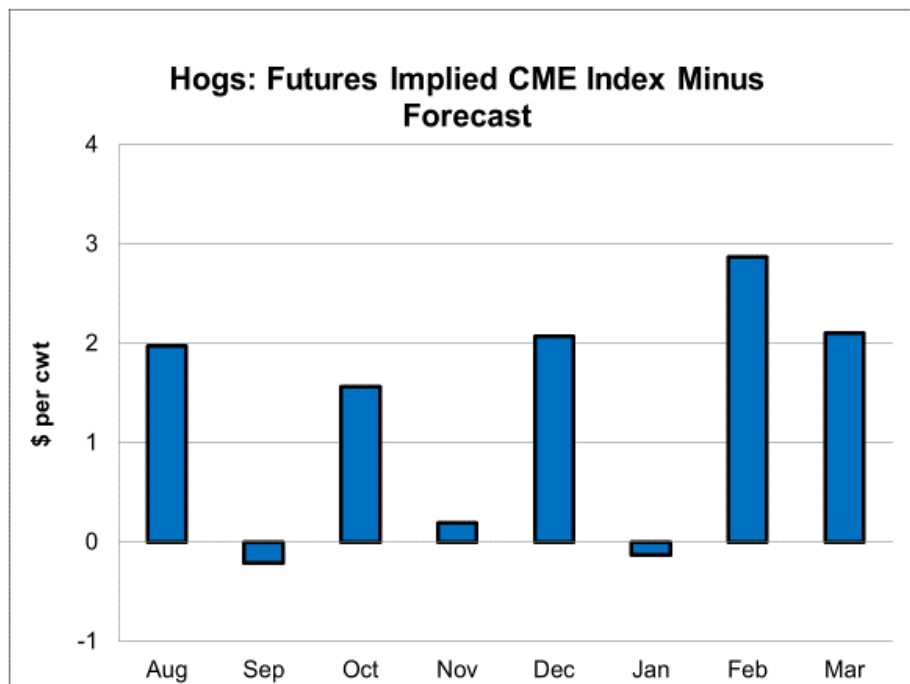


Trading Hogs from a meat market perspective

A commentary by Kevin Bost

July 12, 2019



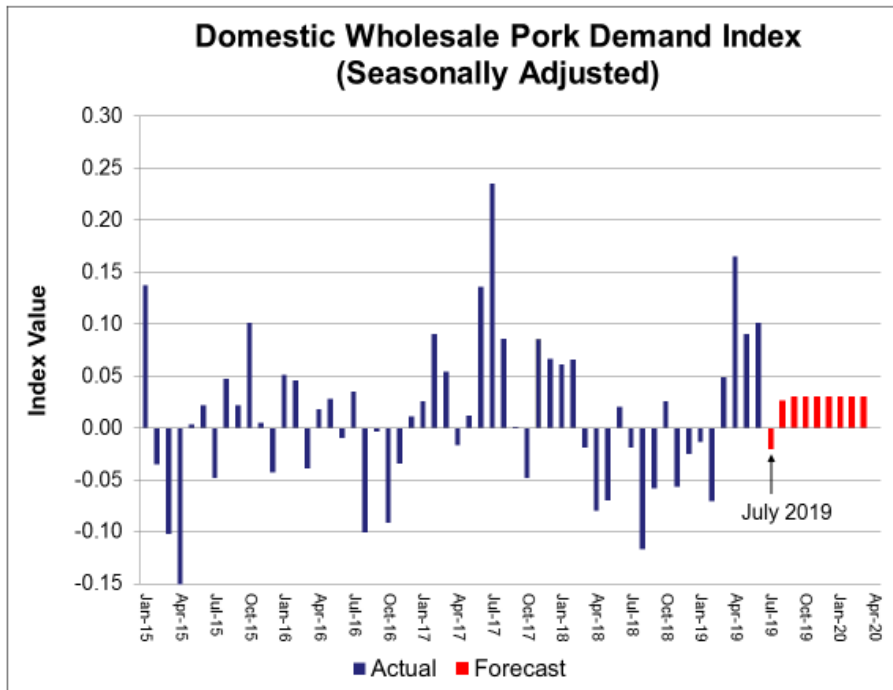
I remain a step back from the craps table, making as much noise as anyone and watching other people play, but not participating. It's not much fun this way, but I am not in this game for fun.

I'm stuck between a probable rush of bullish news from the cash markets, and a futures market that appears to have all of that bullish news already priced in.

Hog slaughter is coming down (2,400,000 this week, 2,320,000 next week), carcass weights are dropping rapidly, and the pork cutout value has just completed a two-month long, \$16 per cwt swoon. The CME Lean Hog Index has found support at a prominent support level on the long-term chart (\$70) and appears to be poised for a major turn. These are precisely the wrong conditions under which I want to be betting from the short side, no matter how big the premium may be.

I'm still struggling with the volatility in wholesale pork demand, and trying to project a suitable benchmark against which I can benchmark the over- and undervalued status of future prices. Last week I was thinking that a return of the seasonally adjusted demand index to its June reading would be a "middle-of-the-

road” value; now, I’m wondering why I should expect it to make its way back up to that level. I think it’s fair to say that the leap in demand that started in March and reach its pinnacle in April was the result of both a sudden change in expectations (due to a concrete surge in Chinese buying) *and* pent-up domestic demand resulting from months of declining retail prices and widening retail margins. The latter condition no longer exists; in fact, average retail pork prices have increased 20¢ per pound since February, and now stand nearly 22¢ higher than a year ago. And as for the inevitable increase in export business, it’s going to be more difficult to surprise the market than it was in March.

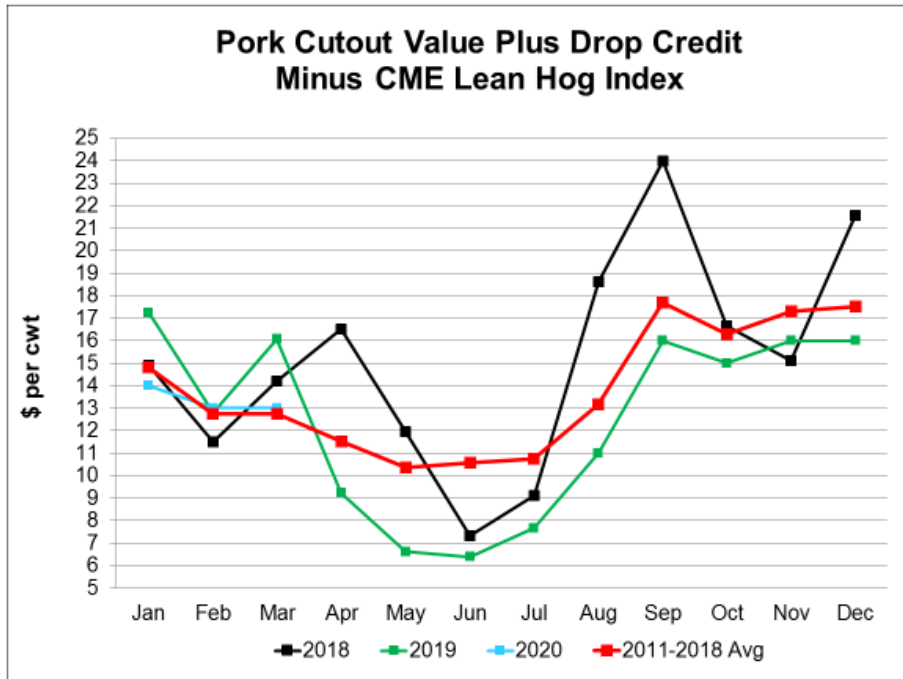


And so, as a “baseline” figure I am factoring in a demand index value that is nearer to the midpoint of its longer-term range. Combined with slaughter projections that mirror USDA’s current pig crop

estimates, they place monthly average cutout values at about \$82 in August and only slightly below that in October.

I am also adjusting my sights for spot packer margins to reflect the way they have behaved over the past four months. [It takes me a while to catch on.] My forecasts of the CME Lean Hog Index now assume that the gross packer margin index will remain \$1-2 per cwt below the 2011-2018 average, as I show in the picture on the next page. The only explanation I can come up with for the tighter--than-expected margins is the ramp-up in additional slaughter capacity and particularly the *location* of that additional capacity....which may have a peculiar impact on the CME Index Value calculation.

Applying these projections of gross packer margins to the cutout values I just described lands the monthly average CME Index near \$76.50 in August and \$71-something in October....not far from where the board trades today.



And so, I am restricting my positions to the long side, and I will buy something only if the board sets back into the neighborhood of its previous lows-- meaning sub-\$76.00 in the August contract and somewhere near \$68.00 in the October contract.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,297,000	2,490,000	2,546,000	2,642,000	2,616,000	2,546,000
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	2,235,000	2,425,000	2,480,000	2,575,000	2,550,000	2,480,000
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	58,000	58,000	59,000	58,000	58,000
Year Ago	54,700	58,100	56,500	61,100	57,300	58,700
Cutout Value	\$76.50	\$82.25	\$80.50	\$81.00	\$78.00	\$78.50
Year Ago	\$82.70	\$69.05	\$74.33	\$78.56	\$69.41	\$71.53
CME Lean Hog Index	\$74.00	\$76.50	\$70.00	\$71.50	\$67.50	\$68.00
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 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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