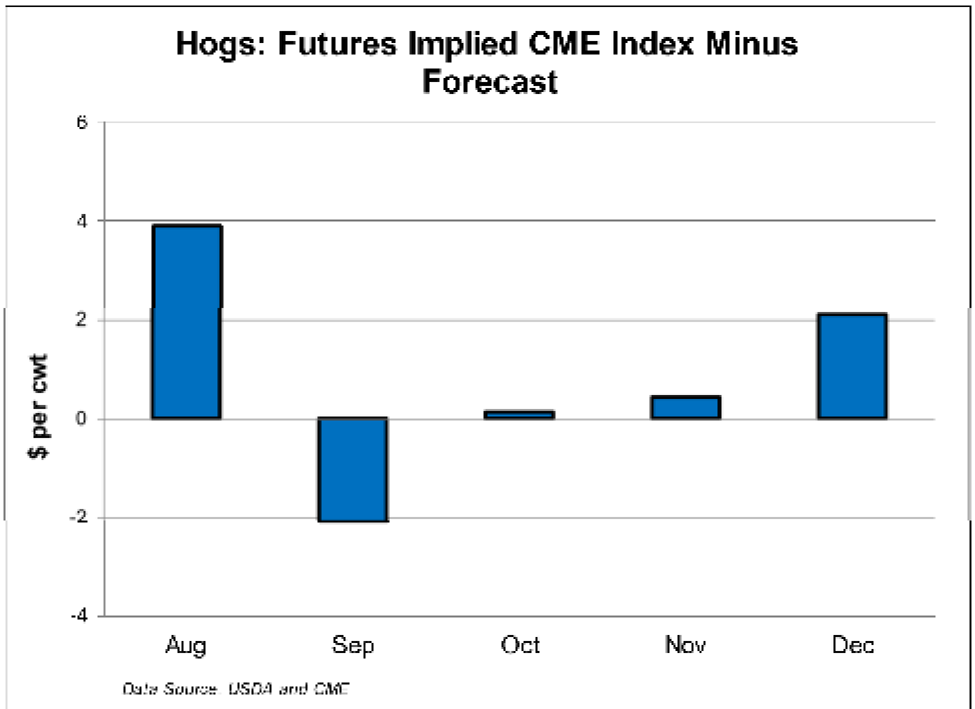
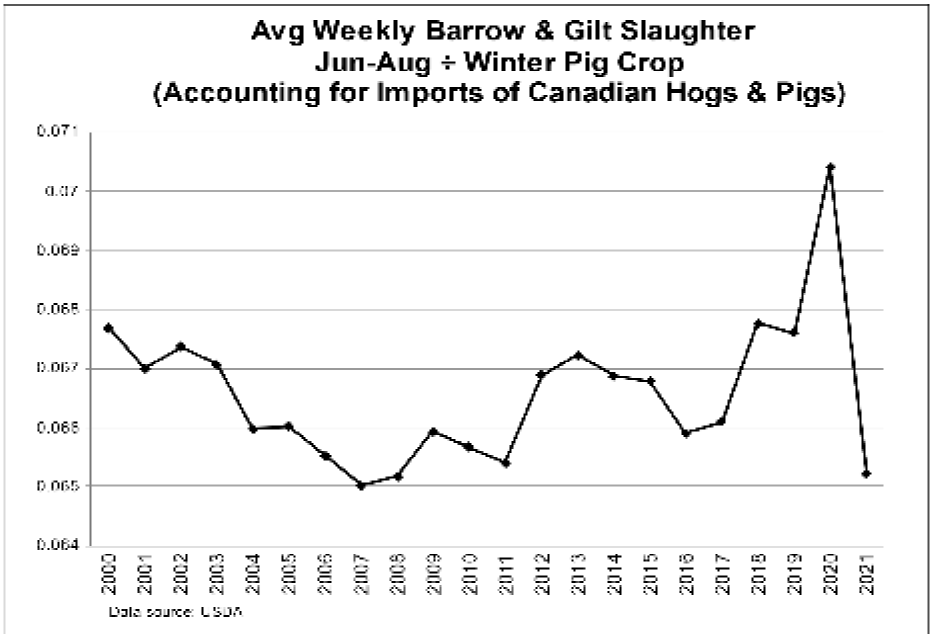
Trading Hogs
…. from a meat market perspective
A commentary by Kevin Bost

July 13, 2021

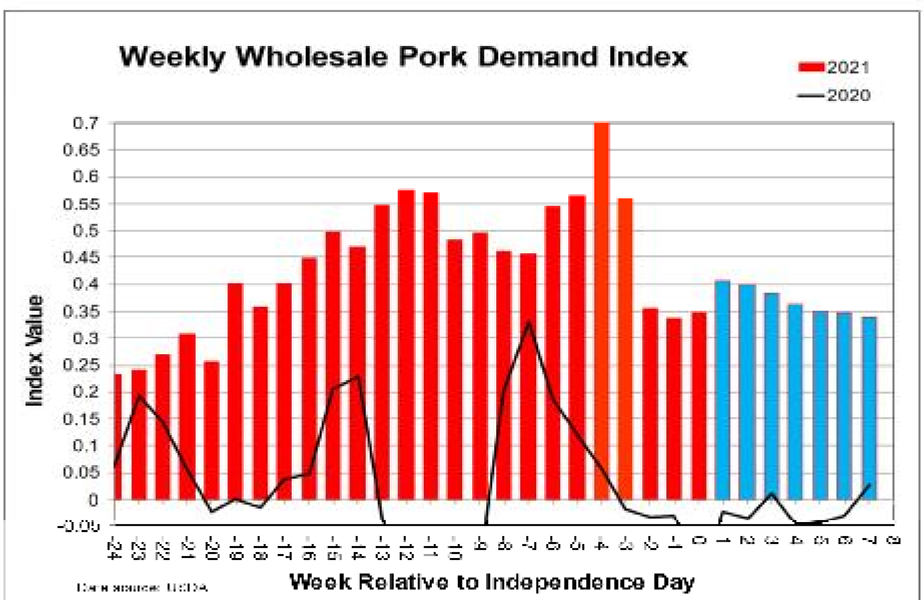


I am stepping to the sidelines of the hog market, because of some developments in the last few days that pose a major threat to a short position and have direct bearing on the August contract. The greatest of those threats is that hog slaughter is falling significantly short of my projections, to the point that I have to conclude that the winter pig crop was overstated in the last two *Hogs and Pigs* reports—In other words, hog supplies are smaller than they are supposed to be right now. This has long been touted as a realistic possibility in the summer due to widespread reports of unusually severe losses from Porcine Reproductive and Respiratory syndrome through the winter. My posture has always been that I would make the appropriate adjustments to the forecast as soon as the statistical evidence started to bear that out. Well, the evidence is mounting. And it's just not a good idea to be betting on lower futures prices when hog supplies are tighter than expected.

The picture at the top of the next page is one that I have shown before. The ratio of June-August hog slaughter to the winter pig crop estimate is shaping up to be the lowest since 2008 and one of the lowest on record. Of course, the jury is still out on this subject, but we're halfway through the period and the writing seems to be on the wall.



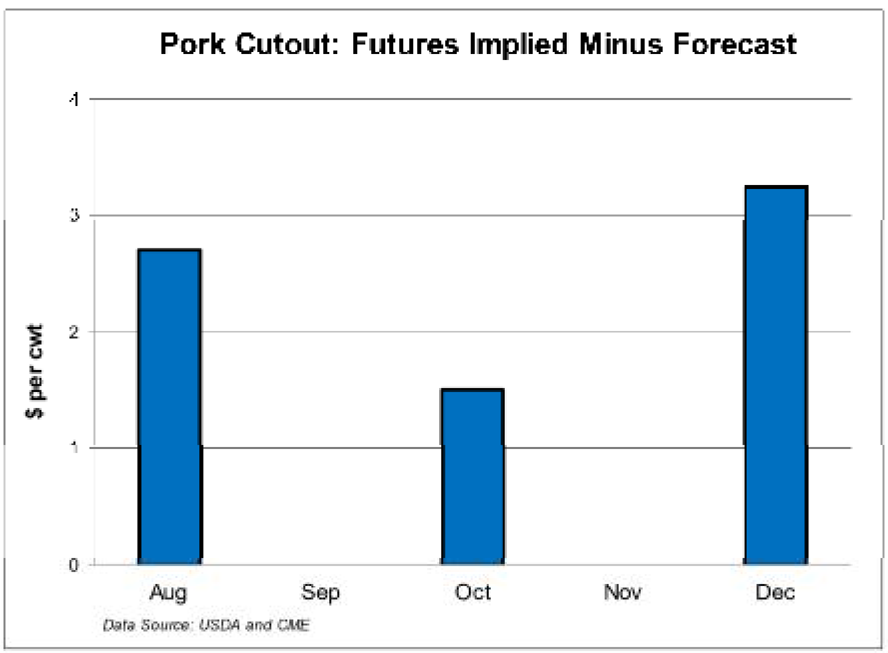
There were only 2,277,000 hogs slaughtered in the week prior to Independence Day. Followed up by last week's holiday-shortened total, one would *think* that there would be a "mini-backlog" that would allow packers to discount hog prices coming out of the holiday. But that has not been the case. Over the last six days, the CME Lean Hog Index has actually gained a little bit of ground, and now stands at approximately $111.00 per cwt. Thus, the discount in the August contract is beginning to look exceedingly steep. Of greater concern is the possibility that the Index has found a temporary bottom and will move upward for a while….and for how long, who knows?



It is still very likely that we are at the point of tightest hog supplies right now. My guess at this juncture is that weekly kills will be in the 2,320,000-2,350,000 range for the next three weeks, and then move up to 2,450,000 by the middle of August. But I notice that the weekly wholesale pork demand index, after setting back pretty sharply three weeks ago, has bounced back upward a bit. If it remains essentially flat from this point forward, then the cutout value will still slip backward after this week—but at an uncomfortably slow pace. It would reach $110 per cwt at the time that the August contract goes off the board.

That would leave the August futures contract ultimately worth about $102. In the meantime, however, the short-term technical picture has turned bullish, as today the August contract is driving through the top end of its big outside range/selloff of July 1. There is no discernible resistance between here and the 40-day moving average, which currently passes through $108.95. And I remind myself that there are two open gaps on the daily chart, one at $111.70 and another at $116.25. I seriously doubt that the latter will be filled, but the first one suddenly does not seem out of reach. Accordingly, my current plan is to sell August hogs again at $111.70.

Although the October contract appears to be fairly priced at today's trade levels, the prospects in this one are interesting. If it is able to push through $89.50, then (with a little bit of imagination) it might be setting up a technical objective of around $96.00. While I would not be willing to buy a close above $89.50—my bias remains on the short side because of the probable downward trend in pork demand, and there remains a lot of potential long liquidation from managed money traders—I would certainly entertain the idea of selling this market at $96.00. We'll cross that bridge when we come to it.



Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,237,000	2,467,000	2,526,000	2,640,000	2,601,000	2,454,000
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	2,173,000	2,400,000	2,460,000	2,575,000	2,535,000	2,390,000
Year Ago	2,386,700	2,528,400	2,452,400	2,627,100	2,546,100	2,381,300
Avg Weekly Sow Sltr	58,000	60,000	59,000	59,000	59,000	58,000
Year Ago	61,300	65,300	63,100	62,700	59,600	59,300
Cutout Value	$116.00	$110.00	$104.00	$100.00	$93.50	$93.00
Year Ago	$67.44	$72.11	$84.90	$94.11	$81.10	$74.93
CME Lean Hog Index	$110.00	$101.50	$92.00	$88.50	$80.00	$80.00
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.