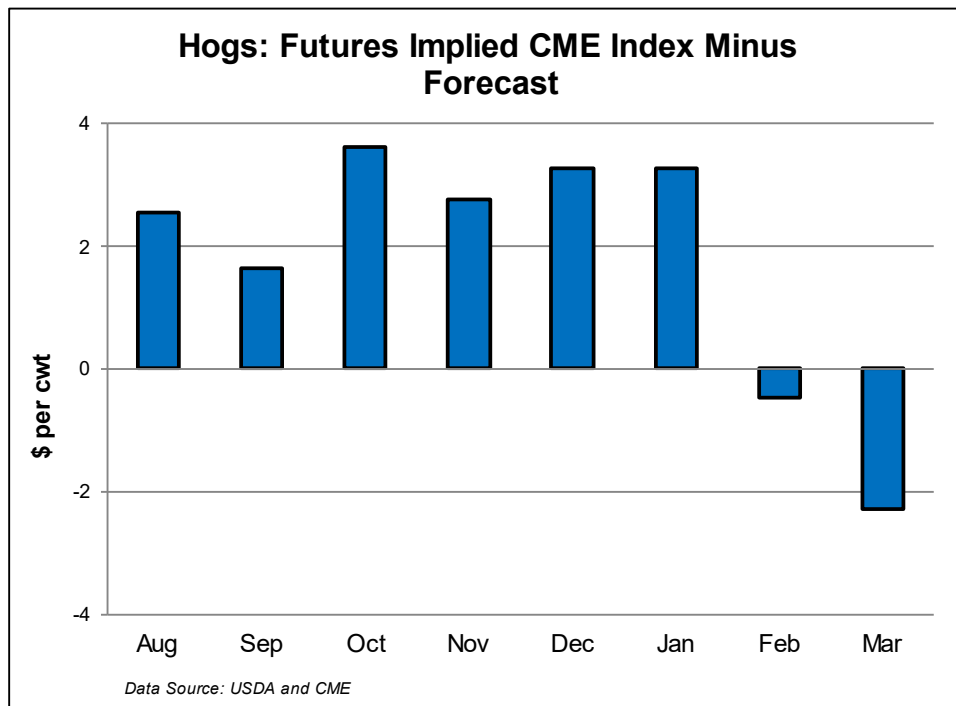


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

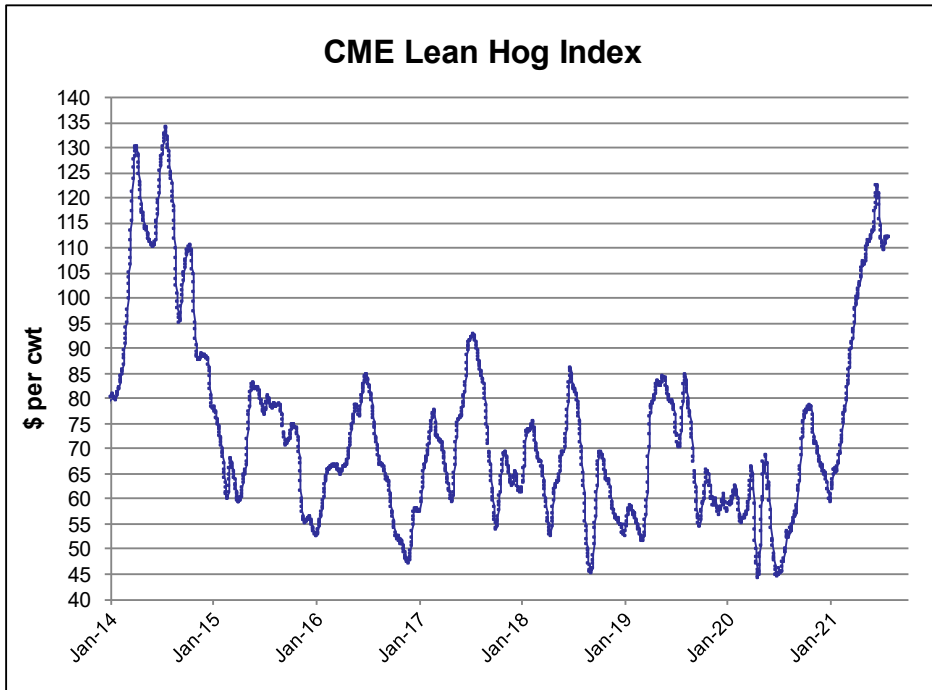
July 25, 2021



Because the CME Lean Hog Index appears to be on the edge of a cliff right now, I am restricting my bets to the short side for the time being. The Index has held within a very tight range over the last eight trading days, which usually indicates that it is staging for a major move in

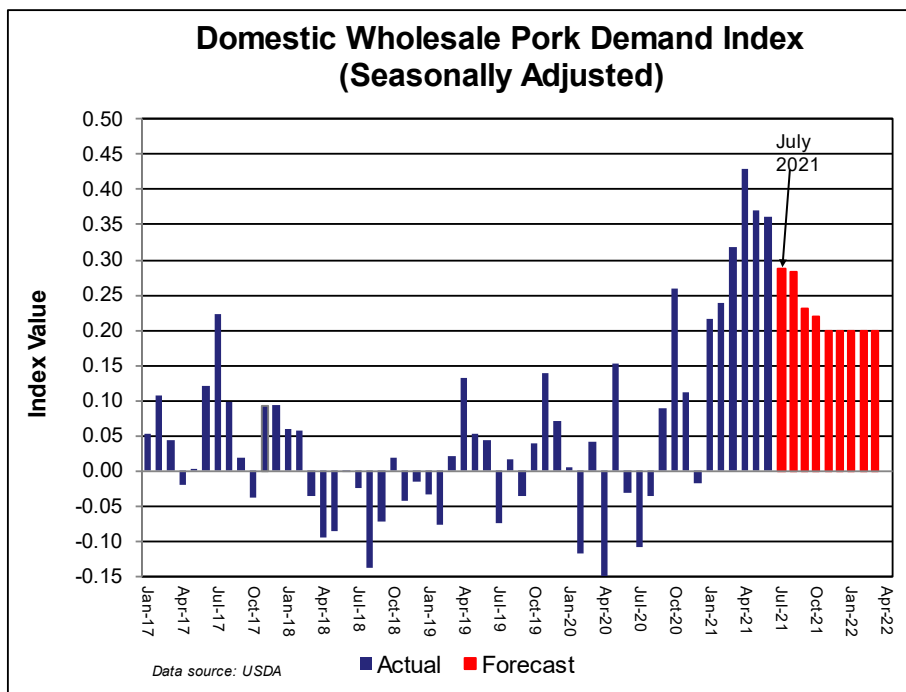
one direction or the other. Since hog slaughter is (presumably) just now beginning its seasonal uptrend, I have to assume that this move will be downward. And since we're starting from such high price levels, this one could be bigger than normal.

It's worth noting that the initial leg down took the Index from \$122.72 to \$109.71. If the next leg duplicates the first, and if the starting point is last week's high of \$112.38, then it would measure down to \$99.38. No big deal by itself. But there is no discernible support on the chart between \$109.71 and \$92.71, and the nearest *major* support level lies somewhere in the vicinity of \$85. The most objective forecast I can muster points to monthly average prices of \$89 in October and \$81.50 in November, so I would have to say that the \$85 support level is likely to be tested—maybe not before the October contract expires, but sometime this fall. In any case, if the road map points to a \$25-\$30 per cwt break in the CME Index—and if we're just now getting in the car—then this is not a good time for me to be buying a discounted futures contract.



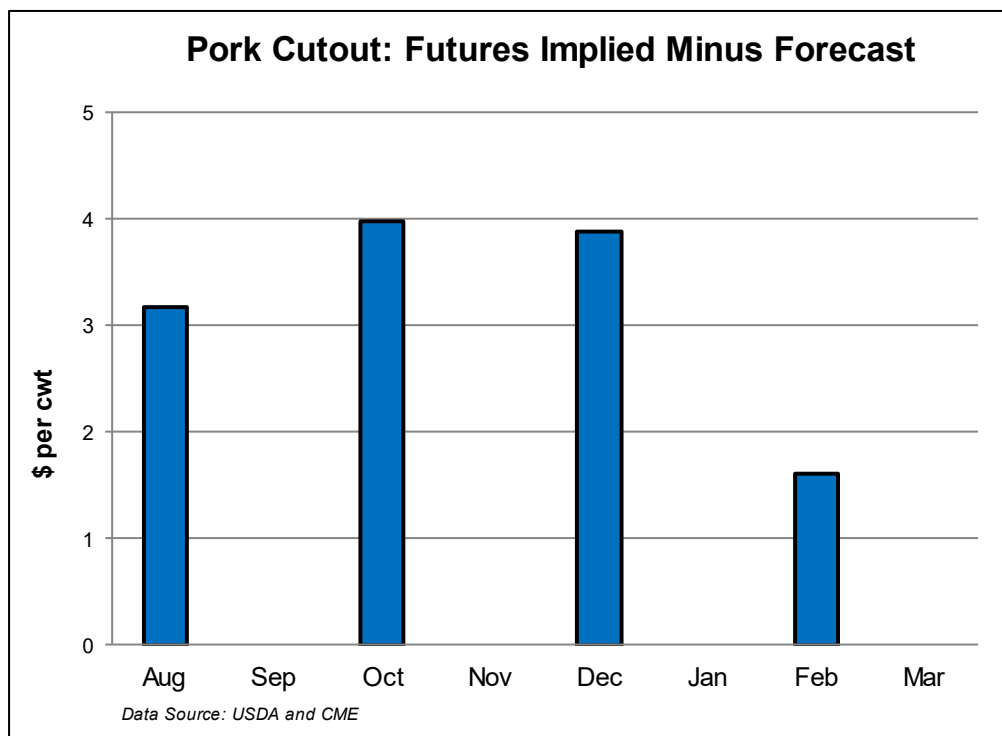
Appealing to fundamental logic, the forecast of an \$89 average CME Index in October includes the assumption that the seasonally adjusted pork demand index will retreat "only" back to its 2015-2020 peak levels. It is certainly not hard to envision a steeper drop than this. We simply do not

know how much demand rationing has been set in motion by the extraordinarily high prices of the past five months. I cannot help noticing that in 2014, the only other time when pork prices reached these levels, the demand index value fell from .41 in July to .11 in December.



And of course, the fact that the October contract left a gap on its daily chart at \$85.70 is appealing. On a related subject, the long position owned by managed money traders now accounts for 21% of all reportable holdings in hog futures, the highest percentage since November 2017.

But the chart of October hogs gives me no reason *not* to wait for a test of the contract high of \$97.97 per cwt before placing a bet from the short side of the table. There is no discernible resistance between here and there, and I was impressed by this past week's price action. The market fell 245 points on Thursday and appeared to be on the ropes, only to blast into a new high for the week on Friday. Also, for what it's worth, I notice that the ten-day moving average has moved back above the 40-day average for the first time since June 21....not the sort of behavior one would expect from a market that is supposedly rolling over. And so, while I frankly do not expect to get the chance to sell October hogs above \$97.00, at this point I cannot justify selling anything below that price.



Forecasts:

| | Aug | Sep* | Oct | Nov* | Dec* | Jan |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Avg Weekly Hog Sltr | 2,457,000 | 2,506,000 | 2,630,000 | 2,591,000 | 2,454,000 | 2,542,000 |
| Year Ago | 2,599,400 | 2,521,200 | 2,695,800 | 2,611,300 | 2,446,000 | 2,712,800 |
| Avg Weekly Barrow & Gilt Sltr | 2,390,000 | 2,440,000 | 2,565,000 | 2,525,000 | 2,390,000 | 2,475,000 |
| Year Ago | 2,528,400 | 2,452,400 | 2,627,100 | 2,546,100 | 2,381,300 | 2,638,600 |
| Avg Weekly Sow Sltr | 60,000 | 59,000 | 59,000 | 59,000 | 58,000 | 60,000 |
| Year Ago | 65,300 | 63,100 | 62,700 | 59,600 | 59,300 | 67,700 |
| Cutout Value | \$112.50 | \$104.00 | \$100.50 | \$94.50 | \$95.00 | \$91.50 |
| Year Ago | \$72.11 | \$84.90 | \$94.11 | \$81.10 | \$74.93 | \$80.31 |
| CME Lean Hog Index | \$103.50 | \$92.00 | \$89.00 | \$81.50 | \$82.50 | \$82.00 |
| Year Ago | \$54.81 | \$68.39 | \$77.37 | \$69.51 | \$63.39 | \$65.48 |

**Slaughter projections include holiday-shortened weeks*

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