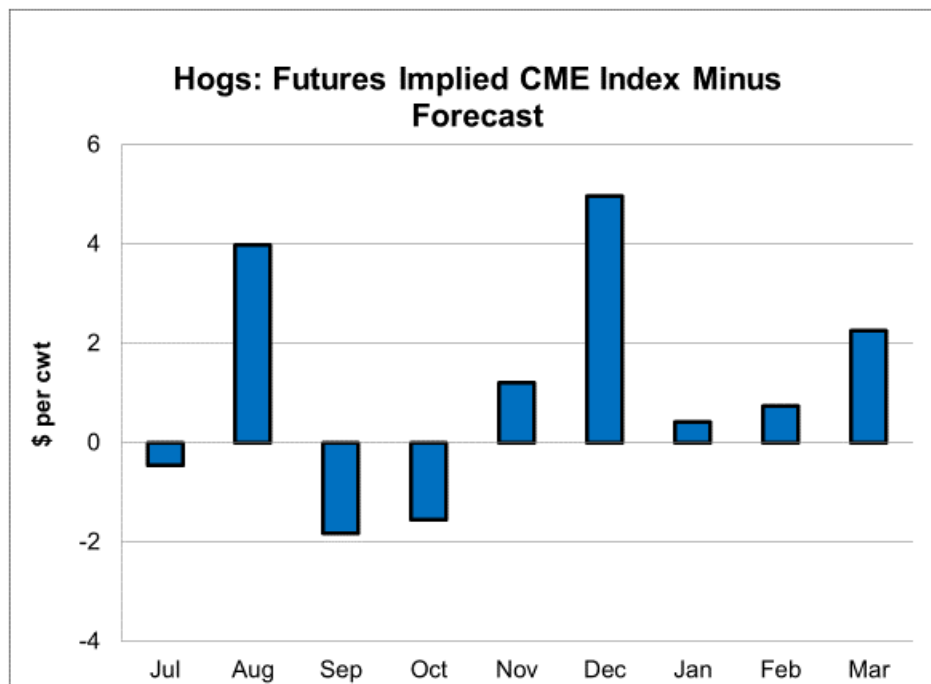


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

July 5, 2019



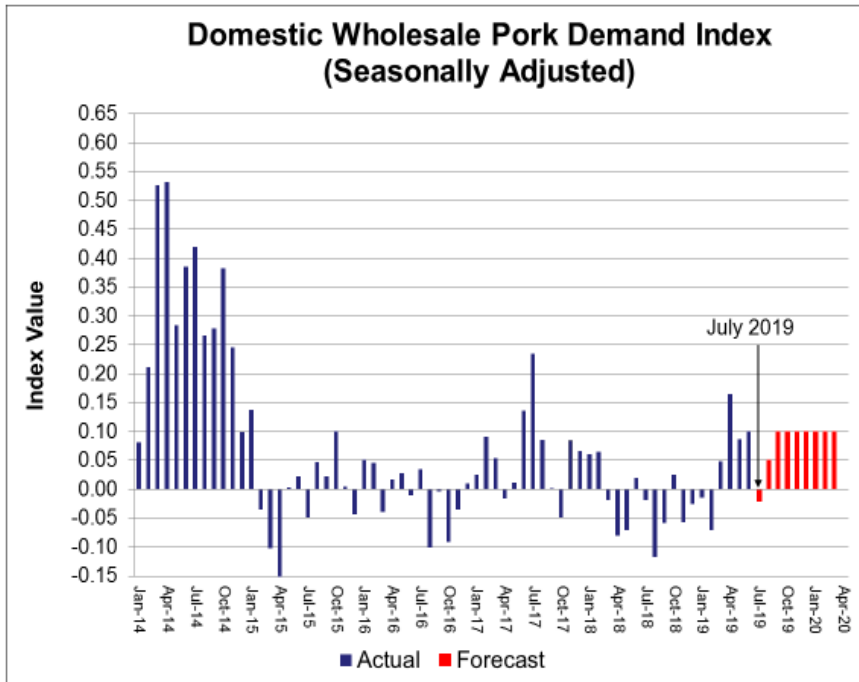
I have no bets on the table in the hog market at this time. My intuition tells me to approach it from the long side, because of the counter-seasonal downdraft in pork prices that we have

just witnessed, and because the reason that the market rallied so strongly in the first place is still very much intact. None of us knows what heights U.S. pork exports to China might reach; but their potential lies far above the current rate.

The forecasts in the table below reflect a pretty sharp increase in total U.S. pork exports, from 520 million pounds in June to as much as 700 million by December. Relative to a year earlier, they go from +4% in the second quarter to +27% in the third quarter to +34% in the fourth quarter. I *think* these are realistic expectations, because they are derived from sources which I regard as quite credible. But they are guesses nonetheless, and I would be foolish to bet my money on these exact numbers. I am treating them as vaguely bullish “wild card” factors which are not to be underestimated.

Likewise, my forecasts include some fragile assumptions regarding domestic pork demand. Now, I *am* fairly confident that demand at the wholesale level will

recover as we move through the summer, after being caught in a vacuum created by production levels in June that no one had anticipated. My guess is that the seasonally adjusted demand index, shown in the picture below, will gradually makes its way back to its June reading. It's not asking *that* much, is it?



So, then, it looks to me as though the next four weeks will be characterized by declining production; rising export sales; and strengthening demand. Against this backdrop, I have to restrict my positions to the long side or to bull spreads.

The picture on the first page tells me that the best place for a long position, or for the long leg of a bull spread, might be the October contract. The downtrend line in October hogs is well-defined, passing through approximately \$75.00 today. A close above that level would obviously mean something....if nothing else, it would suggest that the bottom has finally been established.

I am not anxious to buy the first close above \$75.00 in October hogs, however. I would have to first see some indication that cash prices have stopped going down. The CME Lean Hog Index is making another low for this move today, at approximately \$72.30. The nearest support level on the chart lies at \$70.00, and for all I know, that's where it's headed. The pork cutout value also made a new low for this move on Wednesday. Although there is an excellent chance that pork prices are *practically* on bottom right now, I need to see a material change in the undertone of the pork trade before I can take any action.

If that signal is received, then I will not hesitate to buy October hogs in modest quantity and risk the trade down to the contract low (currently \$68.65). The risk will be considerable, but a reversal of the trend in cash prices will, I expect, trump any other consideration for a while.

Forecasts:

	Jul*	Aug	Sep*	Oct	Nov*	Dec*
Avg Weekly Hog Sltr	2,282,000	2,491,000	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	2,220,000	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	\$78.00	\$84.00	\$86.00	\$86.00	\$82.00	\$83.00
Year Ago	\$82.70	\$69.05	\$74.33	\$78.56	\$69.41	\$71.53
CME Lean Hog Index	\$75.75	\$74.50	\$71.50	\$74.50	\$69.00	\$67.50
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 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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