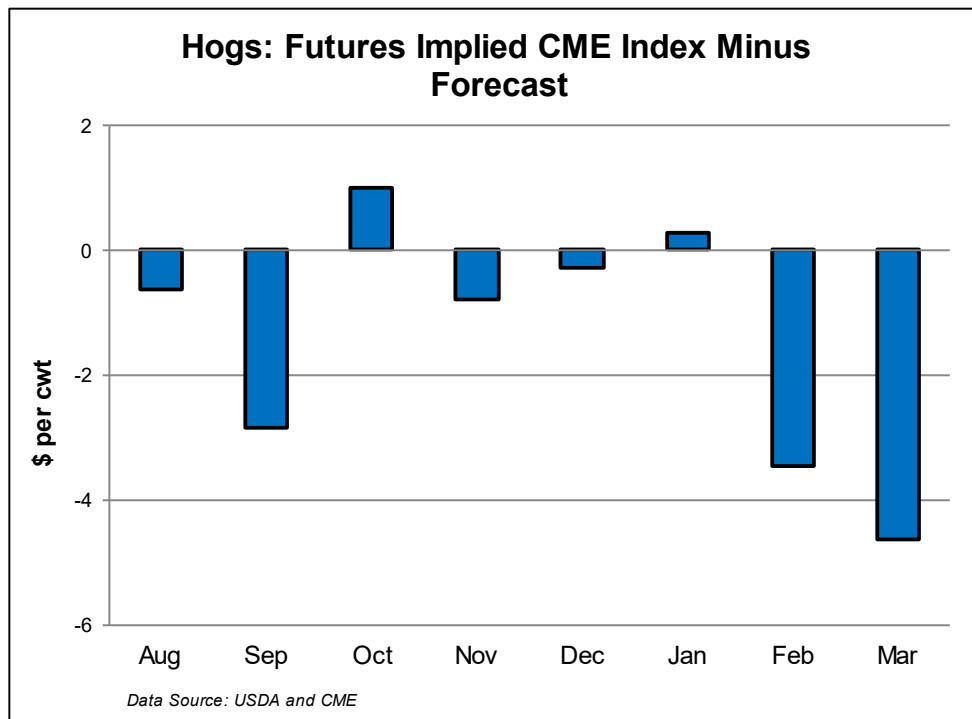


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

August 1, 2021

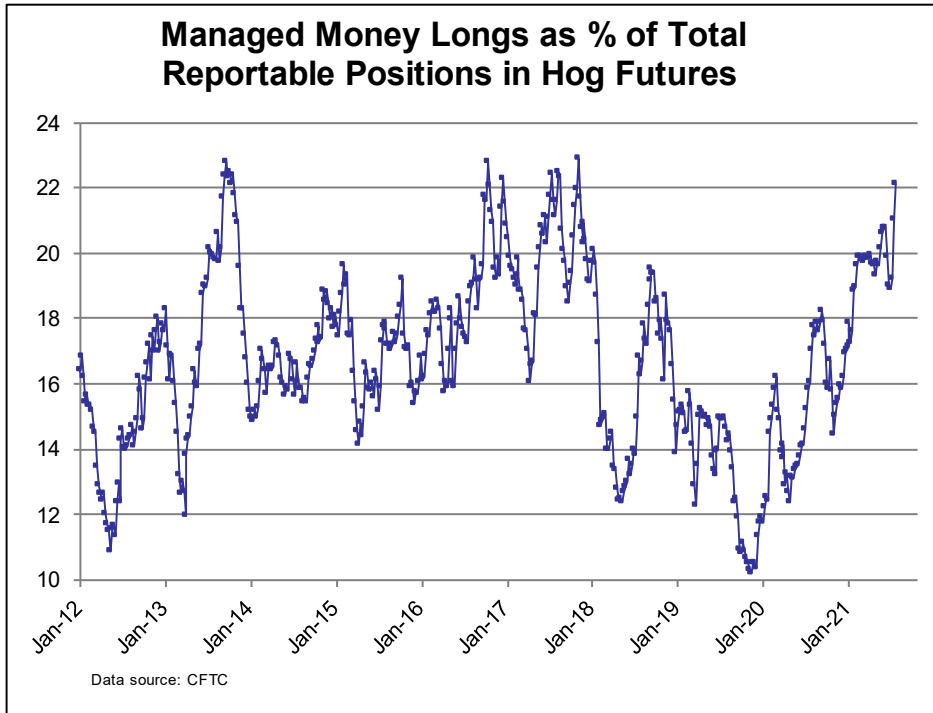


First of all, I am still restricting my bets in the hog market to the short side of the table for the time being, since there is a good chance of an extraordinarily sharp break in the cash markets over the next four weeks. I should probably clarify: my

Honest-to-God best guess is that the CME Lean Hog Index will lose somewhere between \$14 and \$15 per cwt by the final week of August, which would be the third steepest decline on record over this particular time window. [In 2014 the decline measured \$25.49, and in 2018 is measured \$24.73.] Even if I'm not exactly right about this, the point still stands: a big break in the CME Index is imminent, and I have no taste for being long of the futures market while this is taking place.

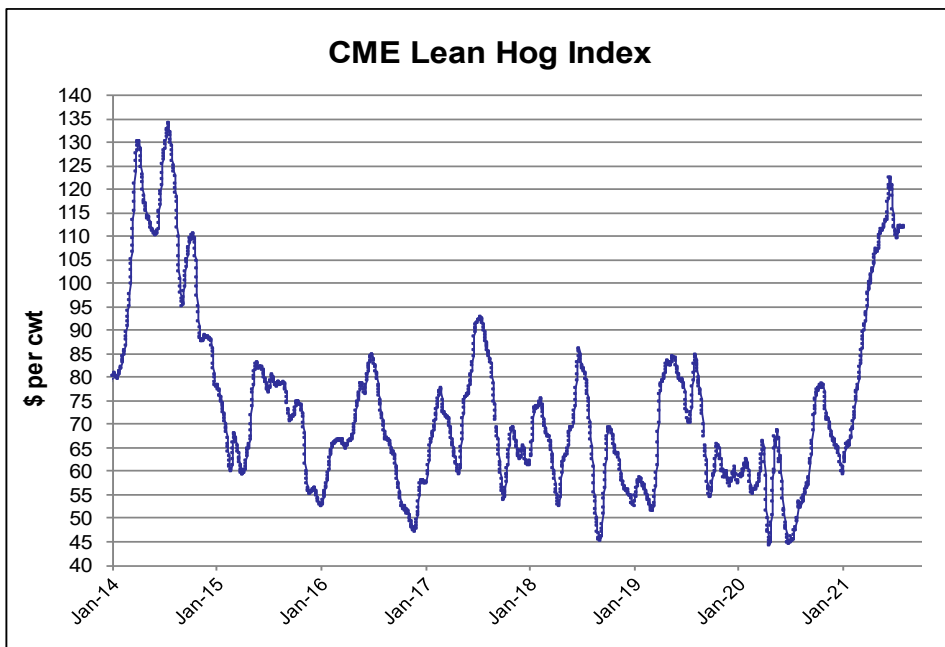
That much established, the board does not appear to be substantially over- or undervalued at the moment, so any short-side bet will have to be a small one. I'll get right to the point. I am willing to sell October hogs in the neighborhood of \$90.40, employing a close-only stop at \$94.00 and expecting a move down to \$84.00. The potential profit-to-risk ratio on this trade is actually less than 2:1, low enough that it requires a special dispensation from the Boss in order to justify it.

One other consideration that makes the short side of the October contract (in which open interest is far greater than any other option) more appealing is that the managed money long position has stretched out even further in relation to the total open interest:



By itself, this is not reason enough to establish a short position. But it *does* enhance the probability that the board will “overshoot the mark” to the downside before it’s all over. I notice also that trading funds hold 44% of the total long position in the hog market.

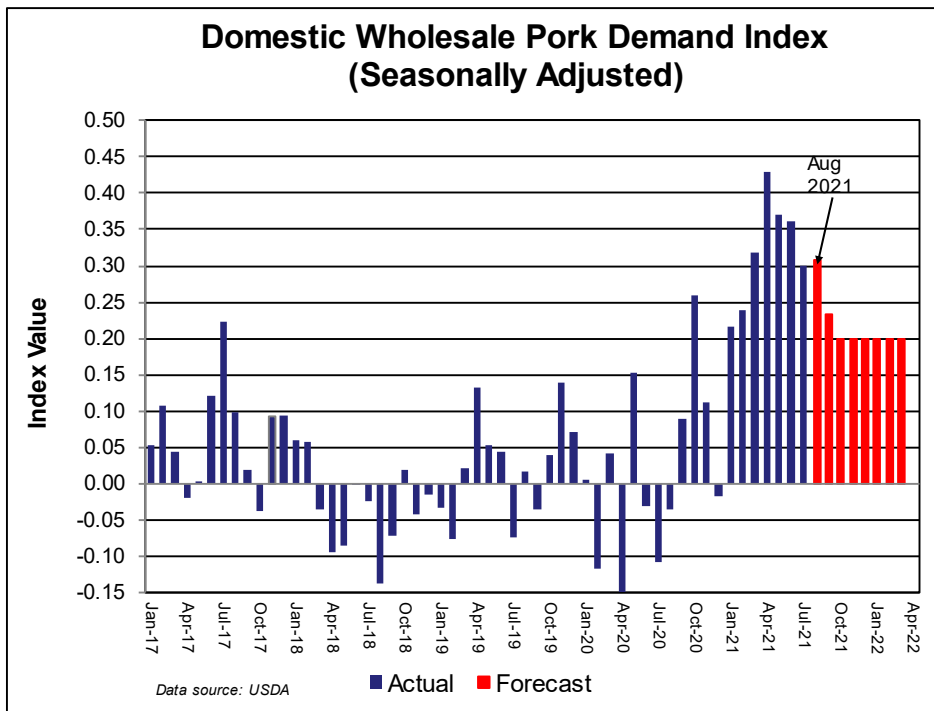
The next picture is one with which you are, no doubt, already familiar.



I am displaying it today because the challenge at center stage is to guess the downside potential of the CME Lean Hog Index this fall. Judge for yourself, but it looks to me as though the major support on this chart lies at \$85 per cwt. I don’t see anything of any

consequence between here and there. And so, applying Kindergarten logic (sometimes the best kind in commodity trading), \$85 seems to be a reasonable destination. But can it be reached before the October contract expires?

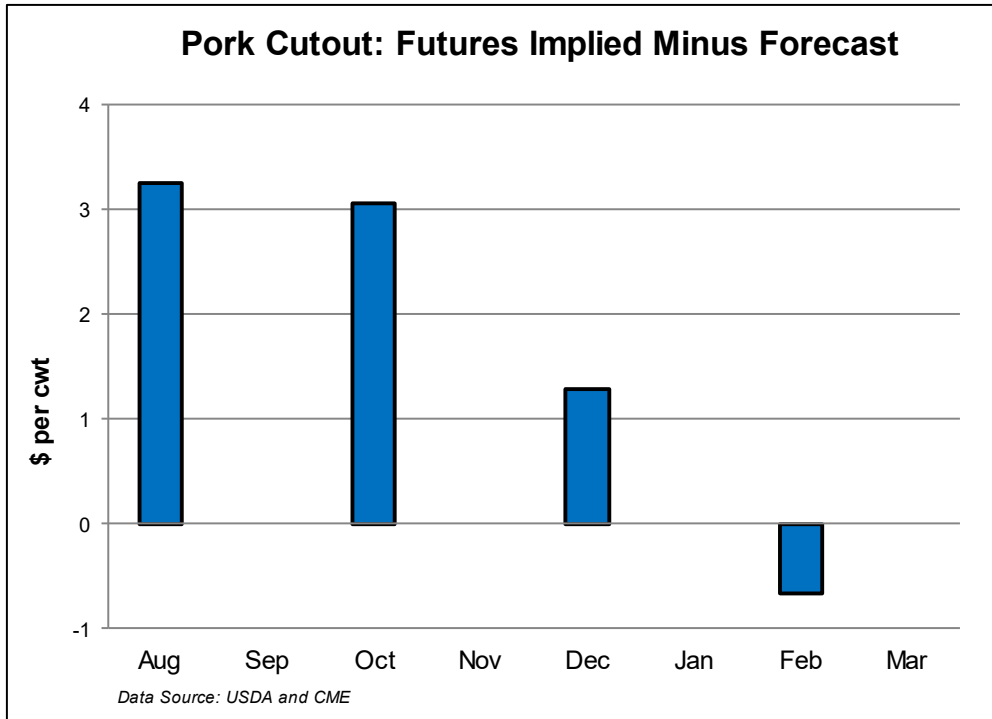
To help answer the question, I have to show you the seasonally adjusted demand index once again. My guess is that wholesale pork demand throughout the fourth and first quarters will not be as stable as I am portraying, but that the equilibrium point around which it will fluctuate will be at .20. And I am guessing that if we can believe that general inflationary forces will keep it elevated, then the high and low points might be .25 and .15.



A demand index value of .20 should place the monthly average CME Index at about \$87 and make the prospect of an \$85 cash market in October seem likely. If the demand index were to be .25 instead, then the October cash market would average about \$91; and if the demand

index were to be on the downswing in October at .15, then we would be looking at an October cash market of \$83. And so if my premises are correct, then one might say that \$83 and \$91 are equally likely prospects.

My selling target of \$90.40—which was the market’s “breakdown point” last week—gains some credence from this angle as well, since it’s pretty close to \$91. I’ll give it a try at that level....but once again, in only modest quantity.



Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan
Avg Weekly Hog Sltr	2,459,000	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	2,393,000	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	\$114.00	\$104.00	\$98.00	\$94.00	\$94.50	\$91.00
Year Ago	\$72.11	\$84.90	\$94.11	\$81.10	\$74.93	\$80.31
CME Lean Hog Index	\$104.50	\$91.50	\$87.00	\$81.00	\$82.00	\$81.50
Year Ago	\$54.81	\$68.39	\$77.37	\$69.51	\$63.39	\$65.48

**Slaughter projections include holiday-shortened weeks*

Trading Hogs is published weekly by Procurement Strategies Inc., 99 Grover 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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