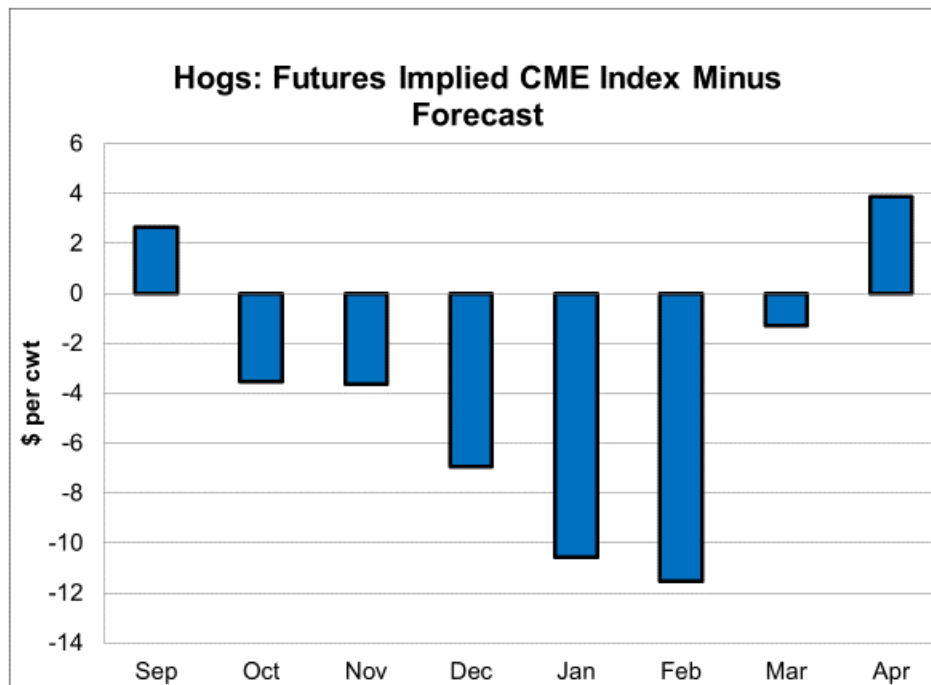


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

August 16, 2018

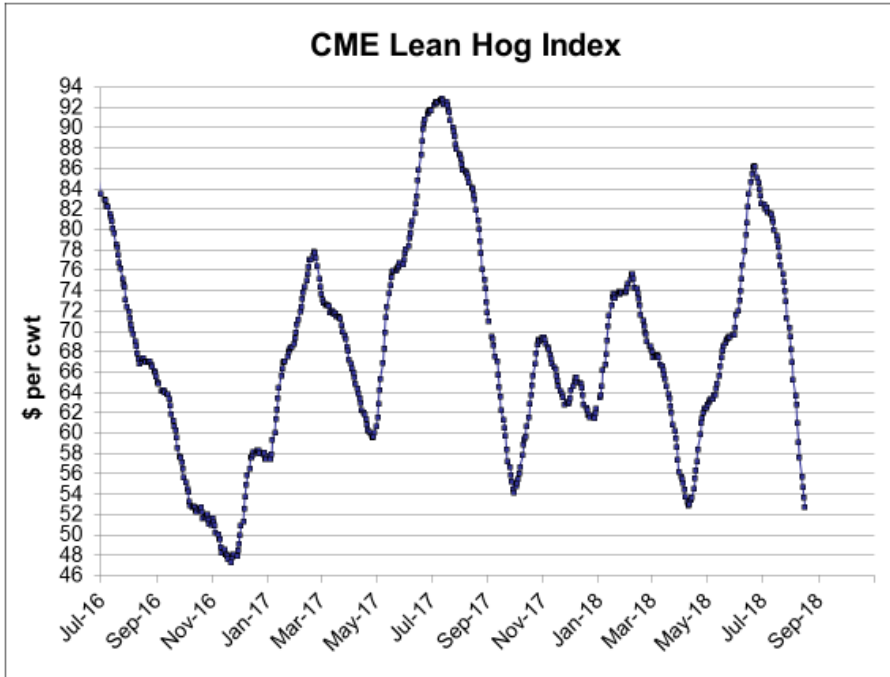


Because of the picture at left, my interest remains focused on the long side of the February contract. I have not taken any action just yet, but I am convinced that this contract made its final bottom last Thursday at \$51.22 per cwt....at least

the odds of that being true are great enough to warrant a bet, using a close-only stop just below that price level. It is now just a matter of choosing the right entry point.

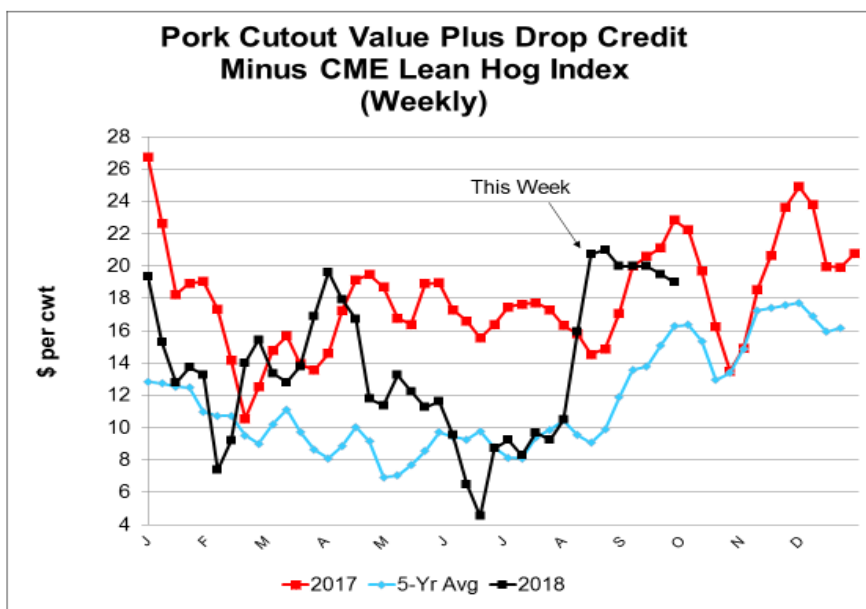
It is my expectation that this market will spend quite a bit of time in a sideways trend between \$52.00 and \$57.00. The midpoint of that range is \$54.50, and so Rule Number One is that my entry point must be below that price. The \$53.00 area is now a significant support level on the daily chart and therefore a natural place for a long position. However, now that February hogs have closed above the top end of the big outside range of August 9, the textbook says that a close back within that range (i.e., below \$54.67) should lead to a test of the bottom end—which is the contract low. This consideration tells me that I should be patient.

In the meantime, I am willing to buy into a February/April spread at a 700-point premium to the April contract. It makes sense to me that *if* the February contract has indeed made its ultimate low, then probably so has the spread. A 700-point April premium would just about match the record for this time of year, which was established in 2012. If I am able to get this done, I would drop the short leg if an outright long position becomes justified according to the guidelines set forth above.

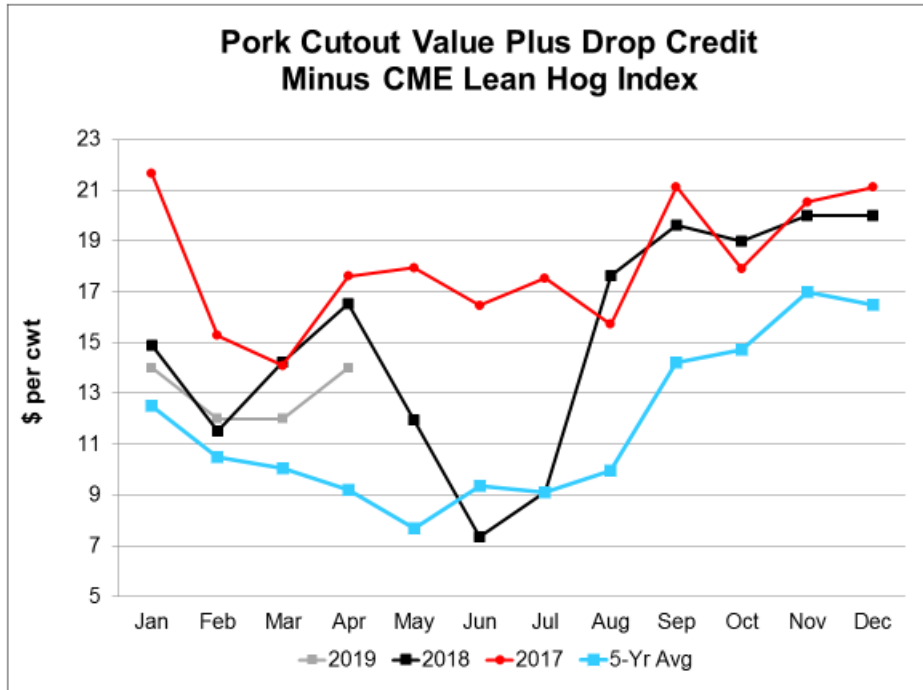


Apart from the apparently gross undervaluation of the February futures contract, one of the main reasons why I think the bottom is "in" is because there seems to be a good chance that the CME Lean Hog Index will gain some traction not far from today's quote (which I

estimate to be about \$52.75 per cwt). When I consider the underpinnings of my cash price forecast of \$56 in October—that would be the average for the month), my assumption regarding wholesale pork demand seem pretty conservative. I am assuming that demand will recover modestly from its currently depressed standing, but that the seasonally adjusted demand index will still be low relative to the last eight years (and about the same as last year). I am assuming that pork exports in October will be about 5% below a year earlier. And so I am OK with the notion of a \$69.00 average cutout value in October. The packer margin has lately been the most difficult to predict, but it has widened dramatically in the last couple of weeks and now stands considerably above a year ago. Thus, it seems reasonable to think that it will level out now, and actually tighten a bit in October:



My longer-term projections are shown in the graph on the next page. I am assuming that among the three newest, large plants, only the Seaboard /Triumph plant will significantly expand its production schedules by October.



Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan*
Avg Weekly Hog Sltr	2,398,000	2,506,000	2,572,000	2,568,000	2,487,000	2,454,000
Year Ago	2,304,600	2,420,500	2,503,700	2,422,100	2,420,500	2,339,270
Avg Weekly Barrow & Gilt Sltr	2,331,000	2,440,000	2,505,000	2,500,000	2,420,000	2,385,000
Year Ago	2,241,600	2,357,500	2,436,800	2,357,600	2,356,000	2,273,500
Avg Weekly Sow Sltr	58,000	58,000	59,000	60,000	59,000	61,000
Year Ago	55,500	55,500	59,300	57,300	56,800	57,620
Cutout Value	\$70.00	\$68.00	\$70.00	\$69.50	\$71.50	\$74.00
Year Ago	\$91.67	\$77.89	\$74.51	\$81.18	\$79.14	\$80.74
CME Lean Hog Index	\$57.50	\$53.00	\$56.00	\$54.50	\$56.50	\$65.00
Year Ago	\$81.41	\$62.02	\$61.73	\$65.88	\$63.28	\$70.97

*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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