

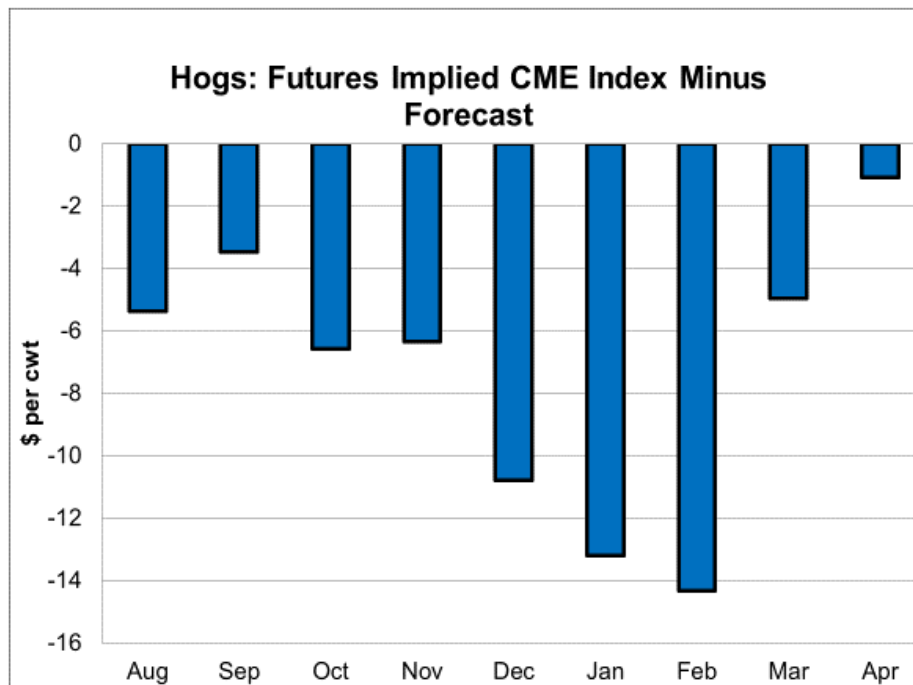
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

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August 2, 2018



My focus remains on the long side of the February contract, but for now, I am only looking for short-term trading opportunities—the reason being that with the CME Lean Hog Index losing ground at a pace of more than \$1 per cwt per day, it is still early in the game. The Index value for today's kill is in

the neighborhood of \$66.75, and it is not at all difficult to envision a sub-\$60 market by Labor Day. I would like to see the downward pressure on cash prices subside before I establish a long-term position.

With the February contract slipping below \$53.00 this morning, the technical picture is delicate. Frankly, I think it is beginning a move into new contract lows; at least I have to assume so, since I am planning to play from the long side. If the current contract low of \$51.95 holds, then of course I will rethink my strategy. But at the moment, I am planning to buy February hogs as closely to \$50.00 as I am able, expecting a rebound to \$53.00 (or so). We'll conservatively call that a 250-point profit objective, so I will not risk any more than 125 points on this trade.

The market composition figures are bullish in the longer term. At least they lower the risk that the board is headed into a free-fall. I refer to the fact that the long position among large speculators is extraordinarily small, comprising only 9% of the total open interest; in contrast, their short position, accounting for 16% of the total, is extremely large by historical standards. Presumably, this lessens the potential long liquidation that would be stimulated by negative technical developments. Meanwhile, the long side of the market is owned by swap traders and commodity index funds; this category holds an extremely large 26% of total open interest. I regard this as broadly bullish because these traders generally do not alter their futures positions in response to

short-term signals. Finally, I notice that the short position among commercial traders is extremely small. While this could be interpreted as a backlog of unhedged hog producers needing to sell futures, recent history suggests that packers represent a sizeable contingent within the commercial trader classification. If packers are not hedging their own hog production, it probably means that they do not perceive much downside risk in futures prices. The last three occasions on which the commercial short position was similarly small (October 2016; December 2015; and March 2013; the futures market was in the process of establishing major lows.

But once again, these are primarily long-term considerations. Although I am fairly confident in my forecast of a fair value of February hogs above \$65 per cwt, I am not so confident of my August/September forecasts of pork demand or packer margins and therefore, I am not so confident about “calling the bottom” in the cash hog market. Factoring in a pretty pessimistic demand scenario, I am currently coming up with an interim low in the CME Index of about \$56 in September, and an ultimate November low that matches the April 10 bottom of \$53. I must admit, I find it funny how many of us are more confident about the outlook six months down the road than about the outlook two weeks from now, which doesn’t make much sense....and I am guilty of such offense in this case. My only defense is that eventually—certainly by next February—the cheap pork prices we are seeing now will lead to a substantial recovery in wholesale pork demand.

#### Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan*
Avg Weekly Hog Sltr	2,410,000	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	2,344,000	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	\$73.50	\$70.00	\$69.75	\$69.50	\$71.50	\$73.50
Year Ago	\$91.67	\$77.89	\$74.51	\$81.18	\$79.14	\$80.74
CME Lean Hog Index	\$64.50	\$57.00	\$57.25	\$54.00	\$57.00	\$64.00
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](mailto:Kevin_Bost@comcast.net); or visit our website at [www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com).

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