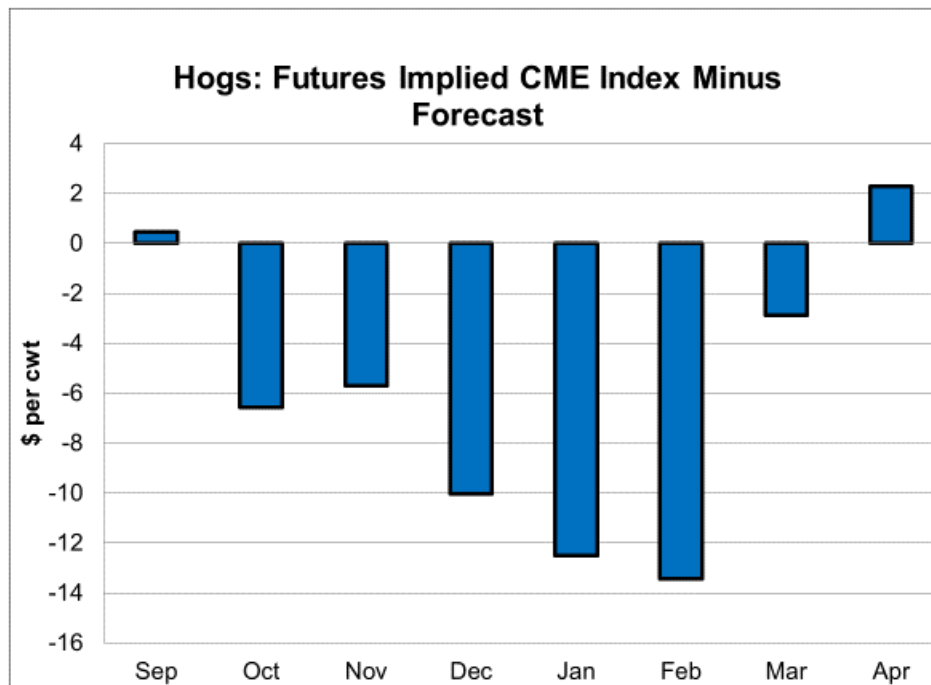


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

August 9, 2018

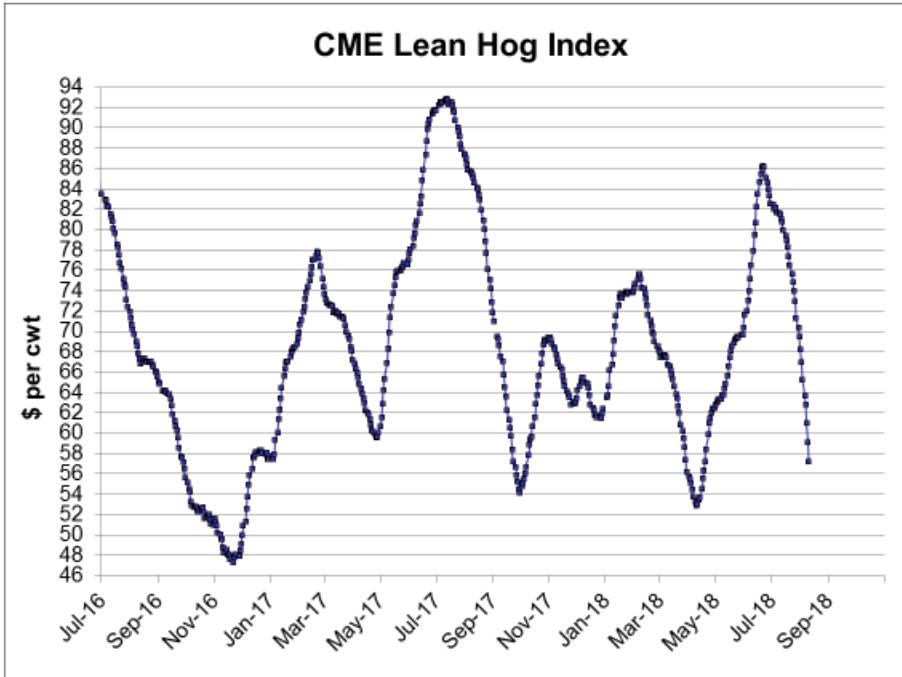


Today's price action was pretty impressive, and may have marked the ultimate bottom in the February contract—which is still the one I intend to buy. The fact that such an emphatic breakdown of support as occurred on Wednesday received virtually no

follow-through tells us something about the market's vulnerability (or lack thereof), doesn't it? I think it reflects the fact that the long side of the hog market is owned predominantly by index funds, while the short side is owned by large speculators, the latter of whom are more readily "chased out" by adverse technical signals. Also, once the market approached limit-up halfway through the session today, it hardly backed away from its highs, which is uncharacteristic of the "grease fire" rallies that serve as corrections in a continuing downtrend.

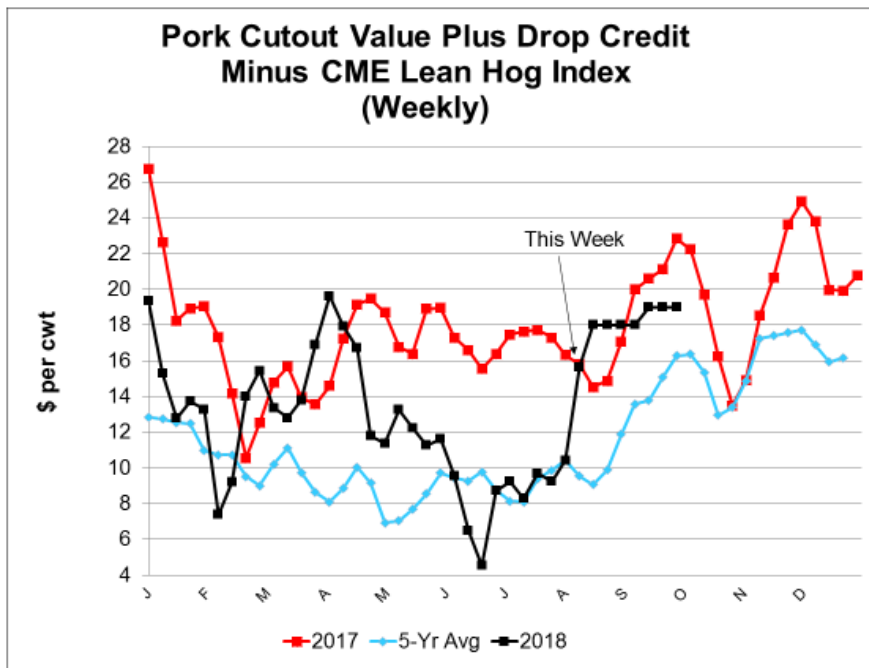
And so, I am willing to proceed on the assumption that the February contract has indeed established a major low at 51.22 per cwt. It follows that I will risk a long position down to a close below that price. I have not yet decided on my entry point for the "long haul", but most likely, it will be somewhere between \$52.00 and \$53.00.

This market sure could use some good news, though, and there is no trace of it yet. We are not even halfway through August yet, which means that the seasonal track records of the cash hog market and the pork cutout value point distinctly downward into early September. At the rate it's going, the CME Lean Hog Index (which will close out this week around \$57.25 per cwt) could lose a lot of ground in that length of time. My *guess* is that the rate of decline will slow down after the August contract expires next Tuesday (according to the Conspiracy Theorists), and that the April low of \$52.86 will stop the bleeding for a while. The most likely timing of that low is in the



week ending September 8. I am semi-confident in the notion of an early September, or even late August, low in the cash hog market because this outlook assumes weekly kills pushing 2,600,000 in September; wide packer margins; and very weak demand for pork.

And yet, I cannot brush over the fact that I have been quite surprised on a couple of fronts here in August, both of them bearish. One is the steep drop in wholesale pork demand since July. The other is the explosion in packer margins within the past week. I had expected them to widen, but not so suddenly and dramatically:



These are not reasons to step up the time table on a long position. But if we're waiting for all lights to turn green, we'll never place a bet. The best we can do is to make educated guesses, go with the probabilities, and wager accordingly. Ideally, the board will still be in the

process of forming its base three weeks from now. In that case, the timing would be just about right.

Forecasts:

	Aug	Sep*	Oct	Nov*	Dec*	Jan*
Avg Weekly Hog Sltr	2,402,000	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	2,336,000	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	\$70.25	\$68.00	\$70.50	\$70.00	\$72.00	\$74.50
Year Ago	\$91.67	\$77.89	\$74.51	\$81.18	\$79.14	\$80.74
CME Lean Hog Index	\$59.00	\$54.00	\$58.00	\$54.50	\$57.50	\$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 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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