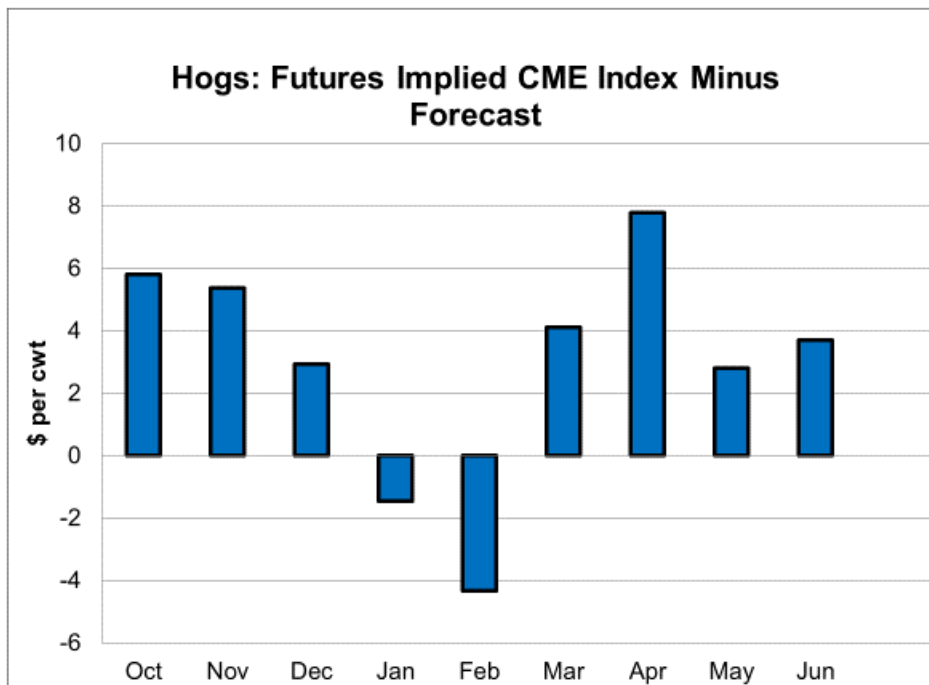


Trading Hogs

.... from a meat market perspective

A commentary by Kevin Bost

September 22, 2018

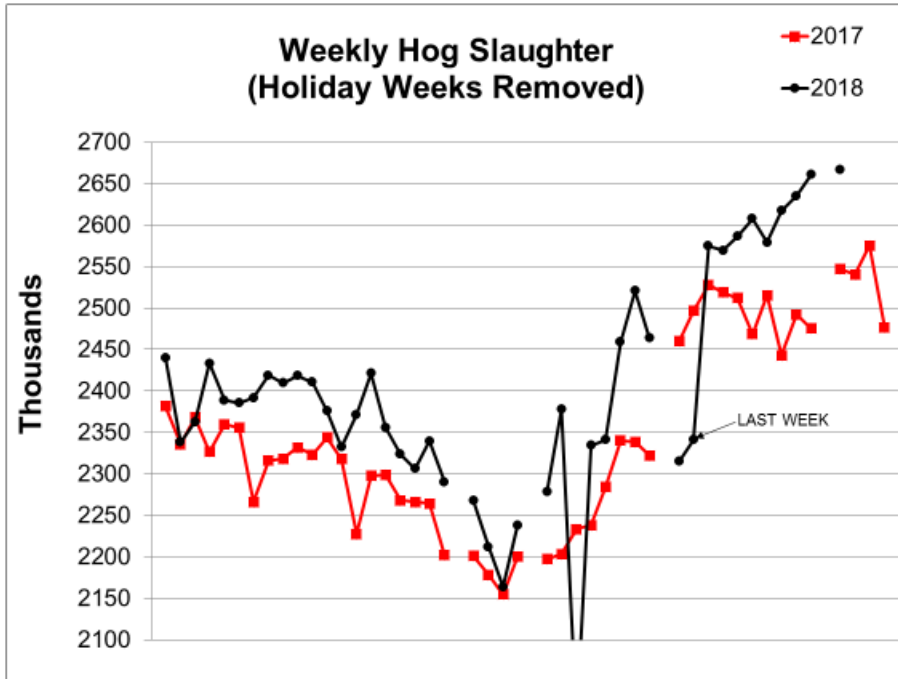


I have no commitment in the hog market at the moment, contemplating the short side of the December contract or, alternatively, the short December / long February spread.

The CME Lean Hog Index is susceptible to a big break over the next several

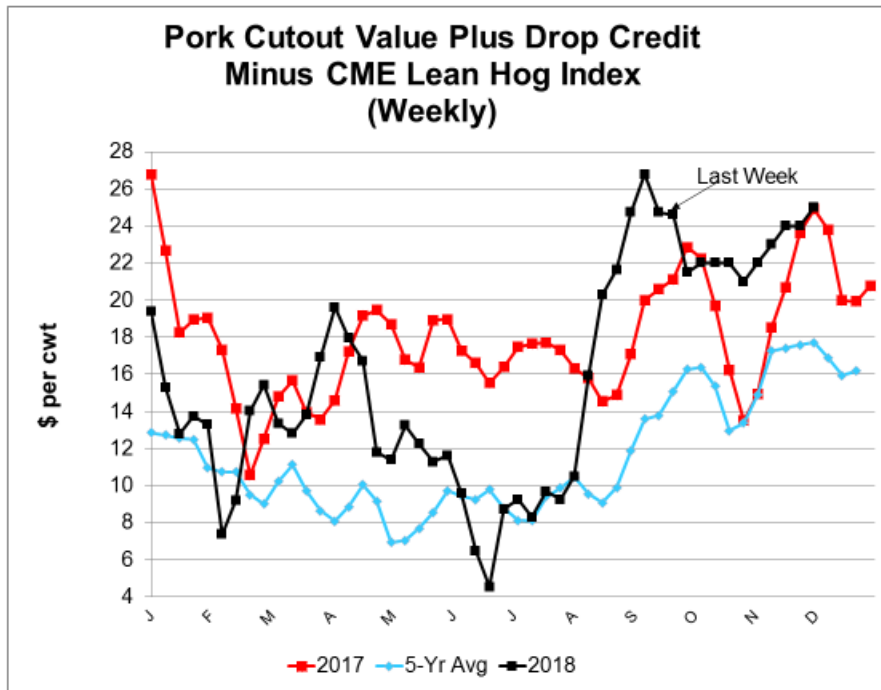
weeks. Supply and demand in the cash markets has been thrown out of balance by the severe disruption in production, and as production schedules return to normal—which I'm guessing will be sometime this coming week—it should have a bearish impact on cutout values and hog prices. How so? Well, it seems logical to me that the deep "hole" in production had something—quite a lot, actually—to do with the runup in the cutout value; therefore, the restoration of slaughter operations will drive it back downward. Just as you can't cut production so sharply without having a bullish impact on pork prices, you can't increase slaughter from this past week's 2,341,000 up to nearly 2,600,000 without exerting downward pressure on pork prices. I also consider that there are probably some 500,000 hogs still sitting in barns that should have been sent to packing plants in the past two weeks, but were not. [As far as I know, death loss estimates are still being estimated at roughly 5,500 head.] This is a big backlog, and I cannot fathom how it could be cleared without pushing hog prices lower. I have to wonder if the CME Index might be doing some funny things right now, since one entire region is being temporarily omitted from the calculation. I do not wish to delve into those details right now, though, because it would not change the point.

My best guess is that weekly hog slaughter will follow the pattern shown in the picture on the next page. This assumes a full production schedule in the week ahead, which may be a bit presumptuous; however, it is likely to occur in the first week of October:



If the market seeks out the equilibrium that would have occurred in the absence of the kill cutbacks—which involves a somewhat stronger-than-seasonally-normal demand pattern—then the cutout value should fall back to around \$72.50 per

cwt by the middle of October and to about \$68.50 in mid-November. And if gross packer margins follow the pattern shown in the graph below, then the CME Index would situate near \$55.50 in mid-October and \$49-something in mid-November.



Because my timing must be impeccable in order to maneuver the short side of the October contract, I am more inclined to place my short-side bet in the December contract. I would sell this one just below \$60.00 with a close-only stop above \$60.75. As

an alternative, I plan to sell December hogs and buy February at a February premium of \$6.50. I will take whichever opportunity presents itself first.

I still want to avoid the short side of any 2019 contracts because of the looming threat of an African Swine Fever pandemic in China. That threat seems to grow along with the reticence of the Chinese authorities. I also remind myself that a Hogs and Pigs report will be released this Thursday....which will not include a revision of the spring pig crop estimate, but could change our thinking in regard to the first quarter hog supply....

Forecasts:

	Oct	Nov*	Dec*	Jan*	Feb	Mar
Avg Weekly Hog Sltr	2,592,000	2,573,000	2,477,000	2,454,000	2,438,000	2,449,000
Year Ago	2,503,700	2,422,100	2,420,500	2,339,270	2,396,090	2,403,610
Avg Weekly Barrow & Gilt Sltr	2,525,000	2,505,000	2,410,000	2,385,000	2,370,000	2,380,000
Year Ago	2,436,800	2,357,600	2,356,000	2,273,500	2,330,170	2,338,350
Avg Weekly Sow Sltr	59,000	60,000	59,000	61,000	61,000	62,000
Year Ago	59,300	57,300	56,800	57,620	58,640	58,540
Cutout Value	\$71.50	\$69.00	\$72.50	\$75.50	\$77.00	\$73.00
Year Ago	\$74.51	\$81.18	\$79.14	\$80.74	\$78.04	\$72.71
CME Lean Hog Index	\$54.50	\$50.00	\$54.50	\$64.00	\$69.00	\$65.00
Year Ago	\$61.73	\$65.88	\$63.28	\$70.97	\$71.61	\$63.51

**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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