

## 2005 Winter / Summer Hog Outlook

**"Among the hazards of speculation the happening of the unexpected -I might even say the unexpected - ranks high. There are certain chances that the most prudent man is justified in taking - chances that he must take if he wishes to be more than a mercantile mollusk--"- Reminiscences of a Stock operator. -**

**January 10<sup>th</sup>, 2004 12:30 AM**

On December 28, The All Important USDA December 1 Hogs and Pigs report came in more bullish than average estimates. The estimate of all hogs and pigs on farms December 1 was 100 percent of a year earlier, about 1.5 percent smaller than the average of the trade estimates. The breeding herd at a little over 99 percent of 2003 was nearly 2 percent below the trade estimates, and the market herd at 100 percent of a year ago was also about 1.5 percent below the trade estimates.

On Dec 28 prior to the report Feb Hogs closed at 7375 while June was 7410 and April was 7332

Friday Jan 7<sup>th</sup> Feb closed at 7495, June 7710 and April 7585...

The odds favor that 2005 US Hog slaughter will most likely be within 1 percent of the slaughter for 2004.

Our production estimates for 2005 are 26 mil head for the first quarter ( 101.1 % ) 24.6 mil head (99.5% ) for the second quarter . The Third quarter should be near 26.0 mil head (100.9 % ) while the fourth quarter should come in at 27 Mil.(100.1% ) for the whole year slaughter should be near 103.75 mil and be 100.1 of 2004 (all percentages are versus 2004).

In the second half of 2005 the size of the corn crop and price will be important to pig prices and could affect inventory data one way or another.. After all a Pig is simply refined Corn..

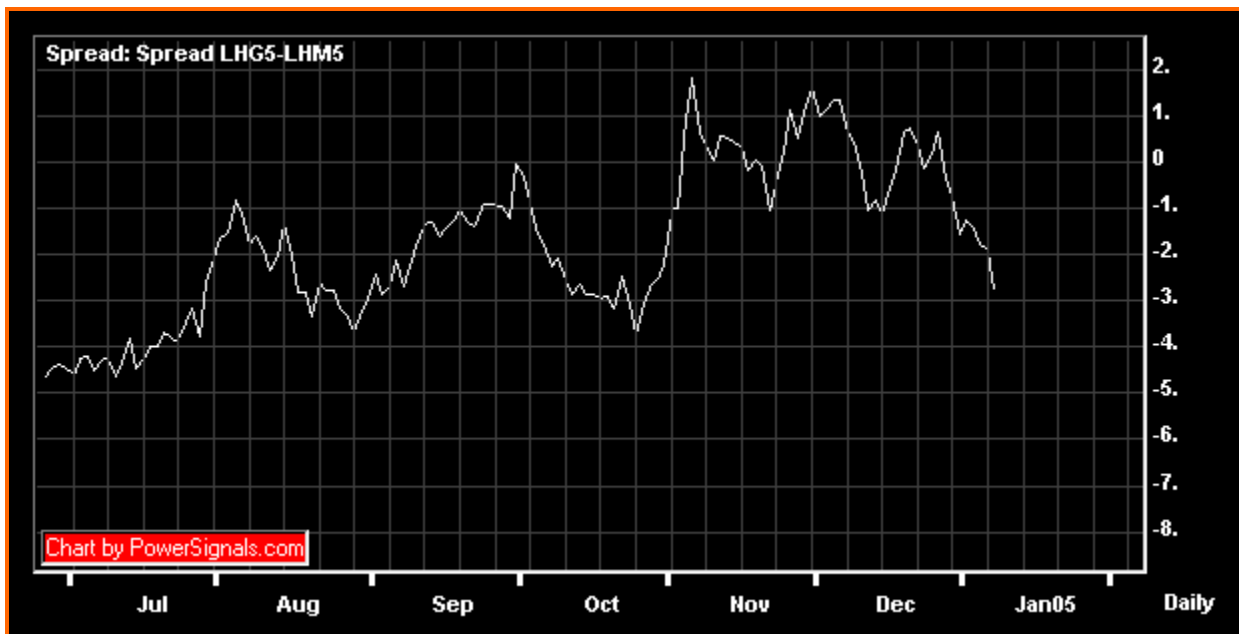
The big question is, will demand hold up as we go through 2005 ?

Generally speaking will soften over the next two years and that demand will wane just a bit..

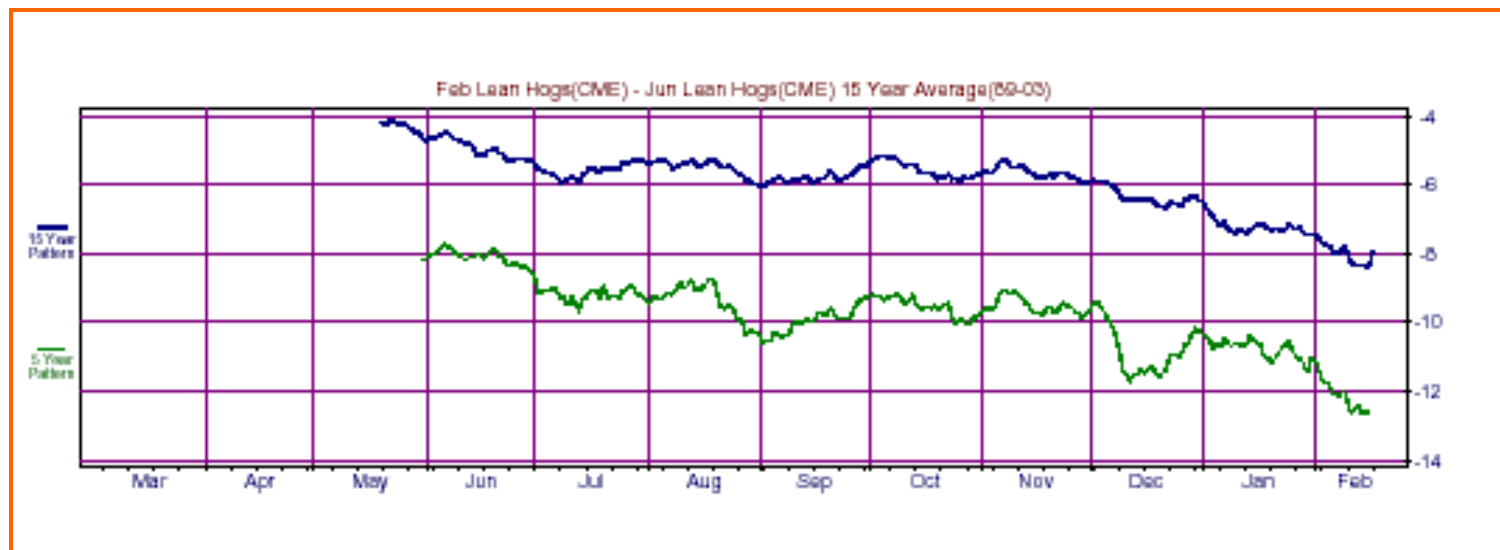
If demand for hogs holds up in 2005, prices will likely average close to the 2004 average. Our current estimated range for the cash index during 2005 is from 5500 on the low end and 8000 on the high end ... As of the last week of December in to the first week of January Gilt data showed little signs of breeding herd growth. Usually the first sign of breeding herd growth is in reduced sow slaughter.

We favor Buying June and Selling February Hogs in this environment. .. Bi-Weekly Traders should consider entering the spread.. Stay tuned for a Flash .. or call our office..

The Spread closed at 215 on Friday and could easily trade between 6 and 8 cents Feb Under June. However a more realistic region is the 400 to 600 range..



The 5 Year average for the spread is around 10 cents Feb Under June . Over 15 years the spread has averaged in the 7 cent range as shown below.



Courtesy of Moore Research

Last week price action for the cash index and live hogs was positive; while futures sank a bit narrow the differential between the index and futures. ...

While demand for meats were fairly strong through November, during December Demand for live hogs appeared to weaken a bit.. Something to remember for the April Contract and the tail end of the Feb is that Easter comes early this year and tends to soften demand in the 45 days prior...

Under these circumstances Feb Hogs might be prone to suffer a setback from these levels even though the report was friendly. In addition the early wet warm winter thus far is a bit negative for further gains on the front end at this time and suggest the larger risk still remains is to downside, the wintry weather over the last week or so should be bearish for Feb as hogs coming to the market get backed up a bit and get a bit heavier while transportation is limited. .

Traders should maintain the short trading posture to Feb Hogs and Sell Rallies ...

--Stay tuned for Flashes--

*- A Ship in Harbor is Safe...But that is not what ships are built for –*

**Happy Trading!**

**Bill [wil@futurescom.com](mailto:wil@futurescom.com)**

**1-866-409-3890**

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