

RISK MANAGEMENT STRATEGIES – A PRODUCER’S PERSPECTIVE

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YOU KNOW YOU HAVE TO GET SERIOUS ABOUT RISK MANAGEMENT WHEN...

1. You use your hard-earned equity to carry you through the bad times.
2. You think an extra hour in the barn will return more than an extra hour in the office.
3. Your recent cashflow projection was a flat line using \$150 because that is the past 10 year average.
4. Your total complete feed cost has averaged 50% or more of sales.
5. You didn't sell pigs for June 02/03 for \$185 guaranteed.

10 STEPS TO A SUCCESSFUL RISK MANAGEMENT PROGRAM

1. Learn how to use options, futures, Ontario Pork, and/or packer forward contracts.
2. Learn the relationship between the Canadian Dollar and hog income.
3. Get on the Internet and build your own library for resources and history.
4. Know your costs - including principal and interest (P & I), personal, depreciation, and allowance for capital purchases.
5. Book feed - go as long as you can when cheap.
6. Set benchmarks or targets for selling, eg. Margin/pig, return on equity (ROE), and sell in increments.
7. Analyze your options for marketing.
8. Risk management costs money. Our costs are \$2 - 3 per pig per year.
9. Realize that no one will sell at every high and buy at every low.
10. You'll never lose if you sell for a profit.

Canada and United States – Market Information

Table 1. Canada and United States – Number of pigs in inventory and slaughtered.

Combined United States & Canada ('000 of Head)					Pigs Slaughtered per Sow
Year	Inventory			Number Slaughtered	
	Breeding	Market	Total Pigs		
1990	7,948	56,265	64,213	99,302	12.49
1991	7,954	56,695	64,649	102,026	12.83
1992	8,376	59,225	67,600	110,118	13.15
1993	8,272	60,587	68,859	108,019	13.06
1994	8,286	60,152	68,438	110,944	13.39
1995	8,255	63,026	71,281	111,877	13.55
1996	7,991	61,861	69,852	107,351	13.43
1997	7,773	59,831	67,604	107,133	13.78
1998	8,244	64,898	73,142	117,728	14.28
1999	7,986	66,648	74,634	120,268	15.06
2000	7,580	64,668	72,247	117,428	15.49
2001	7,676	65,037	72,714	118,504	15.44
2002	7,721	66,449	74,170	122,242	15.83
2003	7,590	66,595	74,185	123,067	16.24
2004	7,593	67,055	74,648		

Notes:

1. The inventory of pigs reported in the USDA Hogs & Pigs Report for the previous December 1st was used for the United States inventory of breeding and market pigs (i.e. the numbers reported in the 2004 row are from the December 1, 2003 inventory).
2. The inventory of pigs reported for Canada by Statistics Canada for January 1st of each year was used for the inventory of pigs in Canada.
3. The slaughter column represents the total number of pigs slaughtered in both the United States and Canada.
4. The pigs per sow is simply the total number of pigs slaughtered divided by the breeding herd number.

Table 2. Percentage (%) inventory and slaughter change from previous year.

Combined United States & Canada (% Change)					Pigs Slaughtered per Sow
Year	Inventory			Number Slaughtered	
	Breeding	Market	Total Pigs		
1991	0%	1%	1%	3%	3%
1992	5%	4%	5%	8%	3%
1993	-1%	2%	2%	-2%	-1%
1994	0%	-1%	-1%	3%	3%
1995	0%	5%	4%	1%	1%
1996	-3%	-2%	-2%	-4%	-1%
1997	-3%	-3%	-3%	0%	3%
1998	6%	8%	8%	10%	4%
1999	-3%	3%	2%	2%	5%
2000	-5%	-3%	-3%	-2%	3%
2001	1%	1%	1%	1%	0%
2002	1%	2%	2%	3%	3%
2003	-2%	0%	0%	1%	3%
2004	0%	1%	1%		

Note:

1. The percentage (%) change for each item is the percentage it changed compared to the previous year. i.e. The total number pigs at the beginning of 2004 compared to the beginning of 2003 were up 1%.

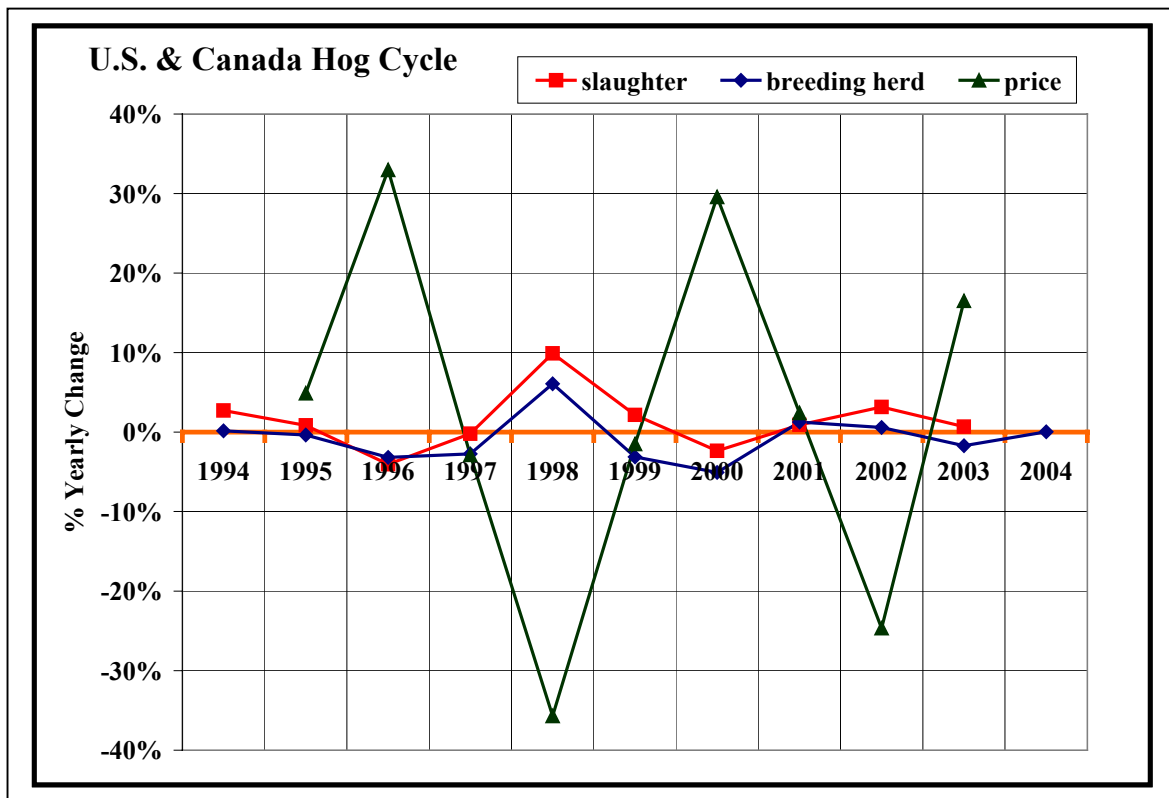
Table 3. Yearly average market hog prices with percentage (%) change from previous year.

Year	U.S. Price		Ontario Price	
	\$/cwt., lean	% Change	\$/ckg, 100 index	% Change
1990	\$73.58		\$161.50	
1991	\$66.06	-10%	\$145.64	-10%
1992	\$57.17	-13%	\$131.84	-9%
1993	\$61.32	7%	\$151.93	15%
1994	\$53.96	-12%	\$146.93	-3%
1995	\$56.59	5%	\$151.97	3%
1996	\$75.25	33%	\$190.04	25%
1997	\$73.11	-3%	\$188.27	-1%
1998	\$47.01	-36%	\$125.25	-33%
1999	\$46.31	-1%	\$125.29	0%
2000	\$60.00	30%	\$164.55	31%
2001	\$61.45	2%	\$177.81	8%
2002	\$46.29	-25%	\$140.90	-21%
2003	\$53.93	17%	\$140.27	0%

Notes:

1. The U.S. prices are from the various sources that have been used to formula Ontario market hog prices in U.S. dollars.
2. The Ontario prices are the calculated yearly average price for all market pigs in Canadian dollars.

Figure 1. The U.S. and Canada hog cycle (1994 to 2004).



The above graph shows the yearly percentage change in the combined U.S. and Canada figures for:

- the number of pigs slaughtered
- the breeding herd inventory
- the various U.S. prices that have been used in the Ontario base formula

The graph utilizes the data that is shown in Tables 1, 2, and 3.

Table 4. Price conversion chart.

Ontario Market Hog Price (\$/ckg, 100 index)

US\$ Future	Canadian Dollar Value							
	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	\$0.76	\$0.78
\$80	\$227.94	\$221.03	\$214.53	\$208.40	\$202.61	\$197.14	\$191.95	\$187.03
\$78	\$222.24	\$215.51	\$209.17	\$203.19	\$197.55	\$192.21	\$187.15	\$182.35
\$76	\$216.54	\$209.98	\$203.81	\$197.98	\$192.48	\$187.28	\$182.35	\$177.68
\$74	\$210.85	\$204.46	\$198.44	\$192.77	\$187.42	\$182.35	\$177.55	\$173.00
\$72	\$205.15	\$198.93	\$193.08	\$187.56	\$182.35	\$177.42	\$172.76	\$168.33
\$70	\$199.45	\$193.40	\$187.72	\$182.35	\$177.29	\$172.50	\$167.96	\$163.65
\$68	\$193.75	\$187.88	\$182.35	\$177.14	\$172.22	\$167.57	\$163.16	\$158.97
\$66	\$188.05	\$182.35	\$176.99	\$171.93	\$167.16	\$162.64	\$158.36	\$154.30
\$64	\$182.35	\$176.83	\$171.63	\$166.72	\$162.09	\$157.71	\$153.56	\$149.62
\$62	\$176.65	\$171.30	\$166.26	\$161.51	\$157.03	\$152.78	\$148.76	\$144.95
\$60	\$170.96	\$165.78	\$160.90	\$156.30	\$151.96	\$147.85	\$143.96	\$140.27
\$58	\$165.26	\$160.25	\$155.54	\$151.09	\$146.90	\$142.93	\$139.16	\$135.60
\$56	\$159.56	\$154.72	\$150.17	\$145.88	\$141.83	\$138.00	\$134.37	\$130.92
\$54	\$153.86	\$149.20	\$144.81	\$140.67	\$136.76	\$133.07	\$129.57	\$126.24
\$52	\$148.16	\$143.67	\$139.45	\$135.46	\$131.70	\$128.14	\$124.77	\$121.57
\$50	\$142.46	\$138.15	\$134.08	\$130.25	\$126.63	\$123.21	\$119.97	\$116.89
\$48	\$136.76	\$132.62	\$128.72	\$125.04	\$121.57	\$118.28	\$115.17	\$112.22
\$46	\$131.07	\$127.09	\$123.36	\$119.83	\$116.50	\$113.35	\$110.37	\$107.54
\$44	\$125.37	\$121.57	\$117.99	\$114.62	\$111.44	\$108.43	\$105.57	\$102.87
\$42	\$119.67	\$116.04	\$112.63	\$109.41	\$106.37	\$103.50	\$100.77	\$98.19
\$40	\$113.97	\$110.52	\$107.27	\$104.20	\$101.31	\$98.57	\$95.98	\$93.51
\$38	\$108.27	\$104.99	\$101.90	\$98.99	\$96.24	\$93.64	\$91.18	\$88.84
\$36	\$102.57	\$99.47	\$96.54	\$93.78	\$91.18	\$88.71	\$86.38	\$84.16
\$34	\$96.88	\$93.94	\$91.18	\$88.57	\$86.11	\$83.78	\$81.58	\$79.49
\$32	\$91.18	\$88.41	\$85.81	\$83.36	\$81.05	\$78.86	\$76.78	\$74.81
\$30	\$85.48	\$82.89	\$80.45	\$78.15	\$75.98	\$73.93	\$71.98	\$70.14
\$28	\$79.78	\$77.36	\$75.09	\$72.94	\$70.92	\$69.00	\$67.18	\$65.46
\$26	\$74.08	\$71.84	\$69.72	\$67.73	\$65.85	\$64.07	\$62.38	\$60.78
\$24	\$68.38	\$66.31	\$64.36	\$62.52	\$60.78	\$59.14	\$57.59	\$56.11
\$22	\$62.68	\$60.78	\$59.00	\$57.31	\$55.72	\$54.21	\$52.79	\$51.43
\$20	\$56.99	\$55.26	\$53.63	\$52.10	\$50.65	\$49.28	\$47.99	\$46.76

Note:

1. Formula is US\$ future times 1.86 divided by the Canadian dollar value divided by 1.02.