

**Analysts expect Friday's quarterly Hogs and Pigs report from USDA to show market hog numbers slightly larger and a breeding herd slightly smaller than year-ago levels.** The results of Dow Jones' quarterly pre-report survey appear at right. The market herd estimates as well as a 1% larger March-May pigs crop point to larger hog slaughter number for the remainder of 2013. The report will be released at 2:00 p.m. Central time on Friday. Look for details and analysis in Monday morning's Daily Livestock Report.

Should it prove accurate, the average analysts' breeding herd estimate of 99.9% would mark the first year-on-year reduction in breeding stock numbers since September. That is a pretty remarkable statement given the level of production costs since last summer and the fact that cash feed ingredient and hog markets have placed average producers in positions of substantial loss in the past year. As can be seen in the chart, some of those monthly cash losses have been among the largest of the last decade and yet the breeding herd has hardly changed. A 99.9% breeding herd in this report would put the herd at 5.856 million breeding animals. The smallest herd on record was 5.76 million on March 1, 2010 following the two-year period of losses that were driven by the initial run-up in corn and soybean meal prices following implementation of the 2007 energy bill and 2009's H1N1-related price declines.

**Why have producers held on so effectively?** First and foremost, we need to remember that the losses shown in the chart at right assume spot purchases of corn and soybean meal and spot sales of pigs. U.S. hog producers have learned from painful experience that cash markets are a wild ride — a ride made far more perilous by the volatility of grain markets since 2006. Hog price risk was "normal" to hog producers but the higher volatility and the fact that owners of a substantial portion of the nation's pig herd now buy—instead of raise—a large portion of their corn have increased the probability of financial losses dramatically.

In response, many, many more producers are actively managing risk using futures, options and cash contracts with feed suppliers and packers. And the opportunities have been good!

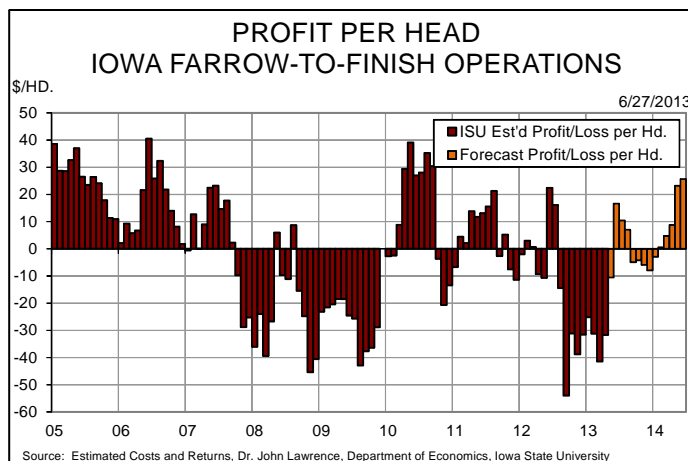
The chart on page 2 comes from Commodities and Ingredient Hedging, LLC, (CIH) a Chicago-based firm that specializes in helping producers of a number of commodities manage MARGIN risk, not just price risk. The chart shows the actual margin for the 3rd quarter of 2012 available in the futures markets for a representative farm on each day from August 16, 2011 through the expiration of the August 2012 Lean Hogs contract. As can be seen, there were ample opportunities for producers to lock in profits that were at or above the historic 80th percentile level of just over \$10 per head. Those possibilities, of course, disappeared in late summer 2012 when corn and soybean meal prices began to rise in the wake of last summer's drought and a profit potential of over \$15/cwt carcass in March turned into a cash loss of just over \$10/cwt carcass in August. The bar chart shows a loss of \$14.42/head for August. The huge loss of over \$50 per head in

## HOGS & PIGS REPORT ESTIMATES

Friday, June 28, 2013

USDA Hogs & Pigs Report September 28, 2012	Analysts Estimates	
	Range	Average
Inventories on June 1	(Pct. of June 1, 2012)	
All hogs and pigs	100 - 101.2	100.6
Kept for breeding	99.6 - 100.3	99.9
Kept for marketing	100 - 101.3	100.7
Under 50 lbs.	99.2 - 101.4	100.6
50-119 lbs.	100.1 - 101.6	100.5
120-179 lbs.	100.4 - 101.7	100.8
180 lbs. and over	100.2 - 101.0	100.5
Farrowings		
Mar-May sows farrowed	99.0 - 99.2	99.1
Jun-Aug Intentions	99.2 - 101.2	99.9
Sep-Nov Intentions	100.2 - 101.6	100.5
Mar-May Pig Crop <sup>1</sup>	99.2 - 100.7	100.1
Mar-May pigs saved per litter	99.9 - 101.3	101.0

Source: DowJones Newswire



the bar chart was for September. These positive futures/options margins opportunities existed for the remainder of 2012 and most of 2013 as late as June of 2012 and today's pork producers are much more likely to be taking advantage of such opportunities.

Interestingly, the same kinds of opportunities are available today. At the recent Pork Management Conference sponsored by the National Pork Board (a conference that, by the way, is held each June, is always excellent and would be worthy of your attention! Watch [www.pork.org](http://www.pork.org) next spring for details of the 2014 meeting.), CIH's Chip Whalen pointed out that margins currently being offered by futures markets for the next four quarters are at or near historic 80th percentile levels. While more complex than cash markets, those margins are quite real and well within the grasp of today's savvy hog producers.



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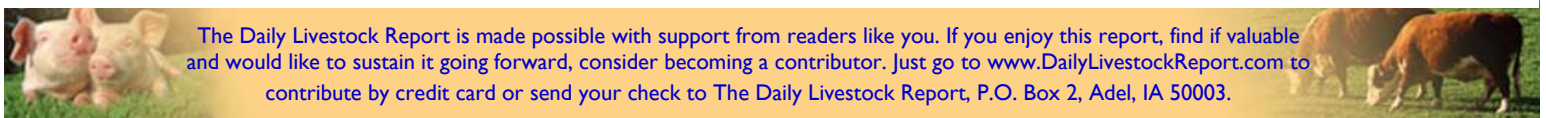
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## Hypothetical Hog Production Margin Using LH, C and SM Futures, August 2011-August 2012



Source: Commodities & Ingredient Hedging, LLC; [www.cihedging.com](http://www.cihedging.com)



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