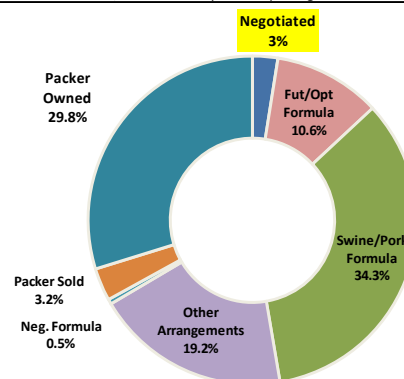


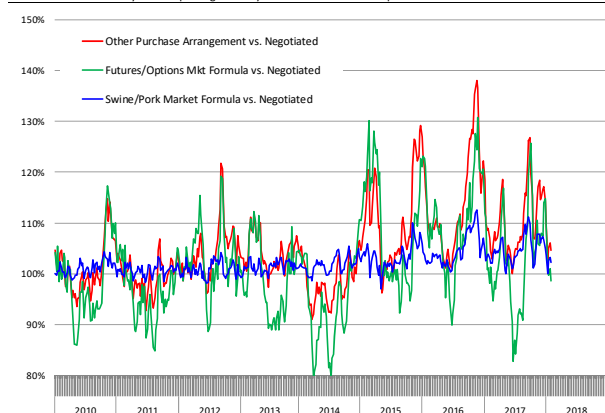
**Most hogs in the US are sold on some sort of formula basis.** Thanks to the Mandatory Price Reporting system we now have a fairly good idea as to what arrangements are gaining favor and the change in the value of such arrangements over time. Not all hogs slaughtered in a given year will be reported into the Mandatory Price Reporting system—but the majority of them will. According to the USDA data, **the total number of hogs slaughtered that were subject to reporting was a little over 110 million head. This compares with total Federally Inspected hog slaughter of 120.5 million head.** The pie chart to the right shows the distribution of slaughter in 2017 based on the various purchase types. Only **2.5% of all the hogs reported in the MPR system were sold on a negotiated basis.** The topic of the dwindling negotiated trades has been discussed at length in this report and other instances but it is always good to be reminded of how small that share of hogs really is. **In an average week, hog slaughter now routinely exceeds 2.3 million head and yet many of these hogs will be priced off a negotiated trade that rarely exceeds 50,000 head.** To be clear, the issue is a bit more complicated since many of the players that are involved in selling and buying hogs are large operators, both on the producer and packer side. Therefore they may sometimes choose to negotiate relatively small lots to establish the market and then price the rest of hogs on a formula tied to those prices. The broader point is that with such a thin spot market, it does not take much to affect cash prices.

Formula trades dominate hog pricing and their performance has varied greatly in the last three years. **In 2017 about 34.3% of the hogs were sold on some sort of a formula tied to either hog market (i.e. the negotiated trade) or the pork market (i.e. cutout).** There were two other major arrangements used to price hogs last year. Formulas that were tied to the futures or options market made up 10.6% of the hogs sold, about a percentage point higher than the hogs sold this way the previous year. Futures market volatility is always an issue that that will impact producer returns. In 2016 those arrangements tended to perform quite well (see premium chart) so it makes sense that more producers opted to use them in 2017. Unfortunately last year such arrangements underperformed. As the bottom chart shows, hogs sold on a futures/options formula had a \$0.93/cwt premium over the negotiated market. The previous year the premium on hogs marketed this way was \$5.16/cwt. On the other hand, premiums for hogs sold on formula tied to hog or pork market was \$2.5/cwt last year compared to \$2.0/cwt the previous year and \$1.2/cwt for the past five years. **Hogs sold using the “other purchase arrangement” type have performed the best in the last three years.** In 2017 the premium of hogs sold this way vs. the negotiated market was \$6.4/cwt. In 2015 and 2016 the premiums were \$6.0/cwt and \$7.5/cwt, respectively. As to what these “other purchase arrangements” are is a bit of a mystery. The USDA definition is no help since they are defined as hogs sold in a way that is different from the other, better defined, buckets. Some work done by Dr. Glenn Grimes in the past has shows that these arrangements are typically formulas tied to feed prices or hogs sold on some sort of window risk sharing contract. You will notice from the top chart that about a third of all hogs in the US belong to packers. About 30% of the hogs reported in the mandatory price reporting system last year were packer owned and another 3.2% were owned by packers but sold in the open market. The latest weekly data, and for future reference, [can be found here.](#)

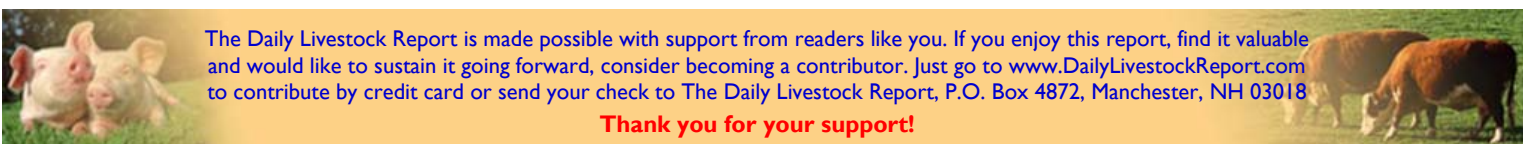
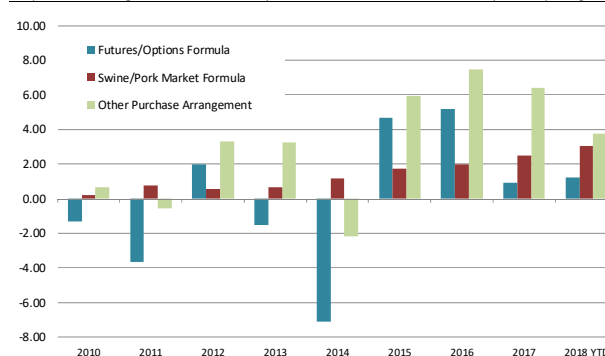
**Share of Barrows and Gilts Sold in 2017 by Purchase Type**  
Data source: USDA/AMS Mandatory Price Reporting



**PREMIUM OF BARROW/GILT MARKETING ARRANGEMENTS VS. NEGOTIATED MARKET**  
Source: USDA Mandatory Price Reporting, Weekly National Direct Swine Report



**\$/cwt Premium of Various Purchase Agreement Prices vs. Negotiated Price**  
Simple Annual Average Calculated from Weekly Data. Data source: USDA/AMS Mandatory Price Reporting



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