



Commodity & Ingredient Hedging, LLC
Risk Management Alternatives
www.cihedging.com

2011 PORK\$HOP
“Managing the Margin”
Demo and Panel Discussion

David Ward



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Creating a model of your operation:

Worksheet Information

Worksheet - 4th Quarter 2011

Prices Current as of:
06/06/2011 12:06 PM

Quarterly Hog Production		Edit
Projected Carcass Pounds		1,120,187 lbs
Head Count		5,562 head
Average Weight		265.00 lbs
Average Yield		76.00 %
Quarterly Feed Requirements		
Corn		55,620 bu
Soybean Meal		400 tons
Quarterly Costs		
Other-Feed Cost per carcass cwt	<i>Total Other Feed Requirements: 506,800 lbs.</i>	\$8.93 \$/cwt
Non-Feed Cost per carcass cwt		\$29.60 \$/cwt

Prices						
	Futures Contract	Price	Proj. Basis	Proj. Cash Price	Cash Price Based on Inputs & Position ?	Coverage
Corn	Dec11	\$ 6.67	-\$0.300	\$6.37	\$5.50 /bu	 81%
Soybean Meal	Dec11	\$ 355.00	\$0.000	\$355.00	\$327.46 /ton	 75%
Lean Hogs	Oct11, Dec11, Feb12	\$ 82.83	\$0.000	\$82.83	\$79.70 /cwt	 50%

Margin	Live		Carcass
Open Market Margin	0.00 \$/head	0.00 \$/cwt	0.00 \$/cwt
Unrealized Net Margin			
Current Hog Price Based on Inputs & Position	160.51 \$/head	60.57 \$/cwt	79.70 \$/cwt
Current Cost of Production Based on Inputs & Position	156.12 \$/head	58.91 \$/cwt	77.52 \$/cwt
Current Net Margin Based on Inputs & Position	⌘ 4.40 \$/head	⌘ 1.66 \$/cwt	⌘ 2.18 \$/cwt
Total Net Margin			\$ 24,448

Worksheet - 4th Quarter 2011

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06/06/2011 12:06 PM

Quarterly Hog Production

Edit

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Head Count

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Creating an objective comparison:

Margin Percentiles & Graphs

Statistics

[Graphs](#)

Statistics information covering **10** year(s) from **06/06/2001** to **06/06/2011**. These statistics are based upon daily futures prices averaged on a weekly basis.


 Worksheet:
 Percentile Range:

	Corn Dec11	Meal Dec11	Lean Hogs Oct11, Dec11, Feb12	Open Market Margin
Current Price	\$6.67	\$355.00	\$82.83	\$0.00
Percentile	98.86%	97.34%	96.96%	53.99%
High	\$7.69	\$421.92	\$90.19	\$22.57
90th	\$5.56	\$329.28	\$75.10	\$8.02
80th	\$4.29	\$290.62	\$70.00	\$4.96
70th	\$3.90	\$266.20	\$66.92	\$2.57
Average	\$2.83	\$210.52	\$61.25	\$-0.67
30th	\$2.41	\$174.95	\$55.51	\$-3.26
20th	\$2.34	\$166.02	\$52.56	\$-4.98
10th	\$2.22	\$156.25	\$50.34	\$-9.95
Low	\$1.91	\$143.97	\$34.92	\$-21.61

Graphs - 4th Quarter 2011

[View as Table](#)

Open market margin from 06/06/2010 to 06/06/2011.



Worksheet: **4th Quarter 2011**

Range: **1 Year**

Percentile: **90th**

Percentile Range: **10 Year**

Select

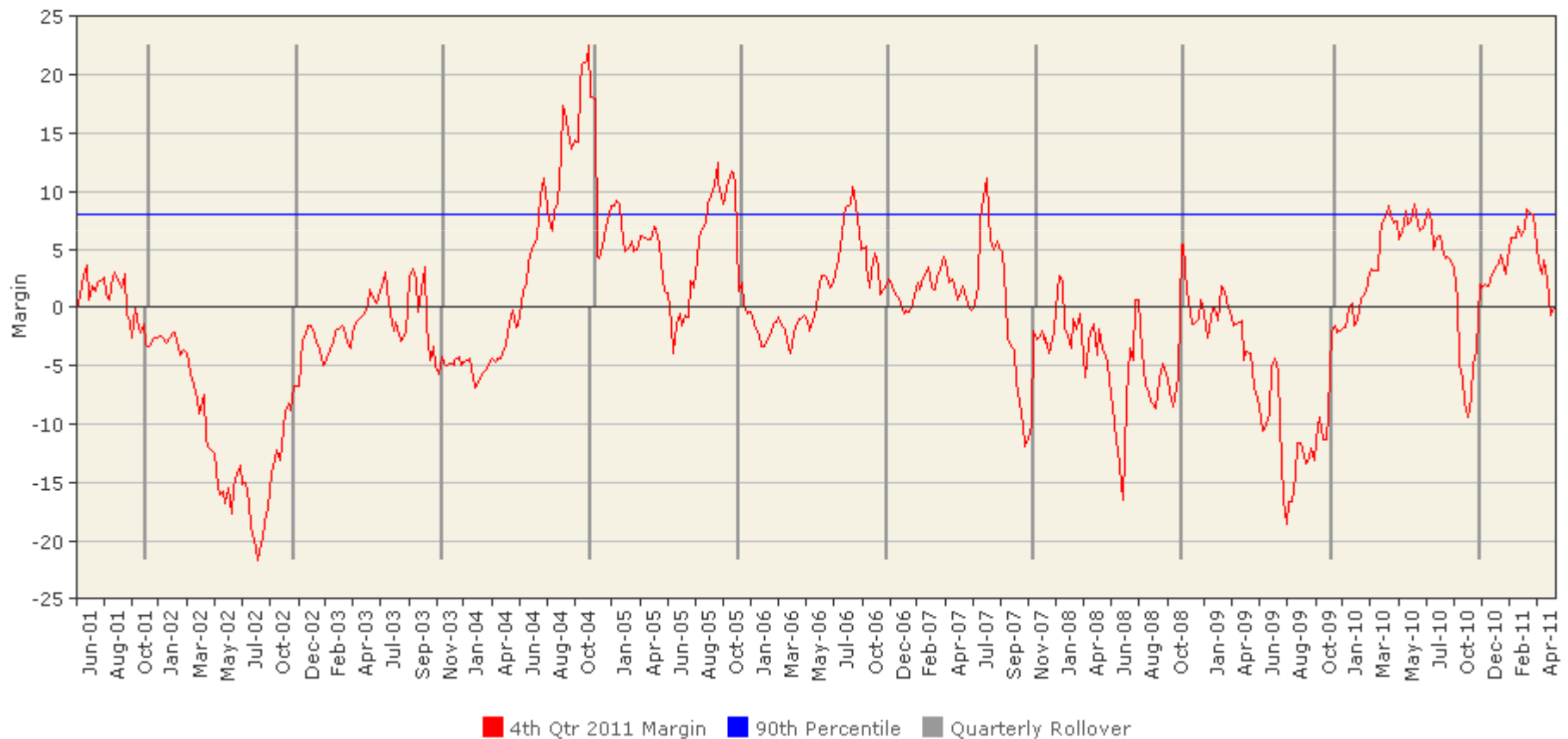


Graphs - 4th Quarter 2011

 View as Table

Open market margin from 06/06/2001 to 06/06/2011. These statistics are based upon daily futures prices averaged on a weekly basis.

Worksheet: Range: Percentile: Percentile Range:





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Understanding your current net position:

Position Summary

Position Summary

Details | Printer Friendly

Prices Current as of:
06/06/2011 12:06 PM

3rd Qtr 2011	Corn EDIT			Soybean Meal EDIT			Hogs EDIT		
	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.
Basis Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price + Basis	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Future	30,000	53.9%	\$5.86	400	100.0%	\$340.83	0	0.0%	\$90.75
Option	15,000	27.0%	--	0	0.0%	--	-840,000	75.0%	--
Window	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Total:	45,000	80.9%	\$5.59	400	100.0%	\$335.60	-840,000	75.0%	\$84.42
	<i>Sep11</i>		\$7.13	<i>Sep11</i>		\$359.50	<i>Jul11, Aug11, Oct11</i>		\$86.17
	<i>10yr PCTL</i>		99.24%	<i>10yr PCTL</i>		95.82%	<i>10yr PCTL</i>		95.82%
Open Market Margin:			\$0.68 live	\$0.89 lean	10yr PCTL: 22.43%				
Net Margin Based on Inputs & Position:			\$4.67 live	\$6.14 lean	10yr PCTL: 65.97%			Total Margin: \$68,788	

4th Qtr 2011	Corn EDIT			Soybean Meal EDIT			Hogs EDIT		
	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.
Basis Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price + Basis	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Future	30,000	53.9%	\$5.56	300	75.0%	\$328.88	-560,000	50.0%	\$80.81
Option	15,000	27.0%	--	0	0.0%	--	0	0.0%	--
Window	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Total:	45,000	80.9%	\$5.50	300	75.0%	\$327.46	-560,000	50.0%	\$79.70
	<i>Dec11</i>		\$6.67	<i>Dec11</i>		\$355.00	<i>Oct11, Dec11, Feb12</i>		\$82.83
	<i>10yr PCTL</i>		98.86%	<i>10yr PCTL</i>		97.34%	<i>10yr PCTL</i>		96.96%
Open Market Margin:			\$0.00 live	\$0.00 lean	10yr PCTL: 53.99%				
Net Margin Based on Inputs & Position:			\$1.66 live	\$2.18 lean	10yr PCTL: 67.49%			Total Margin: \$24,448	

1st Qtr 2012	Corn EDIT			Soybean Meal EDIT			Hogs EDIT		
	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.
Basis Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price + Basis	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Future	30,000	53.9%	\$5.85	300	75.0%	\$339.65	-840,000	75.0%	\$84.64
Option	15,000	27.0%	--	0	0.0%	--	0	0.0%	--
Window	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Total:	45,000	80.9%	\$5.87	300	75.0%	\$343.49	-840,000	75.0%	\$85.27
	<i>Mar12</i>		\$6.78	<i>Mar12</i>		\$355.00	<i>Feb12, Apr12</i>		\$85.01
	<i>10yr PCTL</i>		98.10%	<i>10yr PCTL</i>		94.49%	<i>10yr PCTL</i>		96.01%
Open Market Margin:			\$1.24 live	\$1.63 lean	10yr PCTL: 46.39%				
Net Margin Based on Inputs & Position:			\$4.05 live	\$5.33 lean	10yr PCTL: 75.86%		Total Margin: \$59,683		

2nd Qtr 2012	Corn EDIT			Soybean Meal EDIT			Hogs EDIT		
	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.	Quantity	%	Wt. Avg.
Basis Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price + Basis	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Price Only	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Future	0	0.0%	\$0.00	200	50.0%	\$347.15	-280,000	25.0%	\$88.54
Option	30,000	53.9%	--	0	0.0%	--	0	0.0%	--
Window	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
Total:	30,000	53.9%	\$6.39	200	50.0%	\$350.07	-280,000	25.0%	\$90.54
	<i>Jul12</i>		\$6.92	<i>Jul12</i>		\$353.00	<i>Apr12, May12, Jun12, Jul12</i>		\$90.25
	<i>10yr PCTL</i>		96.20%	<i>10yr PCTL</i>		91.83%	<i>10yr PCTL</i>		94.30%
Open Market Margin:			\$4.75 live	\$6.25 lean	10yr PCTL: 39.92%				
Net Margin Based on Inputs & Position:			\$5.93 live	\$7.80 lean	10yr PCTL: 56.08%		Total Margin: \$87,368		



General approach to margin management

70th Percentile add 25% - Coverage at 25%

80th Percentile add 25% - Coverage at 50%

90th Percentile add 25% - Coverage at 75%



CIH Strategy Guide Coverage

2nd Quarter 2011 – 75%

3rd Quarter 2011 – 100%

4th Quarter 2011 – 75%

1st Quarter 2012 – 75%

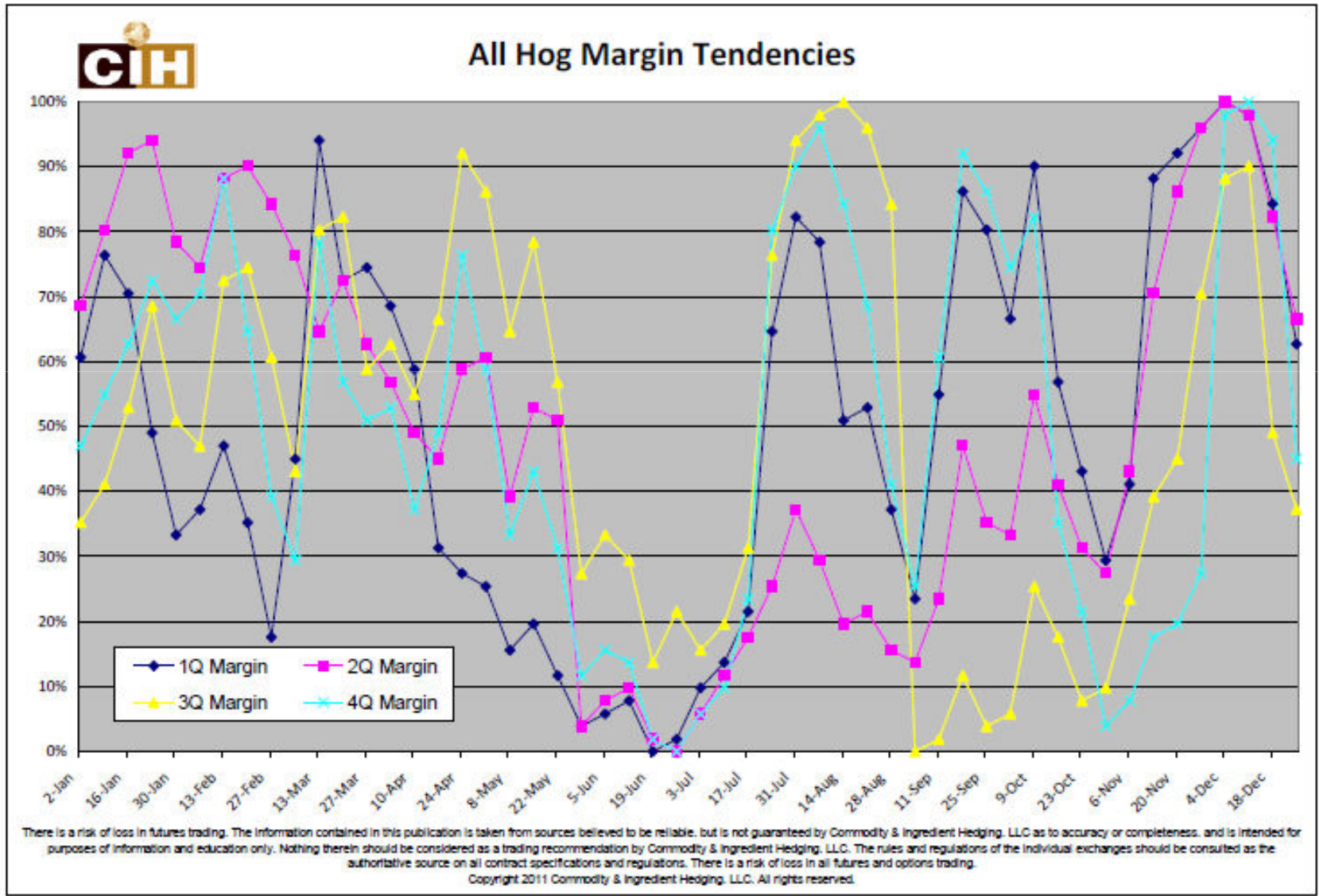
2nd Quarter 2012 – 50%



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Strategy Descriptions

When the
Market is...



Protect Against
Higher Prices



Protect Against
Lower Prices

Bearish

Buy Call Spread

Sell Futures

Negative

Buy Call

Buy Put & Sell Call

Sell Put

Buy Put

Neutral

Buy Call Spread & Sell Put

Buy Put Spread & Sell Call

Friendly

Buy Call

Sell Call

Buy Call & Sell Put

Buy Put

Bullish

Buy Futures

Buy Put Spread





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