

Dynamic Hedging Program

Dynamic Hedging Program

- Define production risks
 - Quantify long exposure of the company
 - Meat sales vs. hog production
- How the meat is booked and timeframes
 - Forward fixed (weekly, monthly, quarterly)
 - Forward formula (exposure to cutout value fluctuations)
 - Open market pricing
 - Freezer position

Dynamic Hedging Program

- Top down approach
 - Communication and collaboration amongst profit centers
 - Hog production margins
 - Pork processing margins
 - Hog production minus forward sales = long exposure
- Questions to address
 - What are the risks to the company?
 - What are the objectives of using a hedging program?
 - How are open market needs viewed?
 - How are hedging decisions made?
 - What is the risk appetite for a dynamic hedging program?
- Put the pieces of the puzzle together and develop dynamic strategies

Hedge Strategies

Packer (Long Hedge)	Producer (Short Hedge)
<ul style="list-style-type: none">•Buy Futures•Buy Calls•Sell Puts•Buy Calls, Sell Puts (Fence)•Buy Futures, But Puts•Buy Calls after Liq. of Long Futures	<ul style="list-style-type: none">•Sell Futures•Buy Puts•Sell Calls•Buy Puts, Sell Calls (Fence)•Sell Futures, Buy Calls•Buy Puts after Liq. Of Short Futures

Dynamic Strategies

Vertically Integrated (Dynamic Hedge)

- Define net exposure for production/processing
 - Actively manage risk vs. passive hedges
 - Establish hedging objectives
 - Lock in historical pricing
 - As meat is sold and hogs are booked
 - Lift outright futures position
 - Net exposure reduced with the meat sold
 - Roll short futures into long put position
 - Opens upside for potential hog price appreciation
 - Cover short futures positions
 - Long the cash market
 - Spread relations adjust hedges for L/T coverage
- Open market hog needs
 - Forward contract 20% of hogs not company owned
 - Buy puts and lift as hogs are delivered
 - Sell futures and lift as hogs are delivered
 - Negotiate open market hogs
 - Adjust processing schedule for meat sold
 - Add/reduce weight of company owned hogs

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