

## Setting a Target Price

When setting a target price, producers can use different strategies in order to set values that are profitable and attainable. Three common strategies are outlined below.

### Strategy 1:

Through experience in hog marketing, some producers develop their own price forecast. They project where they think the cash prices will be at a particular time by comparing past prices. For example, a producer may feel that the price will be 5% higher than it was the year previous and set a target price to reflect that estimated gain.

### Strategy 2:

As there tends to be a 4 year cycle in hog prices, some producers rely on this cycle to set target prices. For example, a producer may research what the price was four years ago and use that same value as their target price.

### Strategy 3:

Some producers also use an average of historical cash prices to set target prices. In order to set a more accurate target price, producers may apply average basis values. Using the graph below as an example, imagine a producer setting a target price for the April 15 – May 15 delivery period. The 5 year average cash price for this period is \$160.37 and the 5 year average basis is -\$12.54. In order to compensate for the basis, which will be subtracted from the producer's contract base price, a producer may set a target price of \$172.91 so that they could expect to receive a final price close to the average historical cash price.

**Guide for Selecting Target Prices**

