

THE WATER TROUGH

Cows in Control Newsletter

April 2015

Cheap grain, cheap cattle?

Grains are at multiyear lows which is not only good for cattle producers, but also hog and poultry producer cost of gains. Over time, cheap grain should increase overall meat supply, despite the fact that Canadian beef prices are still sky rocketing. In this issue I will discuss things to watch for and encourage you to continue in your price protection.

A reminder of our services:

Please feel free to contact me about the following services:

- 1) Developing an annual marketing strategy for your cattle
- 2) Working with you to protect the value of your herd
- 3) Options for retained ownership and forward selling
- 4) Assisting you with buying and selling
- 5) Keeping you up to date with market programs and trends

“Don’t get caught in the embarrassing position of ‘Gee, I wish I would have...’ when it comes to price protection after the fact. Be militant in locking in your margins when you have them”

- Ryan Copithorne

Give me a call for a free consultation

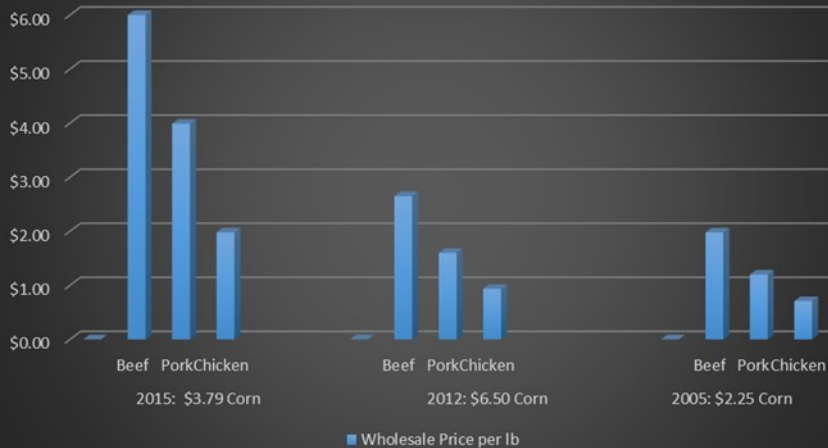


Protecting her interests...

In This Issue

- Marketing Buzz
- An era of cheap grain
- What could slow this hot cattle market?
- Protecting the floor price on your fall calves
- Thoughts on the industry

Wholesale Price per lb



Beef, pork and chicken pricing in 3 different pricing eras: 2015, 2012, and 2005

The Marketing Buzz (Apr 20)

I don't think we need to worry about MCOOL any longer. Our Canadian fat cattle are trading at a positive basis! Caution Canadian cattlemen, these are historically lofty basis levels, take advantage!

Canner cows, heiferettes and bulls

Cull cows: \$120-162 Heiferettes: \$160-180

Cull Bulls: \$150-180 (over \$3000/bull!)

Breds

Bred cows: \$2200-3200 Bred heifers: \$2500-3500

Breedable heifers: \$1900-2200

Feeders

Steers:	650 wts	\$3.15	Heifers:	650 wts	\$2.79
	750 wts	\$2.85		750 wts	\$2.60
	850 wts.	\$2.50		850 wts	\$2.37

Finished Cattle

\$2.02 cash (\$1.78 August contract)

Feeder Basis: -10.8 Finished cattle Basis: +10!!

An era of cheap grain

The world is awash in grain.

Soybean supplies are at record high 31% stocks to usage. US sales of soybeans are down an astonishing 46% from last year due to excess soybean supply in South America. Total world supplies are up 35% from last year.

We will have to see how \$10/bu canola holds up against this backwash of soybeans. Be conservative in your budgeting if you grow canola.

Global corn supply is the highest in 12 years with 19% more stocks than usage. Foreign production of corn grew 70% compared to US expansion of 41%. The world outside of the US is getting addicted to corn. What would corn prices be if the US cut its ethanol mandates, being that they are flush with oil, and ethanol stocks are at record proportions? A retest of the \$3/bu mark for corn is possible. (That is about \$3.50/bu barley or so equivalent).

Estimates ahead of Stats Can forecasts 1 million more barley acres to come on stream in Canada this year, we actually need more barley.

Global wheat supplies are running about 27% stocks to usage, still record high.

All in all, barring some global drought or crop failure situation, we are looking at cheap grain to stay for a while. The question is, has this been priced into our current pricing?

Who will gain the most from cheap grain? Beef convert at 5-6 lbs of grain to make a pound of beef, pork convert at 3 to 1 and chicken at under 2 to 1. It's a complex question, I have included a chart showing three different pricing environments for beef, poultry and pork.

Calving Season



Feeding projections in Canada and the US...

What could slow this hot cattle market?...

The cattle market in Canada is as hot as a firecracker right now. MCOOL has become a non-issue, our fat cattle are trading at a premium to US fat cattle which speaks to my larger concern that there isn't enough inventory in Canada to fill the existing packing capacity, and packers are bidding prices up over market just to hang on to supply.

In light of this, we are looking at opening a new plant in Balzac and new plants in the northern states? Something has got to give, I don't see this ending well for the packers.

Lets look at feeding margins. [see table at upper right]

Feeding margins have been poor which is why so many feeder cattle have gone to the US and why packers are bidding like crazy to keep the cattle in Canada. Our feeder basis being so tight has made Canadian feeder cattle more expensive than US feeder cattle which should slow the exports unless our dollar continues to drop further.

Bottom line: this sky high pricing in Canada has been due to our cheap dollar, low cattle supply, and Canadian packers trying desperately to keep cattle in Canada. The caution is that our dollar is now rebounding higher as oil has found some ground, our feeders and fats are more expensive than US cattle, and I don't know how long our Canadian packers can continue to buy at these levels before it becomes easier to cut back shifts.

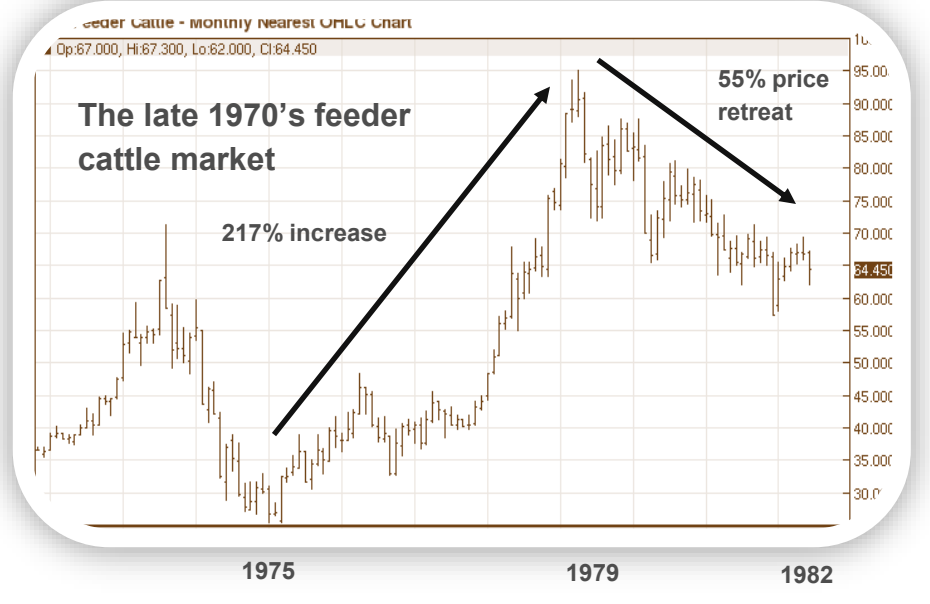
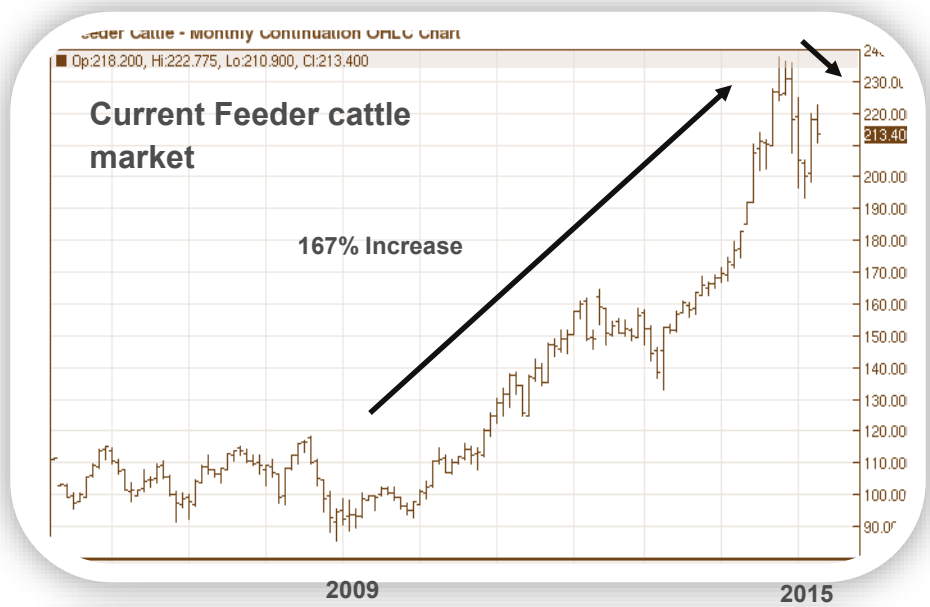
Feeding Projections:

In Canada:

Buy 750 lb steer to feed to finish:	750 lbs x \$2.79/lb =	\$ 2,093
Feed the steer to 1400 lbs:	650 lbs x \$0.85 COG =	\$ 553
Total cost to finish:		\$ 2,645
Finish Price:	1400 lbs x \$1.72/lb projected Sept/Oct price =	\$ 2,408
		-\$ 237 /hd feeding loss projected

In US:

Buy 750 lb steer to feed to finish:	750 lbs x \$2.13/lb =	\$ 1,598
Feed the steer to 1400 lbs:	650 lbs x \$0.80 COG =	\$ 520
Total cost to finish:		\$ 2,118
Finish Price:	1400 lbs x \$1.47/lb projected Sept/Oct price =	\$ 2,058
		-\$ 60 /hd feeding loss projected



A look at the 1970's cattle market, when markets correct, they move farther than you think they should!

Protecting the floor price on your fall calves...

If you haven't insured or hedged your fall calf prices, I highly encourage you to do so on at least 50-70% of your total projected calf crop.

Regardless of anyone's view on cattle inventories and prices, there are great margins that can be hedged right now in the cow/calf sector for the fall that should not be overlooked. The world is rife with macro economic problems and deflation concerns that may over-rule supply and demand fundamentals.

On the fundamentals, herd growth in Canada has been stagnant to date, there is some herd expansion in the US. Beef cow inventory in the US gained 2% while in Canada we have dropped 2% year over year. We need more ranchers, otherwise we'll be eating chicken burgers!

All in all, we are still short on cattle supply which will support our calf prices to some degree into the fall. The recent snap back rally in the Canadian dollar may create some headwind, but time will tell if the Canadian \$ can continue to rise in a world flush with oil, our largest export product.

If using WLPIP, you can insure \$0.20/lb higher using feeder insurance right now over calf insurance using a \$25/cwt slide. As we have such a tight basis right now, the best way to hedge is to try and forward sell your calf crop or grass cattle.

As always give me a call to discuss some strategies.

Contact Us

Give us a call for more information about our services and products

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Visit us on the web at
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Cows in Control, serving the cow/calf producer

Thoughts on the industry

This market, especially in Canada is truly outstanding as a seller of livestock. As a buyer, meh, not so much. Buying a \$2100 grass animal costing \$150 to get it to October lands you at \$2250 for the fall. Using feeder insurance you can hedge at most around \$2000-2100. That's \$150/hd loss before death loss and other expenses. We need a cool down on these feeder prices, which is why I am screaming from the roof tops for ranchers to get their floor prices locked in.

I do believe that until a new generation of producers steps up to the plate, these cattle prices should hold at these higher levels, just maybe not quite so high as today. When I hear some of the prices at bull and bred heifer sales, it makes me wonder if the hobby and farmer cattle buyers may be stepping back in to the ring after several years' absence. Profit per acre for calving cows is much higher than what could be made growing barley or canola in an era of \$3-4 barley or sub \$9 canola which could be a reality. What about the farm kids that left the cattle for oil jobs? Who is really paying over \$3000 for heifers and \$10,000 for bulls, it couldn't possibly be anyone who has been ranching the last 15 years could it?

This market is a God send, and we're grateful to have it, but now is the time to protect what we have. Look for ways to forward sell and protect what you can, it's just smart business to guard those margins. Take care, and good luck with your calving — RC