

THE WATER TROUGH

Cows in Control Newsletter

January 2015

Happy New Year!

2014 was an exciting year with prices rising to all time record levels, capped off at year end by some volatility. 2015 will be likely a very memorable year as well in terms of volatility. The higher prices rise, the more volatility we will see, hang on!!

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) Protecting the value of your herd through hedging
- 3) Options for retained ownership and forward selling
- 4) Consolidated buying and selling
- 5) Keeping you up to date with market programs and trends

Give me a call for a free consultation

“Prices have tripled since the late ‘90’s, where 10-20 cents was normal volatility, now we are in an era of 50 cent to a dollar volatility in calf prices”

- Ryan Copithorne



“Somebody paid \$4000 for heifers like us, you believe that?”

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Stretching the fall grazing days

The Marketing Buzz

2014 brought the highest calf prices ever recorded with light calves touching \$4/lb and standard 5 weight steers around the \$3/lb mark. Phew! That should be about \$6-700 profit per head for the rancher, long overdue. That is about a tripling of prices since a decade ago. Cattle prices have wobbled a bit in light trading in December and are now struggling to regain their highs in the futures markets. Cash prices have held in well, especially in Canada, mostly due to our falling dollar. We have yet to see if cash prices can push this market higher, or if last fall's prices marked the highs.

Canner Cows and Bulls

Give me a call about your canner cows. One of our services is helping ranchers fill trucks and getting plant rail bids. Rail prices are good right now, let me help organize rail bids for you and fill truck loads to share your freight costs. Cows are running about \$1.25/lb on average now in the ring. If you take off a 7-10% shrink and commissions, you can expect \$0.10-0.15/lb off of this price net to you. Remember that shrink is about \$150/head, do whatever you can to minimize it!

Slaughter bulls are \$1.30-1.50/lb, that's \$2500-3000/bull for slaughter bulls! Great prices, but replacing them will cost you dearly I am afraid, bull sales are firing up shortly.

Breeders

Breds are all over the map these days. Bred cows are anywhere from \$2100-3500 depending on what day you look at them, and bred heifers are generally in the \$2400-4000 range. I am seeing similar pricing in the US. That is a huge price range to be playing in! I would be a buyer in the lower end of the range and a huge seller in the top end. My calculator can't make \$3500-4000 bred cows work without dreams of another 20% price lift in cattle. Be careful out there. I think prices will be choppy sideways if I had to guess for 2015, so buy or sell responsibly.

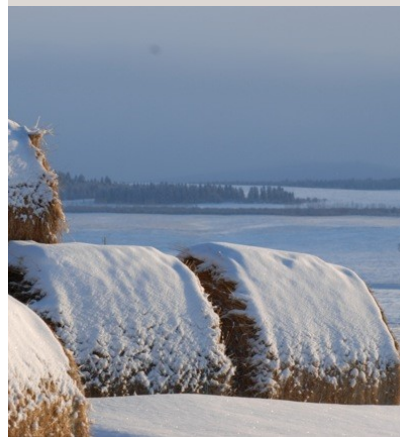
Grain and Feed Prices

Barley prices were good over the fall period as grain buyers were seeking to fill inventories. \$4.10-4.30/bu in Lethbridge area sounds good in light of record feed crops south of us.

The rising US dollar is however impacting grain exports in the US (a high dollar makes US grains expensive to the rest of the world) and farmers are sitting on the largest corn crop ever. Ethanol production is at record levels despite lower oil prices. Reports are now coming of exporters selling back their rights to rail cars for export where they were paying a premium before.

All this points to lower grain prices going forward and lower feed costs overall as marginal grain producers go back to growing forages. Good news for livestock producers.

DDG and pellet prices have been stubbornly high as a high US dollar has held back imports, and US feeders were stockpiling, but I think this too shall pass.



Winter feed

Volatility!!

Oil prices in 2014 went from \$105/barrel to \$47 or a 55% drop in value.

Corn since 2012 has gone from \$8/bushel to lows of \$3.25/bushel last year marking a 60% price drop.

Hogs have dropped from \$1.39/lb to \$0.79/lb, a 40% drop in under 6 months.

The chart at left shows the feeder cattle bull market of the late 70's that encountered a 60% price drop into the early 80's.

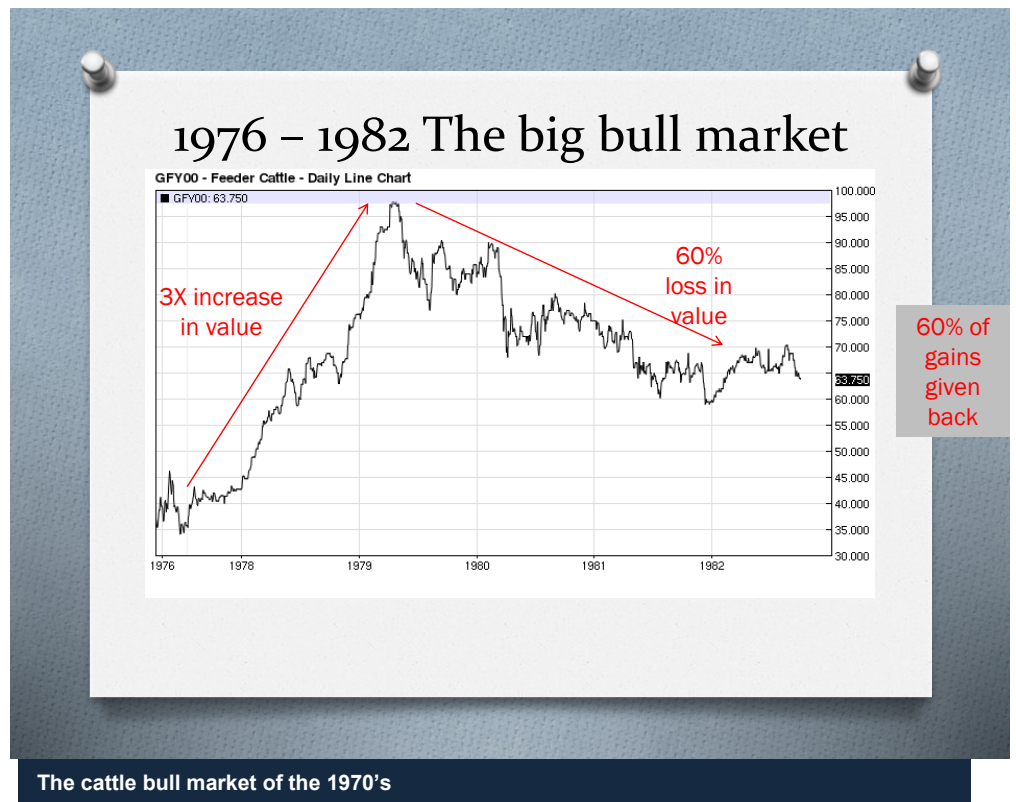
These details are not designed to instill fear, but to remind that cattle, like oil, grains and hogs, are a commodity, and commodity prices are volatile!

The higher prices get, the more volatility because a standard 10% correction up or down in price becomes a larger and larger number as prices rise.

A 10% market correction on a \$3/lb calf equates to \$165/calf. A 50-60% market correction would be over \$800/calf.

This type of volatility will be scary but can be minimized by hedging.

Cows in Control has many tools to help you do so throughout the year. We are sitting on the greatest prices ever recorded. Lock in!



The oil market and its impact on cattle ranching

Oil prices in 2014 were literally crushed from over \$100/barrel to under \$50/barrel and dropping. So what does this mean to cattle producers? I have a few thoughts:

- **Canadian \$:** As goes oil, so goes the Canadian dollar. The CDN\$ is dropping with oil which is good for cattle prices as 77.5% of our exports are to the US. A cheaper CDN\$ means the US can afford to pay more for our cattle.
- **Labour:** finally labour costs may cool off in Western Canada as demand for oil patch labour will drop with less oil/gas projects going forward. We may see more young people looking to agriculture as a career.
- **Land/real estate:** slowing activity in the oil sector is going to be hard on real estate prices in the main oil regions, especially around Calgary, Edmonton, Lloydminster, Fort McMurray and Grande Prairie. A lot of land priced at speculative levels will return to agricultural values as excess recreational spending will drop.
- **Government:** Watch out for big brother government becoming more interested in agriculture. This is good and bad. The government will look to agriculture as its cash cow now meaning more programs and support available, but be fearful of the impact of subsidies in agriculture! No such thing as free money. Also watch for the government trying to protect agriculture lands, mind your property rights!!!

Packing plants...

Western Canada is still eagerly awaiting the opening of the Harmony Beef plant in Balzac. The plant will kill around 800/day or up to 10% of Canada's annual kill. Maybe next quarter?

This will be interesting in light of the fact that the current slaughter capacity is running under 70% utilization and amidst tightening import worker laws. The two big plants in Brooks and Cargill process over 70% of the beef in Canada. A concern is that excess capacity may force a plant closure somewhere, we will see.

I think we can expect heavy pricing competition for limited supply in Canada when Harmony opens, which may limit Canadian live cattle exports in the short term. More plants will open opportunities for niche processing, and Asian/European export — much needed.

The New Angus Beef plant in Aberdeen, South Dakota may be opening soon as well, which will create another marketing opportunity for producers to get in line with an integrated supply chain. It is a good time to be a producer. The cows are in control.

Did you know?

Cows are red/green colour blind

Cows in Control, serving the cow/calf producer

Contact Us

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

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