

THE WATER TROUGH

Cows in Control Newsletter

July 2015

Circa 1979?

"History doesn't repeat itself, but it does rhyme" - Mark Twain

"History is but the unrolled scroll of prophecy" - James Garfield

"I believe that the more you know about the past, the better you are prepared for the future." - Theodore Roosevelt

Though history never entirely repeats, there are similarities between today's world and that of the late '70's and '80's. We will explore in this issue...

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

"What is going to effect cattle prices the most going forward has little to do with supply and demand, but rather outside influences of a world in great flux economically right now. Be prepared for unforeseen volatility."

- Ryan Copithorne



The long wait is over for these boys, breeding season...

In This Issue

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- Feeder Cattle Prices
- Canadian Dollar, is this a return to the '70's and '80's?
- Canadian vs. US feeder prices
- Thoughts on the industry



Feeder Cattle Prices

The chart at left is a graph of feeder futures prices. Feeder futures represent 750-850 lb feeders in the US priced in US dollars.

From the run up since 2009, prices have risen from around \$0.96/lb to the high of over \$2.40/lb.

After reaching new highs, commodities prices will usually retrace by somewhat predictable amounts to levels that traders call "Fibonacci" levels. It is complex to describe but highly repeatable and proven over time. Markets are traded by humans, and humans have repeatable habits.

Without going in to the complexities of this, I have indicated several Fibonacci retracement levels from the most recent run up in prices since 2013 to show where prices will likely correct as they seek out a bottom from which to gain support.

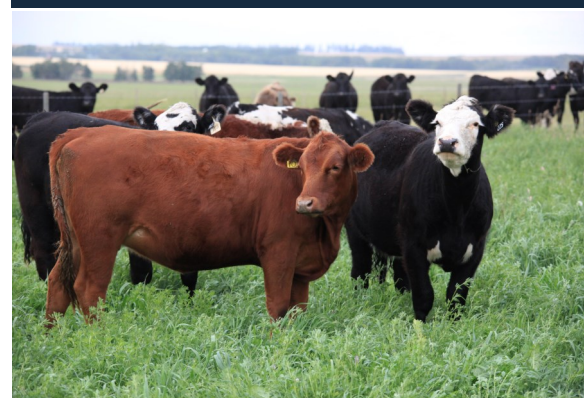
From the chart you can see that we stopped at 206 on the way down briefly, but the market ended up breaking lower to the 194 level early this year. We rallied from there, but are once again in corrective mode.

206 is once again a potential target for nearby feeder futures prices from a technical perspective.

In the last big boom in cattle prices in the late 1970's, feeder prices gave back approximately half of their gains from the lows in 1976 to the high in 1979 in a 3 year period following. A similar move today would take us to the 168 level by 2017.

No one can predict the future. However, commodity corrections of 50-60% from their highs are so commonplace that they could be called predictable. The only thing that isn't predictable is timing of the correction, and when the actual top has been put in.

Pasture, better than gold!



The Marketing Buzz (Jul 17)

Cow prices have slipped a bit due to the drought, great opportunity for those with feed, but \$200+/ton forage could make this the new reality for prices...

Canner cows, heiferettes and bulls

Cull cows: \$115-145 Heiferettes: \$140-155

Cull Bulls: \$155-194 (over \$3000/bull!)

Breds

Bred cows: \$1600-2400 Bred heifers: \$1800-2000

Pairs: \$2400-3500 (if you can hedge a \$1600 calf, these are cheap cows! A great buy if you have the grass.)

Feeders

Steers:	650 wts	\$3.03	Heifers:	650 wts	\$2.73
	750 wts	\$2.77		750 wts	\$2.54
	850 wts.	\$2.56		850 wts	\$2.38

Finished Cattle

\$1.87 cash

Feeder Basis: -23.7 Finished cattle Basis: -3.6

Canadian Dollar, is this a return to the '70's and '80's?

By far, one of the biggest impacts on our Canadian feeder cattle prices is the value of our dollar.

For every \$0.01 move in the Canadian dollar index, we can expect calf prices to move approximately \$0.05/lb

The late '70's saw a decline in our dollar from over par to the high '60, low 70 cent region within the decade. This was accompanied by falling commodity prices and a rising US dollar.

During this period, feeder cattle fell from \$1/lb to \$0.60/lb, gold fell from \$850/oz to \$280/oz, and oil from \$40/barrel to \$10/barrel.

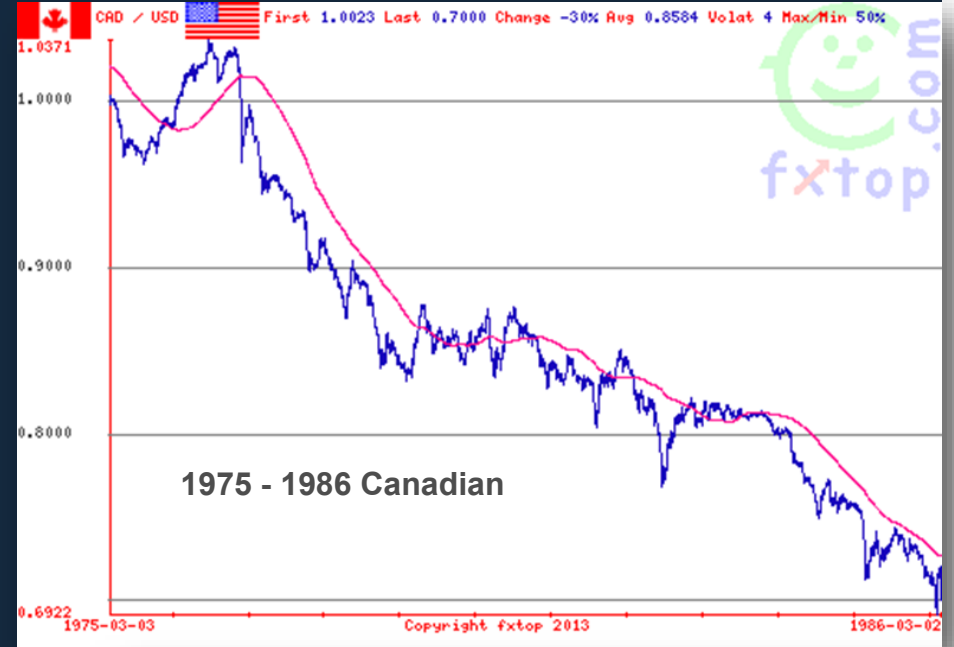
If we compare these magnitude drops to today's prices from their highs, we would expect \$1.50/lb feeders, \$700 gold, and \$30/barrel crude. Ouch!!

Not saying history will repeat, just cautioning against ignoring the past and underestimating the volatility of commodities.

A drop of our dollar to the low '70's would pick up some \$0.30/lb on our Canadian feeders but that would be offset by how much the Feeder futures could be dropping in that deflationary type of environment. I would

Longer term look at the Canadian dollar indicates we are testing and breaking some major support here, next stop, low

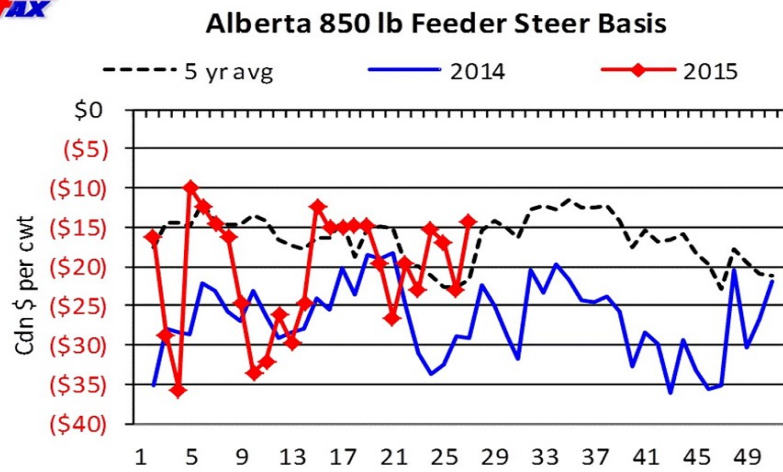
Comparison of 1970's Canadian dollar to today's Canadian dollar...



D6 - Canadian Dollar - Weekly Continuation OHLC Chart



Canadian vs. US feeder prices...



Source: CanFax

Basis can be tricky, but this is a snapshot of the difference between Canadian feeder cattle compared to US cattle as though they were both priced in Canadian dollars. This is a pure reflection of demand for Canadian feeders. You can see we were recently well above last year and even above 5 year average basis levels meaning our Canadian feeders were relatively more valuable than their equivalent US counterpart cattle based on historical pricing reflecting our shortage of cattle in Canada.

Cows in Control, serving the cow/calf producer

Thoughts on the industry

These are interesting times. The financial collapse of 2008 was preceded by the collapse of Iceland, the run on the Bank of Scotland, and the failure of two major commodities firms that were over leveraged to faulty financial instruments.

Today, we have Greece in default, China's stock market has been frozen by the government to stop its decline of over 20% in stock prices, Puerto Rico is bankrupt, and Japan, the third largest global economy on the brink of insolvency.

Meanwhile, we are sitting on the highest beef price levels ever recorded. The US stock market is in nosebleed territory fueled by over leverage from zero interest rate policies, and the fact that the US is the prettiest belle at the ball of a very economically unstable world.

I really believe that what is our biggest threat in the cattle industry is not beef supply and demand, but what happens as these bigger liquidity events unfold. When entities go bankrupt, they are forced to liquidate their holdings. It remains to be seen how many commodities are in the holdings portfolios of these entities that may be forced to liquidate, and how much leverage they had on those holdings.

This is why I started this company, I see huge volatility in prices coming and want to be sure producers are ready for the storms if and when they come. But don't be discouraged, we hold real and tradeable assets in livestock, better than money!

Contact Us

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

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