



THE WATER TROUGH

Cows in Control Newsletter

June 2015

MCOOL, RIP

US producers have at last come to grips that trading outside of their country is a profitable venture. The realization that over \$350/head in added value has come about as a result of cross border trade is changing the mindset of former protectionists. All of a sudden TPA, TPP and scrapping MCOOL are top on the agenda. Money talks. Perhaps Canadians best lay low on the retaliation efforts and ride the wave of the US's incredible demand for our product? Grace?

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

"Much has been said and written about emerging global opportunities for beef exports. Not enough has been said about the crucial role played by the ranchers and cow-calf producers who make the most basic decisions in this industry."

- Charlie Gracey

- Mr. Gracey talking about the slow turn around of cow herd expansion



Thankful for overcast days now...

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ZC - Corn - Monthly Continuation OHLC Chart



Corn prices going back to the 1970's - who says ethanol wasn't a subsidy?

The Marketing Buzz (Jun 17)

Who'd have thought culling could be so profitable?...

Canner cows, heiferettes and bulls

Cull cows: \$135-153 Heiferettes: \$165-190

Cull Bulls: \$150-194 (over \$3000/bull!!)

Breds

Bred cows: \$1800-2950 Bred heifers: \$2500-3500

Pairs: \$2500-3750 (if you can hedge a \$1600 calf, these are cheap cows!)

Feeders

Steers:	650 wts	\$3.02	Heifers:	650 wts	\$2.76
	750 wts	\$2.81		750 wts	\$2.53
	850 wts.	\$2.55		850 wts	\$2.38

Finished Cattle

\$2.02 cash

Feeder Basis: -16.7 Finished cattle Basis: +18!!

(Canadian packers have to be feeling this! Ouch!)

Government and Grain

Well, we can pat big brother government on the back once again for manipulating markets towards cheap food policies.

We battled through the '80's and '90's with cheap grain prices as a result of subsidies that caused over production. Cheap grain also led to over production of meats, primarily chicken and pork, which flooded our meat market place. This caused a 30 year drought in agricultural prices that nearly killed our industry from a demographics standpoint.

By 2007, between drought in the US and enough young people leaving the business due to poor economics in agriculture, the government in the US became fearful of food security.

This brought about the 2006-2008 ethanol boom, a government sponsored initiative under the guise that the world was running out of oil...so they told us. This kick started the largest boom in grain demand and production ever, putting corn into SUV's as well as every food product we eat.

The result: it turns out we are not short of oil, in fact we are overwhelmed with it. The US is overproducing corn as a result of the ethanol subsidies, and as you can see from the chart at top left, grain prices are pushing back to the levels we saw in the '80's and '90's. Subsidies create gluts!!

I have said it before, cheap grain, cheap cattle. These low grain prices will only fuel mass expansion in meat production that will ultimately deflate meat prices so long as ethanol subsidies remain.

This is why I encourage cattle producers to take advantage of these high beef prices and beware of government subsidy policies!

Spring colors



Seasonality

One of the key elements to a proper hedge program is to understand seasonality of prices.

There are certain times of year when light weight cattle are in short supply such as early winter. (top right)

Other times of year, the feedlots are in a scramble to find heavier weight cattle such as during the late summer months (see below right)

I have included two pictures representing somewhat "normal" production years from 2006 to 2013, after BSE and before this latest historic run up in prices, to represent how on average prices react through the course of a year.

Remember that this is an average of the 8 years and not necessarily how prices will for sure react each year.

What it does show is that there are opportunities throughout the year to lock in seasonal high prices, significantly higher than the traditional October 20 average fall run date.

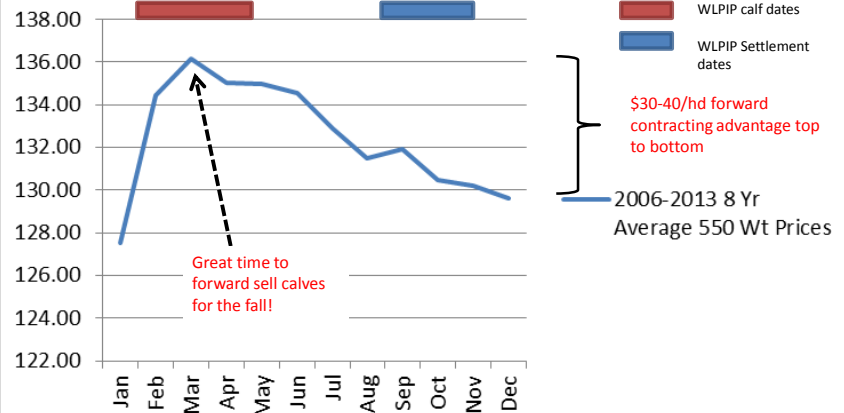
For example, in the middle chart, on most years, mid August is a peak for grass cattle prices. Using hedge tools you can lock in those peak prices and still deliver the cattle at the end of October when the grass runs out.

Feedlots empty out in the summer months just as they have a new crop of silage in the pit. The worry over whether they will get their pens filled causes the scramble for feeders in the late summer. Great time to forward price!

550 lb Steer Prices:



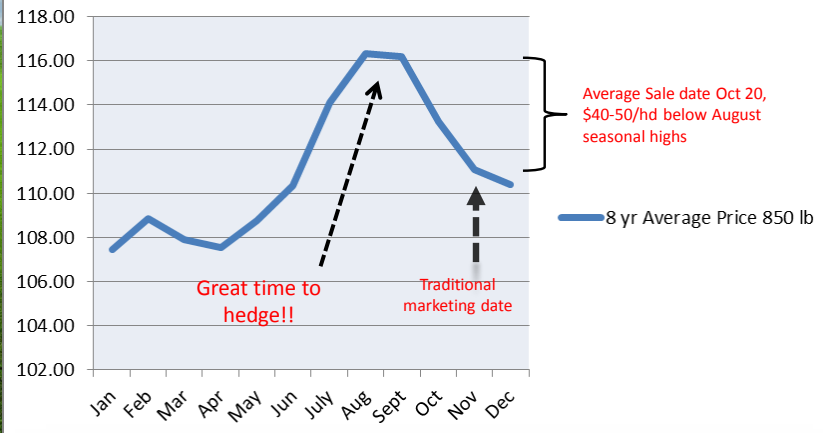
2006-2013 8 Yr Average 550 Wt Prices



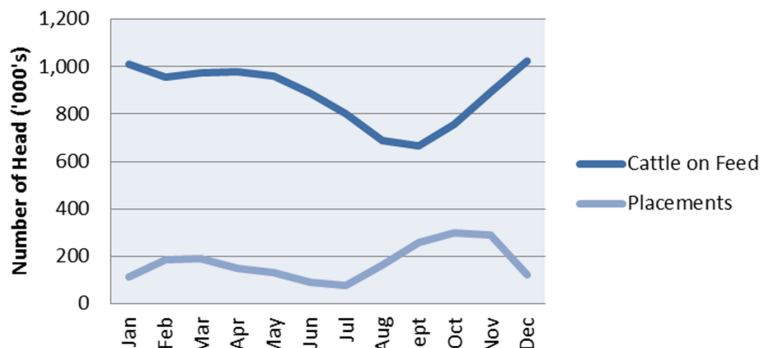
850 lb Steer Prices:

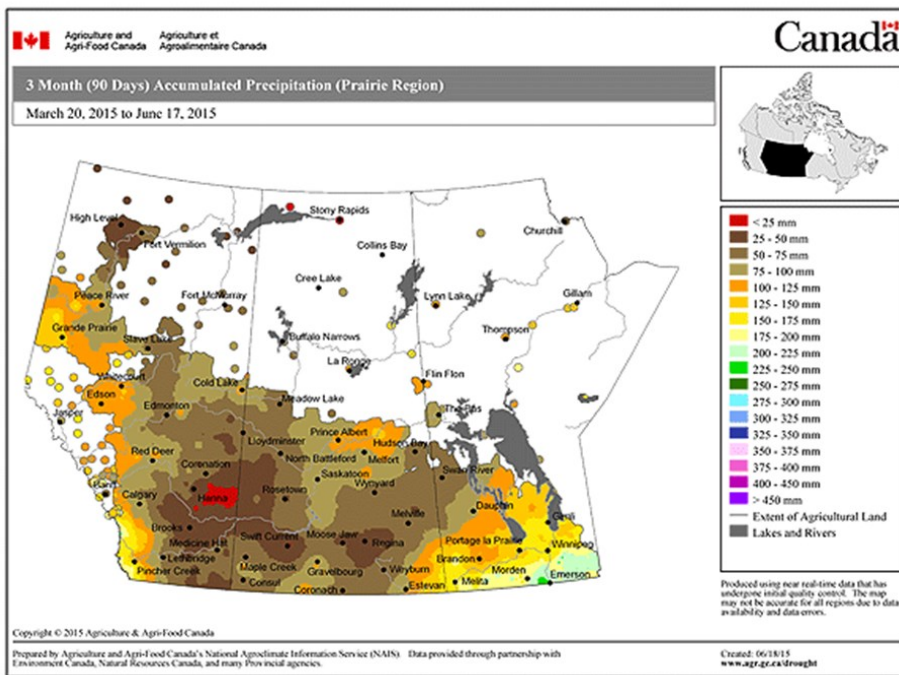


2006-2013 Average Price 850 lb CDN Steer



Canadian Cattle on Feed





Contact Us

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

Cows in Control

45051 Township Rd 250
Calgary, Alberta T3Z 2R1

(403) 669-3451

ryan@cowsincontrol.com

Visit us on the web at
www.cowsincontrol.com

Dry spring...

2002 was the last major drought we had in the prairies. Since then, land prices in Eastern Alberta have risen dramatically. Fortunately rains are starting to emerge in regions, but there is talk of hay prices in the \$200/ton in regions. Lets hope the rains spread, we need to build those numbers back up! Pairs trading in the \$2500-3000 range are a bargain in light of a fully hedgable \$1600 fall calf prices if you have the grass for them!

Cows in Control, serving the cow/calf producer

Thoughts on the industry

Though dry conditions may worry some starting into the summer months, we have had a tremendous year. I will continue to hope and pray for moisture for all this season. The long term residual moisture has been good, but it's the 90 day residual moisture that is concerning. We're getting moisture now south and west, but northeast and central prairies is still dry.

Some exciting developments on the horizon are Agriclear's launch on June 15, a new web based trading platform for cattle with cleared transactions started by the TMX group. Have a look at their website www.agriclear.com, I think this could be a very good program for listing cattle with your own sales terms across North America, with assurance of minimal counter party risk. There is the potential to forward contract on this program.

Also, we are seeing the demise of MCOOL which should hopefully see easier access to the US for our cattle, though I argue that our breeders and fat cattle are already worth more than their comparables in the states.

Finally, we have new plants on the horizon, delayed and struggling to get open, but they are on the horizon. As some of them are smaller plants, niche and export potential should open up. Cows in Control will keep abreast of the opportunities within these plants as they come to market.

Take care, and enjoy the summer! — RC