THE WATERTROUGH

Cows in Control Newsletter **March 2015**

Lock and load ranchers!

I don't know how much higher this cattle market is going, but I do know we have some pretty attractive profit margins we can lock in for the fall! You should be considering hedging at least a percentage of your fall calf crop prices here.

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**

Give me a call for a free consultation

"The name of the game going forward won't be how much higher the market is going, but at what level did I have priced in. The time for speculating is past, this is about locking in margins"

- Ryan Copithorne

Good time of year, best of luck with calving season this year!

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Goldman Sachs Commodity Index Chart 2002-2015

Are Commodities other than cattle nearing a bottom?

Canadian cattle producers have been enjoying steadily increasing cattle prices. US cattlemen have seen a 20% correction in futures prices.

Other commodity producers however, have seen declines of on average 60% across the board in the last few years. Just ask your local oil company, grain farmer, or hog producer.

As you can see from the commodity index chart at left, commodities as a whole are testing long term, multi year resistance levels.

It will be interesting to watch the next few weeks. There is potential that these commodities could settle a bit lower to reach their multi year lows.

I am looking at the following as long term multi-year low levels to watch. (Remember bottoms may take a long time to form before prices actually begin to rise again)…

Oil: 30-40/barrel
Corn: $3.20-3.25/bu
Wheat: $4.50/bu
Soybeans: $9.00; Canola $400/MT
Hogs: $55 (from $135 <6 months ago!)

The curious thing will be if the stock market in the US will ever break. The S&P 500 index is over 2100 and long term support is way down at 1550-1600!

The Marketing Buzz (Mar 19)

Whew, its hot up here in Canada. It was interesting watching the basis. We got as tight as 12 under on our feeders to the US and are back now again to $30/cwt under. That is volatility for you. Light cattle are cheap relative to heavy cattle from a basis perspective.

Canner cows, heiferettes and bulls

Cull cows: $128-144   Heiferettes: $140-152

Cull Bulls: $150-175

Breds

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

Breedable heifers: $2000

Feeders

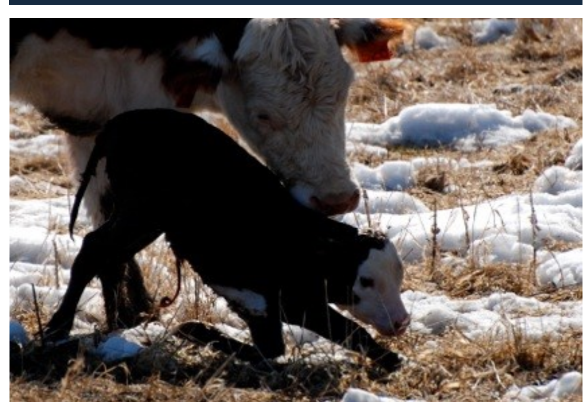
Steers:	650 wts	$2.89	Heifers:	650 wts	$2.62
	750 wts	$2.60		750 wts	$2.44
	850 wts.	$2.40		850 wts	$2.25

Finished Cattle

$1.90 cash ($1.78 August contract)

Feeder Basis: -29   Finished cattle Basis: -8

Calving Season



How to size your cows in today's market...

With high calf prices and cheap feed, a larger animal is starting to sound tempting, isn't it?

What is worth more: a $0.10/lb premium for having a grid quality replacement style calf, or having 100 lbs more wean weight at $3.00/lb?

Simple math would say the latter wouldn't it? Shouldn't we then be scrapping those high marbling British cattle for heavy weaning exotics?

CAUTION: Be careful of looking at things too much from a profit per cow perspective and not from a total herd perspective.

As you can see in the example beside, I have compared 1500 lb cows to 1150 lb cows. I have assumed they eat the same % of body weight and both wean 50% of their body weight.

Though that big cow weans nearly $200 more calf value, we are able to make more profit overall with the smaller cows due to the fact that the smaller cow eats less and you can run a few more of them per quarter section.

You can play around with the numbers, I certainly have. I'm not promoting mini cattle, but had a hard time making the Big Cow more profitable on a total herd perspective despite the fact that she can make a lot more than the Small cow on a per cow basis.

Sounds counter intuitive, but try it out for yourself, I'd love to hear your results!

Comparison of Bigger cows vs. smaller cows

Assumptions:			
Wintering period		200	days
Grazing period		165	days
DM tons/acre in grazing period		0.5	ton/ac
Cost of winter forages (cents/lb)	$	0.05	/lb
Cost per animal unit grazing	$	0.85	/aud
Other variable costs ($/hd)	$	100.00	
Fixed expenses per quarter section	$	20,000	

	Big Cow	Small Cow
Cow Weight (lbs)	**1500**	**1150**
Daily DM consumption in lbs (2.5% body weight)	38	29
Cows per quarter section grazing	**26**	**34**
Weaning % of body weight	50%	50%
Weaning weight	750	575
Price/lb	$2.75	$3.10

Total profit for the herd:	**Big Cow**	**Small Cow**
Total revenue per quarter section	$ 53,333	$ 60,121
Less: Total feed/grazing expenses	$ 13,324	$ 14,427
Less: Other variable costs	$ 2,586	$ 3,373
Less: Fixed overheads	$ 20,000	$ 20,000
Profit per herd (or per quarter section)	**$ 17,424**	**$ 22,321**

Total Profit on a Per cow basis	**Big Cow**	**Small Cow**
Total revenue per cow	$ 2,063	$ 1,783
Less: Total feed/grazing expenses per cow	$ 515	$ 428
Less: Other variable costs/hd	$ 100	$ 100
Less: Fixed overheads per cow	$ 773	$ 593
Profit per cow	**$ 674**	**$ 662**

Thoughts on the Canadian $ and interest rates...

In the late 1970's and early 1980's, at the peak of our last great cattle bull market, we saw the US dollar index rise from 78-160, and our Canadian dollar fell from $1.04 to $0.69 USD in the same period.

This caused the great commodity deflation of the '80's where commodities across the board set back 60% in value from their peaks, and some commodities such as oil fell much lower (from $40 to $10 per barrel by the mid '80's). The falling dollar in Canada was good for ranchers, but drought and interest rates rising to 18% became headwinds.

The Canadian dollar has now fallen from $1.02 US in 2012 to $0.78 US and the US dollar index has gone from the low 70's to 100 recently. Though the US dollar could be due for a pull back from these levels, unless Japan and Europe stop printing money, and the US begins printing money again, it is likely the world will continue to buy into the US dollar in the present environment.

As the US dollar strengthens, it puts competitive pressure on our Canadian dollar perhaps creating further weakness in our currency. The way the bank of Canada props up a weakening dollar is to raise interest rates in Canada to make our government bonds and currency more attractive to foreign investors.

...just a cautionary note, the falling dollar is good for our prices but mind your debt levels!

Contact Us

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

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Thoughts on the industry

This is an interesting time in our cattle business. We have seen what may have been a major interim top in our cattle prices in the US, yet Canadian prices have rolled on higher due to the currency. Feeder futures, after having had a 20% set back, have bounced recently only to stall out again on a Fed announcement. It is hard to make marketing decisions when wild currency swings have so much impact on our pricing.

What concerns me from a longer term perspective is the literal taking to the woodshed of prices for our competitive meat commodities, and the general complacency of our cattle prices to this fact. The thing to watch going forward is not "beef" supply but "meat" supply. When I see $8-10,000 bull sale averages and $3000+ bred heifers I applaud where we've come from to now, but am somewhat fearful for the breakevens on those cattle going forward where beef is 2-3 times the value of its chief competitors chicken and pork. People could get hurt here, please try to hedge that somehow.

Despite record low inventories, we have expansion at JBS in Hyrum Utah, and proposed new plants in Idaho, South Dakota and Balzac to name a few. The big issue is whether the capacity shortfall issues in Canadian plants will be sustainable with this much competition on the horizon. If they don't cannibalize each other, we may have more marketing choices soon.

I tip my hat to these great returns we are seeing on our cattle. Enjoy them, lock them in, and be proud for sticking through, you deserve it! — RC