

# THE WATER TROUGH

Cows in Control Newsletter

April 2016

## Squaring off against this bear market...

*The higher and faster a market rises, often the more it overcorrects to the down side. This falling feeder market and rising loonie are causing some pain, but in this issue I encourage you to take courage. Fundamentals are positive, this is a good old fashioned sell off, and the bear is getting a bit long in the tooth...*

### Cows in Control services:

- 1) Developing an annual marketing strategy for your cattle
- 2) Working with you to protect the value of your herd
- 3) Analysis on retained ownership and forward selling
- 4) Making sense of the markets

Give us a call for a free consultation

*“This sour feeling in your belly, when all looks dismal, is usually the time to start looking for a bottom. Look for extreme volatility to signal the turn around. When you hear doom and gloom from the optimists, you know you’re there.”*

*- Ryan Copithorne*



“Capturing the Grizzly”

Painting by Charles Russell

## In This Issue

- Marketing Buzz
- “Loonie” Prices still on a roll
- Does hedging make sense here?
- What’s dogging this market?
- Thoughts on the industry



77 cents is behind us and a new support level, 84 here we come...

## “Loonie” prices still on a roll...

This has been a tough grind on our Canadian feeders to have to fight a softening cattle market and a rising Canadian dollar.

Approximately \$265 per head has been wiped off the map on our feeders due to this currency move alone from 68 to 79 cents.

The top chart below says we still have room to drop further in prices here in Canada to the 150-160 range.

Taking currency out of the equation, the bottom chart shows that Canadian feeders are challenging the support line from the long term uptrend since 2009. Lets hope it holds...

## The Marketing Buzz (Apr 29)

### Canner cows, heiferettes and bulls

Cull cows: \$82-108 Heiferettes: \$115-130

Cull Bulls: \$115-135

### Breds (breds are trading in line with calf price projections)

Bred cows: \$1600-2100 Pairs: \$1800-2950

### Feeders (if you hedge your dollar, grass heifers are cheap!)

Steers: 450 wts	\$2.29	Heifers: 450 wts	\$1.99
550 wts	\$2.23	550 wts	\$1.90
650 wts	\$2.11	650 wts	\$1.80
750 wts	\$1.90	750 wts	\$1.68
850 wts.	\$1.73	850 wts	\$1.53

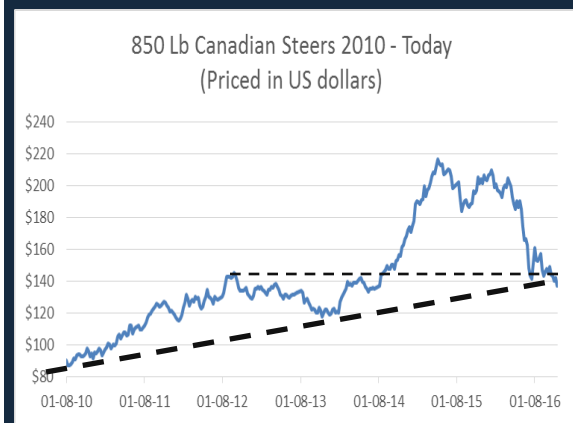
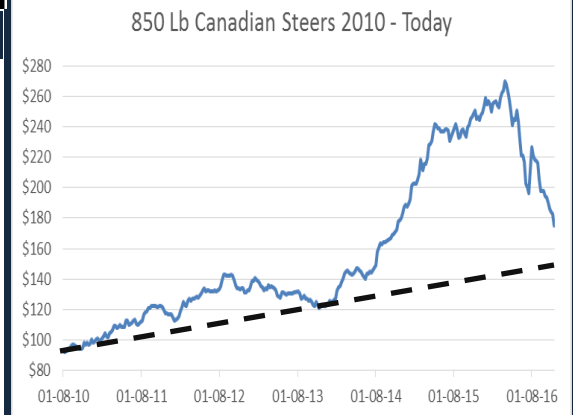
Slide 550-850: 17 cents Heifer:steer @ 750 lbs: -22 cents

### Finished Cattle

\$1.65 cash

Feeder Basis: -3\* Finished cattle Basis: +20.9!! (futures)  
+2 (Cash)

(\*Note: Futures are at an extreme discount to cash in the US, still, our prices have not caught up to the rise in the Loonie, expect further pressure)



Love that first surprised look when heifers calve...



This sour feeling in your belly is what bottoms feel like...

## Does it make sense to hedge our calves here?!!...

First of all, I want to preface by saying that if you can lock in a profit after hedge costs, it always makes sense to hedge, no matter how good or bad the market looks. You can however look at your timing.

Calf insurance is allowing you to lock in \$1018/calf. Definitely well off of where we could have locked in earlier this spring.

I want to look at "worse" case scenarios here. (It can always get worse, lets call it a bad scenario analysis)

There is hard support at 130 on the feeder futures, and this market is extremely oversold.

Now lets use an 84 cent Canadian dollar as discussed the previous page.

In that scenario, which I would say is a bad scenario, calf prices would be \$1.82/lb for 600 lb steers or \$1094/calf.

If you are not already hedged, it would likely make sense to wait for another entry point.

Here are some other categories priced in that "bad case" scenario...

850 lb steers: \$1.40/lb

550 lb steers: \$1.91/lb

Breds: \$1600-1800

Don't lose heart, this sell off is losing steam. Fund traders can only short cattle and go long grains so long before fundamentals will catch up to them!!

### Exhibit 1: WLPIP Calf Prices—\$1.69/lb for a 6 weight?!!

#### WCPIP-Calf

#### Alberta Premium Table as of : 28-Apr-2016

Note: These premiums and coverage levels change on a daily basis.

Insured Index (\$/cwt)	Premium (\$/cwt)			
	20 weeks 19-Sep-2016	24 weeks 17-Oct-2016	28 weeks 14-Nov-2016	32 weeks 12-Dec-2016
186	6.12			
184	5.55	6.22		
182	5.00	5.58		
180	4.59	5.12		
178	4.14	4.63		
176	3.77	4.17	6.32	
174	3.42	3.80	5.67	
172	3.10	3.45	5.08	

### Exhibit 2: Feeder Futures—hard support at 130, we hope



### Exhibit 3: Let's look at a "worse" case scenario

#### Pricing a Very Negative Scenario...

Feeder Futures	\$ 130.00 /cwt
Canadian dollar	\$ 0.84
Basis	-15
Canadian 850 lb Feeder Equivalent	\$ 139.76
Slide 850-550 lbs	\$ 17.00 /cwt
<b>Estimated 600 lb steer per lb</b>	<b>\$ 1.82 /lb</b>
<b>Estimated 600 lb steer per head</b>	<b>\$ 1,094 /calf</b>

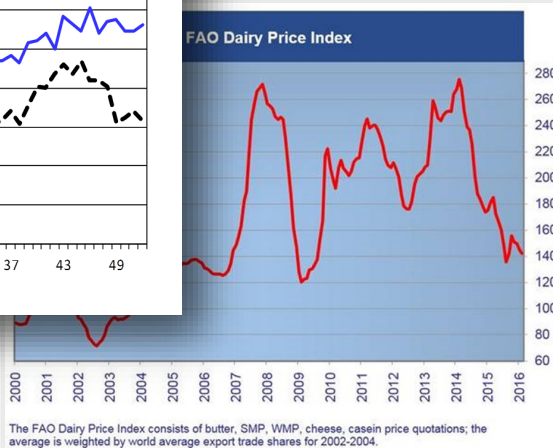
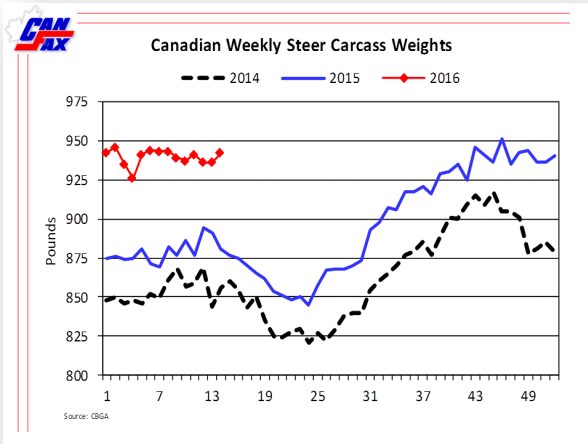
## What's dogging this market?...

Cheap grain, cheap cattle. That is what the old timer's have said for years. 100 extra pounds on the carcass is the equivalent of adding 10-15% to our inventory numbers.

Though Cattle on Feed numbers are running relatively in line with last year, the percentage of heavy cattle on feed over 5 months is up 19%. Meanwhile lighter weight placements are down 5-10%. We have a glut of heavy cattle.

Couple this with the fact that the dairy industry is in the toilet globally as far as prices. Take a drive to the southern US and you'll see nothing but magpie cows in feedlots down there. 1 in 5 lbs of beef in the US comes from dairy cows and growing as Mexico dairy farmers liquidate into a high US dollar environment.

This too shall pass.



## 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) 775-7534**

[admin@cowsincontrol.com](mailto:admin@cowsincontrol.com)

Visit us on the web at  
[www.cowsincontrol.com](http://www.cowsincontrol.com)



"TO LOVE THE LORD YOUR GOD AND TO SERVE HIM WITH ALL YOUR HEART AND WITH ALL YOUR SOUL – THEN I WILL SEND RAIN ON YOUR LAND IN ITS SEASON, BOTH AUTUMN AND SPRING RAINS, SO THAT YOU MAY GATHER IN YOUR GRAIN, NEW WINE AND OLIVE OIL. I WILL PROVIDE GRASS IN THE FIELDS FOR YOUR CATTLE, AND YOU WILL EAT AND BE SATISFIED." - DEUT. 11:13

Cows in Control, serving the cow/calf producer

## Thoughts on the industry

One of the reasons Cows in Control was started was that as one who studies history and futures charts, I saw the run up in our markets in 2014, and saw similarities to that market and the market of the late 1970's. The drop offs in both bull markets in the 1970's were breath taking. The set up in 2014 and 2015 looked to be similar.

I wanted to build a company that encouraged ranchers to lock in those returns while they were there and to get out of the game of speculating on calf prices in the fall. As a rancher myself, too many times I was frustrated by a whole year's work being sold down the drain by a falling market. As Warren Buffett says, the secret to making money is not to lose it.

Well here we are again in a down market. Hopefully many of you took the advice to lock in early.

We are now at a time when rather than focusing on hedging further down side risk, it is time to look at exploring long term opportunity. Margins even at these prices are positive and profits are still able to be hedged. Interest rates are low. Demographics still favour a stagnant herd growth profile despite the rhetoric out of the US about herd expansion. Succession is key to growth, and I feel this has a long way to go. Labour is coming back to the business as the oil sector is lagging. Short term, this could be a major buying opportunity for cattle, cattle are very oversold right now.

I want to caution some things however. Property values will likely correct lower, ranchers should plan on this concept. Good for cattle costs, but no longer should we expect land appreciation to be the major up tick in our ranch bottom lines. Rising interest rates I would suggest could be our next risk. We are working on ways to hedge this. Get your rates fixed.

Take care, — RC