

THE WATER TROUGH

Cows in Control Newsletter

August 2016

A time to hold calves?...

Forward calf sales are looking to be pretty pessimistically priced relative to heavier feeders. This seems backwards with steadily dropping grain prices. This may be the year to retain your calves longer rather than sell them earlier, contrary to what has worked the last two years. The market is retesting long term lows here, is this a buying opportunity?...

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

“Price hedging is the most valuable thing you can do in your operation from a dollars and cents approach bar none. One market move can wipe out the value of a years’ worth of management efforts and improvements as we’ve seen yet again this year. Have a plan.”

- Ryan Copithorne



The original risk management plan...

Stacking Prairie Wool at CL Ranches Ltd.

In This Issue

- Marketing Buzz
- Sideways we go with the Canadian Dollar
- Is this the year to retain ownership?
- Market loss vs. hedge gains
- Thoughts on the industry



Sideways we go...

The Canadian dollar continues its sideways trend around the 77 cent mark.

If you look to the chart at left you see we are stuck moving sideways after a brief rise within what is still a larger downtrend. The current pattern we are in is called a "flag formation" where the price is confined to a narrowing trend with tighter lows and highs as it moves sideways.



Flag formations usually break out in the direction of the original trend, which is upwards, but not always. A break above the upper flag line would take us to 80 cents in short order. The oil chart above shows we may have made a bottom in oil to support this theory as oil and the Loonie are very closely tied.

A break below the lower flag line would likely drop us to 72.5.

About an \$85/hd move either direction once it decides which way it is going. The longer sideways, usually the bigger the move.

Our recommendation is to hedge against a higher Loonie with call options.

Contact us or our partners Django Capital or Western Futures Group for more info on how to do so.

Sideways and then what?...

The Marketing Buzz (Aug 26)

Canner cows, heiferettes and bulls

Cull cows: \$85-108 Heiferettes: \$100-120

Cull Bulls: \$110-143

Breds Not enough volume to determine

Feeders (Light cattle too cheap or heavies are too expensive?)

Steers: 450 wts \$2.08 Heifers: 450 wts \$1.86

550 wts \$1.97 550 wts \$1.80

650 wts \$1.97 650 wts \$1.77

750 wts \$1.90 750 wts \$1.73

850 wts \$1.84 850 wts \$1.66

Slide 550-850: 4 cents!!! Heifer:steer @ 750 lbs: -17 cents

Finished Cattle

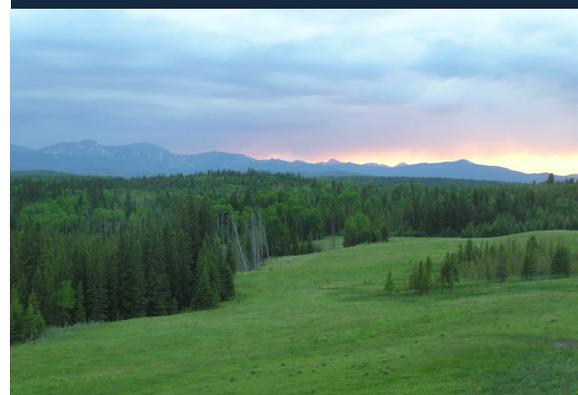
\$1.39!! cash, (now back to 2011 pricing)

Feeder Basis: +2.6!! Finished cattle Basis: -4.0 (futures)

-10.5 (Cash)

(*Note: mid to upper weight feeders are priced at a premium, good time to unload your grass cattle and replace with light calves)

Summer views...



Is this the year to retain ownership on your calves?...

Here is an exercise to help your decision of when to sell or if to sell your fall calves.

Though selling calves in August/Sept last year was the thing to do, it may not be the case this year.

Early indicators and forward sales are pricing these October steer calves at under \$2/lb which we feel is realistic with current futures where they are, but the question is: is it fair to price calves for October at what could be a major price low in the futures market today?

Exhibit 1 demonstrates the current breakevens using current calf prices and estimated costs of gain.

Exhibit 2 shows where the futures market is predicting these prices to be and shows the estimated losses of feeding with these prices.

In Exhibit 3, we show what the returns would be if the market were to modestly bounce to the upper end of only the most recent trading range as indicated on the chart below.

The chart shows we are in a sideways pattern and very oversold as indicated by the stochastics at the bottom of the chart.

With cheap feed, low borrowing costs and a cheap dollar, this could be the year to retain ownership.

Exhibit 1: The Current Projected Cash Market

Current Canadian Cash Market Breakevens for an October Fall steer calf

Price of a 550 lb steer Calf	Cost of Gain Backgrounding	End of March Breakeven at 850 lbs	Cost of Gain Finishing	September Breakeven Finish Price
\$ 1.95	\$ 1.00	\$ 1.61	\$ 0.95	\$ 1.35

Exhibit 2: Futures Predicted Prices and Estimated Returns

Futures Projected Prices

Price of a 550 lb steer Calf	Futures Projected End of March at 850 lbs	Futures Projected September Finished
\$ 2.06	\$ 1.51	\$ 1.24
Projected Profit/(Loss) per head: \$ (89)		\$ (159)

Exhibit 3: Estimated Returns with a modest Price Rebound

Profitability (Modest Price Rebound)

Breakeven for 550 lb Steer Calf	End of March at 850 lbs	September Finished Price
\$ 2.14	\$ 1.63	\$ 1.43
Projected Profit/(Loss) per head: \$ 13		\$ 107

March Daily Feeder Futures (Assuming a rebound)



Market loss vs. hedge gains...

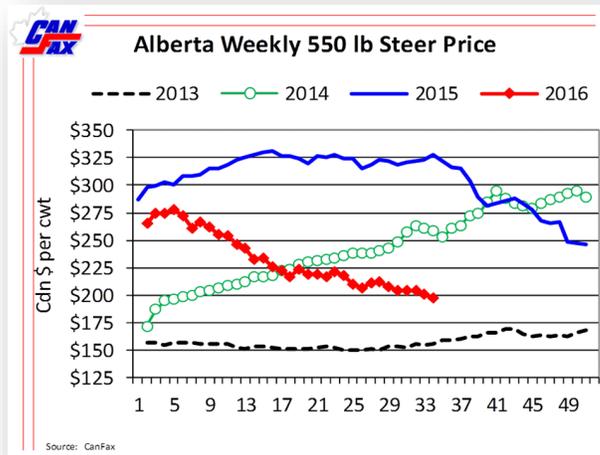
You can see that from the start of the year we have lost around \$0.80/lb on our 550 lb steer prices. That is a \$440/hd market loss. In that time, the Loonie has appreciated from 71 cents to 77 cents accounting for roughly \$165/hd of that market loss. Lets see if we could have hedged some of that with WLPIP Insurance...

We could have bought WLPIP Calf Insurance at the beginning of February for October for around \$2.10/lb @ 600 lbs after paying premiums. That is around \$2.18/lb for a 550 lb steer. If you used WLPIP Feeder Insurance, you could have locked in around \$2.31/lb equivalent for your 550 lb steer calf using a 15 cent slide.

If the insurance were to settle out in October at today's \$1.95/lb, you could pocket \$198/calf in insurance profits. Not the full \$413/head for sure but a full 36 cents per pound more than your unhedged neighbour on your steer calves.

Add a currency hedge on to that and we would have added another \$150/hd for a total of \$348/hd in hedge profits or \$0.63/lb on your 550 lb steer calves.

This is why we are excited by this stuff!! How else could you add or save \$350/calf in your management program?



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

Visit us on the web at
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

It has been a long hard grind lower this year in prices which has been hard on us as ranchers looking to make plans for fall sales. Though I believe the lows made in July and being retested here at the end of August may be the lows, and perhaps a bottom in the market, it is never for certain. Thus, we hedge. No one can predict the markets with certainty, but we can price protect with certainty as we hope the exercise above on this page demonstrates the merits for.

As an illustration, lets say we added 50 lbs to each and every one of our calf weights, added 10 cents per lb to our calf prices through a value add program and saved 50 cents a day per head on operating costs. All three of these major management successes would only equal what was saved through a simple calf price hedge earlier this year.

This is why we feel risk management and cattle/currency price hedging are the most underutilized and valuable tools in the cow/calf sector that over 85% of the industry is completely ignoring.

We also hope we challenged you this month to reconsider selling versus retained ownership this fall. The pendulum does swing on this issue. Last year and the previous, the quicker you sold your calves, the better. Not saying with certainty that this couldn't be the case this year as well, but it looks like there is a good case for retaining ownership this year.

Reason 1: We may be at a major price low, mood and sentiment are poor right now for selling

Reason 2: Feeding costs are cheap, and we have abundant feed around

Reason 3: Borrowing costs are cheap

Reason 4: A lot of people will sell early this year looking for a repeat of last year, be a contrarian

— RC