THE WATERTROUGH

Cows in Control Newsletter **January 2016**

Bounces and bottoms...

While celebrating good cheer over the Christmas holidays, the cattle market bounced 16% in under 3 weeks making hedge returns look a little better at least. Now we are setting back into another decline as we forge what may be a critical bottom on our new trading range ahead. Have a look inside at the technical story on the making of this bottom in our feeder prices

Take note of our revised 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 me a call for a free consultation

"We've gone from bull market to bear market to likely a sideways market. The key now is to watch for when the market hits the high end of its trading range and lock those prices in!! Watch that Canadian dollar, that is our biggest variable now"

- Ryan Copithorne

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"The Jerk Line" ***Charles Russell***

In This Issue

Feeder futures achieving near term downside target support...

The Marketing Buzz (Jan 15)

Canner cows, heiferettes and bulls

Cull cows: $80-116 Heiferettes: $120-165

Cull Bulls: $130-147

Breds (almost zero volume this year so far)

Bred cows: $1800-2500 Bred heifers: $1900-3150

Feeders

Steers:	450 wts	$2.98	Heifers:	450 wts	$2.65
	550 wts	$2.65		550 wts	$2.35
	650 wts	$2.42		650 wts	$2.30
	750 wts	$2.30		750 wts	$2.10
	850 wts.	$2.21		850 wts	$2.07

Slide 550-850: 15 cents **Heifer:steer @ 750 lbs:** -20 cents

Finished Cattle

$1.79 cash

Feeder Basis: -3.6* Finished cattle Basis: -6.7

(*Note: Caution, normal feeder basis is around –15 to –20 at this time of year, so our Canadian feeders are trading at a premium!)

"Loonie" prices...

Wow, what a routing on the Canadian dollar! It has broke through support line after support line, following oil to some black pit below.

The next technical support line for the dollar of real significance is 63 cents, but for now, the price of the dollar is all about oil, oil, oil.

Oil futures are $29/barrel and the long term lows stemming back to pre 2002 show strong support levels at $25/barrel. Hard to say, but we may be getting close to a rebound in oil and subsequently the Canadian dollar.

At this point with a 68 cent dollar, we could have another nickel or so of downside which is good for our feeders.

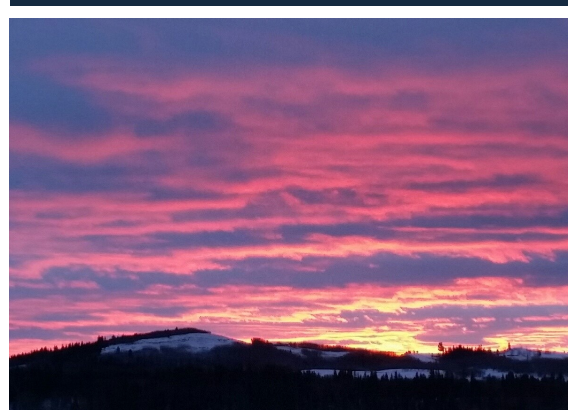
Cattle buyers seem to be betting on this as we now have a zero basis on our feeder cattle again compared to a long term historical average of around –15 for this time of year. (Canadian feeder cattle are 15 cents more expensive compared to US feeders than they have been historically on average for this time of year.)

I have not spoken much of the Canadian dollar in our hedge strategies because we have not needed to. A falling Loonie is good for feeder prices. Now as we approach long term historic low levels for the Loonie, it is time to explore and potentially pick away at Canadian dollar hedges to protect the value of your calves, feeders and the value of your cow herd.

There are several ways to hedge currency and Cows in Control is prepared to assist you with this.

Remember, a one cent move in the Canadian dollar is roughly 5 cents on your calf prices. For example, a simple snap back rally from 65 cents to 75 cents could be 50 cents/lb off of your calf prices, or $250/calf!

Winter sunrises



What happens after the price drops...

The past can often help predict the future even if not exactly.

The last bull market in feeder prices was in the late '70's. The market tripled in value and then gave back 62% of those gains in three waves down after it made its final highs (Exhibit 1).

The current US feeder market was just shy of tripling in value and gave back 64% of its gains after making its highs (Exhibit 2).

The Canadian market did in fact triple and has only corrected back 41% due to the Canadian dollar weakness which added strength to our feeder prices. If we converted our feeder prices into US dollars it would look similar to the charts above it.

What I want to highlight is the significance of the 60% drop, as this is a typical price correction for commodities, as well draw attention to the midpoint consolidations that occurred on the way up to the highs as noted on the charts.

These consolidation levels often become the levels that the market goes back to retest.

In Exhibit 1, you see that after it hits those levels, the market bounced sideways until a new catalyst comes along to take the market higher or lower.

I think we can expect choppy action here between 130 and 170 on US feeder futures similar to what we saw in the '80's absent any new major catalysts to the market.

Feeder cattle price outlook:

Exhibit 1: Feeder cattle 1977 to 1987

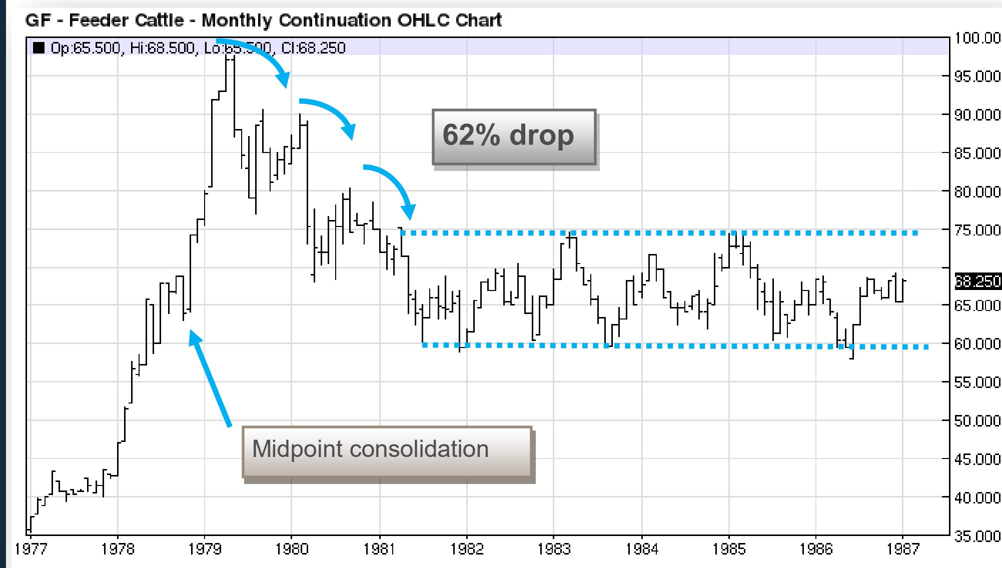


Exhibit 2: Feeder cattle 2009 to today

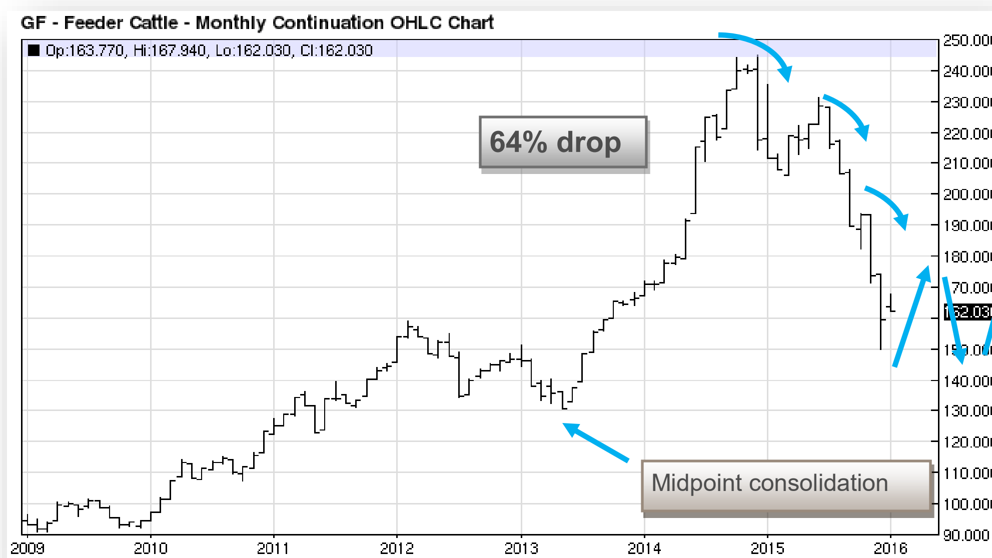
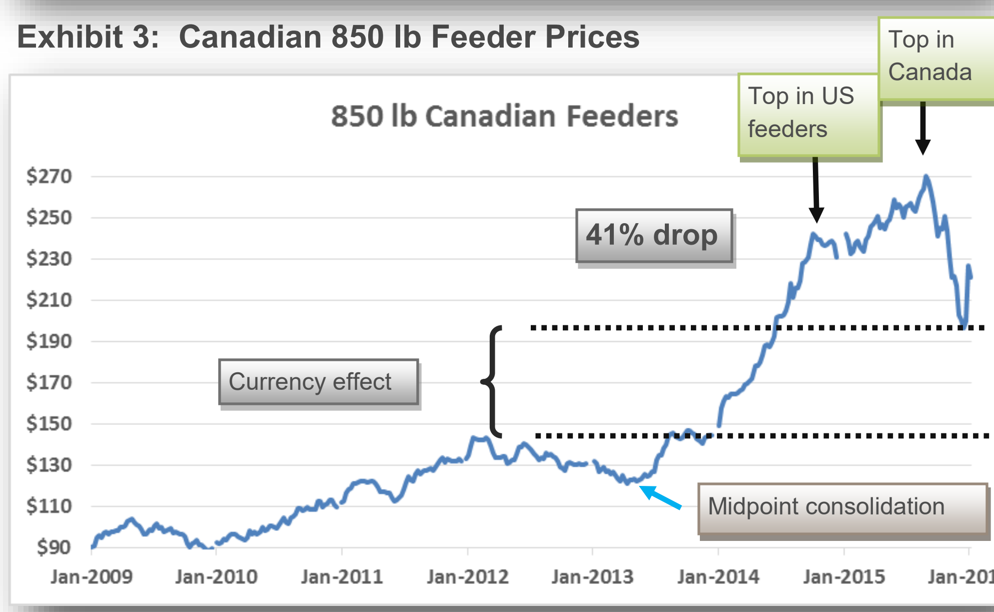
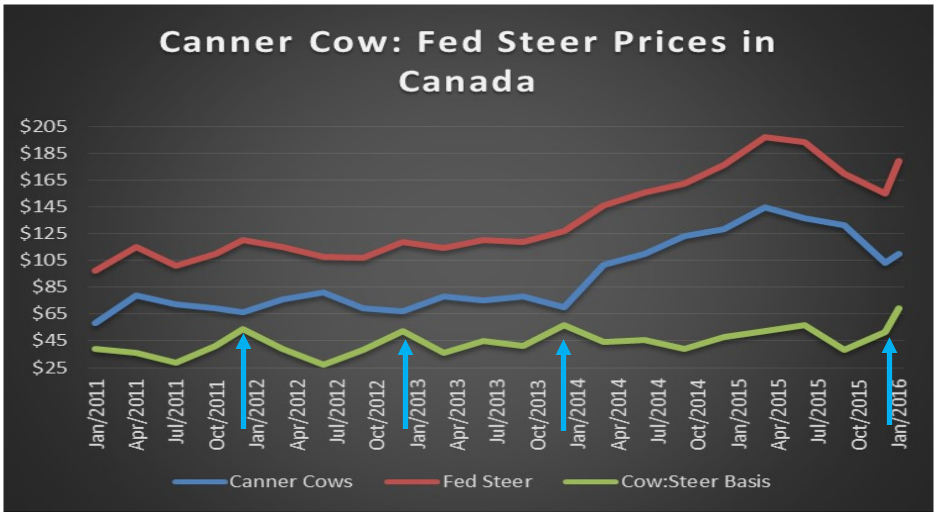


Exhibit 3: Canadian 850 lb Feeder Prices



Cull Cows…

Cull cow prices are a good indicator of our beef and cattle markets. Our cull prices since the big drop last year have not rebounded like fed steers. Relative to fed steer prices, they should be much higher than they are (cull cows in Canada on average trade around 40-45 cents back from fed steer prices). With fat prices just under $1.80/lb, we would expect cull cow prices to be in the $1.30's/lb rather than just over a dollar a pound. Looking at the chart, you can see that the spread between fed steer and cow prices usually peaks in Dec/Jan (*see arrows on chart*) and eases off by spring.



Either cull cows need to come up in price, or fat cattle need to come down. The way to hedge your cull cows is with short Live cattle futures or put options if you are sitting on cull cows and want to wait to see if prices will rise. Seasonally packers run shortest on supply in the mid spring.

Contact Us

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

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Thoughts on the industry

The world of commodities has been a dismal place the last while as we have seen oil prices plummet to under $30 a barrel, dragging our Canadian dollar with it. When zero interest rate policies world wide can not stimulate growth and further commodity consumption, I am afraid that we have to call that a deflationary environment.

The US has become the country of choice for global investors, and that has stimulated over-investment in the US dollar and US stock markets. The big surprise to come will be when this corrects, unwinding the stock and currency bubble they have now, and causing relative commodity prices and currency rates in other countries including Canada to rebound sharply in response. Be ready with your Canadian dollar hedges.

I believe the sentiment in commodity prices right now is approaching extreme negative levels in many commodities, and there is a near universal belief that oil, coal, grains, metals and other commodities will stay at suppressed levels for a long time to come. The more sour the market becomes, the more one should question whether this thing might just unexpectedly turn around. Anyone want to buy Teck Resources for $4/share? It was $60/share a few short years ago. How about $4 corn calls? Doesn't cost much to own them these days.

The decimation of commodity prices may cause some large leveraged commodity traders to go bankrupt. This could create some unexpected volatility in commodity and currency rates. Stay tuned. I still believe cows are a great place to be in this environment. Food does well in unstable economic times even if on a relative basis.

Take care, and hang in there! — RC