COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter March 2016

What will push beef higher?...

After a big boom and bust in prices, when a market settles sideways it can seem agonizing waiting for the market to pick a direction. The catalysts for rising prices are dwindling as herds rebuild and beef is priced high relative to pork, yet somehow these markets always seem to find a way to bounce off of the lows. The upside will be capped until we find a catalyst to break us out of the sideways trading range we are in. Canadian feeder prices are subject to the Canadian dollar right now, held hostage if you will...

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

"Selling your calf crop should not be a one time annual event. It should be worked at over the course of the entire year, using various pricing tools to pick away at the highs"

- Ryan Copithorne

Protecting her first born

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The Canadian dollar's downward slide, and healthy bounce...

"Loonie" prices on a roll...

Canadian feeder cattle are held hostage to a rapidly rising Canadian dollar right now. Buyers are skeptical to pay up on feeders until they see some sign of abatement of the steady rise of the Loonie.

This is a case in point example right now of why we look at the Canadian dollar as an important hedging tool for our cattle prices. Those of you who took the recommendation to hedge below 70 are sitting pretty.

The Canadian dollar continues along in over-bought conditions, but the ride will stop when it stops and no sooner.

The longer term Canadian dollar chart at left demonstrates what we called for all along, that once it bottomed at 68 cents, there was room for a technical bounce back to the 77-78 cent resistance line due to its extremely oversold conditions.

Well, that happened.

All eyes are on the US dollar index and oil now for direction. Oil is rallying on US dollar weakness, and the Loonie is married to the price of oil generally. The US dollar is in a downward trajectory within a sideways range currently. The downward action is due to the Fed choosing to slow its rate raising plans in the US.

Our objectives of 77 cents on the Loonie are achieved and the market is overbought, from a hedging perspective I would suggest do nothing for now unless we break 78.

Look to hedge again at 72-73 if this market sets back.

I do urge caution to be ready here in case of a move above 78. At the chart at left, you can see in 2009 how fast and high this market was able to blow in 6 months. We could see 84 cents in no time in that scenario.

The overburden of oil supplies should keep a lid on any runaway, but always be ready for the unexpected!

The Marketing Buzz (Mar 18)

Canner cows, heiferettes and bulls

Cull cows: $85-114 Heiferettes: $125-158

Cull Bulls: $125-145

Breds *(lots of variation in prices, choose well)*

Bred cows: $1500-2800 Bred heifers: $1800-2800

Feeders

Steers:	450 wts	$2.76	Heifers:	450 wts	$2.38
	550 wts	$2.54		550 wts	$2.25
	650 wts	$2.35		650 wts	$2.10
	750 wts	$2.10		750 wts	$1.93
	850 wts.	$1.94		850 wts	$1.82

Slide 550-850: 20 cents **Heifer:steer @ 750 lbs:** -17 cents

Finished Cattle

$1.69 cash

Feeder Basis: -18.7* Finished cattle Basis: -13.2

(*Note: these are relatively normal levels for this time of year)

New life

How markets trade after blow offs...

Looking at the history of commodity prices can sometimes serve as a guideline for determining the path of prices today.

I keep looking at the bull market of the late 70's as a good guideline for our prices today as the conditions and charts are very similar.

Exhibit 1 is the bull market of the 1970's with its 60% correction, and then ultimate long sideways consolidation.

Exhibit 2 is our current market. The drop is happening much faster than it did in the 1970's, but the principle should be the same, so I shrunk the chart down and have drawn in what a similar sideways price action would look like.

The range would be between the 144 lows we saw at the end of last year and around 193 or so. It would take another major market event to push it outside those ranges.

Exhibit 3 is a chart of gold in the late 70's and I can show you dozens more commodity charts with similar chart patterns from different eras to show this very common occurrence when commodity prices drop and hold.

Using today's 77 cent dollar the predicted range in Exhibit 2 puts us in the following ranges for our Canadian cattle:

850 lb steers: $1.72-$2.36/lb

550 lb steers: $2.32-$2.96/lb

Breds: $2125-$2700

Feeder cattle price outlook:

Exhibit 1: Feeder cattle 1975 to 1987

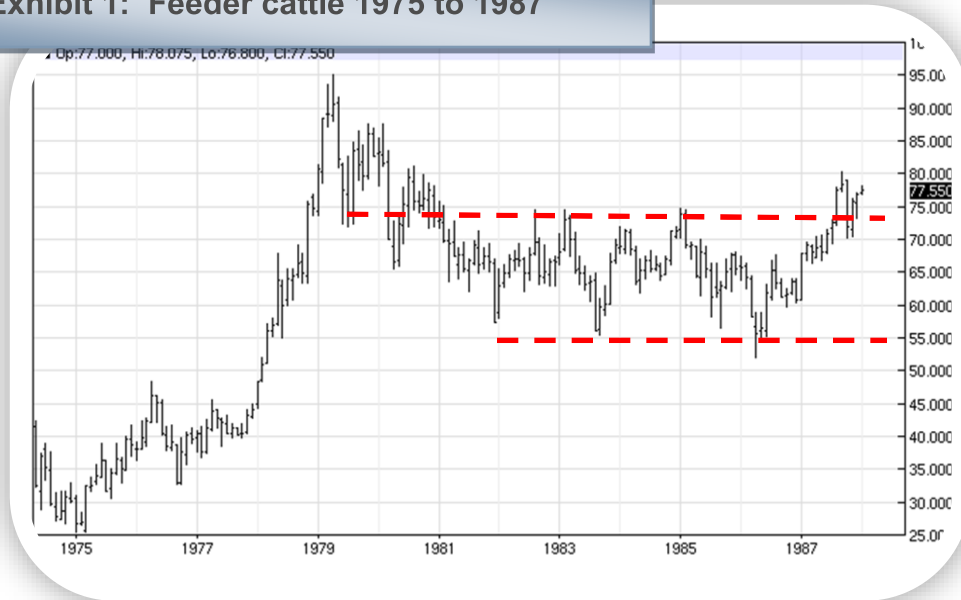


Exhibit 2: March Feeder Cattle Futures 2009 to the future?

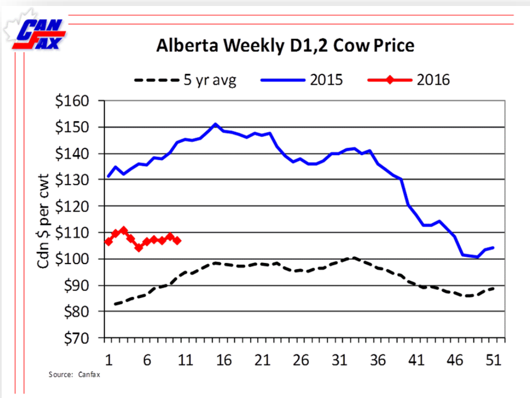
Exhibit 3: Gold 1977-1990

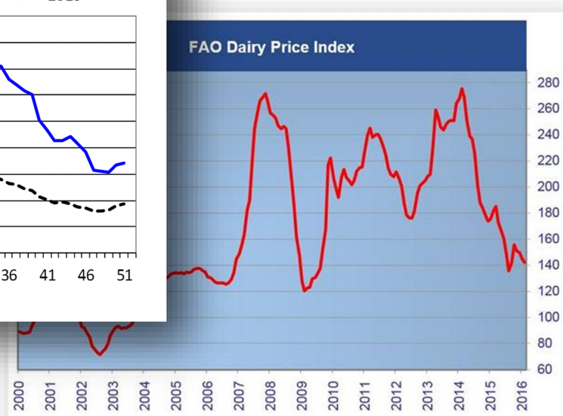
Cull Cows…

No break yet on these cow prices. You can see how we are trading sideways on cull cows when we should be trending up from a historical perspective. April is usually a peak period for cull cow prices.

A high US dollar means the US can buy lots of lean beef product from Australia, South America, Mexico and New Zealand, so packers have been able to keep the market flooded with cheap imports. Holsteins from Mexico make up a large part of it. (*Note the drop in dairy prices below, this will bring more dairy cows into the slaughter complex—50% drop in the index from 2014!).*

Currency rates are changing and seasonality will kick in, you've heard me say it before, but should be higher prices ahead. We are in a supply storm, pull your hat down, sorry for the long wait for those of you still holding...





The FAO Dairy Price Index consists of butter, SMP, WMP, cheese, casein price quotations; the average is weighted by world average export trade shares for 2002-2004.

Contact Us

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

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"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

Thoughts on the industry

The sideways markets after a major price drop can be some of the trickiest markets to predict and trade from a longer term perspective. Though the market will trade predictably within a sideways trend, when it breaks out of that trend, it often moves quickly and in a big way. One has to be prepared. It usually takes a while for this to happen, but not always. From a hedging perspective, rather than trying to predict market movements, it really comes down to looking at your breakevens and determining if there is profit there or not, and locking in when there is, looking for market movement when there isn't.

The US stock market is in nose bleed territory again, and the US dollar has been trading sideways at a very elevated level due to global uncertainty. The low interest rate policies around the world have also created very low borrowing costs for commodity producers which has resulted in supply gluts and a bottoming out of commodities which are priced in US dollars.

Producers need to watch here however, as this cycle may be turning. Commodities have started to make bottoming formations here, and some of the major commodity producers are coming off of their lows. Though economic conditions are still poor, and supply gluts abound, the market has a way of being ahead of industry in its pricing.

A falling US dollar could move money out of the US stock market, but would be good for commodities priced in US dollars. This is the type of catalyst that can bring grain, cattle, oil, gold, copper and other commodities off of their lows, but may limit the upside of the move if the stock market drop becomes a deflationary event like we saw in 2008.

Pay attention and stay tuned here, hedge your US stock positions and feed costs, and keep an eye on that Loonie!

Take care,   — RC