

THE WATER TROUGH

Cows in Control Newsletter

May 2016

Finding bottoms...

A new phase is upon us. The Canadian dollar has reversed its course to lower, good for cattle prices. Yet cattle futures are making random limit moves creating violent day to day volatility. Despite improving fundamentals, fear is prevalent right now. With a negative cattle on feed report, we look for the "all bad news is in" moment where hope is lost, capitulation ensues, panic selling, and then the big buyers step in. Are we there yet? Stay tuned, this can take some time...

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

"Volatility is greatest at turning points, diminishing as a new trend becomes established."

- George Soros



"Boy on High Dive"

Painting by Norman Rockwell

In This Issue

- Marketing Buzz
- All she wrote for the "Loonie" for now
- Is there value in this market yet?
- Herd, expand already!
- Thoughts on the industry

Is there value in this market yet?...

After a steadily falling market for feeders in Canada amidst falling cattle prices in the US and the strengthened Canadian dollar, is it time to ask if there is value out there?

Absolutely.

In Exhibit 1, we have futures predicted prices using estimated costs of gain and today's feeder prices to pencil projected profits per head.

Pretty good value taking light weights to grass and breeding heifers (I only used an \$1800 bred heifer pricing for the breeding predictions).

Exhibit 2 shows the steeply sloped drop in feeders in both the US and Canada. Feeder futures are fast approaching a hard support level between 130 and 140.

Canadian feeders are approaching their long term up trend line going back to 1996. I doubt we will hit it if the dollar heads lower.

Bottom line: we are getting close to some major support levels that should hold us, and markets are still oversold.

The May 20 cattle on feed report in the US was bearish due to higher than expected placements, mostly heavy cattle. This may be the bad news we need to make a bottom.

Here are some fall prices using \$1.30 feeders and a 75 cent Canadian dollar:

850 lb steers: \$1.58/lb

550 lb steers: \$2.18/lb

Breds: \$1900-2000

Not so bad?

Exhibit 1: Profits per head buying at today's prices

Summary for		May 20, 2016			
		<u>Back</u>	<u>Finish</u>	<u>Grass</u>	<u>Breed</u>
		<u>ground</u>			
Steers					
450 lbs	\$ 151	\$ (99)	\$ 227		
550 lbs	\$ 30	\$ (194)	\$ 78		
650 lbs	\$ (79)	\$ (259)	\$ (5)		
750 lbs	\$ (48)	\$ (220)	\$ 21		
850 lbs	\$ (32)	\$ (200)	\$ 44		
Heifers					
450 lbs	\$ 35	\$ (59)	\$ 151		
550 lbs	\$ (4)	\$ (114)	\$ 90		
650 lbs	\$ (15)	\$ (132)	\$ 63	\$ 189	
750 lbs	\$ (56)	\$ (143)	\$ 55	\$ 81	
850 lbs	\$ (0)	\$ (120)	\$ 114	\$ 5	

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



Herd, expand already!...

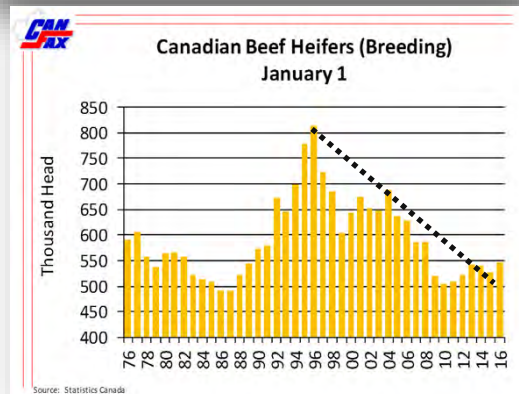
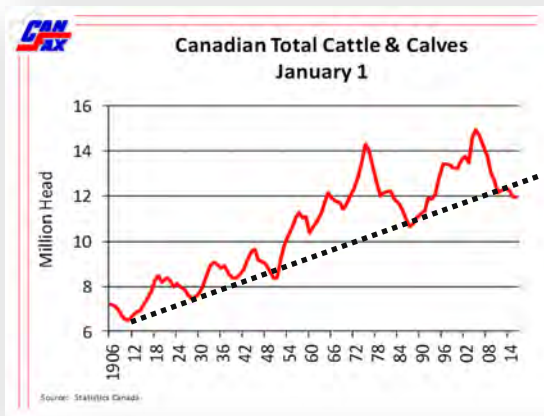
These two charts courtesy of Canfax are indicative of a longer term structural decline of our Canadian cattle industry. For the first time in years, we may be approaching *some* level of heifer retention that may break a down cycle in retention going back to 1996.

Our cow herd inventory is now failing its upward growth trend line indicating we are losing out to competitive land uses in Canada.

In an era of increasing protein demand globally, we are not responding with supply growth, only with performance growth.

Those of you penciling the cost of capital to start an operation will know why these charts look the way they do.

Any heifer retention is a good thing, not something to be feared. In fact it is necessary or we could see further infrastructure break down (ranches, auction marts, packing plants, backrounders, feedlots). Give a young rancher a lift!



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

The cow herd inventory charts in the above section truly demonstrate the effects of a demographics problem in our industry, a capital cost of entry that is too high, increasing regulations that complicate business, difficulty and lack of incentive for small business ranch start ups, producing cattle as large as elephants with cheap grain and growth promotants, and not differentiating between a beef cow and a dairy cow in the slaughter house. Less beef cows, less ranchers, more beef. Sounds efficient?

We become increasingly dependent on fewer and fewer operations and cattle to produce the same amount of beef. This creates volatility in prices when there are fewer and fewer players with more and more leverage. All of this is done with genetic improvements, intensive management, growth promotants, cheap grain, and no weight break discounts. Maybe that's efficiency of production, progress, but it seems like our tactics are tending to be a bit hard on small towns, rural farm kids, the family farms, and driving us to urbanization and factory farming, good or bad. Don't mistake this view for Euro style protectionism.

Subsidies and government support programs are not the answer for producer growth, they have in part created this mess (cheap grain policies). What we need from our government is to stop over regulating this industry. Please big brother, simply protect our private property rights so ranchers have a fighting chance against competitive land uses. Restore water rights to the land holders. Restore dividend tax breaks, cut corporate tax rates. Stop funneling public money into land trusts and parks that are artificially driving up rural ag land prices. Why do religious beliefs dictate how one is taxed or not taxed? How many wildlife are necessary before we can begin to control them again without fear of going to jail? Start promoting business rather than disabling it (hello CFIA). How about some assurances for producers who are managing lease lands? Just a few thoughts.

Lets release the choke hold on young farmers and ranchers. That is "SUSTAINABILITY" by my definition. — RC