

# THE WATER TROUGH

Cows in Control Newsletter

December 2016

## Merry Christmas and Happy New Year!...

*Nothing like ending the year in an up market. A much needed lift since the bottom this fall. Please enjoy the holiday season and we wish you the very best in 2017. We look forward to and wish you a very prosperous new year. Thanks for following our newsletter, we hope it is of value to your operations and strategic planning.*

### 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

*“May He give you the desire of your heart and make all your plans succeed.”*

*- Psalm 20:4*



Man's Weapons Are Useless When Nature Goes Armed

Charles Russell, 1916

## In This Issue

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## The mighty US dollar...

The Loonie continues its course of moving downward despite rebounding oil prices. The reason is due to its relative comparison with the US dollar.

In light of a new president coming in, rising interest rates, relative strength compared to other currencies, the US dollar is king right now and that is the end of the story. The Canadian dollar will weaken against the US dollar until that changes

One government is talking about cutting back regulations and taxes, our government proposes new taxes on our resource sector through carbon taxes. Objectively, which country would you invest in? Down goes the Loonie.

Fortunately a cheaper Loonie is adding strength to our cattle prices and resources generally, and certainly is creating high prices in real estate, including perhaps farm land.

The great hope for the Loonie is the notion of higher oil prices which seems possible with OPEC restrictions, pipeline approvals and the fact that oil is bouncing from oversold levels, but will it be enough to counter the US dollar strength?

We at Cows in Control are not too concerned about hedging our cattle prices against a rising Loonie so much as hedging our input costs against a falling Loonie. Our feed prices are relatively high compared to the US as any imported feed from the US now has a premium on it due to currency weakness. Used tractors and equipment are heading south as our cheap Loonie make them a bargain for US buyers. See chart below.

Another caution is that we may be seeing some property over valuation as a result of our cheap currency. Beware of a correction. We should see it first in the bubble areas of Vancouver and Toronto, but it will eventually work its way down to farm land prices. A lot of land that used to be \$1500/ac just a few years ago is trading over \$3000/ac now. Careful.

Last warning is interest rates. Canada will be forced to raise rates to remain competitive with the US. We have no choice, fix your debt where you can.

### How the Loonie Price affects Pricing...

	Today		Cheap Loonie	Higher Loonie
CAD:USD	\$ 0.75	\$ 0.60	\$ 0.85	
	US	Canada		
Finished Cattle	\$ 1,628	\$ 2,170	\$ 2,713	\$ 1,915
550 lb Steer	\$ 825	\$ 1,100	\$ 1,375	\$ 971
Corn	\$ 3.53	\$ 4.70	\$ 5.88	\$ 4.15
Tractor	\$ 112,500	\$ 150,000	\$ 187,500	\$ 132,353
Farm Land	\$ 1,875	\$ 2,500	\$ 3,125	\$ 2,206
Labour	\$ 37,500	\$ 50,000	\$ 62,500	\$ 44,118

Downtrend in a downtrend...

## The Marketing Buzz (Dec 23)

### Canner cows, heiferettes and bulls

Cull cows: \$75-100 Heiferettes: \$95-118

Cull Bulls: \$89-130

**Breds** \$1350-2550 bred cows; \$1500-2650 bred heifers

### Feeders (Light weights over \$2/lb again)

Steers: 450 wts \$2.22 Heifers: 450 wts \$1.87

550 wts \$1.99 550 wts \$1.73

650 wts \$1.86 650 wts \$1.66

750 wts \$1.77 750 wts \$1.59

850 wts \$1.72 850 wts \$1.61

Slide 550-850: 9 cents! Heifer:steer @ 750 lbs: -18 cents

### Finished Cattle

\$1.55 (now back to 2013 pricing)

Feeder Basis: -4! Finished cattle Basis: 0! (futures)  
-3 (Cash)

(\*Note: Cheap feed, low cattle supplies, and optimism towards a lower Loonie are keeping Canadian fats and feeders valuable relative to US cattle!)

## Understanding Slide...

One of the most complicated factors in cattle pricing that can make or lose you money on your cattle is "Slide".

Slide is the difference in price/lb for each 100 lbs of weight. For example, a 10 cent slide would mean a 750 lb steer is 10 cents more per lb than an 850 lb steer.

Slide indicates the relative valuation of lighter versus heavier weight cattle. It is a function of both demand for differing weight classes as well as feeding costs.

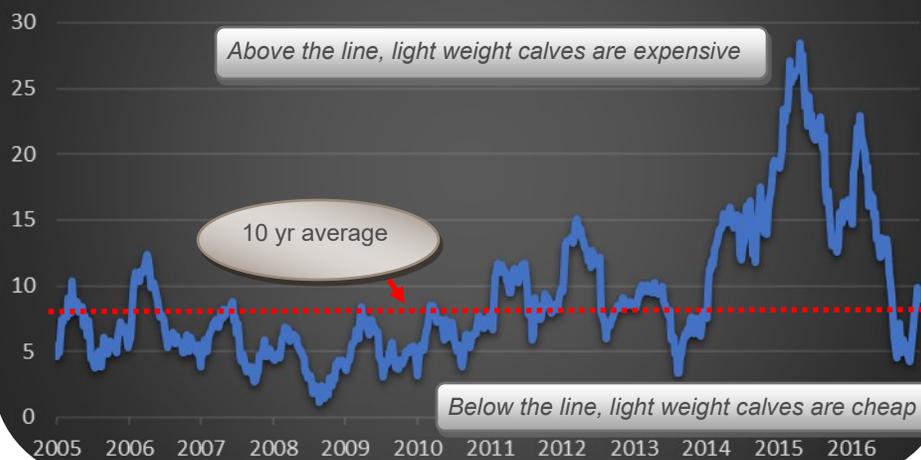
At right top you can see that we have returned to a somewhat normal to low slide level meaning light weight calves are cheap relative to heavier weight feeders. Good for feeding, not so good for selling calves.

The table highlights our current slide and the maximum feeding cost of gains we can afford to pay to break even feeding from 550 lbs to 850 lbs using current 850 lb pricing and various slides. When we had a 20 plus slide last year, one had to have a cost of gain below 60 cents/lb of gain to break even. Now it is \$1.15, much better.

When pricing or hedging your feeders, we can assist to estimate slide to adjust your expected end weight pricing to the negotiated sale weight or the 850 lb base on WLPPI feeder insurance or feeder futures.

### Slide:

### Canadian Steer 550 lb:850 lb Slide/cwt

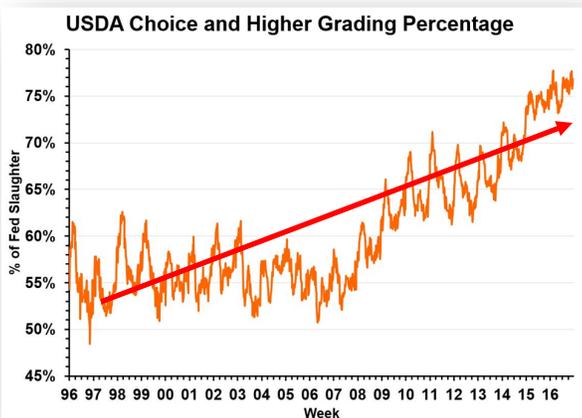


Slide/cwt	850 lb Steer	550 lb Steer	MAX COG
\$ 0.05	\$ 1.70	\$ 1.85	\$ 1.43
\$ 0.10	\$ 1.70	\$ 2.00	\$ 1.15
\$ 0.15	\$ 1.70	\$ 2.15	\$ 0.88
\$ 0.20	\$ 1.70	\$ 2.30	\$ 0.60

### 550 and 850 lb Steer Prices/cwt



# Quantity equals quality?...

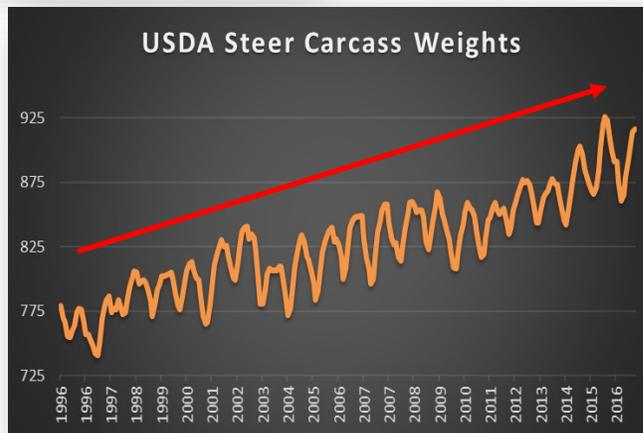


When looking at these two charts, it would seem there is a definite leaning of carcass quality grading to increased carcass weights, would it not?

Perhaps our grading systems are a bit antiquated. It seems quantity equals quality, or more specifically, fat equals quality.

Surely genetics are increasing meat quality to some degree, but these charts demonstrate what the biggest factor seems to be.

Taste, tenderness, juiciness? Is it all fat related or are we just encouraging grain consumption here under the guise of increasing quality?



## 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

Cows in Control, serving the cow/calf producer

## Thoughts on the industry

I really enjoyed Charlie Gracey's article in the Cattlemen magazine titled "An Industry in Crisis". This is an important read. Mr. Gracey has quantified the losses in the industry in Canada of over \$1 billion in the feeding industry, static growth in cow numbers, and some 20,000 or so beef herds that are no longer around.

Let's not get down in the mouth about these statistics, but take a proactive look going into 2017 at what needs to be done to reverse this trend. Less numbers has certainly put a floor under our pricing in Canada, despite a TB crisis and weak markets, giving us strong relative pricing compared to our US counterparts, and our feeder prices have bounced back in a healthy fashion since the fall lows. It is now time for us to take a good look at our home operations to see what we can do to innovate.

We need to stop looking for all encompassing pre-fab "industry" solutions, and start trying to rebuild our strong industry brick by brick, operation by operation. Strong well laid bricks make for a stronger foundation overall.

For example, succession is a key issue. What are we doing to get the young, fresh minded generation involved? We need capital investment in our youth through starter operations and proper succession planning.

Unique individualized marketing initiatives are also needed. Why are we trying to build one plan fits all solutions for marketing that are industry based rather than initiative or niche based? Time to refocus on localized and differentiated marketing plans, rather than "industry branding" initiatives. Canada is a big place, with many diverse demographics and consumer demands. Let's broaden our product offering here. A "Canada" brand is monochromatic and quite frankly dull.

I encourage you to get creative this 2017, we need individualized thinking, not group think. God Bless you this year. — RC