

THE WATER TROUGH

Cows in Control Newsletter

February 2017

Optimism amidst fear...

After a long wash out and capitulation of cattle prices last fall, is it time to look with optimism towards prices going forward? Though the herd is growing in the US, and chickens and pork supply are at all time highs, this market seems to be holding its lows despite gloomy outlooks. Canadian feeders have been priced at a premium which could be a risk, but our short supply should keep somewhat of a floor. Now, if only we can get some idea on what will happen with the Canada/US border. Have faith in better prices to come, and cover your downside risk.

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

“In the middle of a correction, the market seeks to find a bottom and a top - some kind of range that it can operate in comfortably. So you’ll get wide swings as traders try to feel out where’s the top, where’s the bottom, where’s support, where’s supply.”

- quote from author William Mattison



“Slanting Rays”

Roland Gissing

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Long Range Feeder Prices...

We thought we would interject some optimism into your day with a good old long range Feeder Futures chart.

Normally we reserve this spot for commentary on the Canadian dollar, but we feel the Loonie is somewhat range bound for now between 74 and 77 cents with a high upside on that range extending to 79.5 cents.

Now back to cattle. The feeder futures market after its run up since the oversold conditions last fall, has since set back once again for a classic retest of the lows. Though it doesn't show a retest on shorter term daily charts, the weekly and monthly charts definitely show the "W" shaped bottom around the 120 mark.

Stochastics on the monthly and weekly charts show a bottoming and turning up from oversold conditions. Stochastics are good indicators of the oversold or overbought nature of futures.

It appears as though the bottom in cattle is in. If so, the nearby trading range is in the 120-133 range with a larger trading range of 120-160.

Assuming a 75 cent Canadian dollar and a -10 basis, here are some estimates of Canadian prices this fall assuming this range:

850 lb steers: Low \$1.50/lb
High \$2.03/lb

550 lb steers: Low \$1.80/lb
High \$2.33/lb

Bred Cows: Low \$1650
High \$2135

Note: Though the WLPIP Calf Insurance at \$1.76/lb seems to be at the bottom of the range, we still see it as lucrative downside protection in case the 120 line is violated on futures, we get a border tax, or the Loonie decides to run. Always remember, anything can happen.

"Winter Feeding Cattle 1920" George Soper



The Marketing Buzz (Feb 24)

Canner cows, heiferettes and bulls

Cull cows: \$78-103 (avg. 96.4 D1) **Heiferettes:** \$100-125

Cull Bulls: \$98-130

Breds \$1500-2600 bred cows; \$1600-2600 bred heifers

Feeders (Note the basis levels below...)

| | |
|-------------------------------|--------------------------------|
| Steers: 450 wts \$2.20 | Heifers: 450 wts \$1.84 |
| 550 wts \$2.05 | 550 wts \$1.73 |
| 650 wts \$1.86 | 650 wts \$1.62 |
| 750 wts \$1.69 | 750 wts \$1.54 |
| 850 wts. \$1.60 | 850 wts \$1.50 |

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

Finished Cattle

\$1.60

Feeder Basis: +1! **Finished cattle Basis: -2! (futures)**
-4 (Cash)

(*Note: zero and positive basis levels means that Canadian cattle are more expensive than their US counterparts. This is not normal and may be a risk)

Playing the odds...

When the WLPIP Calf Insurance comes out, we often are asked if it is worth buying.

If one looks at insurance as a gambler looks at odds, unemotionally, one would say yes no matter what the market expectations as long as the cost of the premium is worth less than the risk of loss in a standard 10-20% market correction (assuming the strike price is reasonable).

In the example at right, we look at the WLPIP Calf Insurance from February 23 and model out what it would look like with 100 calves using various market outcomes. For now, lets assume you buy full insurance at 100%.

The Worse case scenario is if you were to buy the insurance and the market stays flat. You would be out the 6 cent premium or \$3870.

If the market goes up 20% you make \$21,120 less the \$3870 insurance investment, for a net return of \$17,250.

If the market goes down 20%, your cattle would lose \$21,120 if unhedged! However, for the cost of \$3870, you would have made \$17,250 in insurance profits for a net loss of only \$3870 overall.

Just using a straight 1/3rd each chance of the market rising, falling or staying flat, it looks to us like a safe bet at this point to poke away at some insurance.

At Cows in Control, we look at timing, prices, and probabilities of market moves to determine best levels and methods for insuring or hedging.

Give us a call anytime to discuss.

WCPIP-Calf Insurance

Alberta Premium Table as of : 23-Feb-2017

Note: These premiums and coverage levels change on a daily basis.

| Insured Index (\$/cwt) | Premium (\$/cwt) | | |
|------------------------|-------------------------|-------------------------|-------------------------|
| | 28 weeks 11-Sep-2017 | 32 weeks 09-Oct-2017 | 36 weeks 06-Nov-2017 |
| 178 | | 5.68 | |
| 176 | 5.10 | 5.05 | 6.45 |
| 174 | 4.48 | 4.47 | 5.59 |
| 172 | 3.87 | 3.90 | 4.91 |
| 170 | 3.42 | 3.49 | 4.26 |
| 168 | 2.96 | 2.95 | 3.68 |

WLPIP Calf Insurance

| | |
|-----------------------|--------------------------------|
| Expiry Date | 06-Nov |
| Strike | 176 |
| Premium | 6.45 |
| Effective Hedge Price | \$ 1.70 /lb for a 600 lb steer |

Scenarios

100 Hd @ 600 lbs

| Percent Insured | 0% | 50% | 100% |
|------------------------------|-------------|-------------|-------------|
| Market stays flat | \$ 1.76 | | |
| Insurance Profit/Loss | \$ - | \$ (1,935) | \$ (3,870) |
| Change in Market Value | \$ - | \$ - | \$ - |
| Net Benefit/(Loss) | \$ - | \$ (1,935) | \$ (3,870) |
| Market moves up 20% | \$ 2.11 | | |
| Insurance Profit/Loss | \$ - | \$ (1,935) | \$ (3,870) |
| Change in Market Value | \$ 21,120 | \$ 21,120 | \$ 21,120 |
| Net Benefit/(Loss) | \$ 21,120 | \$ 19,185 | \$ 17,250 |
| Market moves down 20% | \$ 1.41 | | |
| Insurance Profit/Loss | \$ - | \$ 8,625 | \$ 17,250 |
| Change in Market Value | \$ (21,120) | \$ (21,120) | \$ (21,120) |
| Net Benefit/(Loss) | \$ (21,120) | \$ (12,495) | \$ (3,870) |

Futures Estimated Prices

| | | |
|---|--------------------------|--------------------|
| A | October Feeder Futures | 120.625 |
| B | Canadian dollar | 0.76355 |
| C | Basis | -15 |
| D | Slide/cwt 850 to 600 lbs | 10 |
| 600 lb steer price [(A/B+C+2.5*D)/100] | | \$ 1.68 /lb |

Sleeping grain prices...

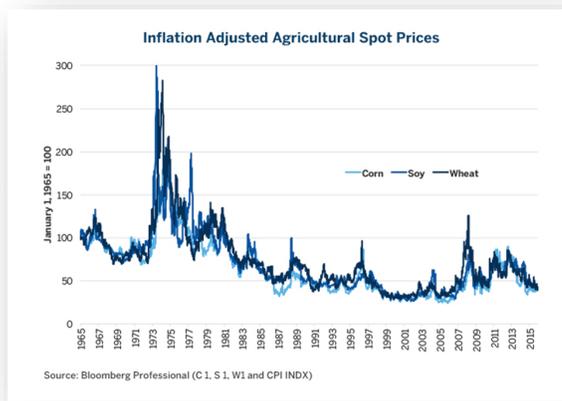
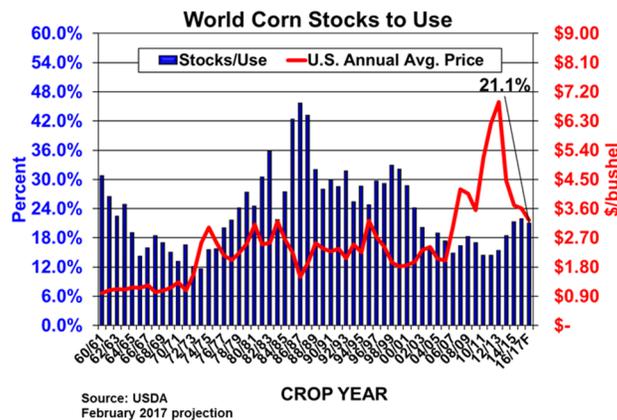
We like to pay attention to sleepy markets, ones that people have given up on or forgot about.

Corn fits this bill.

Though corn stocks to use, or surplus corn, is considerably less on a percentage basis than it was in the 80's and '90's, current corn prices are trading at the same level as that time period. This doesn't even factor in inflation. If we were to consider inflation, then it could be said that corn is trading at all time historic low price levels despite modest fundamentals.

Corn production has never been higher. What isn't considered is that we have never had 7.4 Billion people on the earth increasingly addicted to corn fructose and by products. We have never had more pork and poultry supply, major consumers of corn.

Keep your eye on corn.



Cows in Control, serving the cow/calf producer

Thoughts on the industry

The older one gets, and watches these markets, the less I am surprised by, and actually start to anticipate the unexpected to occur despite the prevailing thoughts and professional opinions on what should happen.

I used to try to follow fundamental supply and demand statistics in order to predict market prices, and through experience of having my head handed to me in the market place, I realized that someone always know more than me, and well ahead of me knowing the information. Even though I was in the industry and felt I should be in "the know", there were always variables out there that I couldn't possibly know such as sudden demand shifts, packer games, tariff changes, regulation changes, and other variables.

It is why I focused more and more attention to looking at commodity prices from a technical standpoint, as futures prices are a collection of educated opinions, and better, investments in commodities. It is the aggregated bet of 100's of thousands of industry and non industry people from all over the world on where prices should be. Let the charts move first and try to use fundamentals as your reasons to explain why the charts are moving, not as a predictor.

In doing so, I have learned to realize that prices always seem to bottom when the fundamental doom and gloom is at its highest level. When fundamental supply and demand projections say there is no hope, that is usually when prices begin to move higher. Contrary to that, when there isn't enough supply to fill the demand and euphoria enters the market, prices mysteriously fall.

We have just seen both of those situations happen in cattle prices since 2014. Euphoric highs and hopeless lows. I would suggest the grain industry is in the midst of a "hopeless" supply and demand story. For both cattle and grain, I think we may be surprised how the world may bid them up despite high levels of supply. Watch for black swans. — RC

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