COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter January 2017

The beach ball theory...

The cattle market can be equated to a beach ball in the swimming pool. First it was thrown high into the air in 2014. Then it fell and got pushed underwater by a massive sell off. Since October it has sprung back up to the surface. It will either be thrown up again, pushed under water, or most likely it will float on the surface, bobbing up and down a bit at equilibrium until acted upon again. When it settles at that equilibrium, that is the time to assess trading ranges. Buy low, sell high, and hope for another toss higher.

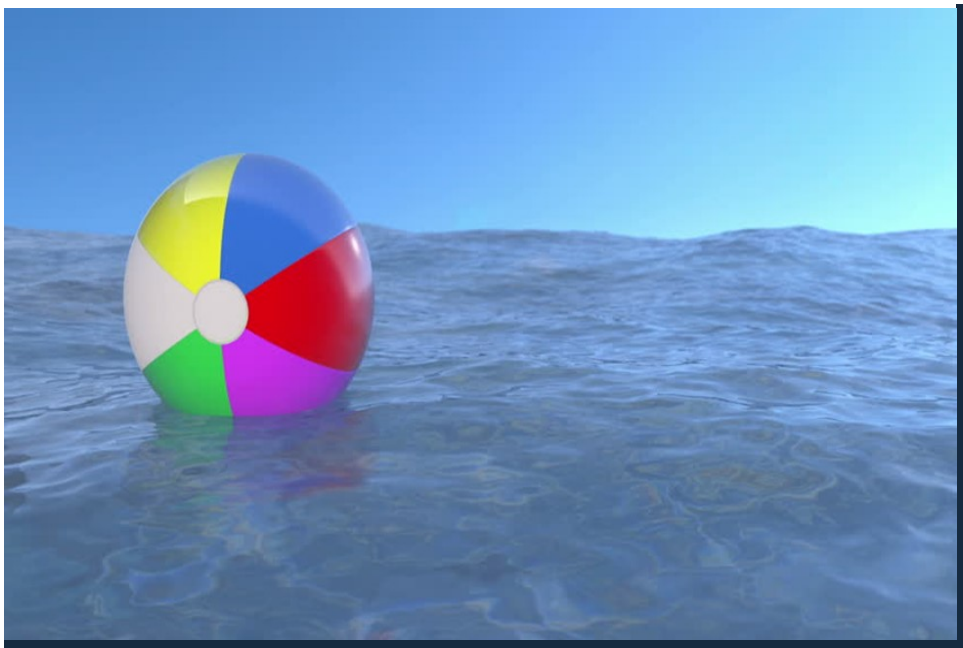
Cows in Control services:

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

""If you can't sleep at night because of your ... market position, then you have gone too far. If this is the case, then sell your position down to the sleeping level."

- quote from famous market trader Jesse Livermore



Cattle prices have reacted like a beach ball pushed under water that has recently surfaced

In This Issue

The new range...

The seesaw begins...

The Canadian dollar is a very difficult beast to predict. After bottoming at around 68 cents to start the beginning of the year, we promptly rose to 80 cents in under 5 months following.

The market then set back to under 74 cents in a steady downtrend that double bottomed by year end 2016.

On the chart at left we see that the downtrend has been violated. The Loonie said 73.70 is as low as it wants to go for now, it has pushed through its upper yellow resistance line, and is pushing towards the 80 cent level once more.

We expect a tug of war between 74 and 80 cents going forward as this market tries to figure out what is going to happen to NAFTA, whether the US is going to raise interest rates, and what the heck is going to result from this new US government.

Canada held its interest rates steady for now, the Fed is likely to do the same, which means a whole lot of churn and speculation, but likely no major predictable directions set.

Guessing the outcome is a fools game, but what we can do is spot the potential trading range we are in.

Hedging the Loonie is relatively simple in this type of scenario. When the Loonie is towards the lower blue line, put on protection against a rising Loonie. As it moves towards the upper blue line, lighten or "lift" the hedges.

Every cent the dollar moves is 3 cents/lb on your feeder cattle. For example, a 4 cent move higher in the Loonie will take 12 cents/lb off of your feeders or $100/head.

Cows in Control and our partners can provide guidance on how to play this trend and provide protection while allowing upside should the market go again in our favour.

We hope the first 100 days of Trump will settle with some more predictable expectations of where this currency is going.

Until then, it should be choppy.

The Marketing Buzz (Jan 27)

Canner cows, heiferettes and bulls

Cull cows: **$75-102 (avg. 95)** **Heiferettes: $95-125**

Cull Bulls: **$92-130**

Breds

$1275-2050 bred cows; $1250-2200 bred heifers

(Golly, how's this for a range?!)

Feeders *(Note the basis levels below...)*

Steers:			Heifers:		
	450 wts	$2.22		450 wts	$1.90
	550 wts	$2.07		550 wts	$1.78
	650 wts	$1.90		650 wts	$1.68
	750 wts	$1.77		750 wts	$1.59
	850 wts.	$1.71		850 wts	$1.56

Slide 550-850: 12 cents **Heifer:steer @ 750 lbs: -18 cents**

Finished Cattle

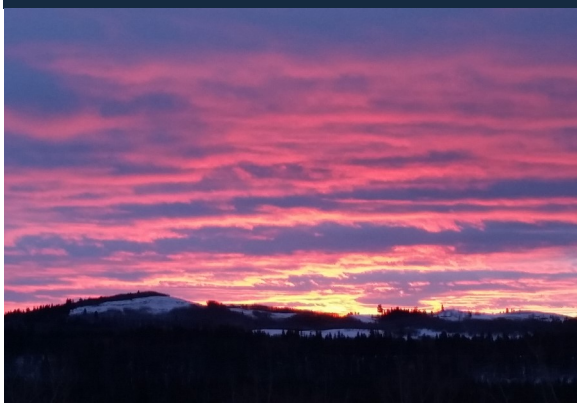
$1.58

Feeder Basis: +4! Finished cattle Basis: 0! (futures)

-3 (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)

Winter sunrises...



A look at basis and "basis risk"?...

Understanding Basis...

We have another mind teaser for you that affects your profitability. Basis.

Basis is a measure of whether our Canadian cattle are relatively expensive or relatively cheap compared to the equivalent weight of cattle in the US.

If you want to use futures or options to hedge your cattle, you will need to understand basis.

Since feeder futures are the price of a steer in the central states in US dollars, we need to be able to convert that feeder futures price into the equivalent Canadian feeder priced in Canadian dollars.

We do that by first converting the US price into Canadian dollars. "Basis" is then the difference between the Canadian and US feeder priced in the same currency.

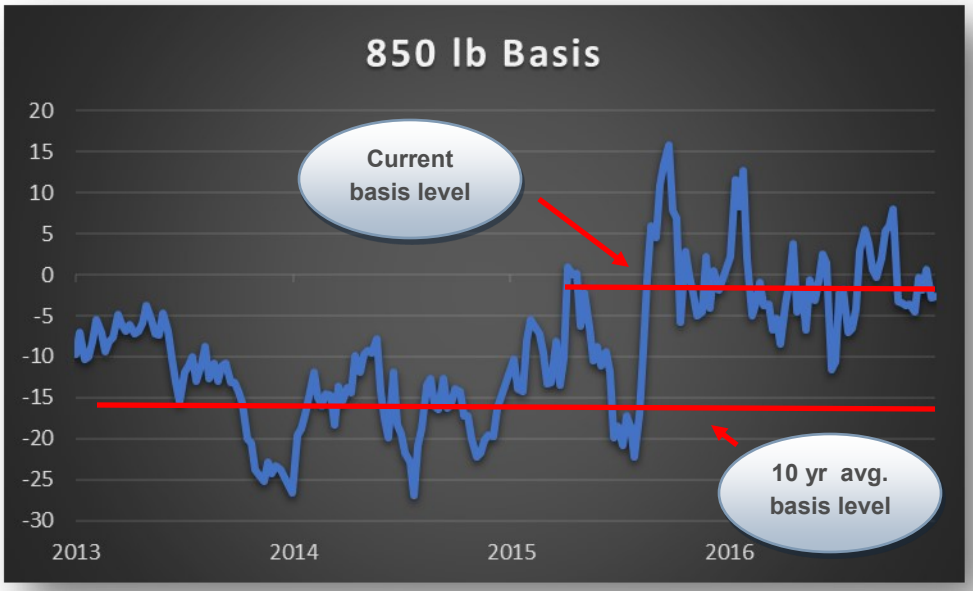
Basis factors in freight costs to the US and general supply and demand of US vs. Canadian feeders.

Generally our feeders trade 15 to 20 cents/lb back from equivalent US feeders. (-20 to –30 in the MCOOL era!)

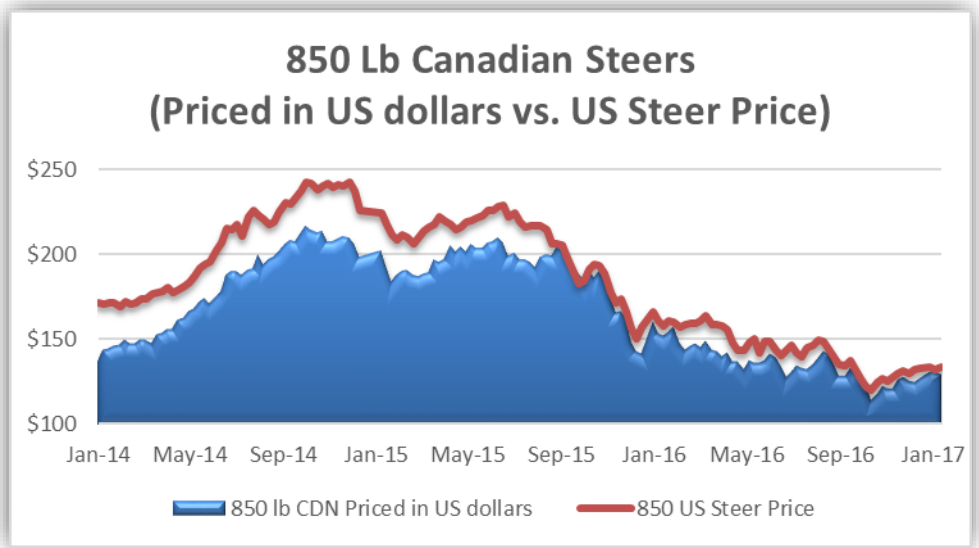
Lately our feeders have been trading at zero and even positive basis to US prices.

A return to historic average basis levels is what we call basis risk which could be as much as 15 to 30 cents/lb risk. What do you think?

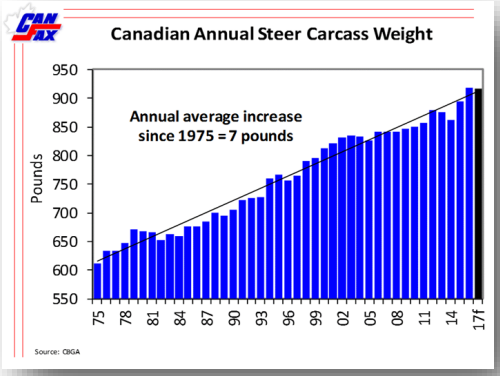
Basis:



By the latter half of 2016 as the US began expanding their herd numbers while Canadian herds stayed static, and the Canadian dollar fell to 68 cents in rapid fashion, we jumped to a new basis level trading near par with US feeders as the market tries to figure out this differential. This is not common based on historic standards. In extreme situations such as during the era of Country of Origin Labelling (MCOOL) in the US, Canadian steers traded nearly 30 cents back from their US counterparts. Is there "basis risk" here, meaning we could drop back to historic or even worse basis levels should the US become protectionist once again? We are not sure, but are paying very careful attention to it!!



Production, production…



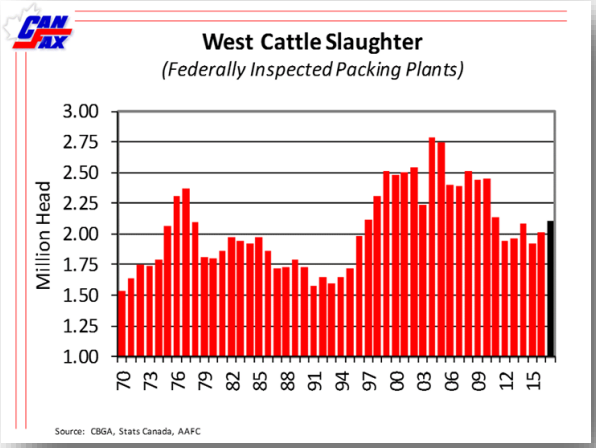
Here is a reflection on production today.

1975 we were processing a similar volume of cattle to today, around 2 million head. Carcasses were 610 lbs vs. today's 925 lb average carcass weight. When you do the math, our increased carcass weights equate to adding 1 million more 1975 animals.

20 years ago we again had similar kill numbers weighing 750 lbs per carcass. That carcass weight increase equates to 600 thousand more 1997 animals.

Hormones and beta agonists can add 20 to 25% to carcass weights. Cutting them out could be the equivalent of taking 700 thousand animals out of production today out of a total kill of around 2.1 million head.

What would that do to prices? We're productive but what about our margins? Just a thought.



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

Whew! 2015 and 2016 were tough on the stamina watching prices plummet. Prices at the production level that is. Those steaks in the store still seem to cost a whole lot on the family pocket book.

Just wish we had some more custom processors to take advantage of those spreads by being able to own our product through to retail. Hard to believe how difficult and unsuccessful most ranch to retail programs have been in light of this lost margin potential for producers related to the end value of our beef product. Let's keep trying.

The good news for producers this year has been our strong basis levels that have elevated our local prices 15 cents/lb over historic levels as outlined in this months newsletter. We are being incented to produce, it just seems that the incentive is not enough to stimulate more herd growth here in Canada. Either beef herds will continue to fade here in Canada, or those incentives will have to keep rising to keep our numbers up, ie: higher prices.

For ranchers who own their land, own their cattle, and have infrastructure paid off, cash margins for cow/calf production are still good. For start up producers borrowing on their cattle, paying off mortgages and building infrastructure, maybe not so much. Luckily interest rates are still low allowing for cheap borrowing costs.

This is the challenge to herd growth here in Canada. We need either more succession or higher margins to get the next generation in. Perhaps margins will come from less production, better marketing, or integrated programs, we need it one way or the other. If grain prices and interest rates have quit dropping, we will see if that slows some of the carcass weight growth as a result of raising feeding costs, perhaps leading to less beef and higher prices.
. — RC