

THE WATER TROUGH

Cows in Control Newsletter

March 2017

The bounce...

It isn't 2014 pricing, but this bounce has surely brought some relief and surprisingly, profitability to each of the cow/calf, feedlot and packing sectors simultaneously. This is a good strong market bounce. In this issue we will take a look at what is working, what may be driving the bounce, and perhaps what to look for going forward. If you are not hedged, consider poking away at it here, we are getting to pretty good levels.

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

"I don't measure a man's success by how high he climbs, but how high he bounces when he hits bottom."

- George S. Patton



The Cattle Market Bounce

In This Issue

- Marketing Buzz
- Canadian dollar: a waiting game
- Using the Cows in Control Profitability Predictor Tool
- Is Brazil a Catalyst for our Bounce?
- Thoughts on the industry



A waiting game...

The Loonie is trading in a sideways pattern (between green bars on chart at left) between 74 and 77 cents, currently mid range around 75 cents.

It appears the Loonie is stalled until the market can figure out what the heck is going on with NAFTA, potential border tariffs with the US, and what will settle out with our trade partners in Asia now that TPP is tabled.

What is important to note is that it is threatening to break out of its short term down trend (yellow lines) and is challenging the upper channel line of its long-term down trend line (blue lines).

A break above the upper blue line would be significant. If it fails this line, then a move to the low 70's is possible.

At this time, we recommend watching until we determine the next trend move.

Oil is one of the biggest factors on Loonie prices as our biggest export. The long term chart below shows that oil is trying to range higher, but failed miserably at \$55/bbl. If oil can break above the \$55 mark (upper blue line) a bottom is in and oil can rally, pulling our Loonie higher with it.

If not, oil is range bound between 25 and 55 and the Loonie will remain soft. Other than low cost CAD call options, we are simply watching.



The new range...

The Marketing Buzz (Mar 17)

Canner cows, heiferettes and bulls

Cull cows: \$80-106 (avg. 100.90 D1) **Heiferettes:** \$100-130

Cull Bulls: \$110-140

Breds \$1800-2600 bred cows; \$1800-3000 bred heifers

Feeders (Note feeder basis is widening...)

Steers: 450 wts \$2.23	Heifers: 450 wts \$1.90
550 wts \$2.13	550 wts \$1.82
650 wts \$1.94	650 wts \$1.70
750 wts \$1.77	750 wts \$1.60
850 wts. \$1.65	850 wts \$1.53

Slide 550-850: 16 cents **Heifer:steer @ 750 lbs:** -17 cents

Finished Cattle

\$1.68

Feeder Basis: -10 **Finished cattle Basis:** -9! (futures)
0 (Cash)

(*Note: feeder basis is starting to normalize! Fat cattle in Canada are still very expensive relative to US. This means packers are still bidding for fats but feed lots are nervous)

Fading Spring Sun Set



The Profitability Predictor Tool...

Many of you who have been following Cows in Control have seen our Profitability Predictor Tool (looking for a sassy name for it, any suggestions?)

We wanted to explain what this tool is and how it can be useful.

We analyse every weight class of cattle, comparing backgrounding programs, finishing, grassing and breeding at various rates of gain for each scenario. For cost of gains, we use market feed costs plus industry standard markups and yardage.

End prices are based on current futures for both Canadian dollar and cattle, and Cows in Control predicted basis levels.

The program pulls the best profit per head for each class of cattle based on the assumptions.

For clients, we will demonstrate in more detail how these profits per head can be attained more specifically if so desired.

These profits per head are fully hedgable returns less the cost of hedging (generally \$30-60/hd).

We find this tool very useful to determine which weight classes are expensive and which are affordable.

This tool should help our clients determine whether to buy, sell or hold and which weight class and sex they should be looking at.

We often publish these returns in our newsletter for newsletter subscribers, but only clients will receive one on one service to determine how to attain these profits and how to hedge them.

Cows in Control Profitability Predictor



Hedgable Profits/Losses per Weight Class

Summary for

March 22, 2017

	<u>Back</u> <u>ground</u>	<u>Finish</u>	<u>Grass</u>	<u>Breed</u>
Steers				
450 lbs	\$ 154	\$ 102	\$ 207	
550 lbs	\$ 86	\$ 26	\$ 122	
650 lbs	\$ (31)	\$ 13	\$ 107	
750 lbs	\$ 8	\$ 37	\$ 75	
850 lbs	\$ 23	\$ 42	\$ 85	
Heifers				
450 lbs	\$ 125	\$ 189	\$ 166	\$ 388
550 lbs	\$ 58	\$ 125	\$ 121	\$ 249
650 lbs	\$ (29)	\$ 95	\$ 142	\$ 138
750 lbs	\$ (47)	\$ 93		\$ 39
850 lbs	\$ (14)	\$ 103		\$ (49)
Cows	\$ 15	\$ 69	\$ (587)	\$ (36)

** Please contact Cows in Control on how to capitalize on these profits and the assumptions for these estimates. Profits and losses are determined with particular end dates to maximize profitability and based on futures estimated prices with predicted basis levels using current currency exchange rates, and Canfax average buy pricing on the cattle. We can tweak these returns to demonstrate expected returns should the market move up or down by any percentage for analysis.*

Projected Cull Cow Prices Using Futures

Apr 17	\$1.14	/lb
Jun 17	\$0.92	/lb
Aug 17	\$0.85	/lb
Oct 17	\$0.73	/lb
Dec 17	\$0.83	/lb
Feb 18	\$0.95	/lb
Apr 18	\$1.05	/lb

Is Brazil a catalyst for our bounce?...

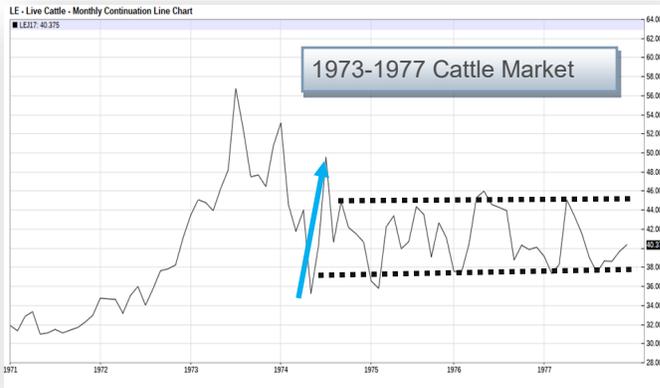
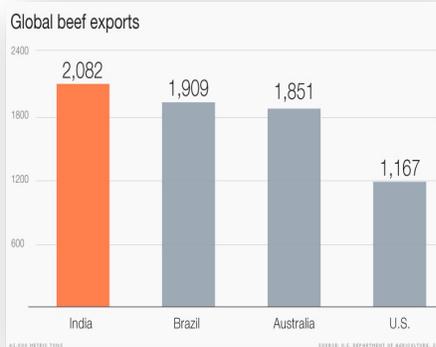
We believe "history doesn't repeat itself, but it often rhymes" [Mark Twain]. When looking at the crash of 1973 cattle prices, we saw a similar drop (40%) to what we have just experienced, and then a solid bounce off of the lows in 1974 (35% bounce). Could this happen again?

The world just shut its doors to Brazilian beef exports after the biggest processor in Brazil (and the world) is undergoing a rotten meat scandal.

Is this a "Black Swan" event that is contributing to our much needed technical bounce off of last fall's lows?

A 35% bounce today would bring US live cattle prices to \$128 or around \$1.71/lb Cdn for finished cattle. We are almost there now. How about that? Maybe history does rhyme?

Brazil is the world's second largest exporter behind India of all places. That is a lot of slack for North America to pick up!



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

My parting words last month were "Watch for black swans" relating to what could make this market bounce off of the lows. Funny how those silly swans always show up, when the market gets oversold and needs a bounce or overbought and needs a correction. I am not saying for sure that Brazil's tainted meat scandal is a "Black Swan" event (Black Swan refers to unforeseen market events that significantly impact the market), but it is hugely coincidental time and time again how the market finds these triggers when markets are overbought or oversold. Perhaps the bird flu in the southeast US is another such event?

Looking at fundamentals like herd rebuilding, heifer retention, imports, exports, slaughter numbers etc. is important to follow in terms of overall cattle market trends, but oh boy, it seems like comparing present circumstances to historically comparable events on silly charts always seems to trump what the expert data analyzers are predicting.

If the 1973 and 1979 cattle bull and bust markets are to be used as predictors, we can expect a long period of sideways trading on cattle prices. The forward looking price range would be between last fall's lows and wherever this current market bounce ends as the bottom and top of the range (Note: for us Canadians, where the Loonie goes will affect our trading range, so be wary of major currency moves).

All that being said, we are seeing profitability in both the feedlot and packing sectors which is good for the industry as a whole. Today we can hedge a \$1000-1100 steer calf for the fall which is also positive for the cow/calf sector. As producers, we can wait for this market to top before hedging, or consider that \$1100 fall steer calf price as "good enough" and book it. With history as our guide, we will have to look at locking in prices when they are at the high end of the range, and buying or being patient at the lows. The money made from large price moves higher, or on real estate prices rising may be behind us for a while.

Take care out there — RC