COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter May 2018

Farewell Winter!

That was a marathon of winter and tough calving weather, wasn't it? The recent warm weather has caused some flooding and such, but boy are we glad to see those tough little crocuses popping through the dry, dead prairie grass as a beacon that hallelujah spring is here! The cattle markets have had a tough spring as well. A pretty big price drop since last fall, but persistently good beef demand and exports has been like those little crocuses pushing through the debris of negative sentiment about forward looking supply from the futures market. Grow little crocuses, grow.

"There is nothing government can give you that it hasn't taken from you in the first place."

- Winston Churchill

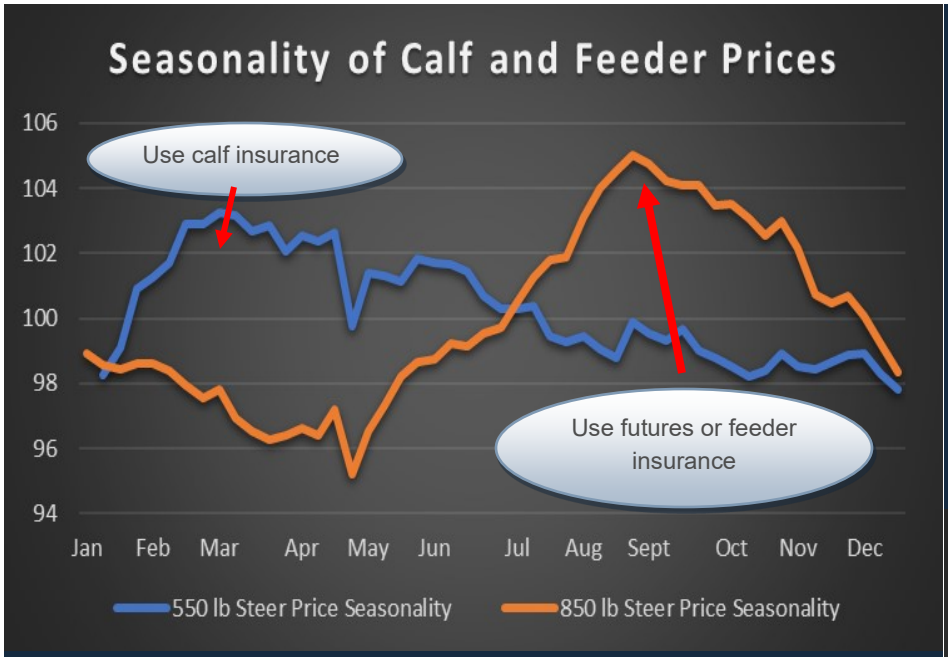
Cows in Control services:

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

Tough and beautiful crocuses, spring is here finally!

In This Issue



How to use a full year hedge strategy for your fall calves...

The Marketing Buzz (May 4)

Canner cows, heiferettes and bulls

Cull cows: **$76-104 (avg. $95 D1)** **Heiferettes: $110-130**

Cull Bulls: **$95-145**

Breds

$1400-2200 bred cows; $1675-2900 pairs

(it's all in how you market your breds and pairs!)

Feeders *(still a strong slide in favour of lightweight feeders...)*

Steers:			Heifers:		
	450 wts	$2.36		450 wts	$2.09
	550 wts	$2.24		550 wts	$1.95
	650 wts	$2.11		650 wts	$1.83
	750 wts	$1.91		750 wts	$1.73
	850 wts.	$1.74		850 wts	$1.61

Slide 550-850: 17 cents/cwt* **Heifer:steer @ 750 lbs: -18 cents**

Finished Cattle

$1.63

Feeder Basis: -6 Finished cattle Basis: +26.8 (futures)

+1.1 (Cash)

(Note: Futures to cash in the US is totally insane. Futures are trading massively far behind cash prices on speculators views of big supply coming and China tariffs as a possibility. Fortunately our feeder market is trading with cash and not the futures!!)

Seasonality of Prices ...

One can look at the traditional seasonality of both steer calf prices and 850 lb feeder prices to determine effective hedge times and which tools to use.

The chart at left shows a traditional seasonality of prices through the course of a year for both light weight calves and 850 lb feeders. As you can see, they differ in the time of year each of them peaks.

As there is a shortage of light weight calves in February and March, this is when prices for light weights peak and generally an optimum time to try to lock in the "slide" or the price differential between light weight and heavier feeders.

Then in August and September, feedlots have positive forward looking margins, empty pens and new silage in the pits, and can't find the feeders they want as many of them are out on pasture. They bid up feeders to their annual peak to get the cattle.

This demonstrates the idea that hedging your calf crop for the fall is a year round event and should be done in tranches.

Though not always the same every year, one could say to use calf insurance in the Feb-April period and leave some of the hedging open until the summer months when feeders generally peak to use futures or options to hedge your remaining calf prices.

Perhaps a third tranche would be between those two points.

We are always looking at value opportunities between futures and insurance, this is an illustration of one tool you can use.

Cool little Bobcat passing through...

Cattle Prices...

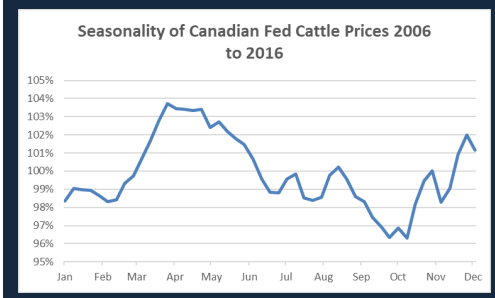
We will do our best to indicate trajectories of cattle prices with the charts, but unfortunately no one has the "crystal ball" to do so accurately.

Since the peak in feeder prices last November, the feeder market has been bouncing lower on account of increasing amounts of placed cattle in the US.

Placements have peaked and actually subsided in the last month or two, but the heavy placements prior to March created what the speculators see as a "wall" of cattle to start coming through the system beginning in June through likely October of this year.

Futures have responded to this possible supply bulge with the rapid sell off in futures we have witnessed in the last 6 months, but the cash market is not so pessimistic, and the worst may be behind us.

Cash prices have held up well as can be seen by Canadian feeder prices at right, and so have finished prices with cash prices trading 26 cents higher than the live cattle futures! That is a huge basis that will have to be "normalized". By normalized we mean either futures need to rise or the cash market will come down or both until that basis is zero.



The seasonality chart inset shows the annual seasonality of fat cattle in Canada (similar in US). Prices generally peak here in April/May and drift lower into October. We think this will be the trajectory for cash prices for finished cattle, though if you look at the chart lower right, there is a chance futures may hold or churn sideways. This makes it tough to hedge using futures.

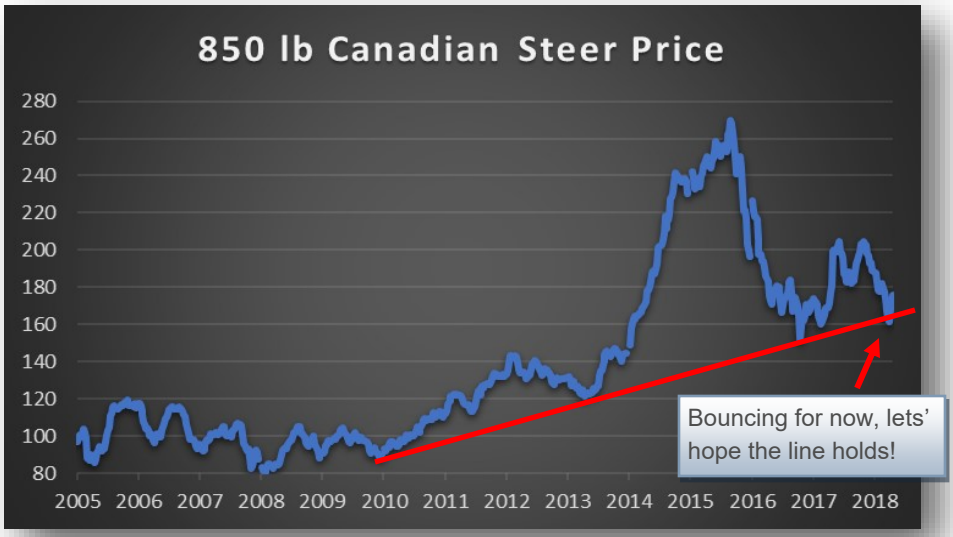
As the placement "glut" has already gone through, we do not feel feeders will be as susceptible to a price drop as the finished cattle.

Give us a call to discuss strategies

Charts with some expectations of future direction...

Weekly Feeder Futures

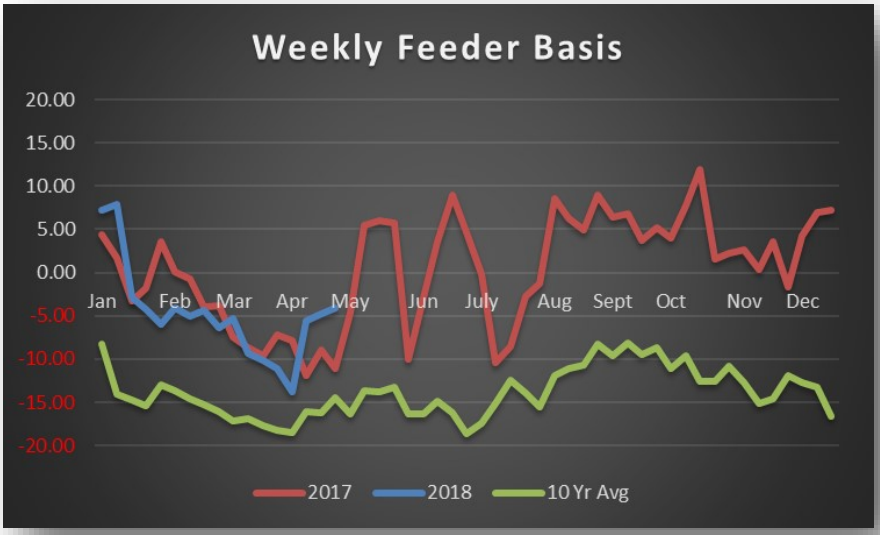
Canadian Feeder Prices



Live Cattle Futures

Basis…

It looks like the feeder basis has turned from its lows in early April and, in step with 2017, are headed higher into May, the "grasser" month of feeder buying.



Regardless of what happens with overall feeder prices, we can assume from this chart that basis for now should be stable to higher based on past performance. Of course, any border disruptions or NAFTA issues can alter this.

As far as finished cattle, June futures in the US are trading over $20/cwt back from cash prices as there is a disconnect between expectations of higher supply coming and possible China trade tariffs on finished cattle. June is only 3 weeks away! Are finished cattle going to drop 20 cents in that time? Let's hope Chicago is wrong and the cash market holds!

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

Thoughts on the industry

This is a weird time to try to figure out price trajectories as so much is in motion right now. Government is the great wrecking ball of pure markets for private enterprise through its tariffs, taxation and regulation, and the ball is a swingin'.

NAFTA is getting closer to resolution and so far, country of origin labelling has slipped out of conversation which is good. If supply management comes back to the table we may see some dairy cows hit the market in the case that supply quotas were unwound, but so far it has been quiet on that front.

CETA is limping along at the speed of government as well, and may offer some hope for increased quotas to Europe which would be great for our market, quotas have already expanded so far as a result of CETA.

China/US trade tariffs are the wild card right now. Though not much beef has gone from US to China, it was the promise of that market opening up that has created some excitement to the beef industry that is now slowly dissipating. We don't know how serious the trade war will get or if it is just smoke, but it is a risk we must consider all the same. Brazil is coming out of its corruption scandals in time to step up to the plate to fill the holes as is Australia who may be having another drought liquidation.

Barley prices in Canada have skyrocketed due to a lower currency and this grain backlog on the rails. Silly pipeline disputes are plugging our rail systems with oil instead of grain. Corn is getting tougher to get into Canada on the rails and feedlots are scrambling to line up barley that is less readily available than it used to be. This is making Canada quite uncompetitive from a cattle feeding perspective, which should keep our finished cattle prices relatively high, but we may lose a feedlot or two in the process, and definitely it is going to be more costly to feed looking forward. We need to get more barley in the ground this spring, grow our feeder supply in Canada, and send a few pipeline protesters home or we may start losing some infrastructure.

There looks to be blue sky on the horizon for beef prices but we may have a tough summer to work through before we get there. Make sure you get your calves hedged at the $2/lb level or more, and adjust your budgets for high feed prices, higher equipment costs due to potential tariffs, and higher interest rates to come.

Take care out there — RC