COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter February 2019

We don't need higher beef prices, ranchers need margin

Golly is beef expensive to buy! Is $25 a steak feasible for the average daily meal? Meanwhile our beef cutout value (value to the producer) is only $2.70/lb. Hmm. Do we really need more protocols and retail beef promotion or is it a margin issue that is causing cattle inventories to continue dropping? As producers, how do you feel about your risk to reward ratio of calf sale revenues to cost of production including capital costs? Are we as an industry focusing on the right questions?

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 had rather be on my farm than be emperor of the world."

- President George Washington

It is great that consumers are trying to reach back to the ranch direct, this may be the answer to low producer margins p.s. Please get CFIA on board with the idea

In This Issue

Collapsing Canadian Dollar...

The Marketing Buzz (Feb 22)

Canner cows, heiferettes and bulls

Cull cows: $65-90 (avg. $82 D2) **Heiferettes:** $110-140

Cull Bulls: $88-130

Breds

$1300-2550 bred cows;

(quite a spread, comes down to how you market them)

Feeders *(feeders holding steady to sideways for now)*

Steers:			**Heifers:**		
	450 wts	$2.35		450 wts	$2.02
	550 wts	$2.21		550 wts	$1.91
	650 wts	$2.02		650 wts	$1.79
	750 wts	$1.89		750 wts	$1.73
	850 wts.	$1.79		850 wts	$1.64

Slide 550-850: **14 cents/cwt*** **Heifer:steer @ 750 lbs:** **-16 cents**

Finished Cattle

$1.48

Feeder Basis: -11 Finished cattle Basis: -20! (futures)

-17 (Cash)

(Note: finished cattle basis has turned strongly negative. This is a caution towards feeder and calf prices looking forward)

No bets on the Loonie ...

The Loonie does not like Liberal and socialist governments. It doesn't like deficits and it doesn't like low oil prices. It doesn't like trapped oil and gas assets, it doesn't like a high US dollar and it also doesn't like uncertainty.

All of these things have driven the Loonie down in the last year to the point that the uptrend from 2016 lows has been violated.

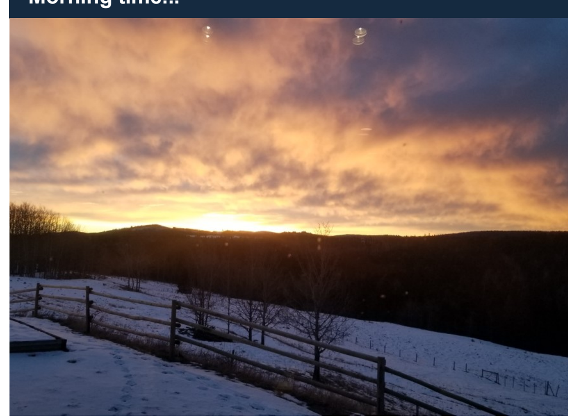
On the chart left you see the uptrend the Loonie was in between the red lines, and the shorter term down trend between the blue lines.

The market recently drove up from 73 cents to 76 cents but hit its head on that lower red line near 76 cents. It looks like from this chart that the trajectory is still lower.

The two outside markets to watch for more direction are the US dollar and oil. The US dollar index is struggling to break above 87 cents right now, but if it does, we could see further weakness in the Loonie. Oil has recently had a major sell off but is holding its uptrend which is positive for the Loonie.

The # issue that is going to make the Loonie interesting is that Alberta and the Federal governments are having elections this year. If we get a conservative government in Alberta and a Conservative government in Ottawa, the Loonie could spike this year. Every 5 cents higher in the Loonie is $130/hd off the value of your feeders! Stay tuned...

Morning time...



Fed Basis and Calf Prices...

When you calculate the difference between Canadian finished cattle prices and US finished cattle prices in Canadian dollars, you get something called Fed Cattle Basis.

We bring this to your attention because it could be a significant factor affecting fall calf prices.

On the top chart at right we have a graph of the present basis levels vs. historic norms. Canadian fat cattle are trading near 20 cents cheaper than their US counterparts. You can see the steep drop off in basis since January.

I have drawn (red dotted line) what basis could look like if it follows historic pattern from these levels.

The middle table are 550 lb calf prices derived by taking the finished cattle prices in Canada and working back what a feeder could afford to pay for 550 lb steers using various costs of gain.

If we return to near zero basis levels like we have seen the past few years, calf prices would be in the $2.10-2.20/lb range.

If we stay at the present –20 basis range, you can see feeders can only pay $1.60's to 1.80's/lb for calves in order to break even.

This is why we watch factors such as basis because it can have huge effects on potential calf prices in the fall.

The bottom chart is the 15 year average seasonality of Canadian Fed Prices. Finished cattle are trading at $1.48/lb today. If we use this seasonality chart as a guide, finished cattle could drop to $1.40/lb by the fall.

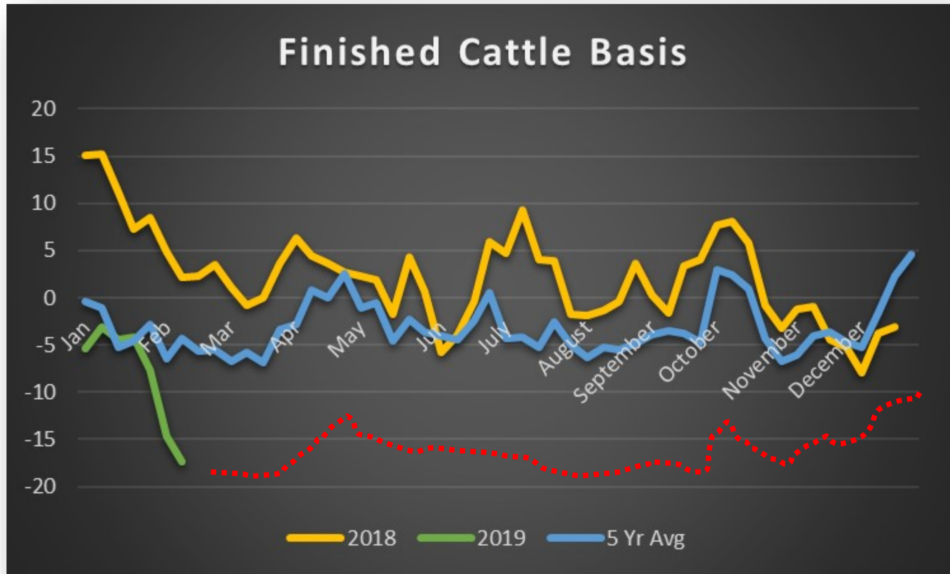
Using WLPIP calf insurance or other methods we can hedge 550 lb calf prices $2.05-2.10/lb right now.

For 4 or 5 cents you could protect a possible 30 to 40 cents of down side risk.

If this basis condition persists, then those hedge prices will look pretty good by October.

Using futures and basis to estimate calf prices...

Canadian to US Fed Cattle Basis



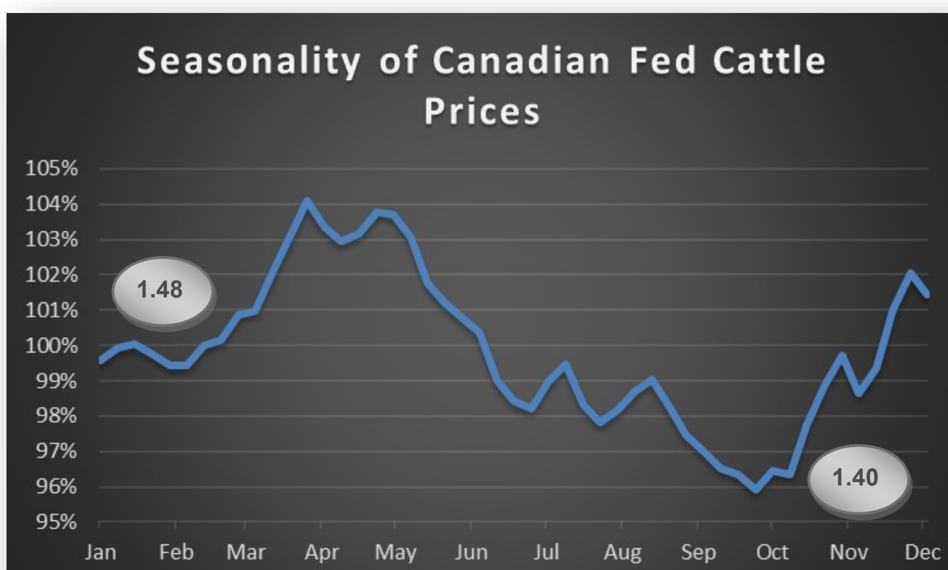
Breakeven 550 lb Steer Price based on Live Cattle and Cost of Gains

Zero basis

Cost of Gain	CDN Live Cattle Price $ 1.25	$ 1.30	$ 1.35	$ 1.40	$ 1.45	$ 1.50	$ 1.55	$ 1.60
$ 0.85	$ 1.87	$ 2.00	$ 2.12	$ 2.25	$ 2.38	$ 2.50	$ 2.63	$ 2.76
$ 0.90	$ 1.79	$ 1.92	$ 2.05	$ 2.17	$ 2.30	$ 2.43	$ 2.55	$ 2.68
$ 0.95	$ 1.71	$ 1.84	$ 1.97	$ 2.10	$ 2.22	$ 2.35	$ 2.48	$ 2.60
$ 1.00	$ 1.64	$ 1.76	$ 1.89	$ 2.02	$ 2.15	$ 2.27	$ 2.4[illegible]	$ 2.53
$ 1.05	$ 1.56	$ 1.69	$ 1.81	$ 1.94	$ 2.07	$ 2.20	$ 2.32	$ 2.45
$ 1.10	$ 1.48	$ 1.61	$ 1.74	$ 1.86	$ 1.99	$ 2.12	$ 2.25	$ 2.37
$ 1.15	$ 1.40	$ 1.53	$ 1.66	$ 1.79	$ 1.91	$ 2.04	$ 2.17	$ 2.30
$ 1.20	$ 1.33	$ 1.45	$ 1.58	$ 1.71	$ 1.84	$ 1.96	$ 2.09	$ 2.22
$ 1.25	$ 1.25	$ 1.38	$ 1.50	$ 1.63	$ 1.76	$ 1.89	$ 2.01	$ 2.14

-20 basis

Seasonality of Canadian Fed Cattle



Seasonality of calf prices…

This is a 15 year average seasonality chart of 550 lb steer calves.

There is always a shortage of light weight calves in Feb/March which accounts for the peak in March, and May/June is the grass cattle buying market, also another peak period for light weight calves.

Both of these time periods are great times to be pricing your fall calves through forward sales, insurance or other hedge methods.

Notice the worst time to be pricing your calves, October through January, traditional weaning and calf marketing time for most producers.

At Cows in Control, our goal is to help you price at the highs of the year no matter when you choose to wean and deliver to market

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

Thoughts on the industry

Do you feel like you are getting ahead in the cattle business?

It feels like something is structurally wrong with our industry. When I walk into a grocery store, I am thankful that I am a rancher and can eat the animals I raise, because I know I can not afford to pay $25 for a steak in the store.

When I look at the cattle business in general, I see record exports and high beef prices at the store level, but I sure don't feel wealthier or see abundant wealth or growth in our industry as a response to these high prices. Where is the disconnect?

Something is wrong, record high beef prices and our inventory numbers are dropping? The problem is not the industry's ability to sell beef, beef sales are fine. It is how much of the margin is going to those with the most capital risk, the producers.

Many producers have gone the route of producing seedstock to boost margins. So far it has worked for many as the dichotomy between purebred and commercial prices would demonstrate. Advertisers are sure doing well. When you pick up the Angus, Simmental and other seedstock magazines, they are as thick as a phone book with producers selling seedstock. When do excessive numbers of seedstock sellers saturate the market and commoditize prices for quality seedstock as well?

Other than the few and far between successful ranch-to-retail programs, how does the average producer get tapped into the values received at retail? Is this a packer issue, or are the barriers to entry for ranch to retail too difficult? (hello CFIA?)

There are natural, organic and sustainable premiums but for the most part they hardly cover the extra cost of following the protocols they entail. They are important for consumer confidence, but don't necessarily add to producer margins. For now, all we at Cows in Control and fellow producers can do is lock in the highest prices available, but we urge the industry to start thinking outside the box of checkoffs, more protocols, and boosting retail prices, and start thinking about some bigger solutions that push post -production margins back down to the producers' benefit. I guess that is yours and my challenge.

Take care out there —- RC