

# THE BOTTOM LINE

December 16, 2015

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## Looking Ahead to 2016...

With this being the last edition of *The Bottom Line* for 2015 we will wrap up the year with our traditional glance forward at what the coming year might hold in store for the cattle markets. The past year has been a phenomenal ride with record highs well beyond expectations followed by a drastic downturn in the markets to end the year. While tight supplies and strong beef demand were the drivers for over half the year the tide quickly turned to a backlog of market-ready cattle, record high carcass weights and ample meat supplies. Although 2015 is ending on a bearish note it is important to remember we are coming off of unprecedented highs. Moving forward into 2016 it is clear that the price highs of the cycle are now behind us and the downturn in the market has begun.

**Fed Cattle:** Fed cattle prices have been under considerable pressure for the last half of the year trading down almost \$50 per cwt from the record highs of over \$203 per cwt in June. Building market-ready supplies and record carcass weights quickly caught up with the fed market and this combined with wavering demand has kept a lid on any year-end rally from grabbing hold. Volatility in the futures market has also weighed heavily on the cash market. Looking forward fed cattle prices are expected to struggle through much of the first quarter as cattle feeders try to regain currentness. Improved demand late in the first quarter and into the all-important second quarter should create some support before prices follow the more traditional seasonal path lower into the summer. Based on current estimates, fed cattle are forecast to average near \$150 per cwt for the year.

**Feeder Cattle:** Feeder cattle prices are also ending 2015 on a very bearish tone as eroding margins in the cattle feeding sector are forcing buyers to reevaluate their buying strategies. As the fed market continues to struggle moving into 2016 lower feeder prices into the first quarter can be expected before some renewed strength grabs hold. That being said, producers need to readjust their expectations as the sharp sustained week over week price increases of the past couple years are most likely behind us. Annual price averages are expected to be similar to those of 2014 with 500 – 600 lb steers projected to average near \$240 per cwt on the year.

**Non-fed Cattle:** Slaughter cow prices also traded sharply lower in the last few months as consumers shifted away from record high ground beef to cheaper pork and chicken. Non-fed slaughter prices are expected to follow a traditional seasonal trend with improved demand moving into the second quarter creating some renewed price strength. Slaughter cows are currently forecast to average in the \$100 - \$110 per cwt range for the year.

As with any price forecasts, there are unforeseen factors that can and will alter these predictions as we move through the year. Volatility will continue to be a key challenge that will need to be managed. Keeping up-to-date on current market fundamentals and applying this to your marketing strategies is the key to maximizing profit potential.

*Wishing you a very Merry Christmas and a Prosperous 2016!*

## Last Week in Review

|                           |   |           |
|---------------------------|---|-----------|
| Jan Feeder Cattle*        | 🔴 | \$148.53  |
| Dec Live Cattle*          | 🟢 | \$120.30  |
| Mar Corn Futures (\$/bu)* | 🔴 | \$3.70    |
| Lethbridge Barley (\$/bu) | 🔴 | \$4.85    |
| Canadian Dollar*          | 🔴 | \$0.7254  |
| West Cdn Auction #s       | 🔴 | 81,655 hd |
| AB Feeder Steers (5-600)  | 🔴 | \$248.50  |
| AB Feeder Steers (7-800)  | 🔴 | \$212.67  |
| West CDN Fed Steers       | 🔴 | \$155.00  |
| US Fed Steers*            | 🔴 | \$118.15  |
| CDN FI Slaughter**        | 🔴 | 49,494 hd |
| D1,2 Cows                 | 🔴 | \$100.83  |
| Feeder Exports**          | 🟢 | 1,830 hd  |
| Fed Exports**             | 🟢 | 5,502 hd  |
| USDA Choice Cutout*       | 🔴 | \$196.90  |

\*US dollars

\*\* Week ending Dec 12

MARKET  
MOVEMENT

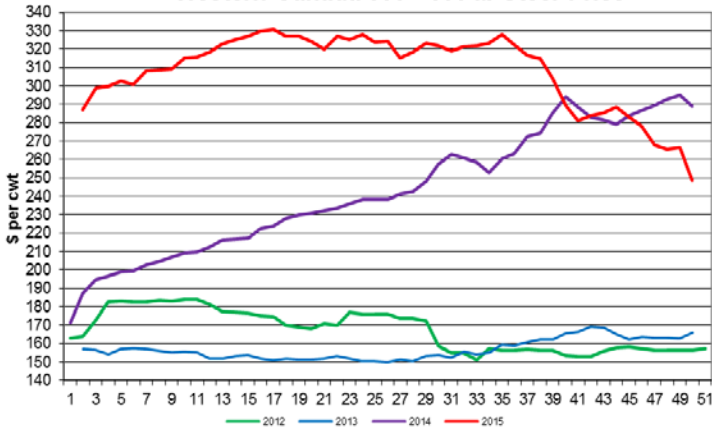
## WHAT TO WATCH

**Please Note:** *The Bottom Line* will not be published over the Christmas holiday season. Watch for information in the New Year on the changes coming for 2016.

The week of December 16 – January 6:

- ☑ Late Tuesday the Omnibus Bill was filed in the US House and thankfully the bill includes the repeal of COOL for beef and pork. The bill now moves to the House and then on to the Senate to be passed before the legislation can be repealed. This is a very positive step forward but the next few days will be key to ending the lengthy and costly COOL saga for Canadian producers.
- ☑ After the dramatic volatility that has been experienced across the cattle complex in the last quarter of 2015 many are looking forward to the traditional market slowdown that comes during the holiday season. That being said, the New Year is expected to experience much of the same volatility that we end 2015 with so enjoy the Christmas break and buckle up for 2016.

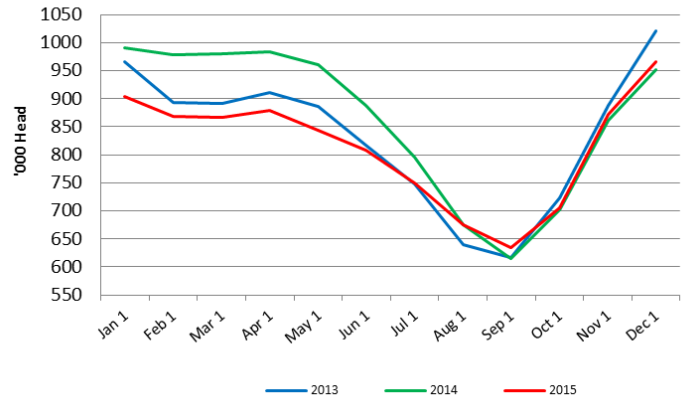
## Western Canada 500 - 600 lb Steer Price



Data source: Canfax

At a time when the feeder cattle market traditionally experiences some renewed strength due to year end buying prices collapsed across Western Canada last week. Lightweight calves traded \$25 per cwt lower from the previous week and are now almost \$35 per cwt below the same week last year. Steers weighing 500 – 600 lb were down \$20 to average below \$250 per cwt while heavier steers traded just over \$10 per cwt lower. With just a few sales left before the Christmas shutdown prices are expected to close the year at these price levels.

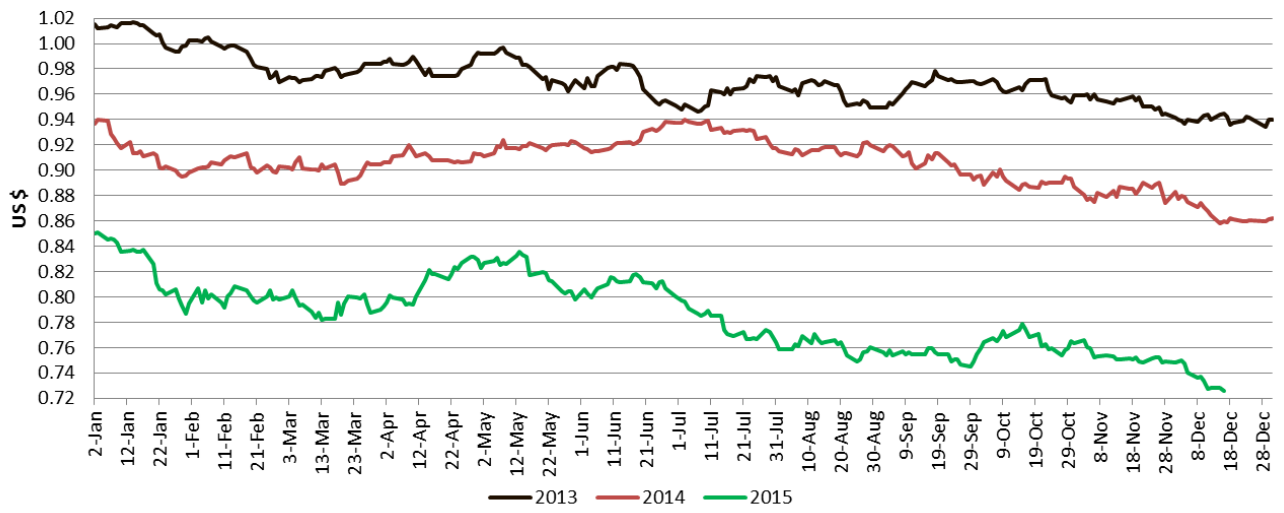
## AB/SK Cattle on Feed Inventory



Data source: Canfax

On Friday Canfax released its Alberta/Saskatchewan Cattle on Feed report for December 1 and inventories were 2 per cent larger than a year ago. Placements were up 4 per cent in November compared to 2014 while marketings were 5 per cent larger in November 2015. Although placements are above year ago levels they are 19 per cent below the five year average. Although on feed inventories are larger some of this is likely due to the slower turnover and increased market-ready supplies.

## Daily Canadian Dollar



Data source: Bank of Canada

The Canadian dollar continued to drop further over the past week dropping down to US\$0.7254 on Wednesday following the US Federal Reserve interest rate hike. This combined with the recent collapse in oil prices has brought the Loonie to an 11 ½ year low. The currency is now down 15 per cent from December 2014 and the annual high of US\$0.85 recorded at the beginning of 2015.