COWS IN CONTROL Inc.

# THE WATERTROUGH

**Cows in Control Newsletter** **August 2021**

## Elections and subsidies...

"*A democracy is always temporary in nature; it simply cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years. These nations have progressed through this sequence: From bondage to spiritual faith; From spiritual faith to great courage; From courage to liberty; From liberty to abundance; From abundance to selfishness; From selfishness to apathy; From apathy to dependence; From dependence back into bondage*."

- A l e x a n d e r F r a s e r T y t l e r (circa *late 1790's*)

## 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**

*"And so we shall have to do more than register and more than vote, we shall have to create leaders who embody virtues we can respect, who have moral and ethical principles we can applaud with enthusiasm"*

*~ Martin Luther King Jr.*


***Ok, that's funny no matter how you vote!….***

## In This Issue

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- Making sense of today's cattle prices
- To the moon...
- Thoughts on the industry


**Feeders finally breaking out...**

# The Marketing Buzz **(Aug 20)**

## Canner cows, heiferettes and bulls

**Cull cows:** **$60-84 (avg. $77 D2)** **Heiferettes:** **$110-140**

**Cull Bulls:** **$95-130**

## Breds

**Pairs: $1500-1900**

## Feeders *(Canadian feeder prices are holding highs)*

| | | | | |
|---|---|---|---|---|
| **Steers:** | **450 wts** | **$2.39** | **Heifers: 450 wts** | **$2.05** |
| | **550 wts** | **$2.23** | **550 wts** | **$1.91** |
| | **650 wts** | **$2.09** | **650 wts** | **$1.85** |
| | **750 wts** | **$2.01** | **750 wts** | **$1.80** |
| | **850 wts.** | **$1.92** | **850 wts** | **$1.73** |

**Slide 550-850**: **10 cents/cwt** **Heifer:steer @ 750 lbs:** **-21 cents**

## Finished Cattle

**$1.53 live; $2.53-2.60 rail**

Feeder Basis: **-12** (futures) Finished cattle Basis: **-7** (futures)

**-8** (cash) -5 (cash)

*(Note: Basis levels are now back to long term average levels rather than skyhigh positive levels we saw earlier this year)*

# Holding beach balls under water...

Feeder futures have been stuck like a beach ball being held under water since 2016. Numerous time they have tried to breach the 160 level which is around $1.90-2.00/lb for an 850 lb steer in Canada.

We may have finally breached that 160 level, perhaps not on nearby futures, but as August feeder futures roll off into September, we certainly will. October and November futures are around the 170 level which puts an 850 lb steer at around $2.08/lb for that time period here in Canada.

The longer a market is suppressed, the more violently it will rebound when it breaks out. As you can see on the graph top left, there is very little technical resistance until 195. 195 equates to around $2.40/lb for 850 weights or around $2.70/lb for five weight calves.

Beef cutout prices are at all time record highs, exports are 15% or more over normal levels, cow inventories are shrinking, US cattle on feed is down 2% from last year, and quite frankly, every other ag commodity has doubled or tripled in the last year except cattle. Its cattle's time to move.

There is a caution however. Drought. If dry conditions continue to affect grain production in the US and Canada to the point where excessive amounts of cattle are liquidated, or feeding costs rise dramatically, it could hamper the trajectory of our feeder prices.

The way to hedge against drought is either, LPIP, forward contracting or hedging cattle by going "long" grain prices. LPIP can be expensive but is effective against local drought pricing concerns. Forward contracts get you today's prices for the future, but put a ceiling on your upside. Going long grain can be a very effective way to hedge drought risk on cattle.

**Dream big!**

# Making sense of today's cattle prices...

Like the feeder cattle charts on the previous page, live cattle futures representing US slaughter cattle prices are also breaking out of their 6 year down trend.

Most of that is driven by the beef cutouts which are running at all time high levels for this time of year as can be seen on the middle chart, well above long run averages.

With cutouts at $348/cwt, if we use historical packer kill costs, a fat steer in the US should be $1.86/lb not $1.25/lb where it is now. Packers in the US are pocketing around $900-1000/head margins.

If we convert that to Canadian, with the current cutout values and if packer margins were at historical levels, fats should be $2.30/lb not $1.50/lb. That is $1120/fat steer more. That is what we call packer "leverage". When there is a plenty supply of fat cattle and hot beef demand, they have all the leverage.

As fat cattle supply starts to dry up, feedlots will gain leverage once more. By the looks of the April live cattle chart at bottom, it appears that perhaps that leverage is beginning to shift towards the feedlots.

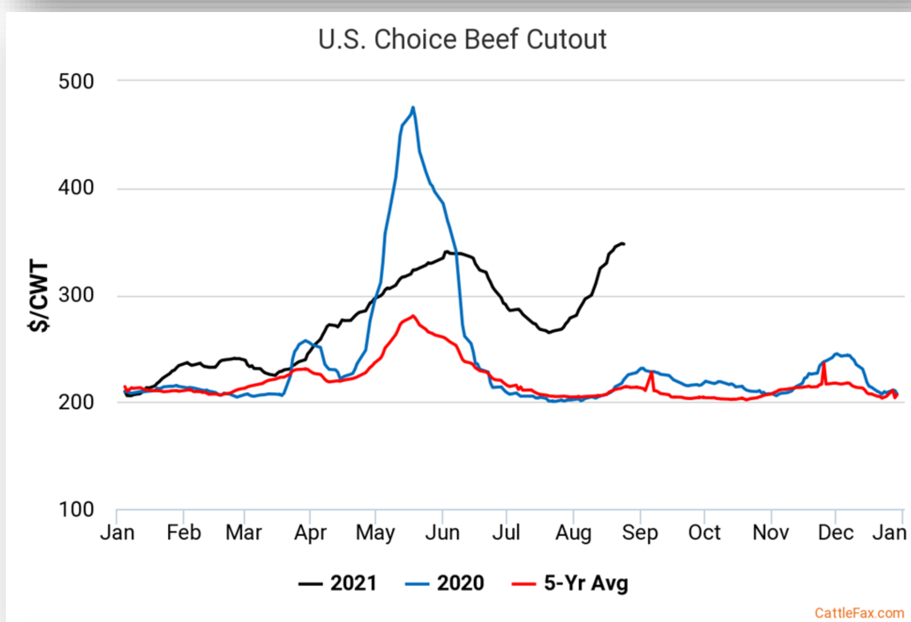
With April live futures at 142, that suggests Canadian fat cattle will be around $1.78/lb by April. Using a $1.50/lb cost of gain, that justifies an 850 lb steer price break even price of $1.96/lb this October.

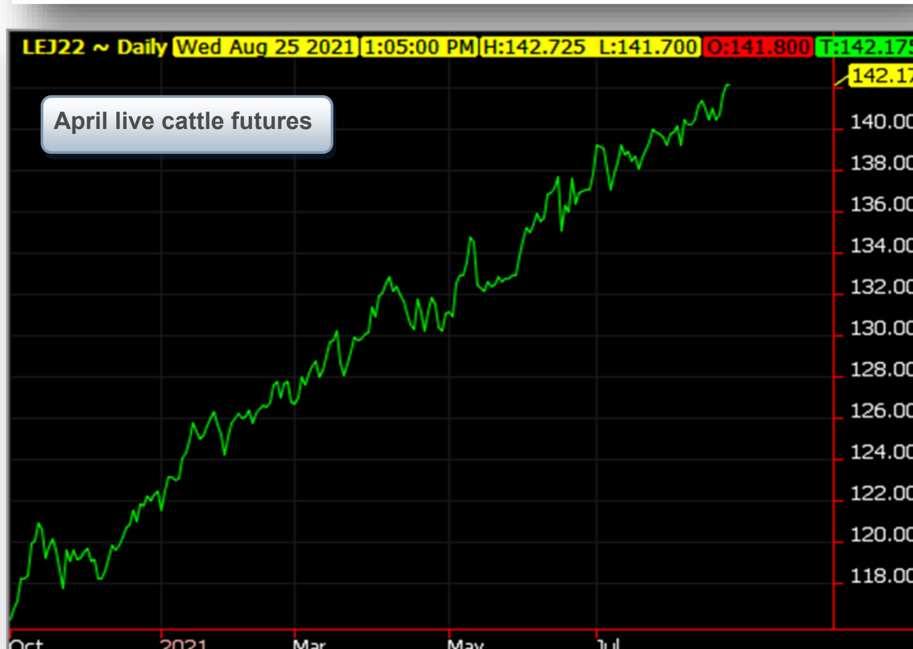
October feeder futures are predicting around $2.05/lb for an 8 weight steer just a bit over the break even.

Either price suggests a five weight calf should be $2.25-2.35/lb, again drought dependent. A 25% cow cull could add 300,000 extra cows in to the system creating backlogs and packer leverage again (compare backlogs during Covid of 130,000 in Canada)

Drought can cause backlogs, beef prices could fall, but there is plenty of margin room to be absorbed by producers as we gain back our leverage as the cow herd dwindles.

We are in a bull market...

## To the moon...

Will you have a look at this long term barley chart? The great grain rallies of 2008 and 2012 are paled in comparison to this doozy of a grain rally. Barley is well over $9/bu as we write which doesn't bode well for feeding margins and cattle prices should it continue.


Corn could be the salvation to the short crops we have here in Canada assuming they get a good crop off down there. December corn futures are only trading $5.50/bu USD while it is $7.65/bu USD here in Canada and even $6.50/bu in Nebraska. If rising corn prices could hurt cattle feeding margins and prices, doesn't it make sense to hedge cattle by going long corn?

These are strategies we employ with our clients.

## 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...I WILL PROVIDE GRASS IN THE FIELDS FOR YOUR CATTLE, AND YOU WILL EAT AND BE SATISFIED." - DEUT. 11:13



# Thoughts on the industry

I couldn't resist putting the quotes on the first page about governments, elections and democracies in general as we have an election coming up in our country and are awaiting drought relief subsidies. Now that the money spiggots are open, governments are like a rich uncle buying us candies except with our own money.

This drought has been a killer for many and is extremely sad for ranchers who have had to liquidate. In the US, they have subsidized their producers to the tune of $30/head per month. Now our government is forced to buck up or we are at an immediate price disadvantage to our southern neighbours. It is a race to nowhere.

We have heard tales of Montana ranchers buying up Alberta hay while our ranchers are scrambling, unsubsidized at this point to find their own supplies. It is artificially induced inflation in our hay market. Likely our own $200/head subsidy will also create a similar add-on inflation as Canadian producers now hit the markets (in US and Canada) with government funds to buy feed. $200/ton hay may now go $300/ton, is that helping?

The stock market has gone straight up since the government money printing during Covid, which has created such huge wealth and demand for goods that we now have global shortages and backlogs. This is government induced inflation once again that affects the cost side of our operations. Purchasing power has dropped again. Did that help?

As an industry, we need to be very careful about what level of subsidization we want to operate in, and it needs to be coordinated with the US or we will get imbalances like the Montana hay buyer situation. Sadly the government gets to choose who gets the money, so it is usually dictated and seldom balanced or fair or even good for the long term.

Lets find creative ways to help those affected by drought, and continue to focus on creating an industry that doesn't need AgriRecovery to survive. If we cant survive without it, we should be changing the business. The industry in the past survived tough times by innovating and neighbours working together when in need. Innovation, sound management, managing risk, involving youth, and managing debt levels, not European style subsidization. Take care — RC