



THE WATER TROUGH

Cows in Control Newsletter

December 2023

Merry Christmas!

What a year of price increases we have seen this year! Calf prices have risen 40% on the year. Bred heifer prices rose from \$2300 to \$3500 on average for the year. Not bad. Drought has been an issue, feed costs are high, but we will continue to pray for moisture this year. Governments have been fear mongering about methane burps, but beef demand is at all time highs suggesting not to believe all the negative hype out there about these cows. They keep grass intact that sinks carbon and they feed us while preserving grasslands, wildlife, water, and other flora and fauna by their very existence. Let's hope this year is the year of celebrating the cow and her faithful stewards.

"In His name, the nations will put their hope "

~ Matthew 12:21

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 pricing
- 4) Making sense of the markets

Give us a call for a free consultation



"Cowboy Christmas"

Douglas Wodark

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Wipe out!...

September is the seasonal high period for 850 lb steer prices generally, and it is common for prices to drift lower into October and November during the “fall run” when calves and feeders come off grass and auction volumes rise.

What happened this year on futures was extraordinary however, and caught a lot of people off guard. A years worth of gains were lost.

There has been speculation that the US Livestock Risk Protection program (LRP) which is the US equivalent of our Livestock Price Insurance (LPI) in Canada may have been a factor in the sell off.

As producers buy LRP or LPI to hedge fall prices or backgrounders, the insurance companies take a short position on the futures markets through options to hedge their insurance. This put a huge short position in the market. Possible.

There was also speculation that people had sold put options to pay for their LRP premiums which they got margin called on when prices fell that created a massive sell off. Perhaps.

Packers may have been slowing down their slaughter pace and selling off cattle futures in order to improve their leverage and margins.

Managed money investment funds definitely left their long positions, we know this.

Markets will do what they are going to do, and the higher prices go, the more steep the corrections. That is why we must hedge.

If you bought a put option in September at the highs you would have paid over \$100/head for that position, but each option would have made \$36,000 CDN (\$550/head) in this sell off. It seemed expensive at the time to buy this protection, but look at the payoff!

It looks like this market may be bottoming!

Bowling for Santa...



Was 2023 a total write off?..

The Marketing Buzz (December 15)

Canner cows, heiferettes and bulls

Cull cows: \$105-143 (avg. \$129 D2) **Heiferettes:** \$130-210

Cull Bulls: \$120-235

Breds **Breds:** \$1400-5000 Avg. \$2736

Bred heifers: \$2000-6000 Avg. \$3481 *(quality matters!)*

Feeders *(Red are last December's prices for comparison)*

Steers: 450 wts \$4.30 **(\$2.97)** **Heifers:** 450 wts \$3.53 **(\$2.37)**

550 wts \$3.75 **(\$2.72)** 550 wts \$3.25 **(\$2.25)**

650 wts \$3.44 **(\$2.50)** 650 wts \$3.00 **(\$2.15)**

750 wts \$3.19 **(\$2.40)** 750 wts \$2.87 **(\$2.07)**

850 wts. \$2.99 **(\$2.31)** 850 wts \$2.68 **(\$2.01)**

Slide 550-850: 25 cents/cwt **Heifer:steer @ 750 lbs:** -33 cents

Finished Cattle

\$2.21 live; \$3.68-3.70 rail **(\$1.86 live; \$3.035 rail last year)**

Feeder Basis: +4 (futures) **Finished cattle Basis:** -4 (futures)

+6 (cash) -4 (cash)

(Note: Canadian cattle have been trading far less than US cattle for most of the year due to drought liquidation and packers slowing down, but are now back to par or even above par. We're running out of cattle!)

A look at forward markets...

Forward thinking...

The sell off in futures prices this fall seemed extreme, but at the end of the day, we are still on a bullish trend higher even after the correction.

If we bottom here, it looks like prices will hold the trend line indicated by the yellow dotted line at top right. The green line is a "possible" trajectory. No one has a crystal ball, but the fact that we have such short supply of cattle inventory in North America, the trajectory indicated by the green lines is quite possible.

Markets have not been this over-sold since the Covid 2020 lows, so the odds for a solid bounce here are good (yellow circles indicated overbought/oversold status).

When we look at the projected profits per head by weight class, the heavier weight feeders may have some difficulty turning a profit at this point, but a bounce in futures could reverse this situation very quickly.

The best returns are the light weight cattle that you push through to grass, especially the heifers to breed next summer. If we have \$3500 bred heifers or better like we have this fall, the returns on breeding heifers is quite impressive.

At lower right is the futures projected prices of 850 lb steers in Canada, and what levels you can lock in with options and LPI.

Futures are projecting a seasonal dip into the Feb/March period, but good growth in prices beyond that. Those prices you see beyond May are able to be locked in today, but you will have to pay dearly for the privilege. Long term hedging is very expensive right now. Well over \$100/head hedge costs.

Should we be hedging if we are in a supply shortage situation and possible bull market? Well, just look at what has happened since September. Fundamentals are strong, but technical corrections along the way are inevitable and often violent.

This is the era we are in as prices get higher. Hedge the bounces, be optimistic, and hang on!

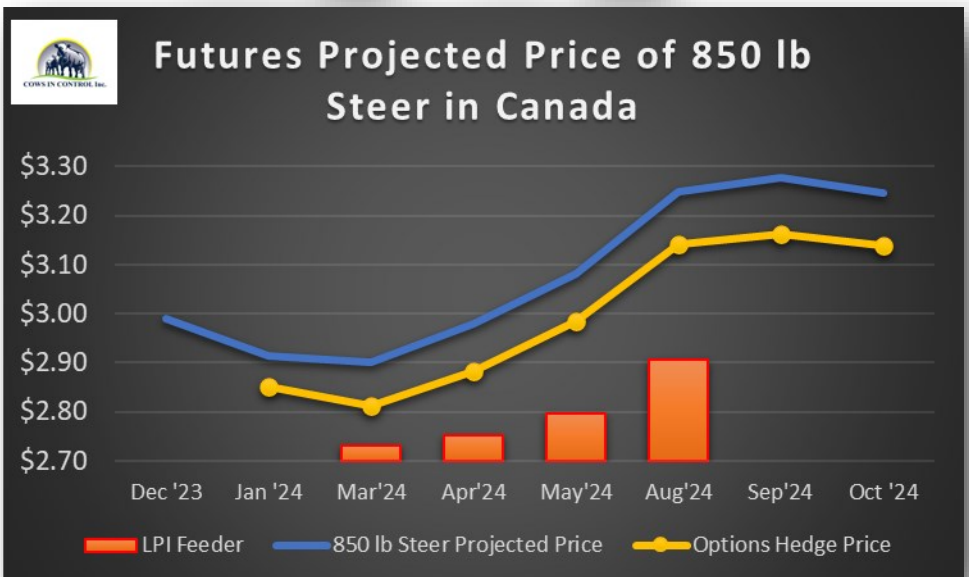


Hedgable Profits/Losses per Head by Weight Class

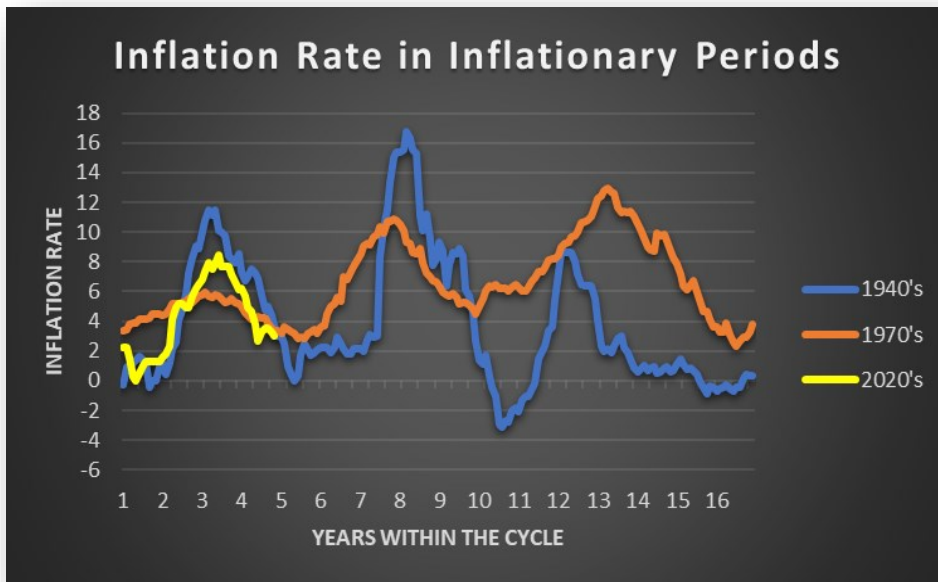
Summary for

December 15, 2023

	Back ground	Finish	Grass	Breed
Steers				
			(2024)	
450 lbs	\$ 239	\$ 254	\$ 338	
550 lbs	\$ 151	\$ 170	\$ 242	
650 lbs	\$ 158	\$ 10	\$ (1)	
750 lbs	\$ 74	\$ (52)	\$ (232)	
850 lbs	\$ (18)	\$ (48)	\$ (273)	
Heifers				
			(2024)	@ \$3500 bred
450 lbs	\$ 244	\$ 306	\$ 383	\$ 937
550 lbs	\$ 52	\$ 153	\$ 206	\$ 732
650 lbs	\$ (17)	\$ 61	\$ 97	\$ 585
750 lbs	\$ (179)	\$ (5)	\$ (89)	\$ 367
850 lbs	\$ (187)	\$ (19)	\$ (50)	\$ 195
Cows				
				@ \$3000 bred
	\$ 62	\$ (171)	\$ (562)	\$ 709
Feeder Basis:	\$ 8.6		Fat Basis:	\$ 0.0



Thoughts for 2024...



Lots of talk these days about inflation and interest rates. We are currently in a disinflationary period within a longer term inflationary cycle. What this means is prices are easing from their super high levels in 2022, but as you can see from this chart, inflationary cycles come in waves.

For now, things like grains, nat gas, fuel, fertilizer, interest rates and other major input costs are dropping from their elevated levels in 2022. This disinflation can last a year or two, but beware the next inflationary waves to come likely due to war, labour costs, or underinvestment in the commodity space in general which will inevitably cause prices of things to rise again at some point. We have an opportunity now to lock in prices on inputs now that things are dropping in price. Think of ways to lock in prices on your inputs for the next 5 years if possible. Take advantage of the weakness!

Cows in Control, serving the cattle producer

Thoughts on the industry

Merry Christmas to all!

Despite the tough sell-off in futures of late, the outlook for the cattle industry is bullish! Demand is projected to be the third highest in history, retail prices are at all time highs. Years of drought, and underinvestment in our industry have created a supply crunch in North America that will materialize over the next year. The cow herd will shrink another 3% this year. Few heifers have been retained in North America as evidenced by the % of heifers-on-feed at 20 year highs. It takes at least 2 years for heifers to be retained and produce a calf, suggesting herd expansion can not occur until at least 2026 if heifers begin to be retained which we haven't seen.

Dairy inventory growth is flat. Yes, the influence of beef-on-dairy in our feedlot supplies as well as drought liquidated cattle has created a supply bulge in our feedlots. We are working our way through it. At some point, likely by the spring we will see cattle-on-feed reports where cattle-on-feed and placements are significantly down, and away prices go again.

Yes, pork prices are cheap, there will be substitution of beef for pork on the retail shelves. Australian and South American beef prices are down, so imports will rise. This is par for course. There are 8-10 major new plant initiatives starting in the US over the next 3 years or so that are going to be itching for supply in a very tight supply environment. Beef sale volumes may drop, expected with our falling herd inventory in North America, but prices should stay elevated as the supply crunch ensues and plants compete for product. Plants will process less cattle, but will be forced to pay up for what supply they get. They will want larger carcasses and fewer head but feedlots will likely sell cattle at lighter weights at high prices to increase turnover. Carcass weights could actually drop. Many plants may not survive this next period, but it will make for some competitive bidding in the interim. This doesn't even factor in the supply tightening when ranchers finally start holding heifers back and drop heifer-on-feed supply by 10% or so as herds get rebuilt.

The discount of heifer to steer prices these days is laughable, we'll wish we loaded up more on heifers at these prices.

—Merry Christmas! — RC

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

Buy, sell, trade or news...

(lots of cows and ranchers will be watching)

THE MARKET CAN BE SCARY, LET US HELP YOU PROTECT THE VALUE OF YOUR HERD



CONTACT US FOR A NO OBLIGATION LOOK AT THE PROGRAM

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FOR MORE INFORMATION ON OUR SERVICES AND TO VIEW OUR SAMPLE NEWSLETTER AND ALERT, VISIT COWSINCONTROL.COM



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Announcements: Industry groups, government or businesses can use this forum to spread news, make announcements, or alert producers

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