COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter **September 2023**

Good news, bad news...

Good news is strong calf and feeder prices, positive feeding margins, upward forward futures prices, softening inflation, for now. Bad news is drought, continuous herd liquidation, aging rancher demographics and as the comedian Rodney Dangerfield used to say "No respect". Bred prices are soft as ranchers are forced to downsize due to drought in one of the most opportune markets in years. We will explore some of the upside and seasonal tendencies of prices from here. It is really time for our industry to explore fresh ideas as we have record prices and yet shrinking producers and cattle numbers. Innovative ideas over more debt and government aid. A time for creativity.

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

"We herd sheep, we drive cattle, we lead people. Lead me, follow me, or get out of my way"

- George S. Patton

What you think of when you sell your $4 calves...

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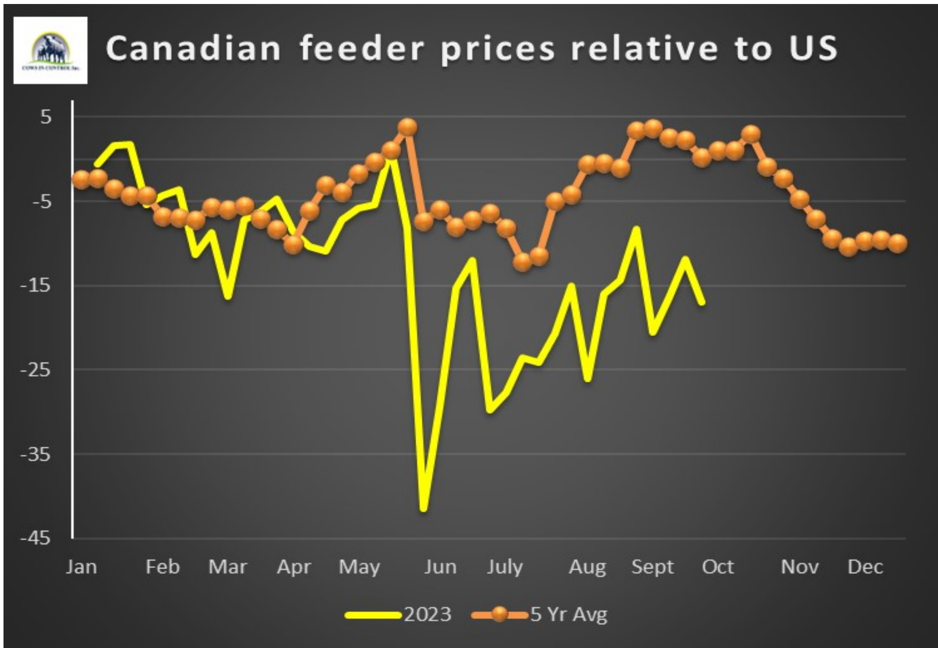


“Cheap” Canadian cattle...

The Marketing Buzz (September 28)

Canner cows, heiferettes and bulls

Cull cows: **$109-140 (avg. $131 D2)** **Heiferettes:** **$175-220**

Cull Bulls: **$150-205**

Breds

Bred cows: $2000-2375 **Pairs: $2450-2700** *(Don’t take this!)*

Feeders

(The steep discount of heifers: steers shows no hold back!)

Steers:	**450 wts**	**$4.48**	**Heifers:**	**450 wts**	**$3.88** *(-60!)*
	550 wts	**$4.00**		**550 wts**	**$3.61** *(-39!)*
	650 wts	**$3.76**		**650 wts**	**$3.33** *(-43!)*
	750 wts	**$3.52**		**750 wts**	**$3.17** *(-35!)*
	850 wts.	**$3.27**		**850 wts**	**$2.98** *(-29!)*

Slide 550-850: **24 cents/cwt** **Heifer:steer @ 750 lbs:** **-35 cents**

Finished Cattle

$2.33 live; $3.90 rail

Feeder Basis: **- 17** (futures) Finished cattle Basis: **-19** (futures)

- 13 (cash) **-16** (cash)

(Note: Canadian cattle badly lag US prices. Perhaps it is all the talk about COOL, or drought, expensive barley, or union discussions at plants, or we still have lots of cattle on feed. Or is it opportunity?)

“Cheap” cattle?...

Canadian feeder cattle prices have been sorely trailing their US counterparts since May. They have been playing a game of “catch-up”, but are still well below normal comparative levels for this time of year.

This graph at left is the difference in Canadian an 8 weight steer prices relative to US prices when priced in Canadian dollars (basis).

Normally we trade even with US cattle this time of year. We are now 15-20 cents back.

The biggest cause of this deficit is drought. Ranchers are liquidating calves, yearlings and breds because they are out of grass, feed or water. Instead of holding out for better prices, ranchers are forced to sell because of conditions on the ranch.

We still have a lot of cattle on feed in Canada, even as the cow herd shrinks. In August, we placed 65,000+ more head than last year for example. Total cattle on feed numbers are 5% higher than the 5 year average. Live cattle imports are up 33% from the US, while exports are down 13%. All this despite a weak dollar. Feedlots in Canada are loading up while margins look good and “cheap” cattle are available.

Expensive Canadian grain relative to US corn, COOL talks, union negotiations at Canadian plants are all reasons for the discount as well. These too shall pass.

The reality is that this could be opportunity. Canadian cattle are 15-20 cents “too cheap”. Livestock Prices Insurance is using a very negative forward basis which makes hedging difficult. However, the conditions that are causing the discount are alleviating as corn flows north, and numbers dwindle. More cows /heifers going to feed is short term pain.

Things will tighten. Hold all things female, if you can. Heifers are especially “cheap”.

Lots of sun in dry years grows good garden corn!

Changing leaves...

September is traditionally a seasonal high period for feeder and grass cattle prices. A good time to forward sell.

Calf prices generally peak in the May/June period and slowly drift lower into the fall run in late fall.

However, in bull market years, the seasonal drop offs are not as pronounced and often don't occur.

So far this year we have done a good job of tracking 2014's massive bull run in prices. The US has almost matched 2014, but because of our drought and weak basis in Canada we have fallen short of 2014 as ranchers are forced to liquidate.

Even in bull market years as we have highlighted in these charts at right, there is generally a "cooling off" of prices this time of year.

Our cooling off period this year seems to have already started and is matching last year's timing for the calf price drop off as we also had drought last year.

Generally, you can expect a flattening to a slight drop in prices from now through until November if history is our guide.

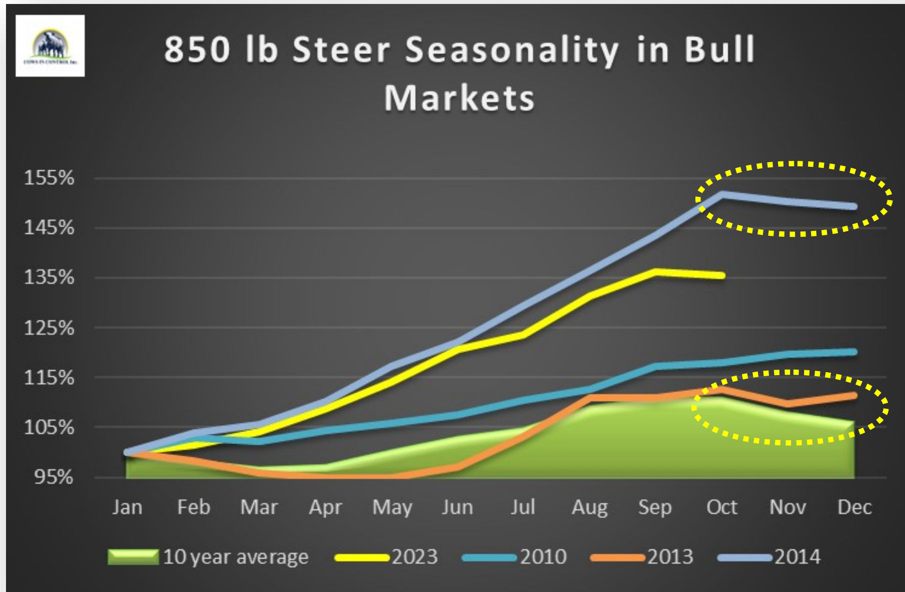
Early January is always a weak period as markets are slow to get rolling again after the Christmas/New Year period. By February calf prices begin to roll higher again as the availability of light calves that time of year tightens up. Heavier feeders have a sluggish time recovering until late spring usually.

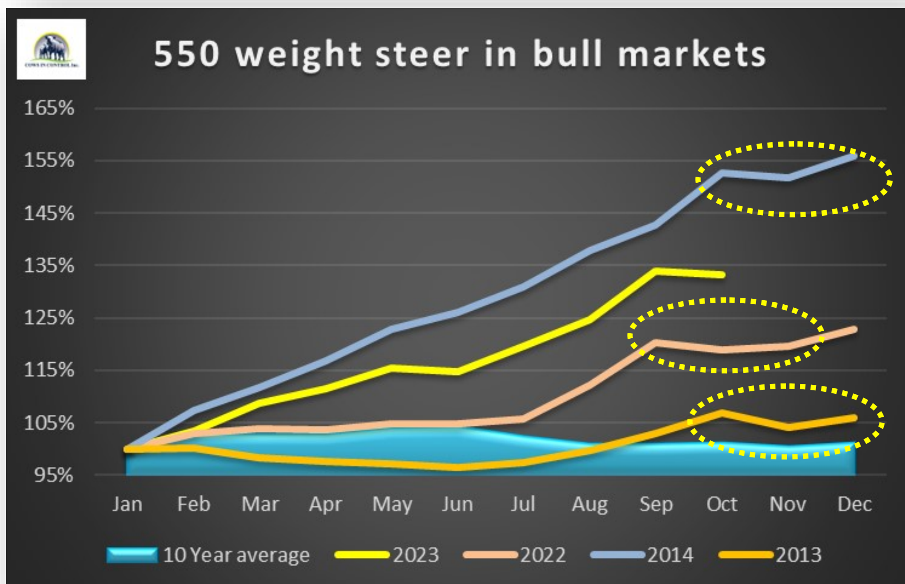
Usually. Forward futures prices are projecting a steady rise from now until next September. Lets hope they are right. They have priced in a dip in October to November but a relative steady climb thereafter.

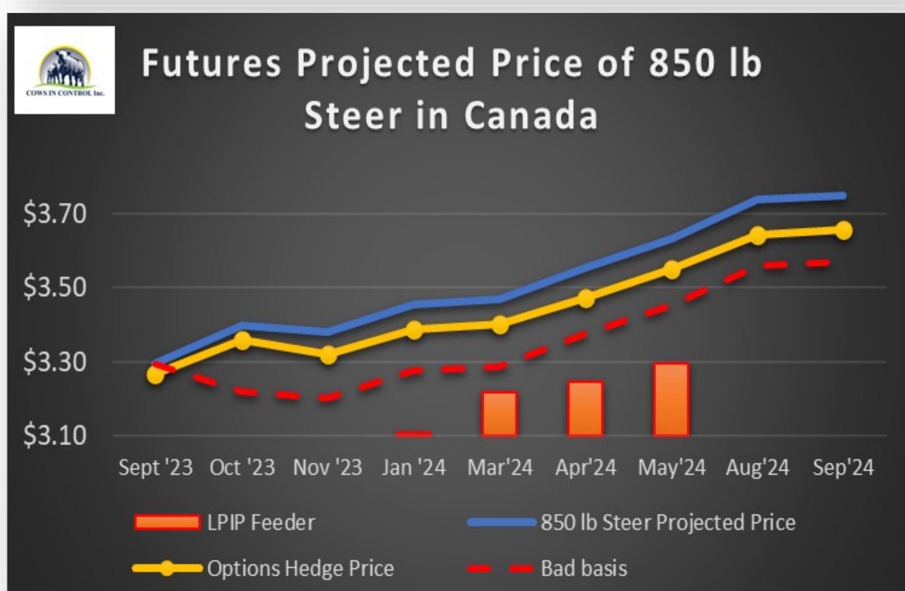
There is opportunity to lock in profits with futures and options even with a bad forward basis. Unfortunately, LPI only locks in flat prices to today as it uses current doomsday basis levels looking ahead.

Hedging is expensive now, but lucrative no matter the tool.

Seasonality...

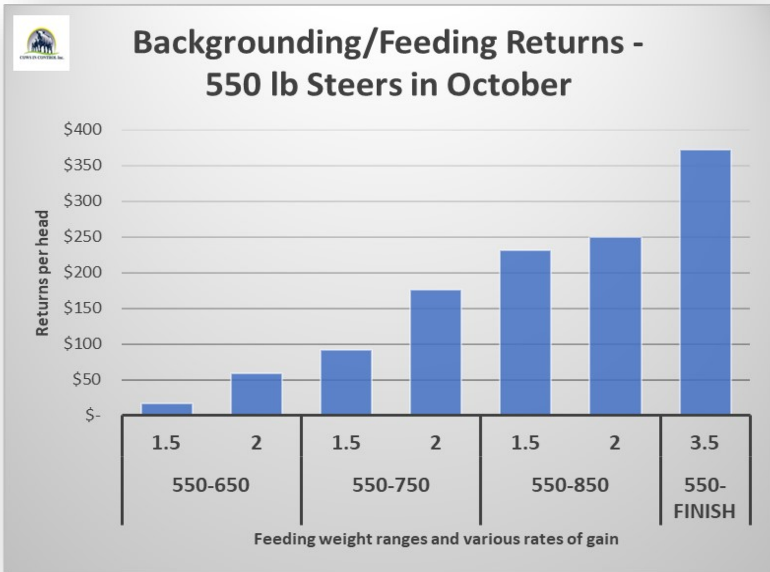






To feed or not to feed...

With the upward trajectory of futures prices going out into next year, right now, the longer you plan on feeding calves, the higher the returns. There are profits you can lock in today on backgrounding and feeding despite how high prices seem to be now.



The challenge our industry faces now, is that a pen of finished cattle is worth $1 million. A $350/head return on 250 head of feeders is about an 8% return before interest. A lot of dollars to invest for essentially a break even after interest.

There are profits to lock in, and backgrounding pencils, but the return on invested dollars is still very tight. To go unhedged on a pen of backgrounders worth $5-700,000 or a pen of finished cattle worth $1M is now high stakes poker! Go ahead and feed, but please cover your downside risk! 5-10 cents of premium cost is expensive but is only 1.5-3% of the total cost of an animal. Markets can move 15-25%.

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 sold a pen load of grass cattle this month and was astounded by the total end dollars. Hooray! Finally a good turn! Somehow, all I could think was, boy somebody has to spend this much money to buy a pen. Yikes.

Calves and feeders have been strong thankfully, Bred prices, not so much. Sad to see bred liquidation into one of the strongest markets on record. Nice to at least see strong calf prices however to flush up the balance sheets on the ranch.

The sheep industry in the US was around 50 million head in the 1950's. It is now about 5.2 million. Newfoundland cod fishermen have had a similar turn following a 30 year moratorium on fishing. Since the moratorium and elimination of cod fishermen, cod numbers haven't shown significant improvement. Less fishermen didn't help, perhaps some innovation might have helped those fishermen besides the dole? Fishing communities, cod, and morale vanished as a result.

A start up rancher spends 20% of their operating costs on either land rent or land mortgage costs. That number will rise as interest rates rise. They are competing against established producers operating on legacy lands already paid for who are themselves struggling. A 20% barrier to entry disadvantage out the gate; why we see few new entrants.

250 cows cost $550,000 to buy at today's bargain prices. 10 acres per cow and $3500/acre land means a scant $8.75 million in land costs to get up to scale where they could make a decent living assuming we can keep $500+/cow margins. About $10 million to get a young producer started to make $125,000/year. 80 year payback. 1% return on investment.

This is why grass is plowed under. Why the herd is shrinking. Ranchers are aging. The cure for poor prices is less supply and higher prices only if consumers can sustain it. It is time to consider other solutions. Are we working on this?

Equity vs. debt solutions for young producers? Lease-to-own or calf share arrangements? More ranch to retail margin opportunities (custom kill space?). Set up a carbon credits/ecological goods and services free market where producers steward the ecosystem and earn income for looking after the land, water, wildlife. High prices are great, but it could take more than high prices to avoid the sheep and cod scenario. Time to think creatively. Take care out there — RC