

# THE WATERTROUGH

Cows in Control Newsletter

January 2024

## Playing the long game...

Cattle producers are producing more beef than ever with less cattle. Thank genetic improvements that allow better weight gain and improve production statistics like calving/weaning rates and such. Thank the removal of carcass weight discounts, as we now feed cattle to nearly 1000 lb carcasses. Thank an abundance of grain and grain by-products. Thank hormones, beta agonists, and other feeding efficiency increasers. Thank 6 million beef-on-dairy cattle entering the system in the last decade. What we aren't producing a lot more of however is producers and forage lands. This is the rub that will keep higher prices for longer and a reason to dig in to this business.

*"Government does not solve problems; it subsidizes them."*

*- Ronald Reagan*

### 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



### In This Issue

- Marketing Buzz
- Slow motion
- Bright lights
- Food or fuel?
- Thoughts on the industry

*"Global warming? All we have to do is burp more? That's a bad thing?"...*



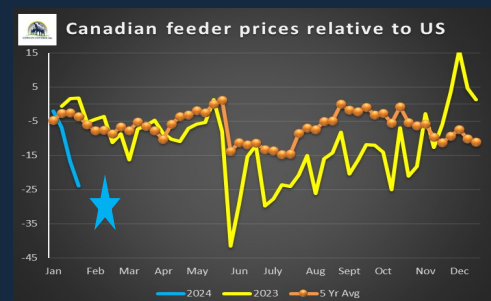
## Slow motion...

Packing margins have been weak during this bull market in cattle prices. Packers are not happy about it.

So, they slow down their kill rates. This backs up cattle to push cattle prices down. It also reduces available meat supply to justify pushing cutout prices to the retailers higher and thereby improves their margins.

Cash contracts for fed cattle have been pushed out as far as March and April we hear from our feeding clients.

In the US, backlogs are over 500 thousand head, and cattle on feed over 5 months are up 11% on the year and up 26% from long term averages. Carcass weights are huge. If you stop at the bottom of an escalator, you will create a pile up of people. No different than slowing down cattle kills.



US cattle futures, after their big sell off last fall have bounced. Also, the Canadian dollar has dropped 2 cents since 2023. Those two things should have rallied Canadian feeder prices, but they did not. Now we sit 24 cents cheaper than US cattle. Feedlots are full of cattle they can't get rid of in Canada. Buyer appetite is not high right now.

New plants are coming online in the US, and this bulge of cattle will be worked through. This packer game won't last! Take advantage of the price discount.

This girl works for a living...



Packers slowing kills down...

## The Marketing Buzz (January 26)

### Canner cows, heiferettes and bulls

**Cull cows:** \$105-143 (avg. \$127 D2) **Heiferettes:** \$140-212

**Cull Bulls:** \$135-240

### Breds

**Bred cows:** \$1400-4000

**Bred heifers:** \$1800-3900

**Avg:** \$2690

**Avg:** \$3009

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

**Steers:** 450 wts \$4.14 **Heifers:** 450 wts \$3.30 (-84!)

550 wts \$3.86 550 wts \$3.26 (-60!)

650 wts \$3.45 650 wts \$3.07 (-38!)

750 wts \$3.13 750 wts \$2.80 (-33!)

850 wts. \$2.98 850 wts \$2.72 (-26!)

**Slide 550-850:** 29 cents/cwt **Heifer:steer @ 750 lbs:** -33 cents

### Finished Cattle

\$2.20 live; \$3.80-3.87 rail *(we guess, no cash cattle trading)*

**Feeder Basis:** -24 (futures) **Finished cattle Basis:** -20 (futures)

-14 (cash) -14 (cash)

*(Note: Futures in the US have rebounded since the fall, and the Canadian dollar has fallen 2 cents since the end of the year yet our feeders never moved, putting our prices well behind US prices once again. Wake up Canada!)*



## Bright lights...

Cattle futures are pricing in some pretty impressive prices once again for the fall calf market.

We are looking at \$4.25-4.30/lb calf prices for a 550 lb steer. Hedging those prices however is a challenge as the cost of hedges going out to the fall in both options and LPI is extremely high. It will cost likely \$68/calf for LPI for example.

The middle chart shows how calf prices correlate to bred cow prices. The red line is calf prices, and next fall's projected prices are off of this chart, which should pull upper end bred prices with it. With calves at \$4.25/lb, a high quality bred cow should easily be over \$4000, with average prices between \$3000-3500. Bred heifer prices will likely be \$4-500 dollars higher than this.

Internet bred cow sales so far this month have been a touch below fall prices, but still healthy with \$2700 average and ranging from \$1400-4000. The lots below the average price are generally single lots, older cows or just added lots. Good quality 2-6 year old cows are \$2100-4000 averaging \$2700.

5 and 6 weight heifer calves are still trading 40-60 cents back from steers. A 550 lb heifer worth \$1800 today is trading at a \$300/head discount to a steer when she could be worth \$4000 as a bred heifer this fall. A 1000 lb steer this fall is showing around \$3500 in comparison. The heifer discount is overplayed.

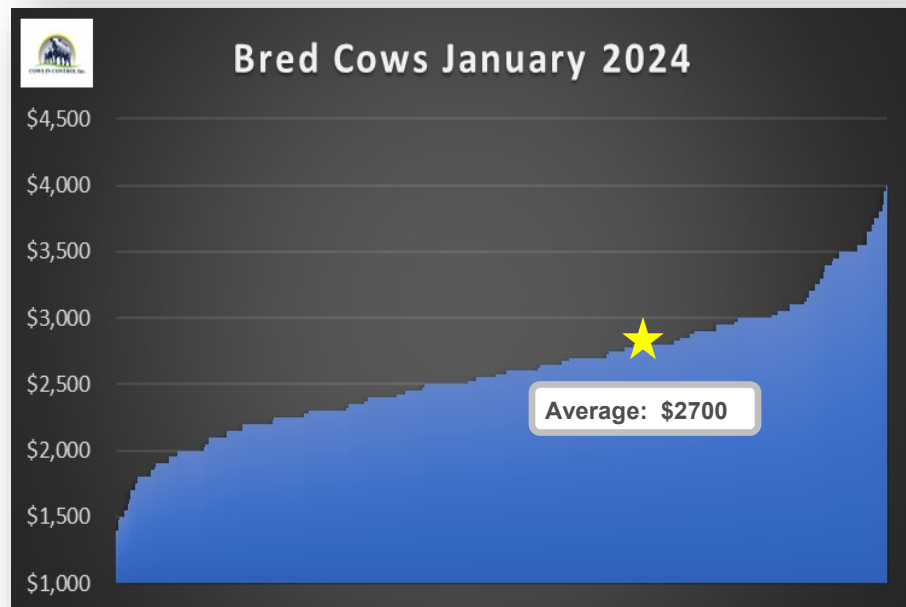
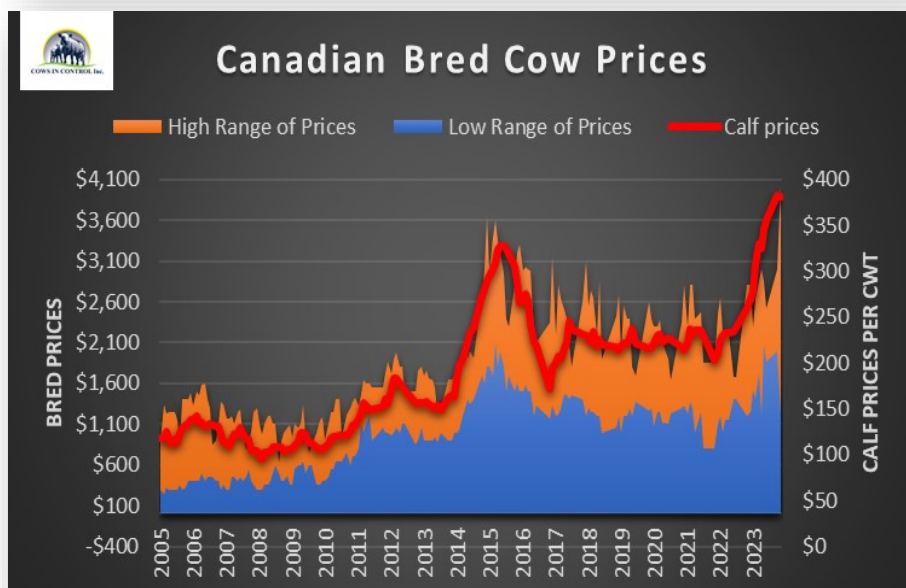
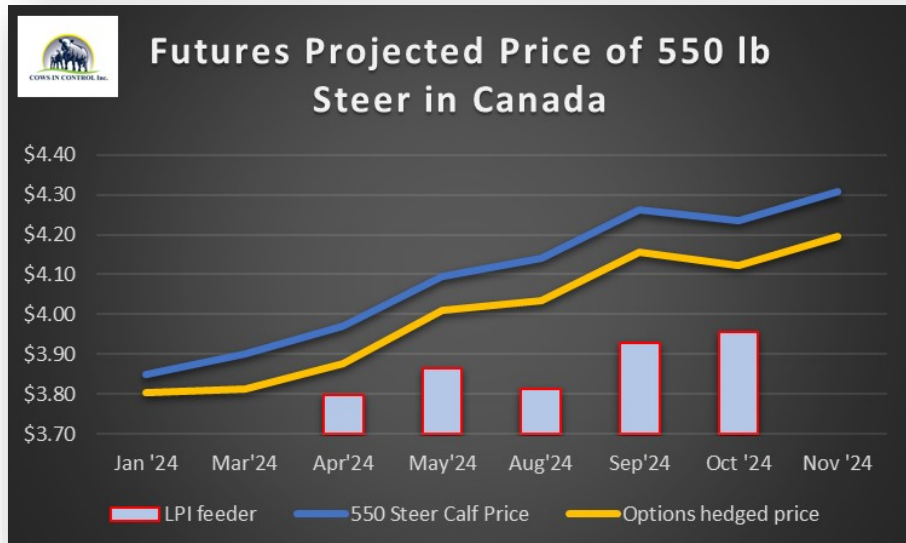
% of heifers on feed in the US is still at 20 year highs at 40%. We are about 35% in Canada.

Retail beef prices peaked in October and have slipped a bit, but are still the third highest on record. Demand is still strong.

We have a glut of finished cattle to work through for the next few months, but the long term supply fundamentals are extremely bullish.

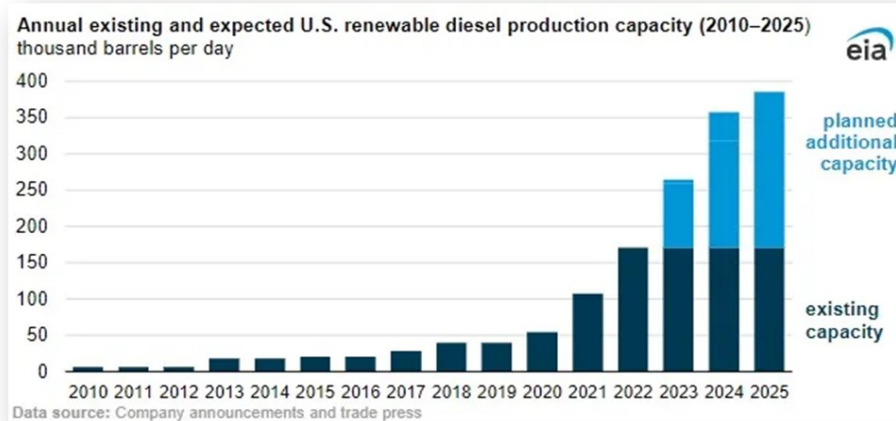
La Nina returning could threaten us with more drought, so be careful, but otherwise don't be afraid to quietly build females into this market.

## Forward calf prices and bred prices...



## Food or fuel?...

Government folly never ceases to amaze. Both the US and Canada are pumping high subsidy dollars into building renewable diesel and Sustainable Aviation Fuel (SAF) plants that process soy, canola and other grain oils into fuel.



Renewable diesel is different than biodiesel in that biodiesel can only constitute 20% of the fuel mix, where Renewable diesel can be used up to 100%. Renewable diesel production capacity in the US is set to grow from 2.6 billion barrels of diesel in 2022 to 5.9 billion barrels by 2025, a doubling of capacity. It is estimated that 1.16 billion bushels of soybeans will go into renewable fuels this year, a quarter of the total US supply. That number will continue to grow. Canada is growing from zero to 4 billion litres by 2025.

Currently around 40% of the total US corn crop goes into ethanol production at a 10% blend rate. There is talk about bumping that blend rate up to 15%, a 50% increase.

Bottom line, there is lots of grain in the world right now, but renewable fuels could be a game changer for grain prices like ethanol was in 2008. Inflation is not going away, food will stay expensive as long as we refuse to use cheap fossil fuels for fuel.

## 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

Cows in Control, serving the cattle producer

## Thoughts on the industry

Cattle prices have never been higher, supply fundamentals have never been stronger for continued strength. Demand is strong. Grain prices have dropped significantly which lowers our feed costs. All systems should be a go for cattle producers to dig in and build. So why aren't they?

Well, in Western Canada and much of the US still, it is drought. La Nina is projected to return later this year which we all know now means more dry conditions. So much for El Nino, it was a bust. Ranchers are tight on water, feed, and grass and wisely playing it safely until we see moisture en masse. It hasn't come yet.

There is also a lot of doubt and skepticism about prices staying high when we were burned after just a short 2-3 year run in prices that virtually collapsed in 2016. Will it be a repeat? I say no, especially in terms of the lack of herd rebuilding, high % heifers on feed, and the fact that it takes 2 years to build heifers into cows and we haven't even started yet. But, once bitten, twice shy. Producers are skeptical of this rally and of taking on more risk at these high price levels.

Then there is sentiment. Could ranchers have taken any more abuse than they have these past few years? From our own government, from COP, WEF, WHO, food documentaries on Netflix and all the other government communists blaming the poor old beef cow's burps as the world's biggest threat. As if. You can't make this stuff up.

Cows keep people alive! There is more nutrient density in beef than any other feed. Cows are preserving the environment for the rest of civilization. There are over 300 species of wildlife, plus water systems, insects, fauna that live on grasslands paid for and preserved by cows and grazing income. Those grasslands are sinking up to \$200/acre worth of carbon every year. 60% of the lands used are generally unsuitable for farming or other uses. Then consider that ranchers are keeping rural communities alive, rural schools, hospitals, businesses. The beef industry in Alberta is a \$6 billion industry, nothing to sneeze at. Technology in Alberta only raised \$1.2B in comparison last year.

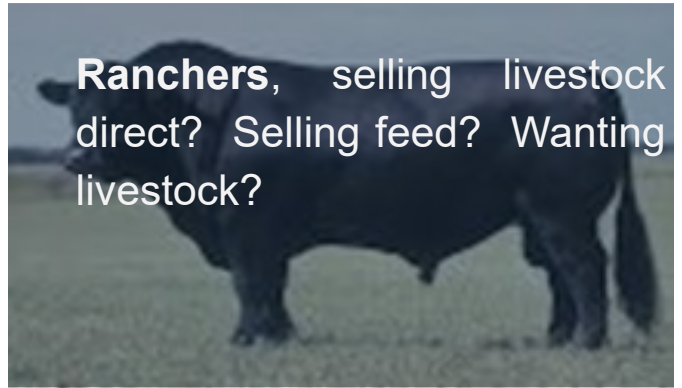
Drought is a real concern, but lets not let the silliness of the uninformed keep us from building. Take care — RC

# Buy, sell, trade or news...

*(lots of cows and ranchers will be watching)*

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

**Ranchers,** selling livestock direct? Selling feed? Wanting livestock?



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