

THE WATER TROUGH

Cows in Control Newsletter

March 2024

What lies underneath...

The asset value of livestock is unbelievably high compared to just a few short years ago. Credit lines are doubling, the dollar signs on a pen of cattle are enough to take your breath away. With so much value built into these cattle now, we must evaluate whether it is worth waiting for further upside to try to lock that in, or to act now and at least lock in what we have today in underlying value. Especially when there are so many other things “below” cattle prices like grain, hogs, and beef from other parts of the world. Not knowing what lies beneath is what sank the Titanic.

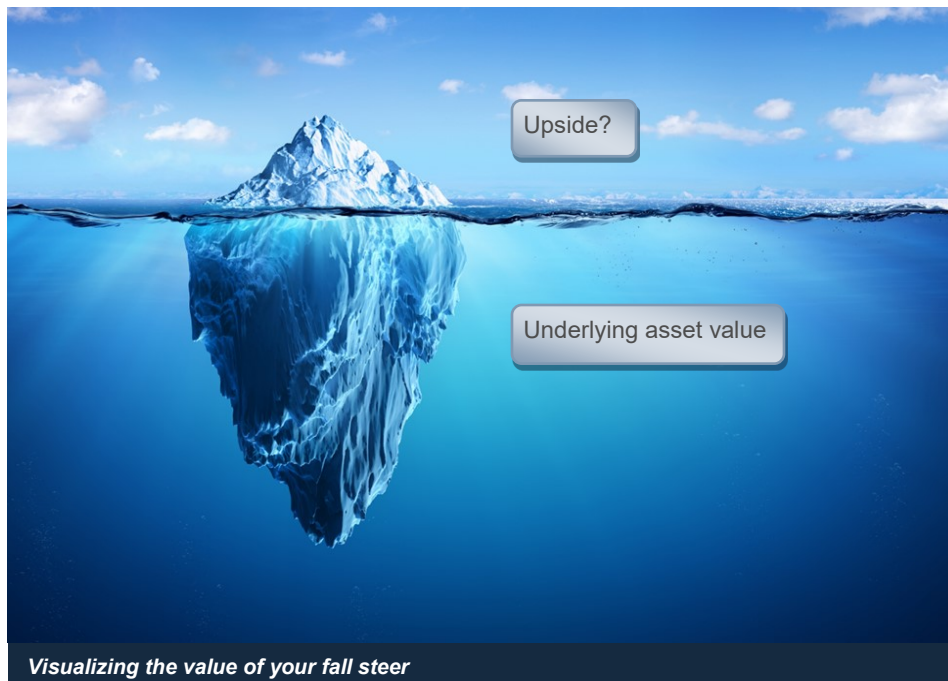
Cows in Control services:

- 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

“Volatility is a symptom that people have no idea of the underlying value ”

- Jeremy Grantham

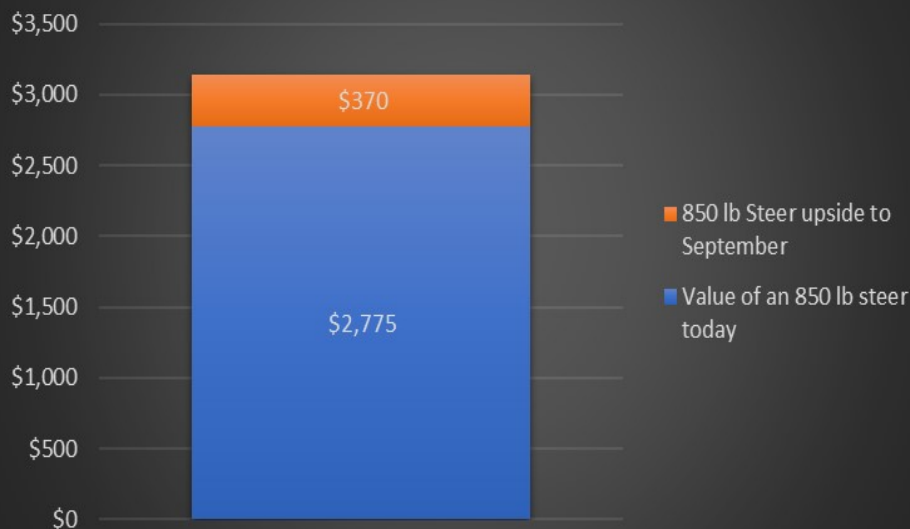


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- Pork chops anyone?
- 2016 all over again?
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- Cows in Control Hedge Training Class June 14
- Buy, sell, trade, or news



850 lb Steer Price to September



Asset vs. margin of an 850 lb steer in September...

“Assets” vs. “margin”

Hedging is as much about protecting your underlying “asset” value as it is protecting any upside or potential profit “margins”.

At top left is one of the simplest charts I will put out. It shows the futures projected value of an 850 lb steer in September in Canada. It works out to \$3145 per head or \$3.70/lb. Not bad.

Now we are going to ignore weight gains and cost of gains here for a bit and just look at market values of an 850 lb steer.

The value of an 850 lb steer today is around \$2775 per head. According to our futures projected price, we can expect that steer price to appreciate by \$370/head by September to \$3145/head. That upside potential in prices is “margin” potential due to price appreciation. “Margin” referring to gross margins or profit margins.

Do you see how small the upside margin component (orange) of the September steer value is compared to the underlying asset value (blue) of that steer at today’s prices?

Does it pay to be unhedged while waiting for higher prices to try to lock in more profit margin (orange bar)? What if the market turns on you before you get a chance to lock in?

Or should we be prudent now and lock in at least the tremendous amount of asset value already in these cattle (blue bar) so as not to lose that should the market fall?

To fully lock in today’s value plus the upside to September with hedge tools is ideal but is admittedly pricey to do. You could spend the big bucks to lock in your full margins to September, or just lock in today’s underlying asset value with LPI or options for much less money. Profits can be fleeting, don’t let your assets be at risk waiting for more profits to lock in.

The Marketing Buzz (March 15)

Canner cows, heiferettes and bulls

Cull cows: \$125-176 (avg. \$162 D2) **Heiferettes:** \$190-230
Cull Bulls: \$150-250

Breds

Bred cows: \$2000-3950 **Bred heifers:** \$2125-5200
 Avg: \$3129 Avg: \$3345
 Pairs: Avg. \$3475 (small volume)

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

Steers: 450 wts \$4.38	Heifers: 450 wts \$4.14 (-24)
550 wts \$4.29	550 wts \$3.81 (-48)
650 wts \$3.94	650 wts \$3.56 (-38)
750 wts \$3.68	750 wts \$3.22 (-46!)
850 wts. \$3.26	850 wts \$3.03 (-23)

Slide 550-850: **34 cents/cwt** Heifer:steer @ 750 lbs: **-46 cents**

Finished Cattle

\$2.34 live; \$3.80-4.02 rail *(very few cash cattle trading)*

Feeder Basis: -11 (futures) **Finished cattle Basis:** -19 (futures)
 -11 (cash) -16 (cash)

(Note: Canadian cattle starting to catch back up to US prices finally. Plants in Canada were offering horrible basis levels in February to shore up their margins, maybe that is behind us?)

Dreaming of the green grass to come this spring...



Pork chops anyone?

As grain prices have collapsed, the question re-emerges, do cattle follow grain prices or trade opposite?

Short term, when grain prices fall, cost of gains drop for feeders, and they can afford to pay more for the cattle as margins improve. Prices trade inverse to each other.

Longer term, the lower grain prices go, the more chicken, hogs, and lbs of beef are added on. Meat supply grows, and then meat prices end up following grain prices lower. Cheap grain, cheap cattle.

Top right, cattle and corn trade similar most of the time, but sometimes grain breaks away from time to time. Corn generally leads cattle higher, and lower, on a lag.

So far, corn has broken down while cattle have held higher. We saw this in 2012. Corn broke, and cattle didn't peak until 2015, three years later.

Then we look at hogs versus cattle. Hogs are a little more in tune with grain prices. They tend to break ahead of cattle as well.

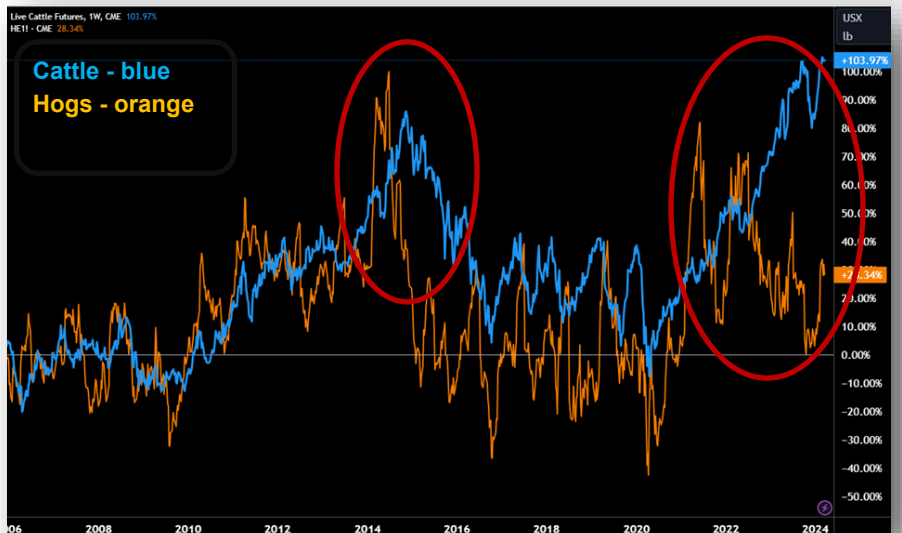
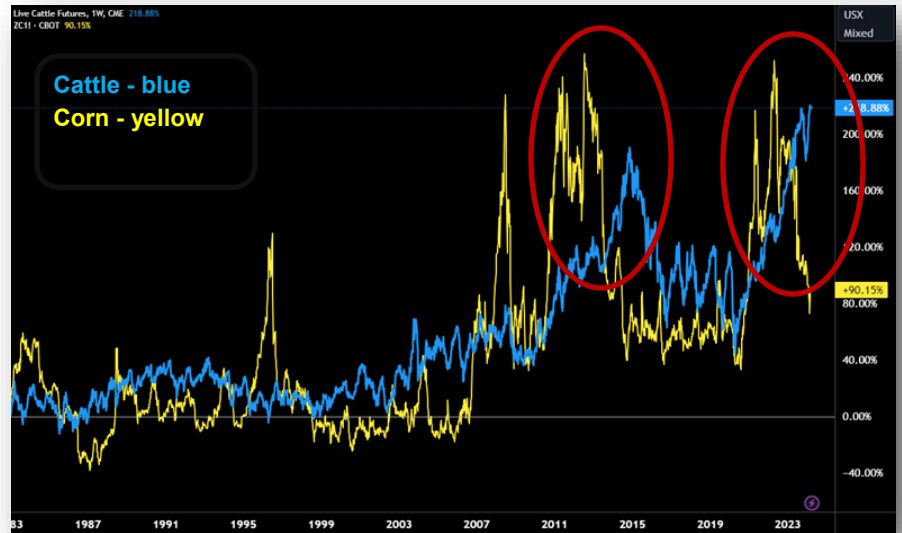
In the last year and a half, cattle have been pointed nose higher while hogs have been stuck at the docks. At some point, consumers will swap out expensive steaks for pork chops. Either hogs have to rise or cattle must come down. If cattle were to drop to meet hogs, they would need drop a third of their current value.

In these inflationary commodity cycles, cattle and grains will generally travel together as we saw in the 1970's and early 2000's. They will rally higher over the course of a decade, generally in two cycles with a corrective gap in the middle. Grains seem to be in that corrective gap right now, cattle haven't seen a correction yet in this latest rally.

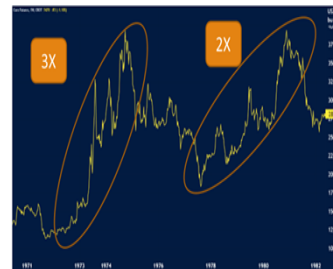
Where grains will correct drastically, a correction in cattle is generally more like a sideways consolidation in prices. Following the correction, both move to new all time highs.

Will history repeat? It usually does.

Cattle relative to other stuff...



Corn in the 1970's:



Quadrupled (4X) in value

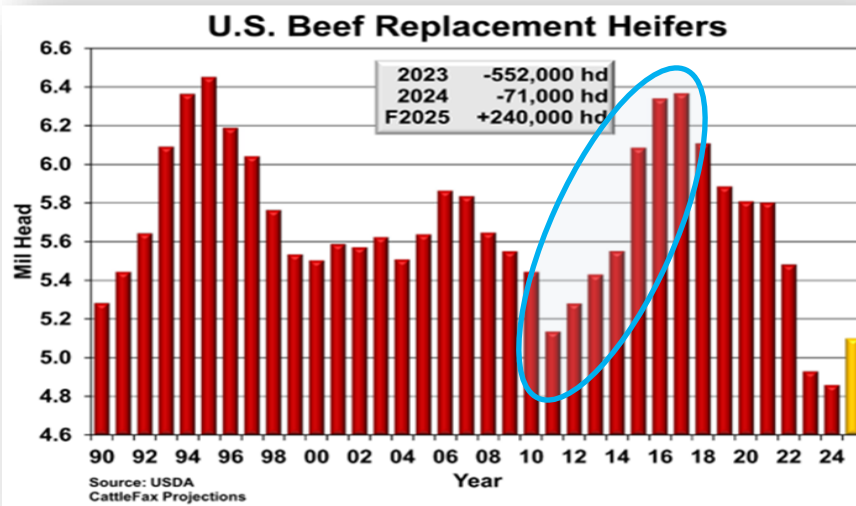
Cattle in the 1970's:



Tripled (3X) in value

2016 all over again?...

Most ranchers will still remember the last cattle rally we had in 2010-2015. A major cattle rally that ended in a complete bust when it broke in 2015/16. It gave back nearly all its gains in a very short period of time. Are we going to see a repeat of this again?



We certainly don't think so.

This is a much different scenario than back then. From 2012 to 2016, ranchers were aggressively retaining heifers and cows as the long term drought in the Southern states subsided. The herd grew drastically in that period and cooled off the cattle rally.

This time around, we are still in drought in a lot of areas, 40% of the cattle on feed are still heifers, cow kills are still high, and there is no evidence of heifer retention. It will take 2 years to turn heifers into cows and we haven't started yet. There is another leg higher in this cattle market yet to come. Corrections along the way are possible, but the long term trajectory is still higher until we see more cows enter the system.

Cows in Control, serving the cattle producer

Thoughts on the industry

We are getting very mixed signals right now when trying to forecast an outlook for cattle prices. As we will continue to point out, no one has a crystal ball, and price forecasts should generally be ignored. For us, it is more about what margins or how much value in our cattle can we lock in today for the future using the various hedge tools available.

On one hand, we have 50-year lows in cattle numbers, new packing space coming online, no heifer retention, strong demand, a drought possibly ending, and potentially a secular bull market in commodities about to take place.

On the other hand, our North American cattle are expensive relative to grains, to pork and even to other plentiful beef produced globally (a US steer is twice the cost of a Brazil or Australian steer). Will there be instability coming up in our US cross border trade as our free trade agreement is coming up for re-negotiation in a couple years? Already we have seen the US implement rules for a voluntary country of origin label on beef that could cause Canadian cattle to be segregated or even discounted. Look for lots of "Buy America" rhetoric in this upcoming US election this fall.

Recession fears, wars, sky high stock markets, could a break in any of these cause a slow down in demand? Disease risk? We don't know. What we know is that cattle are very expensive to own, lines of credit are growing, and even a modest 10% correction at these prices involves a lot of dollars. How can you protect not only forward margins but also today's value that you have already poured into your cattle? What if you want to grow? Will you be able to afford it? Can we lock in our buy prices as well?

In June, we will have a training session on using risk management tools where we will teach you about the tools, but also allow you to simulate using them so you can see how they work. Have a look at the flyer on the next page. If interested, give us a call to sign up, we would love to see you.

The bull market still has legs, we believe we will get to prices that will shock you, but you will likely have to ride out some jaw dropping corrections along the way as the risk levels rise. Stayed covered. Take care — RC

Contact Us

Give us a call for more information about our services and products

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Visit us on the web at
www.cowsincontrol.com



"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

HEDGE TRAINING CLASS



WHEN

Friday, June 14th, 2024
9am - 5pm

WHERE

Sheraton Four Points

8220 Bowridge Crescent NW, Calgary, AB

FEATURING • PI Financial's Scott Cockx and Cows in Control's Ryan Copithorne in a one day training seminar on using hedge tools and simulating a risk management program

www.cowsincontrol.com

**ALL SKILL LEVELS
EVENT**

**CLIENT
TICKETS**
\$100

NON CLIENTS
\$200

INCLUDES

Education on risk management

How to set up a hedge plan for your cattle operation

Cattle, grain, currency hedging

Trading simulation

Lunch included

Bring laptop with Excel or Google sheets if you have one please!!

RSVP

Kelly

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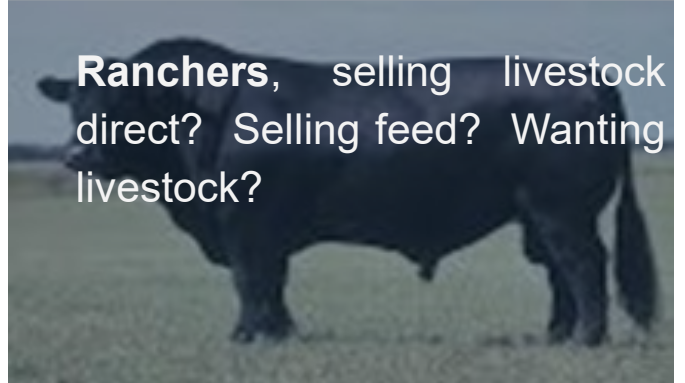
403-775-7534

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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