

# THE WATERTROUGH

Cows in Control Newsletter

February 2024

## Covering the bases...

The great baseball analogy of “covering the bases”. Making sure that when life tries to score a hit on us, we have all the bases or risk areas protected. That could be physically putting means in place, or simply thinking about what we need to put in place to prepare for what life throws at us. What could happen? Have we got the means to prevent or reduce its impact? What will we do when it does happen? Defense. Then when it is our turn at bat (like now in the cattle industry with great prices looking forward) are we geared to score big on the “fat pitch”? Offense. Strong defense (hedge), strong offence (herd growth), and ensuring a strong team behind you.

### 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

*“In theory there is no difference between theory and practice. In practice there is ”*

*- Yogi Berra*

Give us a call for a free consultation



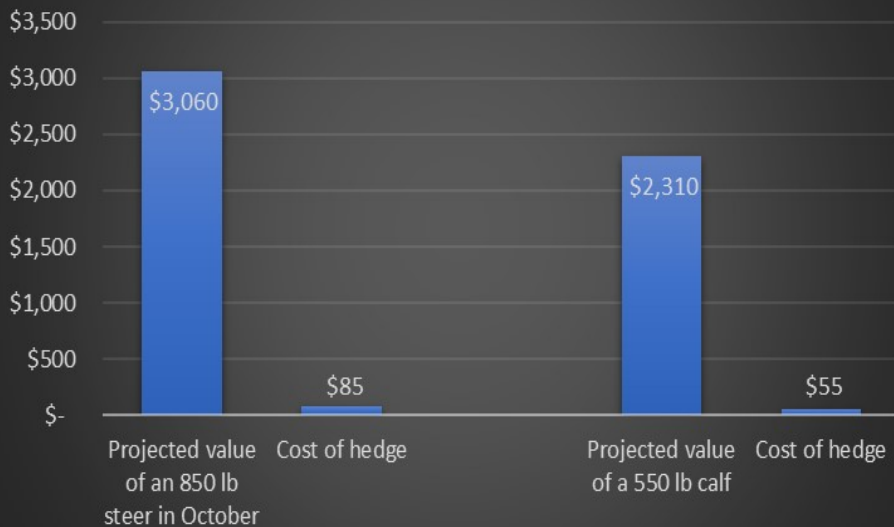
The glass floor of the Calgary Tower, somehow reminds me to cover my cattle prices

## In This Issue

- Marketing Buzz
- Is hedging expensive?
- Will we be swamped with foreign beef?
- Are we short of cattle, or ranchers?
- Thoughts on the industry



## Cost of hedge



Cost of a fall hedge for October...

## Is hedging expensive?

If you look at the cost of the premiums for LPI or options premiums for feeder futures for the fall it all seems so tremendously expensive.

It is over 10 cents/lb premium cost for LPI calf and feeder insurance, which puts an 850 lb grass steer hedge cost at \$85/head or a fall calf at \$55/calf. If you use options, you can lock in higher strike prices but they are also expensive. You need to use option strategies to get them to affordable levels.

So in this bull market, is this too expensive and do we even need these hedges? The most common question we receive here at Cows in Control.

First we will direct you to the chart at top left showing hedge cost versus the futures projected price of feeders and calves for October. Is \$85/head really expensive on an animal that could be worth well over \$3000? The hedge cost is 2.8% of the cost of the animal in a cattle market that can fluctuate 15-20% routinely. The drop in feeder futures from September to December last year was 22%, and that is in a bull market!

## The Marketing Buzz (February 16)

### Canner cows, heiferettes and bulls

**Cull cows:** \$115-155 (avg. \$144 D2) **Heiferettes:** \$160-225

**Cull Bulls:** \$140-225

### Breds

**Bred cows:** \$1350-4100

**Bred heifers:** \$2025-4000

Avg: \$2970

Avg: \$3179

Pairs: Avg. \$3393 (small volume)

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

**Steers:** 450 wts \$4.46

**Heifers:** 450 wts \$3.88 (-58!)

550 wts \$4.21

550 wts \$3.57 (-64!)

650 wts \$3.69

650 wts \$3.27 (-42!)

750 wts \$3.39

750 wts \$3.07 (-32!)

850 wts. \$3.16

850 wts \$2.89 (-27!)

Slide 550-850: 35 cents/cwt

Heifer:steer @ 750 lbs: -32 cents

### Finished Cattle

\$2.20 live; \$3.62-3.70 rail (very few cash cattle trading)

**Feeder Basis:** -23 (futures) **Finished cattle Basis:** -29 (futures)

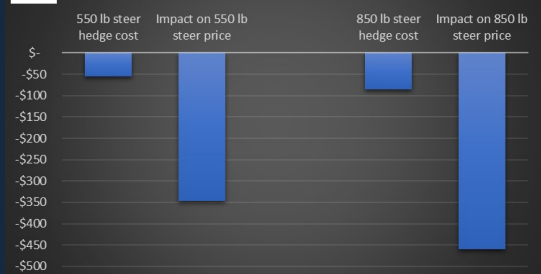
-14 (cash)

-24 (cash)

*(Note: Canadian cattle are sorely lagging their US counterparts! Send the cattle south!)*



### Impact of a 15% drop in price



The chart above is the impact of a simple 15% market correction versus the cost of hedge for feeders and calves. For \$55-85/head, you can protect \$350-450/head of potential market loss. Worth it. Do 50% if you are still not convinced, and sleep better.

### Winter's wonders...



## Will we be swamped with foreign beef?...

Our clients will be familiar with the work we have done in our client updates discussing how cheap beef is in the Southern hemisphere compared to our relatively “expensive” North American beef.

Brazil and Australian cattle prices were down 40 and 60% in value last year respectively while we probed all time highs. How could that not affect our beef prices in North America?

I found this graph from Brett Stuart at Global AgriTrends in the US showing global beef production. It explains the issue nicely. Grainfed vs. grassfed.

In North America, we are running 70-80% Choice or AAA depending on what side of the border you are on. The demand for high quality grade globally is extremely high and supply tight relative to the abundance of buffalo and grassfed beef originating primarily from the southern hemisphere countries.

The main buyer of southern hemisphere beef is China who is in recession. Just like US corn, southern grassfed beef is having a hard time finding a ready buyer in China.

So we often get asked, are we going to get swamped with cheap foreign beef that will topple our high prices in North America?

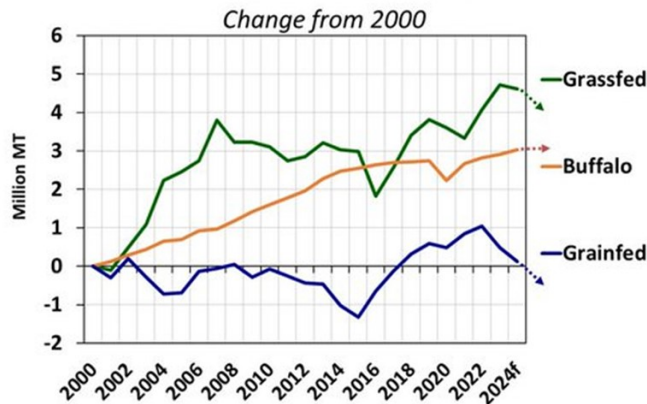
The bottom chart maps out how large exports and imports are relative to the overall domestic beef supply. The yellow pie and yellow bars on the charts are global imports into Canada. Canada has import quotas of around 76k tonnes and we never even filled it last year.

Our domestic consumers in North America demand AAA or choice product and government tariffs and quotas restrict how much foreign beef can enter this country.

The rest of the world may benefit from cheap beef, but for now we are bound to our domestic supply and prices. The bigger fear is export, hogs and chicken prices.

A look at the global beef picture...

### Global Beef Production



Source: USDA, AgriTrends

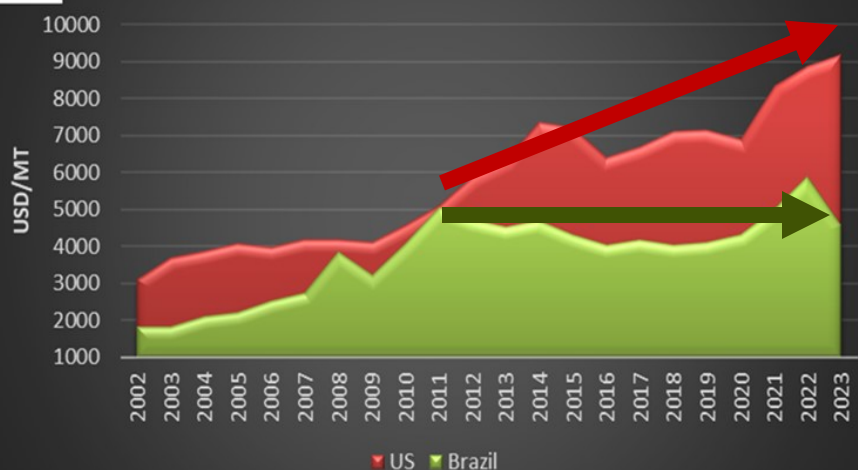
Global AgriTrends

**From 2000 to 2025:**  
Global GDP to grow by US\$48 TRILLION

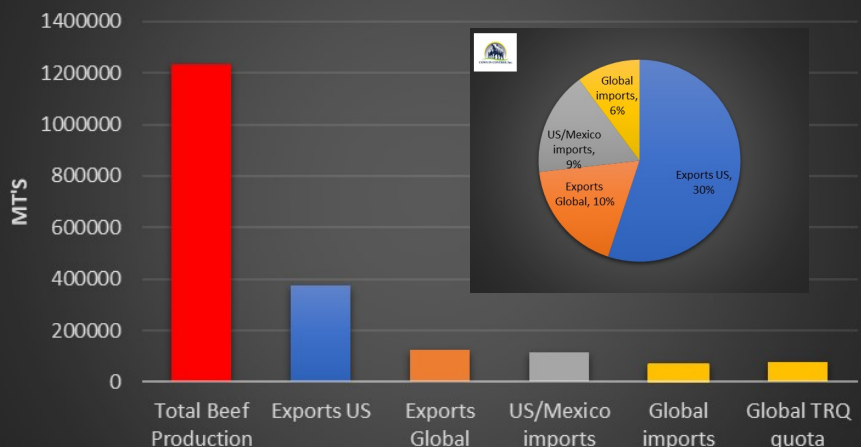
Global populations to rise by nearly 2 BILLION.

Yet there will actually be less grain fed beef available.

### US vs. Brazil Beef Prices



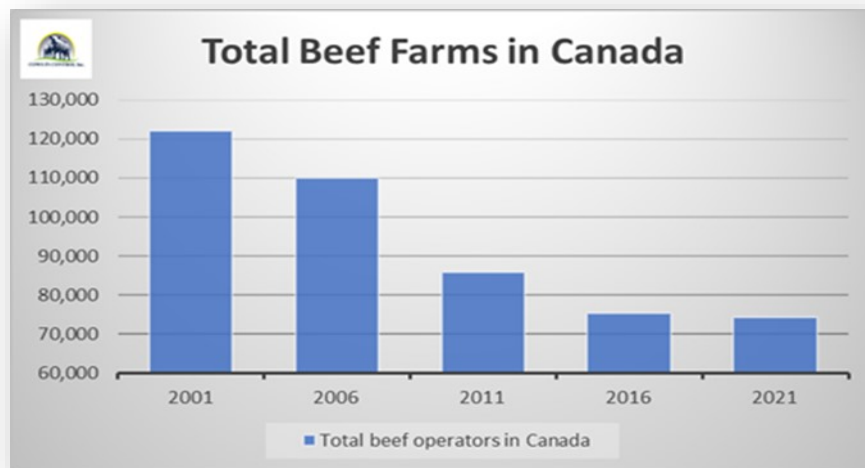
### Canadian Beef by Destination 2023





## Are we short of cattle, or ranchers?...

The US put out their inventory report last month and it showed beef numbers were down to levels not seen since 1951. Ouch! When Canada finally gets its January report out, it will likely show similar or worse statistics.



We spend a lot of time worrying about cattle numbers, how much grasslands are left, or how much methane a cow burps in a day. What we should be worrying about is how many ranchers there are, and their decline rate.

In 2001 we had over 120,000 beef producers in Canada. Today we are closer to 60,000. Half. Those 60,000 produce \$24 billion in GDP in Canada and are only 0.15% of the population and shrinking rapidly. There are only 18,000 beef producers they say in Alberta, down from 30-40,000 20 years ago. And what age are they? The average farmer in Canada is over 55 years of age and only 12% have a written succession plan.

If government and industry want to worry about something that really has a positive impact on GDP, rural communities and economies, food security, and grasslands, they should really be looking at the decline rate of the number of ranchers, and soon.

Cows in Control, serving the cattle producer

## 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](http://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

## Thoughts on the industry

The discount on heifers relative to steers, and the % of heifers on feed in North America still demonstrates that a heifer holdback is not taking place. It takes 2 years from the time the industry begins holding heifers before those heifers become producing cows, adding to inventory levels. That means we are still at minimum 2 years out from a supply build that could cool this cattle shortage and corresponding high prices. How many people do you know that are digging in with gusto to add heifer and cow numbers? I think the answer is few.

Until we have confirmation of relief from drought in Canada, a herd rebuild will be tepid at best. The bigger issue at stake however is the afore mentioned decline of the number of producers, the aging of the producer demographic, the high cost of entry, lack of succession plans, and let's face it, lack of support. Lack of support from those who benefit from your contributions to GDP, food abundance, natural habitat preservation, rural economies and instead choose to villainize ranchers under a blatantly false narrative that many seem to have foolishly bought into.

The reality, is the futures market is pricing in exceptional returns on our calves and feeders looking forward. Add in falling input prices on grains, nat gas, fertilizer, fuel which will improve margins (lock those in, by the way, I don't think these low prices will stick around long.) We will likely see \$2000 cull cows and \$2000 calves which makes a pair worth at least \$4000 this fall not including her value as a bred cow, and you can buy the bred cow for under \$3000 today. Or buy a heifer worth \$2200 or so today that could be worth over \$3500 as a bred heifer by the fall. There is great upside in cattle right now if you have the means. We must not forget to hedge along the way to lock those margins in.

In 2022, the world produced a record amount of beef despite low numbers in North America, so the concern is not so much whether we have enough cattle, do we have enough producers to carry on the business? Please begin to pressure your industry and politicians to start measuring and protecting the value of a beef producer, for all our sake.

Take care — RC

# Buy, sell, trade or news...

(lots of cows and ranchers will be watching)



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**Mineral Program Recommendations**

Karen Schiml 403-836-4439 denovoag.karen@gmail.com

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

## Announcements:

There is federal grant funding available through a program called RALP (Resilient Agricultural Landscapes Program) for fencing, water systems, seeding perennials, intercropping as well as a few other options. Producers can google RALP for details in their province. DeNovo can offer technical support and application assistance in Alberta.



## 43<sup>rd</sup> Annual **SELECT Charolais** **Bull Sale** **MARCH 1** Innisfail Auction Market - Innisfail, AB - 1:00



Power & Performance - JIL5L



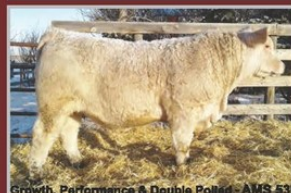
Red & Polled - JIL 204L



Heifer Bull - Calving Ease - JIL 136L



Top 5% Milk, Hair & Double Polled - DZS 45L



Growth, Performance & Double Polled - AMS 53L



Calving Ease, Length & Double Polled - DZS 56L

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