

THE WATER TROUGH

Cows in Control Newsletter

February 2020

Looking at forage finishing...

There is untapped demand for forage finished beef these days. Customers want it from a health perspective and are pushing back against confined feeding operations from an animal rights perspective. How do we compete on the global stage in the forage finished marketplace when we are under snow six months of the year? In this issue we are going to look at the economics of forage finishing and let you see if you can make it happen. The customer is calling for it, can we satisfy them or will we disappoint them to the point that they prefer a processed plant burger instead? Let's at least explore it. We have to remember ruminants were never designed to eat grain, but to graze forages and regenerate our soils.

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 selling
- 4) Making sense of the markets

Give us a call for a free consultation

"If you work just for money, you'll never make it, but if you love what you're doing and you always put the customer first, success will be yours"

- Ray Kroc



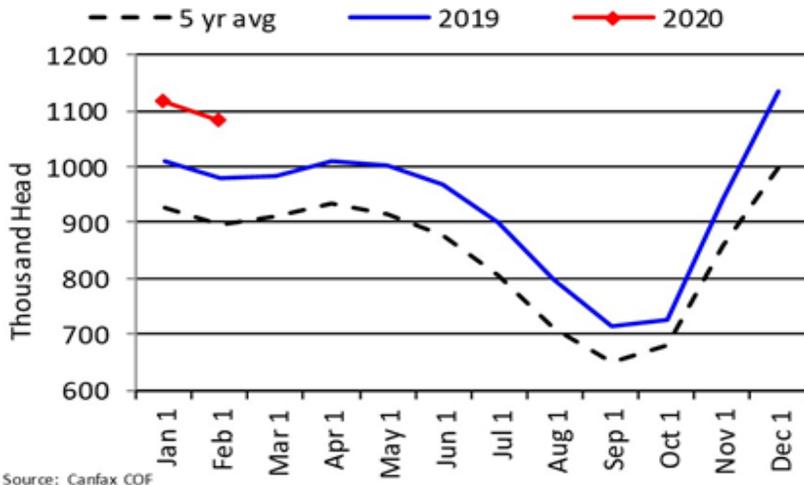
Cattle cocktail party

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Alberta and Saskatchewan Cattle on Feed



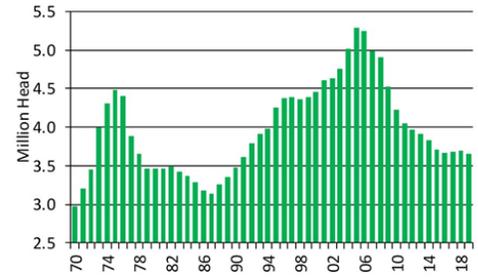
Source: Canfax COF

Canadian Cattle on Feed...

Total cattle numbers in Canada are down another 1.9% to 11.2 million head, nearly 25% lower than the 2005 peak. That is some 200,000 less cattle than last year on farms in Canada.



Canadian Beef Cow Numbers January 1



Source: Statistics Canada

Cattle export numbers are essentially flat. Import numbers are up by about 73,000 head from last year. I am assuming most of those are dairy.

Somehow our cattle on feed numbers are up over 100,000 head year on year in Alberta and Saskatchewan alone, 11% more cattle on feed, and over 20% higher than the 5 year average while our total cattle numbers are down 2% or 200k head.

I am not going to try to do the math as there are a lot of variables, but it feels like there is a big gap being filled by unexplained cattle. Perhaps more ranchers sent calves to feedlots than ranch back-grounding them due to lack of feed? Is it Eastern cattle? Or is it just a bunch of dang dairy cattle?

Either way, the bulk of these cattle are 8 weights or heavier right now. Assuming a 6 month feeding period, we can expect these cattle to hit the plants by mid summer to fall.

The other thing we can expect is demand for feeders to drop off as inventory is aplenty in Canadian feedlots. Canada is showing signs of recession and the world is suffering from Coronavirus, stagnating trade and creating a drag on demand.

Wherever these cattle are coming from, its all up to exports to get rid of them now! Go China!

Using hedge tools like WLPIP and options protects your downside risk!

The Marketing Buzz (February 21)

Canner cows, heiferettes and bulls

Cull cows: \$75-95 (avg. \$87 D2) **Heiferettes:** \$115-140

Cull Bulls: \$95-130

Breds

Bred Heifers: \$1300-2250; **Bred Cows:** \$1265-2325

(Quite a spread!)

Feeders *(Slide growing between light and heavy cattle)*

Steers: 450 wts \$2.49 **Heifers:** 450 wts \$2.13

550 wts \$2.32 550 wts \$1.95

650 wts \$2.14 650 wts \$1.83

750 wts \$1.94 750 wts \$1.69

850 wts. \$1.81 850 wts \$1.65

Slide 550-850: 17 cents/cwt **Heifer:steer @ 750 lbs:** -25 cents

Finished Cattle

\$1.45 live; \$2.42-2.45 rail

Feeder Basis: -8 **Finished cattle Basis:** -10 (futures)

-11 (Cash)

(Note: Feeder basis drops significantly this time of year!)

Mysterious light of winter



Grass Finishing...

We at Cows in Control are looking to source grass finished animals. We are actively working with clients to sell grass fed cull cows as well as explore how to finish yearlings on pasture.

To give you an example of the economics of it, we built four scenarios for your fall 5 weight calves. We can do scenarios with any weight of calves, any month of year, but thought the most common starting point is 5 weight weaned calves in the fall.

All four scenarios involve taking that calf right through to finish on forage based rations and pasture only. No grain or Rumensin is used at any stage.

There is much work to be done to optimize returns and create year round supply, but here are four examples of finishing programs using relatively standard industry costs.

Scenario 1 is a scenario if you are able to keep the cattle gaining 2 lbs/day for the duration of the program on a mix of cover crops, pasture and forage backgrounding.

Scenario 2 is a more standard 2 lbs a day backgrounding, 1.5 lbs a day on grass, and 2 lbs again backgrounding to finish.

Scenario 3 is similar to Scenario 2, except we are only achieving 1.5 lbs/day throughout.

Scenario 4 is a more ranch type scenario of light backgrounding calves in ranch conditions at 1 lb/day and then putting them on a mix of cover crops and pasture, and finally a heavy background to finish.

We have used futures predicted prices plus a modest \$0.30/lb rail premium to determine profitability (premiums vary, but this is a standard and conservative premium we will use for now)

What isn't accounted for here is death loss, program drop-outs, and any shrink between feeding stages. We used industry standard feed and grass costs for the cost of gains, if you can cheapen these costs with ranch raised forages you can possibly beat these returns.

You are holding the calves for a full year to a year and a half past weaning which is a challenge on cash flow.

Overall (remember this is just 5 weight calves, we can scenario larger feeders as well) the economics are "doable". It will come down to management of forages and pasture to get above standard gains, lower costs, a decent hedge program, and the right cattle to really make this program "great". We are anxious to try this with you.

- Scenario 1:** Steady 2 lb/day background, covercrop, pasture, cover crop or background to finish
- Scenario 2:** background, pasture, 90 days on cover crop to finish
- Scenario 3:** Steady 1.5 lbs/day background, pasture, background
- Scenario 4:** Light ranch background, cover crop, pasture, cover crop/heavy background to finish

Costs:	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Calf Purchase	\$ 1,210	\$ 1,210	\$ 1,210	\$ 1,210
Initial Backgrounding	\$ 424	\$ 484	\$ 387	\$ 338
Cover Crop or heavy background	\$ 135	\$ -	\$ -	\$ 135
Summer Pasture	\$ 126	\$ 158	\$ 135	\$ 88
Cover Crop or background	\$ 124	\$ 259	\$ 457	\$ 347
Total Cost	\$ 2,019	\$ 2,111	\$ 2,189	\$ 2,118
Breakeven	\$ 1.50	\$ 1.56	\$ 1.62	\$ 1.57
Projected Sale Price	\$ 1.65	\$ 1.65	\$ 1.62	\$ 1.64
Projected Profit/(Loss) per Head	\$209	\$117	\$3	\$92

Weights:	Scenario 1	Scenario 2	Scenario 3	Scenario 4
At Purchase	550	550	550	550
End of Backgrounding	900	950	850	725
End of Spring Cover Crop	1080			905
End of Pasture	1260	1175	1075	1040
End of Cover Crop or background	1350	1350	1350	1350

Rate of Gain:	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Initial Backgrounding	2.00	2.00	1.50	1.00
Cover Crop or background	2.00			2.00
Summer Pasture	2.00	1.50	1.50	1.50
Cover Crop or background	2.00	2.00	1.50	2.25

Days:	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Initial Backgrounding	175	200	200	175
Cover Crop or heavy background	90			90
Summer Pasture	90	150	150	90
Cover Crop or heavy background	45	88	184	138
Total Days from purchase:	400	438	534	493
Finish Date	Dec 05-21	Jan 11-22	Apr 17-22	Mar 07-22



China and African Swine Flu (repeat)...

We are reprinting this chart because this is hugely important to us. This chart shows us where China gets its beef from, and it isn't from North America presently.

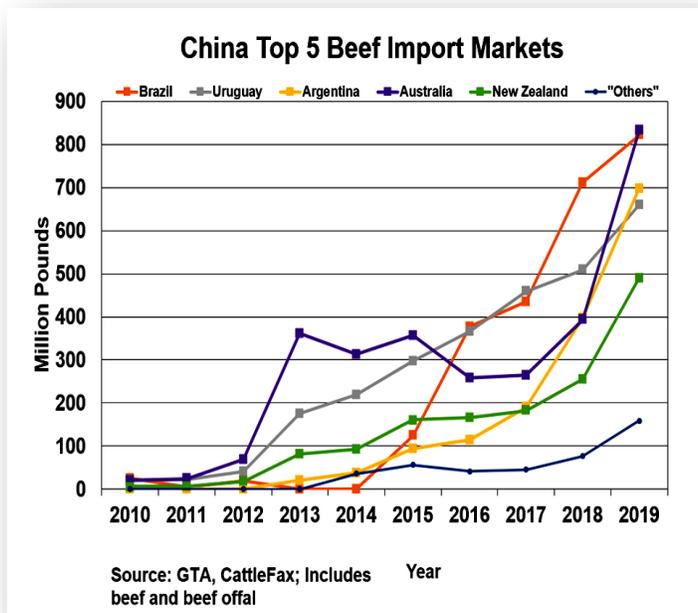
There is 20 times the amount of beef coming from these other countries than North America right now.

Australia for instance is draining its inventories due to the wild fires and drought, this is an unsustainable level of exports to China.

South America historically has shown it will drain its inventories in a strong meat market as well.

China has made a large purchase agreement with JBS who operates in both Canada and the US, and tariffs are dropping on US Beef. China recently allowed over 30 month cattle from the US. This will rally the cull cow market.

This chart is bullish for beef. Hang in there!



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, NEW WINE AND OLIVE OIL. 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 cow/calf producer

Thoughts on the industry

As I write this article, the stock market is tanking on the fears of the Coronavirus pandemic. I have been warning clients in the last few weeks that there are numerous signs globally that the economy is trying to slip into recession. Canada is actually leading the charge on that front. Pipeline protestors and failed \$20B oil sands project approvals are not helping.

We need to brace for an environment of tougher demand conditions in our beef industry. Beef exports were up another 10% last year and have been running hot mostly thanks to Japan despite China's hiccup with our beef and pork trade.

Conversely, the amount of meat flooding to China has been astronomical as can be seen on the chart above, and we in Canada and the US have hardly participated in this rush, yet. Lean beef prices in the US and Canada are running hot as well. I have said before, cull cows will lead us out of this beef slump as lean beef prices rise.

The above chart illustrates that we are not competitive with the rest of the world on beef prices. Those nations with year round grass can outcompete us any day on price. We have tried to stay competitive through grain feeding efficiency and the once perceived quality of grain finishing. Unfortunately, our consumer is turning its view on quality. They don't like seeing animals confined in feedlots, and are questioning the health aspects of beef derived from high grain diets, hormones and beta agonists.

We in North America are not competitive with the rest of the world in grass finishing from a cost perspective, but we had best explore ways to cheapen it down. The old saying "the customer is always right" isn't always true from a logic standpoint, but is certainly true if you want to stay in business. Trying to convince the consumer they are wrong may send them looking elsewhere for their proteins which are significantly cheaper than beef. Remember, beef is a discretionary, premium product.

Regenerative agriculture and using livestock and multispecies cropping is definitely gaining traction in terms of improving soil health, yields, reducing mechanized farming and feeding costs, and likely enhancing carbon sequestration credits looking forward. I think we may be incentivized to explore forage finishing if we can find efficient ways to do it in a country that is under snow pack 6 months of the year. That is why we are calling on clients to look into forage finishing models which we have un-filled demand for.

Take care -- RC