

THE WATER TROUGH

Cows in Control Newsletter

October 2020

If its not a “sell” it must be a “buy” ...

Feeder prices generally slip this time of year into the fall run, but lately cattle futures have fallen off a cliff for the spring months. This makes forward projections look not so great for backgrounding and may pressure calf prices lower. When we see markets sell off suddenly and dramatically, we have to ask if this is a “buy” moment? I like the Charlie Russell painting below because it reminds me to be brave in bear markets. In this issue we will give some commentary about hedging prices both on the “buy” and “sell” side.

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

“Don’t wait to buy real estate, buy real estate and wait”

~ Will Rogers



“Loops and Swift Horses are Surer than Lead”

- Charlie Russell 1916

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550 lb Steer breakeven price at various barley prices

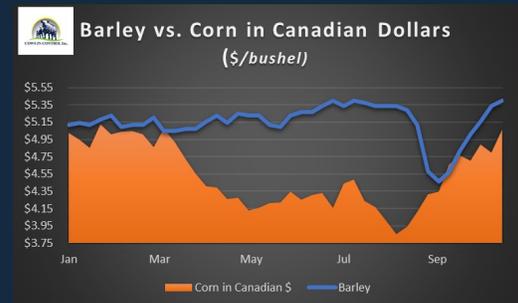


Impact of higher grain prices on calf breakevens

Impact of rising grain prices...

The relentless rise in price for corn and barley is starting to be a headwind for calf prices.

When comparing barley to US corn in Canadian dollars, barley has been stubbornly higher in price all year, but corn prices are starting to catch up as the US has been aggressively selling grains to China this year.



Barley was over \$5/bushel for most of the year until August when it dropped a whole dollar a bushel for a brief period. It has rebounded to over \$5/bushel and some elevators are now pricing over \$6 per bushel currently.

Range pellet prices are creeping over \$300/mt. This has an impact on cattle prices.

In the chart at top left, we use the June live cattle futures to determine what feedlots can afford to pay for 550 lb calves at various barley prices in order to break even.

At the \$4/bushel level feedlots can make \$2.20/lb work but at \$6/bushel, they can only pay \$1.80/lb if they want to break even.

The good news is that cattle and grain prices generally track each other over time. "Cheap grain, cheap cattle" I was always taught and vice versa. Cattle prices may drop after grain prices rise initially, but over time they should track each other higher.

The Marketing Buzz (Oct 16)

Canner cows, heiferettes and bulls

Cull cows: \$65-86 (avg. \$81 D2) **Heiferettes:** \$100-135

Cull Bulls: \$90-130

Breds **Breds:** very light trade \$1600-2000, seem to be around \$1800 on average

Feeders (feeder prices are strong relative to fat cattle)

Steers:	450 wts	\$2.35	Heifers:	450 wts	\$1.98
	550 wts	\$2.12		550 wts	\$1.83
	650 wts	\$2.02		650 wts	\$1.80
	750 wts	\$1.96		750 wts	\$1.75
	850 wts.	\$1.89		850 wts	\$1.70

Slide 550-850: 8 cents/cwt **Heifer:steer @ 750 lbs:** -21 cents

Finished Cattle

\$1.36 live; \$2.25-2.27 rail

Feeder Basis: +7 **Finished cattle Basis:** -5 (futures)
-3 (Cash)

(Note: Canadian feeder prices are exceptionally strong compared to US. This is a caution on feeder prices.)

Last glimpse of fall leaves and warm sun...



Seasonality...

Seasonality and March cattle...

850 lb steer prices usually fall from Oct/Nov into the March time frame. It happens nearly every year as those 5 weight calves brought to town in October are backgrounded to the 7 and 800 pound level in March.

You can see top right how prices have slid every year for the last five this time of year until March.

The graph below shows the typical "seasonality" of prices for 8 weight cattle. It peaks in the summer when cattle are out on pastures, and troughs when all the 5 weight calves become 8 weights in March.

The futures market is well aware of this phenomenon. It actively discounts March feeder prices. Even though feeder prices are still near \$1.90/lb, the March projected price for feeder cattle is only \$1.51/lb!

The yellow line on the bottom graph is what you could hedge your backgrounders for using WLPIP. Yuck!

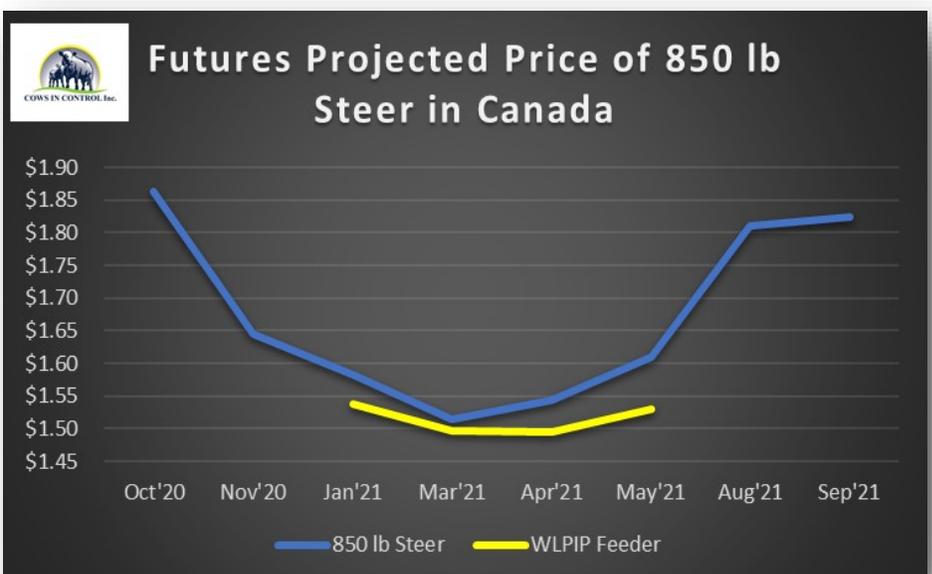
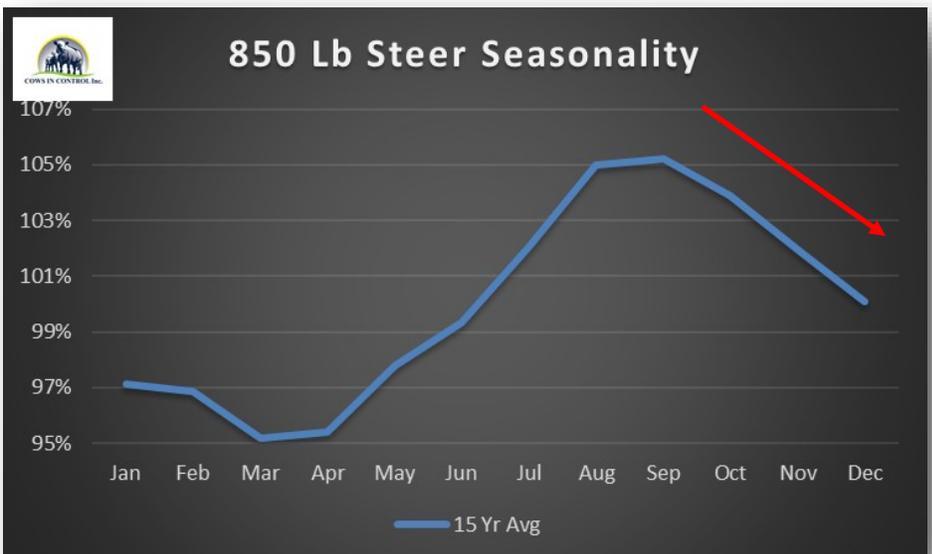
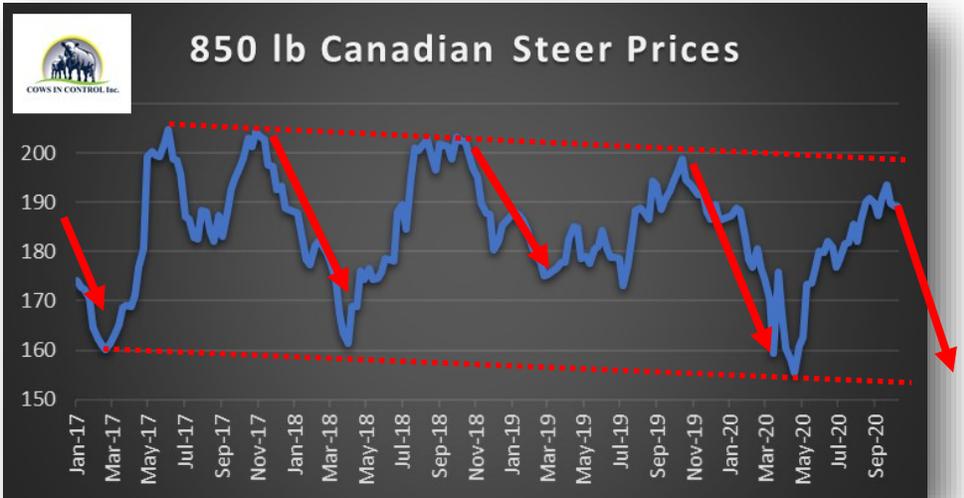
I get a lot of people asking me what we can lock feeders in for March this time of year as they are making backgrounding plans. The answer is usually "nothing attractive".

My point in all of this is to demonstrate the need to forward plan and forward hedge if you plan on backgrounding. Marketing should be a year round strategy, preplanned, not done after the cattle are in the pen.

In August, we could have locked in \$1.74/lb for March with insurance or options where as now we are locking in \$1.50/lb, \$200/head less.

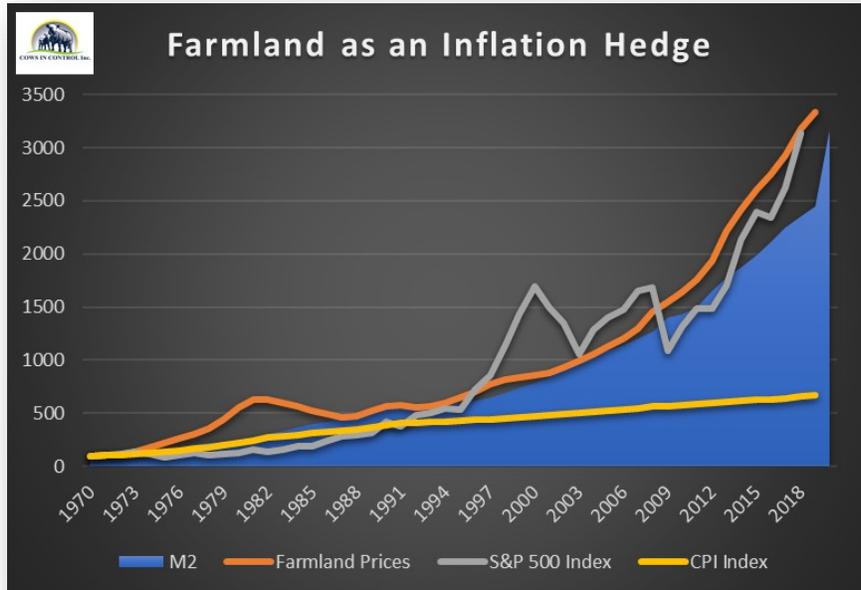
No matter what happens with the markets, seasonal patterns are the most reliable way of planning your hedge timing.

If you are planning to background and are not hedged, we recommend short and long option strategies that let you increase the upside potential while covering downside risk even if at unattractive levels. Give us a call to discuss.



Farmland as an inflation hedge

Farmland is becoming a hot commodity in the investment community now that governments have started “freely” printing money to fight the Covid crisis.



The graph here shows in blue the amount of money in circulation in the United States since 1970 (notice the pop this year!) The US stock market and Canadian farmland values have kept pace with the growth in the money supply.

The bottom yellow line is the Canadian government's official “inflation” indicator the CPI (Consumer Price Index) pegged at near 2%. Hmm, stocks and farmland grow 7-8% while wages only grow 2%? A strong case for being a farmland owner. At Cows in Control, we are working on ways to finance farmland at near CPI levels with investor capital and still let you capture the growth.

Cows in Control, serving the cattle producer

Thoughts on the industry

As a risk management and market advisor, October and November is a hard time for me to watch. Ranchers are so busy weaning, harvesting, preg-testing and then trying to market or set up backgrounding programs all at a time where seasonally prices start to slide and I often see panic. It is one of the reasons Cows in Control was created. This is a tough business, but I am always amazed at how tough cattle people are to juggle ten balls in the air and just weather stress like that. Our goal is to help alleviate that stress.

Forward projections don't look great for backgrounding this time of year, and calf prices usually slip into November. It puts a pit into ones stomach when wondering what to do with your calves.

We have tried hard to get producers' calves hedged at good levels into the fall and had some good success locking in 20-25 cents of extra value on our early option hedges amid crisis and backlogs and all. For those feeding and backgrounding we have been and are working with clients to minimize risk on feeding programs.

The important thing about hedging prices is that it can be done for both buying and selling. We have had a nasty slide in spring futures prices lately to the point where we feel we may be seeing “oversold” conditions on March to May feeder futures. For those people anticipating to buy grass cattle for next summer, this may be a good time to forward price your future buy price on those grass cattle. We have option strategies that cost very little money to put on that allow us to price our spring grass cattle at very low levels and have very little risk whether markets move up or down.

Alternately, we can double down on cattle we are already backgrounding using low risk option strategies that behave like increasing your cattle on feed numbers using paper instead of having to buy more cattle on these dips in prices.

If you can't lock in a good “sell” price, it may be time to consider locking in a good “buy” price as the pendulum swings both ways in cattle pricing.

Take care -- RC

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