

THE WATER TROUGH

Cows in Control Newsletter

November 2020

Take a moment to say ‘thanks’...

Can you believe that cattle prices are nearly the same level as last year before Covid was even an issue? Not to mention stocks, house prices, etc. With the backlogs we saw in packing plants, it looked like a sure wreck for the fall, and yet here we are! Calf prices are still over \$2. Plants are eating up supply as fast as we can throw it at them. Marvelous. We had a good harvest, good fall prices, bred prices are decent. We in the country are kept from the riots, and Covid panic we see in the cities. This is a moment where we should be very thankful. What a blessing to be born in the country!

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

*“The more thankful I became, the more my bounty increased.
That’s because—for sure— what you focus on expands. When you focus on the goodness in life, you create more of it.”*

~ Oprah Winfrey



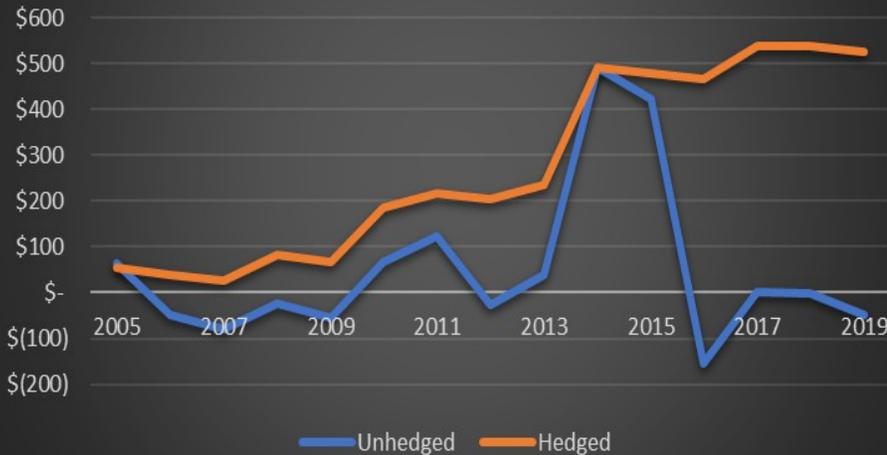
God’s morning tapestry—what a way to start a morning

In This Issue

- Marketing Buzz
- Hedging
- Backgrounding with expensive grain
- Subsidies
- Thoughts on the industry



Comparison Cumulative Return per Cow Over 15 years



Return per cow comparison with calf hedge and without

Hedging...

When we look at the increase or decrease of calf prices from February (when WLPIP Calf Insurance comes out) to weaning in October, you can see below it is a win some, lose some, but averages out a big nothing burger.



When you look at the graph at left, the blue line is what the cumulative calf price gains would look for a cow producing a calf each year. She won big in 2013 to 2014, and then gave it all back and more in 2016.

At the end of 15 years she ended up losing money despite all the money made in those good years. Gambling on fall calf prices was a total bust over 15 years.

If we had a simple calf hedge that protected the prices on those one in 7 to 10 year bear markets, the return would be more like the orange line.

Do you remember 1996, 2002/3, 2008, 2016? These were all significant bear markets in cattle prices. Not that far apart are they?

Calf prices have been flat the last three years and I hear a lot of people say that hedging is not worth the expense because they "never" collect on it.

Look at that orange line on the graph at top left when you feel the inclination to get lax on hedging. When you cover your downside risk, your cumulative returns can only go up.

The Marketing Buzz (Nov 27)

Canner cows, heiferettes and bulls

Cull cows: \$52-76 (avg. \$69 D2) **Heiferettes:** \$100-138

Cull Bulls: \$85-125

Breds: \$1200-2500; Bred heifers: \$1700-2475

Pairs: \$1400-2200 (what a range in breds!!)

Feeders (light weight prices should outperform heavy now)

Steers: 450 wts \$2.46 **Heifers:** 450 wts \$2.07

550 wts \$2.15 550 wts \$1.89

650 wts \$1.94 650 wts \$1.77

750 wts \$1.85 750 wts \$1.68

850 wts. \$1.79 850 wts \$1.63

Slide 550-850: 12 cents/cwt **Heifer:steer @ 750 lbs:** -17 cents

Finished Cattle

\$1.36 live; \$2.25-2.27 rail

Feeder Basis: -3 **Finished cattle Basis:** -8 (futures)

-8 (Cash)

(Note: Canadian fat prices seem stuck relative to US prices, they should be rising this time of year, but are not.)

House mate...



Backgrounding with expensive grain...

We resurface this graph of what feedlots can afford to pay for 550 lb steer calves at various grain prices.

Barley prices are around \$6/bushel and over that in many places. Our 550 lb steer calves are trading around \$2.15/lb at time of writing which means they are priced well above their break even.

If barley continued to rise to \$7/bu without a corresponding move higher in cattle futures price, it is conceivable that calf prices would be more like \$1.75/lb.

The middle graph at right demonstrates the estimated returns for backgrounding at today's prices for various rates of gain. At this time, it appears that light backgrounding programs are going to pay better than heavier rates of gain.

When grain prices rise, it is a short term negative impact on cattle prices, but generally cattle prices will track grain prices higher as the cost of producing cattle goes higher.

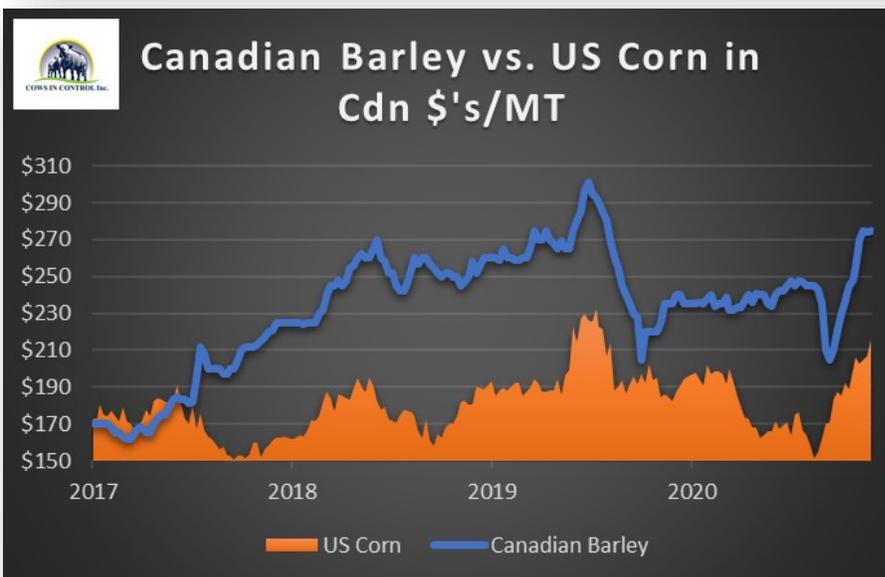
When enough producers stop heavy feeding cattle due to high grain prices, supply drops. The market has to push cattle prices higher to get the supply it needs.

The bottom chart shows barley vs. US corn when priced in Canadian dollars. Since 2017, barley has been trading at a steep premium to US corn prices. (on the next page we talk about US subsidies and why that is the case).

For ranchers wanting to background, consider pasture backgrounding systems for your calves. Grazing programs such as corn, cover crop or swath grazing are ideal. Calves don't need to stand in feed pens to survive.

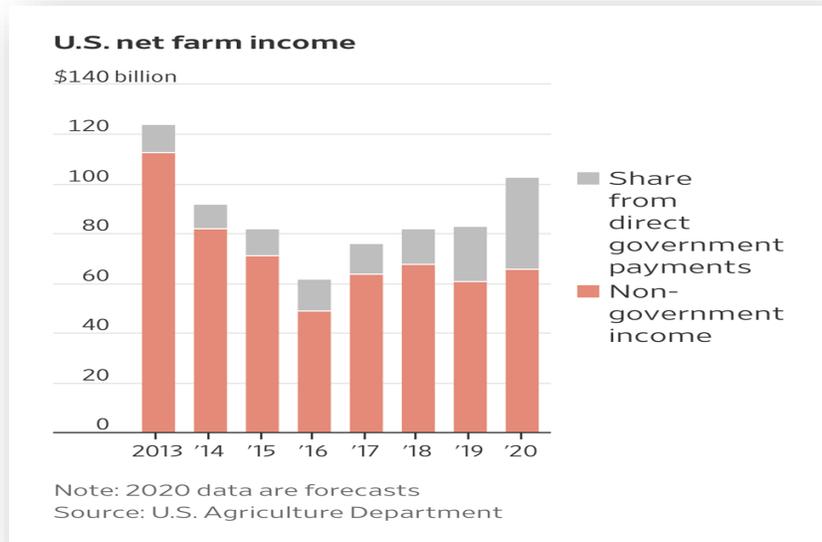
Traditional feedlot rations for backgrounding with grain and silage will cost you with grain prices where they are. Pellet supplement prices are also through the roof.

A little forage, a bit of protein and a mineral supplement is all you need!



Subsidies...

This graph is one that I find very disturbing, especially to us Canadians. **A third of farm income in the US is coming from direct government subsidies.** The latest data I have from Canada puts total direct payments last year at \$3.1M against farm receipts of \$66M or only about 5%.



What is disturbing is not just the amount of subsidies in the US compared to Canada, but also how it will affect our imports. Cheap subsidized farm goods from the US will continue to crawl across the border and compete with our domestic farm goods. We have already seen this happen with US corn and dairy imports into our feedlot systems.

I don't know the solution, but more subsidies has never been a good one.

Cows in Control, serving the cattle producer

Thoughts on the industry

We have had a tremendous grass year and harvest in many parts of the prairies. We should be ready to count our blessings. I really anticipated a rough fall for cattle prices with the backlogs we saw in the packing plants last spring, and yet hardly a hiccup in prices occurred. Calf prices are in line with last year's prices before anyone even knew what Corona Virus was. We have to be amazed and very thankful.

During this Covid "crisis" people have gravitated to filling their freezers with beef over chicken, pork or even plant based meat products. Families are eating 16 oz steaks at home on the BBQ rather than eating an 8 oz steak in a restaurant for twice the money. I think this is the reason for such strong beef demand.

Are plant workers immune to Covid now, or do these little safety measures the government forces on us actually work?

One thing that is certain is that governments have printed a lot of money to remedy the economic fallout of Covid. Not only do they print money, but they are keeping interest rates artificially low. It is in vogue now for governments to distribute money well beyond what they can ever collect in taxes.

Stock markets are at all time highs, house prices are rising, a pickup truck is what \$70k or is it \$80k now? Corn prices are rising, and as I explained, should pull cattle higher with it. If we gave every teenager \$10k, what would happen to the price of cell phones and video games? That is inflation and what is going on in a broader sense.

Global debt just hit \$258 Trillion dollars, that is \$33k USD for every man, woman and child in the world, where over 80% of the world makes less than \$10/day! All the goods and services in the world only add up to \$78 trillion. You can't make this stuff up. All that easy money printing is going to make real things like ag products more valuable when priced against paper printed money. The challenge will be to hang on to those goods without it being taxed away!

Interesting times as usual!

Take care -- RC

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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