

THE WATER TROUGH

Cows in Control Newsletter

May 2021

Rain, grain, and expensive gains

Looking at the drought monitors for the US and Canada is like watching an unfolding horror film while grain prices have been skyrocketing. Fortunately, rains are trickling in, grains are cooling and somehow Canadian cattle prices have been totally unaffected by either!? Beef prices are strong, and Canadian cattle prices are on fire compared to our US cousins. Prices of goods of all sorts are blasting higher, that is, everything except cattle prices. All boats have lifted on this rising inflationary tide, maybe cattle are like a beach ball held under water? Hopefully calving went or is going well, we need those calves!!

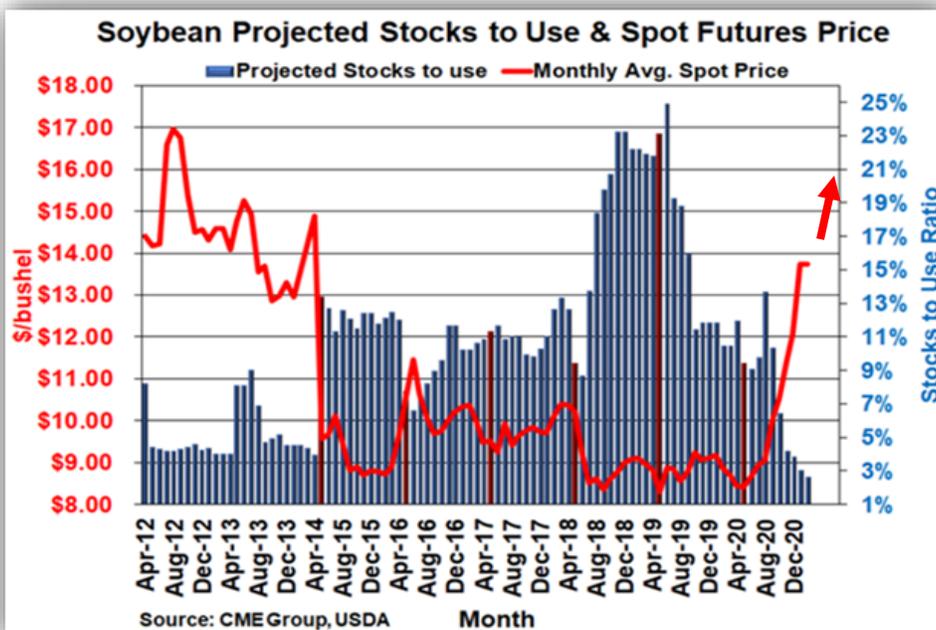
"Truth is life's most precious commodity"

~ Edwin Louis Cole

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



Yikes, canola and soybeans are very tight! Potential drought aside, this is tight!....

In This Issue

- Marketing Buzz
- Whoa, that's not normal!
- Other ways to hedge calf prices
- Canadian cattle on feed versus beef cow numbers
- Thoughts on the industry



Weekly Feeder Basis



Whoa, that's not normal

There is a huge disconnect between Canadian and US cattle prices right now. In fact, an unprecedented one.

Normally our feeder cattle trade 7-12 cents/lb cheaper than US cattle of equivalent weight when priced in the same currency this time of year. They are now trading over 16 cents higher, not lower than US cattle. Hmmm.

This is because we have packer over capacity in Canada, and they have a lack of packing space in the US. Packers in Canada have been able to eat through the backlogs due to Covid in Canada, not so much in the US.

Fat cattle in Canada are trading over 20 cents/lb higher than US fat cattle when they are normally relatively equal in price this time of year.

US feeder prices catching up to Canadian prices...



550 lb Steers, US vs. Canada in Cdn \$'s



550 weight calves are a whopping 30 cents/lb higher than US calves priced in Canadian dollars.

All of this means that we can expect truckloads (and truckloads) of cattle to come north from the US into Canada. Feeders and fats.

Until the US plants clear their backlogs, Canada may become inundated with imports. This basis difference will have to normalize, either US cattle will rise in price, or Canadian cattle need to come down. Either way, cattle are coming North!

The Marketing Buzz (May 14)

Canner cows, heiferettes and bulls

Cull cows: \$75-107 (avg. \$97 D2) **Heiferettes:** \$120-145

Cull Bulls: \$100-135

Breds Breds: \$1600-1950; Pairs: \$1775-3150
(big range in pair prices)

Feeders (basis is running over +16 cents/lb to US cattle!!)

Steers: 450 wts \$2.38	Heifers: 450 wts \$2.07
550 wts \$2.32	550 wts \$2.00
650 wts \$2.13	650 wts \$1.84
750 wts \$1.98	750 wts \$1.74
850 wts. \$1.83	850 wts \$1.67

Slide 550-850: 16 cents/cwt Heifer:steer @ 750 lbs: -24 cents

Finished Cattle

\$1.63 live; \$2.68-2.75 rail

Feeder Basis: +16! **Finished cattle Basis: +23!! (futures)**
+20 (Cash)

(Note: these are extraordinary basis levels and definitely not normal, they should be - 5, not +23 this time of year!)

Mole hunter...



Other ways to hedge calf prices...

We are always advocates each year to have some LPIP Calf Insurance on to protect your calf prices from all manner of risk. At Cows in Control, we work with clients to time your purchases of LPIP.

With high meat prices and commodity inflation running rampant around us in most commodities, we are not as concerned about meat prices affecting calf prices so much as other concerns such as rising currency and feed costs which can affect calf prices.

Cattle hedges right now are expensive to buy for the fall, somewhere around 7 cents/lb or \$39/calf. So are there cheaper ways we can hedge our calves?

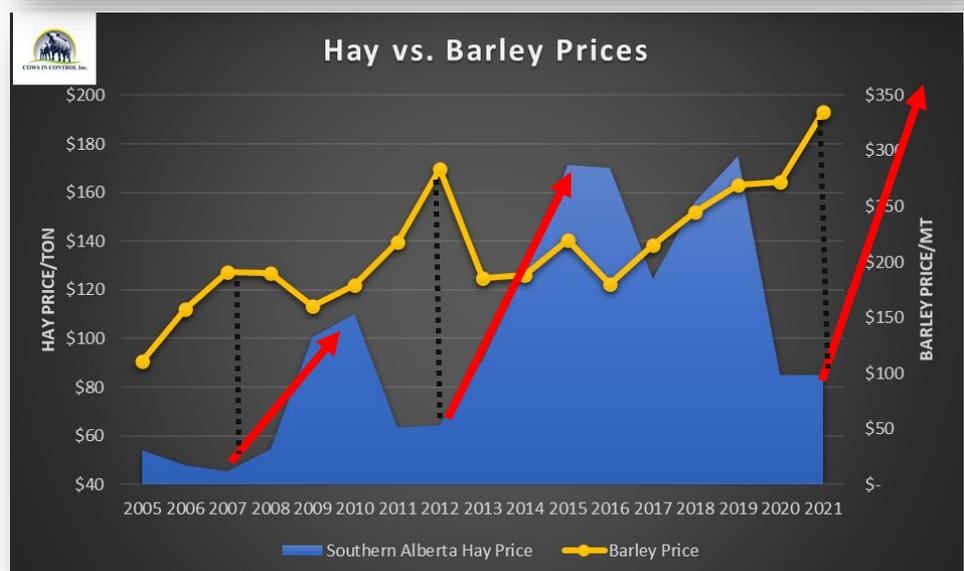
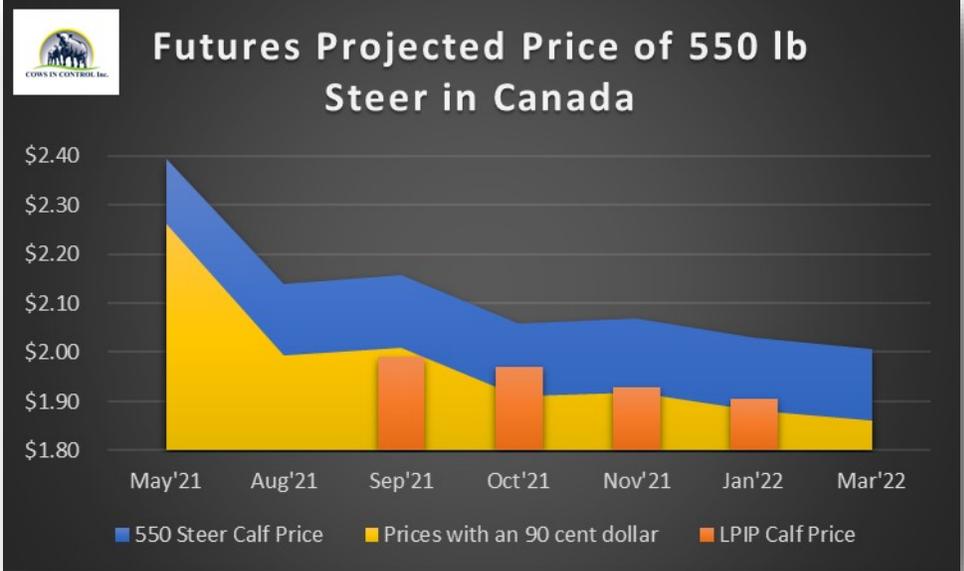
The Canadian dollar has broken multi-year highs touching 83 cents recently, with not much resistance on the charts up to 90 cents relative to the US dollar.

The top chart shows potential impact of a 90 cent dollar by the fall compared to current futures projected prices for calves. We have also included the LPIP effective hedge levels. LPIP creates a floor to minimize your risk, but a simple Canadian dollar hedge costing less than a cent a lb can cover the loss from the blue to the yellow on that chart.

The second graph shows the impact of higher grain prices on calf prices. For a couple cents/lb equivalent, we can hedge grain prices with corn futures or options that alleviate the impact of higher grain prices on calf prices.

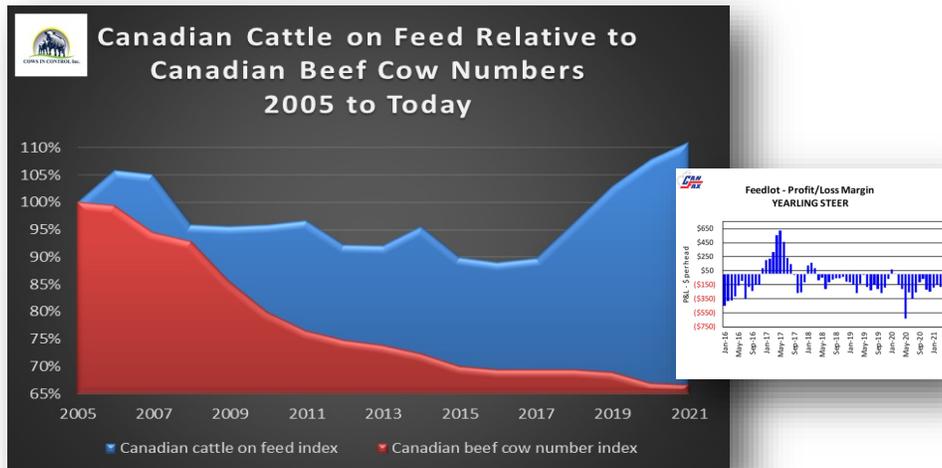
Lastly, the bottom chart shows when barley prices (yellow) peak and the subsequent lagging increase in hay prices (blue) that follows. Hay prices are likely to rise to \$200/ton or better to stay competitive with grain. What impact will this have on your calf and cow prices? Building feed inventory is a solid hedge against low calf prices.

These are just some tools we are using to hedge calf prices rather than expensive cattle hedges.



Cattle on feed vs. beef cow numbers

There has been a steady decline of beef cow numbers (red) in Canada...



We had 5.2 million beef cows in 2005, now only 3.5 million, a drop of 33%.

We had 903 million cattle on feed in 2005, now we have over a million on average on feed, an increase of around 11%.

The insert shows that Canadian beef feeding profits have been negative for three years. So why are cattle on feed numbers growing amid falling feeding profits and an increasing shortage of beef cows? Efficiency? Maybe partly.

US imports? Dairy cattle? Unequal subsidizing of feedlots and packers over producers? Whichever it is, it is causing the beef herd to continue shrinking while the feedlot and packing industry has grown. The worst thing the US could do is implement MCOOL, it looks like we are eating their supply glut. US Holstein burgers, anyone?

Cows in Control, serving the cattle producer

Thoughts on the industry

We are in a cold war, did you realize that? Probably not, nobody likes to talk about that stuff. In the 1970's "The Great Grain Robbery" occurred when the Soviet Union imported 10 million tons of grain from the US to battle a crop shortage they were having. It turned out the whole world was a bit short of grain, and the US ended up selling too much causing the great grain spike of 1973/74 and was one of the triggers of the inflation of the 1970's in the US and Canada.

Well it is happening again. This time it is China importing massive amounts of grain in order to feed the rebuilding of their hog herd after their African Swine Fever epidemic. Guess what, we are running out of soybeans and canola, and corn, barley and wheat are rising in sympathy. Add some dry conditions, and we have a runaway grain rally.

China is dumping US bonds, it won the tariff negotiations, the Covid battle, and is allowing its currency to rapidly appreciate, giving it global buying strength so that it can voraciously buy up the world's commodities. You see, China had a huge birth rate in the 1970's before the "One child" policy. Those babies of the '70's in China are now "baby boomers". In the '90's China dropped their currency and put them to work in factories. China's population growth rate is now the slowest in 5 decades. They are older, wealthier and China is emerging as a "consumer economy" rather than a provider of cheap goods. They are on a collision course of competing with the US and the West for consumer goods.

That is how we are arriving at microchip shortages, commodity shortages, lumber shortages, food shortages, shipping container shortages, and rising tensions in the South China Sea.

We are in a massive commodity rally as the super powers compete over goods. Couple that with tremendous money printing from the Covid relief programs and we have a recipe for massive inflationary forces (and future tax bills).

Hog prices have skyrocketed. Beef prices have skyrocketed. Chicken is even rising. The only thing that hasn't blown higher is cattle prices. It is like holding a beach ball under water. It will be volatile, lots of ups and downs in prices as loose money is sloshed around, but I really think the trajectory for cattle prices is much, much higher. Take care -- RC

Contact Us

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

Cows in Control
45081 Township Rd 244
Calgary, Alberta T3Z 2N2

(403) 775-7534

admin@cowsincontrol.com

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