

# THE WATER TROUGH

Cows in Control Newsletter

June 2021

## Weather markets

*Oh boy, the prairies were dry enough without a record heat wave. This could be a challenging year for crops and pastures. Weather markets make for the most volatile grain markets, and likely cattle prices will get whipsawed in the cross action. In this issue we are going to try and weigh the impacts of grains rallying, commodities surging and breakouts or break downs on the charts that could affect your fall calf and yearling prices. Forecasting prices is a fool's game on a year like this, so we must pick away at hedging all while being optimistic of better prices to come for cattle that have been the last to the commodity rally story.*

*"When the well's dry, we know the worth of water"*

*~ Benjamin Franklin*

### 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



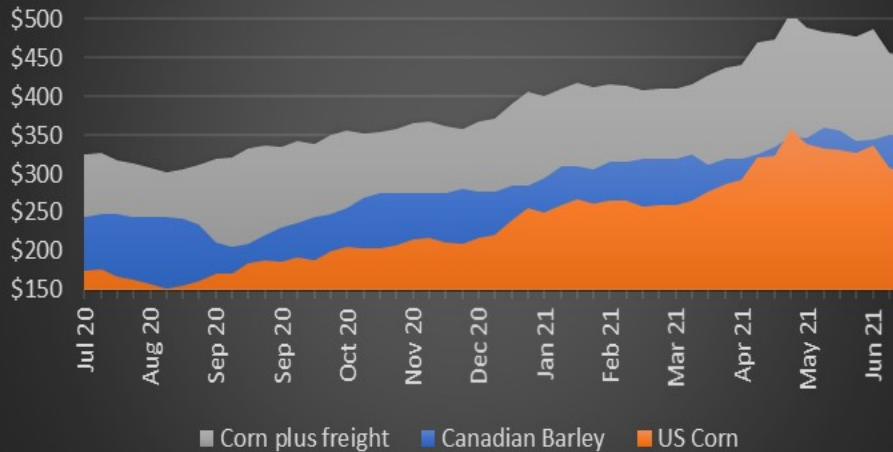
*Battling the heat. Dogs know where its at....*

## In This Issue

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## Canadian Barley vs. US Corn in Cdn \$'s/MT



Corn compared to barley prices in Lethbridge...

## The great migration North...

Cattle are coming North. While live cattle exports to the US are almost nil year to date, imports of feeder cattle are up 94% from the same time last year (almost double) as of the last reading in April.

With the basis on fat cattle being a positive 10 to 20 in Canada over US prices, there is plenty of incentive to bring cattle north. We have ample packing capacity, and plenty of new feedlot capacity has also come on line amid continuously falling beef herd inventory numbers.

The only thing that might stop the tide is feed. Barley prices are still escalating, especially in Lethbridge area, and imported corn prices are offering no real alternative from a price standpoint as indicated at left. The great cattle migration north may run into challenges if Canada can't get more feed supply despite the high basis.

Barley prices are well over \$7.50/bu which makes costs of gain in the \$1.45/lb of gain range. Barley fundamentals are dismal as exports doubled this year and are expected to be as high again next year putting barley supplies at dangerously low levels.

Dry conditions in much of the Northwest US and Canada as well as Brazil 25%+ yield loss due to drought is not encouraging for grain purchasers looking forward.

Though all this suggests lower fall calf/feeder prices, the reality is that fat cattle prices need to rise to offset higher grain prices. Otherwise, North American feedlots are in trouble. Consumers have already been paying sky-high prices for beef, the margin now has to come from the \$900-1000/head profits being taken in by the packers this spring.

Remember, expensive grain, expensive cattle.

## The Marketing Buzz (June 25)

### Canner cows, heiferettes and bulls

**Cull cows:** \$80-113 (avg. \$102 D2)    **Heiferettes:** \$115-148

**Cull Bulls:** \$100-145

**Breds**    Breds: \$1500-1725; Pairs: \$1700-2625

*(drought is keeping these cattle affordable!)*

### Feeders *(Canadian feeder prices are holding highs)*

<b>Steers:</b> 450 wts \$2.45	<b>Heifers:</b> 450 wts \$2.05
550 wts \$2.37	550 wts \$1.99
650 wts \$2.18	650 wts \$1.88
750 wts \$2.05	750 wts \$1.79
850 wts. \$1.90	850 wts \$1.70

**Slide 550-850:** 16 cents/cwt    **Heifer:steer @ 750 lbs:** -26 cents

### Finished Cattle

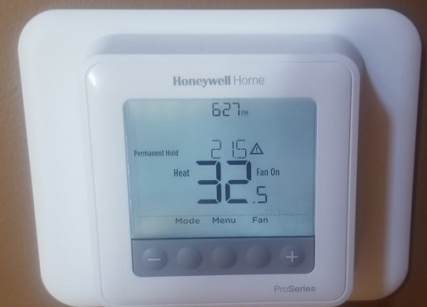
\$1.63 live; \$2.70-2.72 rail

**Feeder Basis:** -6 (futures)    **Finished cattle Basis:** +12 (futures)

+10 (cash)    +9 (cash)

*(Note: basis levels are actually starting to come back in line on feeders but fat cattle are still well above normal)*

And that's the temperature inside the house...



## Looking to the fall...

A lot of variables when it comes to forward pricing, so we often need to come up with "sensitivity" tables that help us visualize price ranges.

October feeder futures are around 160 which indicates fall 550 lb steer prices to come in around \$2.22/lb (right), just below where forward contract sales are trading today.

Have a scan of that table and look what happens when the Loonie rises or feeder futures drop to give you scale of price risk.

In the middle table we have used various fat cattle prices, and various costs of gain (feeding costs) to come up with a breakeven for what feedlots can **afford** to pay for calves in the fall and still break even if they were to finish them out.

At current futures indicated prices and using \$7.50/bu barley we see that the most feedlots can afford to pay is closer to \$2/lb or less.

The fact that feedlots are forward contracting at much higher than their breakevens shows either they have cheaper than market feed or are anticipating much higher finished prices. Lets hope they are right.

The bottom table is 950 lb heifers to help us determine what yearlings will trade like and perhaps bred prices if a drought develops.

It is looking like these heifers will be around \$1.74/lb or around \$1653. It will depend on weather and hay prices to determine if there will be a bred premium over feeders this year, but this will give you an indication of a floor price that you can lock in today.

LPIP allows you to lock in around \$1.70/lb for your 950 lb heifers and about \$2.18/lb for your calves. Forward sold calves are trading \$2.30/lb and futures around \$2.22/lb.

At Cows in Control, we look at using insurance, Canadian dollar, grain and cattle futures hedges as tools to hedge the risk you see in these tables. Take the worry out of your summer with hedging.

550 lb Steer Prices For the Fall Using the Canadian Dollar and Feeder Futures to Predict

		October Feeder Cattle Futures Price for the Fall								
		140	145	150	155	160	165	170	175	180
Canadian Dollar Price in the Fall	\$ 0.75	\$ 2.11	\$ 2.17	\$ 2.24	\$ 2.31	\$ 2.37	\$ 2.44	\$ 2.51	\$ 2.57	\$ 2.64
	\$ 0.76	\$ 2.08	\$ 2.15	\$ 2.21	\$ 2.28	\$ 2.35	\$ 2.41	\$ 2.48	\$ 2.54	\$ 2.61
	\$ 0.77	\$ 2.06	\$ 2.12	\$ 2.19	\$ 2.25	\$ 2.32	\$ 2.38	\$ 2.45	\$ 2.51	\$ 2.58
	\$ 0.78	\$ 2.03	\$ 2.10	\$ 2.16	\$ 2.23	\$ 2.29	\$ 2.36	\$ 2.42	\$ 2.48	\$ 2.55
	\$ 0.79	\$ 2.01	\$ 2.08	\$ 2.14	\$ 2.20	\$ 2.27	\$ 2.33	\$ 2.39	\$ 2.46	\$ 2.52
	\$ 0.80	\$ 1.99	\$ 2.05	\$ 2.12	\$ 2.18	\$ 2.24	\$ 2.30	\$ 2.37	\$ 2.43	\$ 2.49
	\$ 0.81	\$ 1.97	\$ 2.03	\$ 2.09	\$ 2.15	\$ 2.22	\$ 2.28	\$ 2.34	\$ 2.40	\$ 2.46
	\$ 0.82	\$ 1.95	\$ 2.01	\$ 2.07	\$ 2.13	\$ 2.19	\$ 2.25	\$ 2.31	\$ 2.37	\$ 2.44
	\$ 0.83	\$ 1.93	\$ 1.99	\$ 2.05	\$ 2.11	\$ 2.17	\$ 2.23	\$ 2.29	\$ 2.35	\$ 2.41
	\$ 0.84	\$ 1.91	\$ 1.97	\$ 2.03	\$ 2.09	\$ 2.14	\$ 2.20	\$ 2.26	\$ 2.32	\$ 2.38
	\$ 0.85	\$ 1.89	\$ 1.95	\$ 2.00	\$ 2.06	\$ 2.12	\$ 2.18	\$ 2.24	\$ 2.30	\$ 2.36
\$ 0.86	\$ 1.87	\$ 1.93	\$ 1.98	\$ 2.04	\$ 2.10	\$ 2.16	\$ 2.22	\$ 2.27	\$ 2.33	

550 lb Steer Prices For the Fall Using Canadian Finished prices and Cost of Gain

		CDN Live Cattle Price							
		\$ 1.35	\$ 1.40	\$ 1.45	\$ 1.50	\$ 1.55	\$ 1.60	\$ 1.65	\$ 1.70
Cost of Gain (\$/lb of gain)	\$ 1.10	\$ 1.74	\$ 1.86	\$ 1.99	\$ 2.12	\$ 2.25	\$ 2.37	\$ 2.50	\$ 2.63
	\$ 1.15	\$ 1.66	\$ 1.79	\$ 1.91	\$ 2.04	\$ 2.17	\$ 2.30	\$ 2.42	\$ 2.55
	\$ 1.20	\$ 1.58	\$ 1.71	\$ 1.84	\$ 1.96	\$ 2.09	\$ 2.22	\$ 2.35	\$ 2.47
	\$ 1.25	\$ 1.50	\$ 1.63	\$ 1.76	\$ 1.89	\$ 2.01	\$ 2.14	\$ 2.27	\$ 2.40
	\$ 1.30	\$ 1.43	\$ 1.55	\$ 1.68	\$ 1.81	\$ 1.94	\$ 2.06	\$ 2.19	\$ 2.32
	\$ 1.35	\$ 1.35	\$ 1.48	\$ 1.60	\$ 1.73	\$ 1.86	\$ 1.99	\$ 2.11	\$ 2.24
	\$ 1.40	\$ 1.27	\$ 1.40	\$ 1.53	\$ 1.65	\$ 1.78	\$ 1.91	\$ 2.04	\$ 2.16
	\$ 1.45	\$ 1.20	\$ 1.32	\$ 1.45	\$ 1.58	\$ 1.70	\$ 1.83	\$ 1.96	\$ 2.09
	\$ 1.50	\$ 1.12	\$ 1.25	\$ 1.37	\$ 1.50	\$ 1.63	\$ 1.75	\$ 1.88	\$ 2.01

950 lb Heifer Prices For the Fall Using the Canadian Dollar and Feeder Futures to Predict

		October Feeder Cattle Futures Price for the Fall								
		140	145	150	155	160	165	170	175	180
Canadian Dollar Price in the Fall	\$ 0.75	\$ 1.63	\$ 1.69	\$ 1.76	\$ 1.83	\$ 1.89	\$ 1.96	\$ 2.03	\$ 2.09	\$ 2.16
	\$ 0.76	\$ 1.60	\$ 1.67	\$ 1.73	\$ 1.80	\$ 1.87	\$ 1.93	\$ 2.00	\$ 2.06	\$ 2.13
	\$ 0.77	\$ 1.58	\$ 1.64	\$ 1.71	\$ 1.77	\$ 1.84	\$ 1.90	\$ 1.97	\$ 2.03	\$ 2.10
	\$ 0.78	\$ 1.55	\$ 1.62	\$ 1.68	\$ 1.75	\$ 1.81	\$ 1.88	\$ 1.94	\$ 2.00	\$ 2.07
	\$ 0.79	\$ 1.53	\$ 1.60	\$ 1.66	\$ 1.72	\$ 1.79	\$ 1.85	\$ 1.91	\$ 1.98	\$ 2.04
	\$ 0.80	\$ 1.51	\$ 1.57	\$ 1.64	\$ 1.70	\$ 1.76	\$ 1.82	\$ 1.89	\$ 1.95	\$ 2.01
	\$ 0.81	\$ 1.49	\$ 1.55	\$ 1.61	\$ 1.67	\$ 1.74	\$ 1.80	\$ 1.86	\$ 1.92	\$ 1.98
	\$ 0.82	\$ 1.47	\$ 1.53	\$ 1.59	\$ 1.65	\$ 1.71	\$ 1.77	\$ 1.83	\$ 1.89	\$ 1.96
	\$ 0.83	\$ 1.45	\$ 1.51	\$ 1.57	\$ 1.63	\$ 1.69	\$ 1.75	\$ 1.81	\$ 1.87	\$ 1.93
	\$ 0.84	\$ 1.43	\$ 1.49	\$ 1.55	\$ 1.61	\$ 1.66	\$ 1.72	\$ 1.78	\$ 1.84	\$ 1.90
	\$ 0.85	\$ 1.41	\$ 1.47	\$ 1.52	\$ 1.58	\$ 1.64	\$ 1.70	\$ 1.76	\$ 1.82	\$ 1.88
\$ 0.86	\$ 1.39	\$ 1.45	\$ 1.50	\$ 1.56	\$ 1.62	\$ 1.68	\$ 1.74	\$ 1.79	\$ 1.85	

## Mexican standoff, who blinks first?

Calf prices have been stagnant and range bound for 5 years now. Barley has meanwhile surged from \$3.50 to over \$7/bu. They are both at the top of their respective trading ranges. Which one will break out and which will break down or will they break out or down together?

Very hard to say, but I think the next few weeks will be critical to answering this question.

Once we see breakouts or breakdowns in each of



these it will become much clearer as to the overall direction of our fall calf prices and feed prices.

By the way, feeder futures have broken out out of their 5 year sideways trend, but Canadian feeders and calves have yet to do so. Watch for the breakouts.

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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...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 cattle producer

## Thoughts on the industry

This is an extremely tricky year for forecasting prices. Thankfully we have a futures market that tries to do it for us. We have drought conditions in much of North America and Brazil that threaten grain supplies all while China has scooped up whatever grains it could get its hands on this past year leaving the rest of us dangerously short of corn, barley, canola and soybeans. This is a demand driven market coupled with a weather market for grains, a double whammy.

Now we need a good crop in each of those commodities to simply not run out. While this heat wave rages on, and drought worsens in some areas, we must ready ourselves for yet higher grain prices should we not get those yields.

Meanwhile, we have definitely been in an inflationary commodity cycle since last summer. Commodities of all types have rallied significantly. Commodities relative to stocks and other classes were at their lowest level in history by 2020, and appear to now be in a multi year run higher to normalize that anomaly. Commodity cycles usually run 5-10 years in length and usually involve many commodity prices doubling, tripling or even quadrupling off of their lows.

Pork has tripled in value off its lows in 2020, grains have doubled, copper doubled, oil more than tripled its value. Though beef cutout prices are at record levels, our cattle prices are up only a mere 43% since the lows of 2020. Far from the doubling and tripling of other commodities. It is one of the reasons I am very bullish. The prices of inputs and competitive commodities can not rise around beef and not have beef dragged up in sympathy with them over time. There may be a monster rally yet to come in cattle prices.

However, we may need to be patient until this drought passes. If dry conditions persist, it will rally grains and hay prices making operating costs very high for cattle producers and feedlots. There is still lots of risk to the downside in cattle prices as producers may dump cattle, especially bred cattle, or feedlots may be forced to pay less for calves and feeders trying to make break evens work. This is why we hedge, risk is ever present even if we are on the cusp of one of the biggest cattle price rallies to come. Take care -- RC