



# THE WATER TROUGH

Cows in Control Newsletter

October 2021

## The rally that never was...

We hope you had a good Thanksgiving and fall work is almost done. In this issue we will discuss why we never saw the big cattle rally to match the record high beef prices in the stores. Inflation is everywhere, and here to stay, just like the 1970's. So why aren't cattle prices responding? We will discuss this and why we could actually have some down side risk until the eventual inflation driven cattle price rally ensues. Keep hedging and hang on for another bit yet!

### 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

*"A lot of harvest is borne by a thankful receiver"*

*~ William Blake .*

### Give us a call for a free consultation



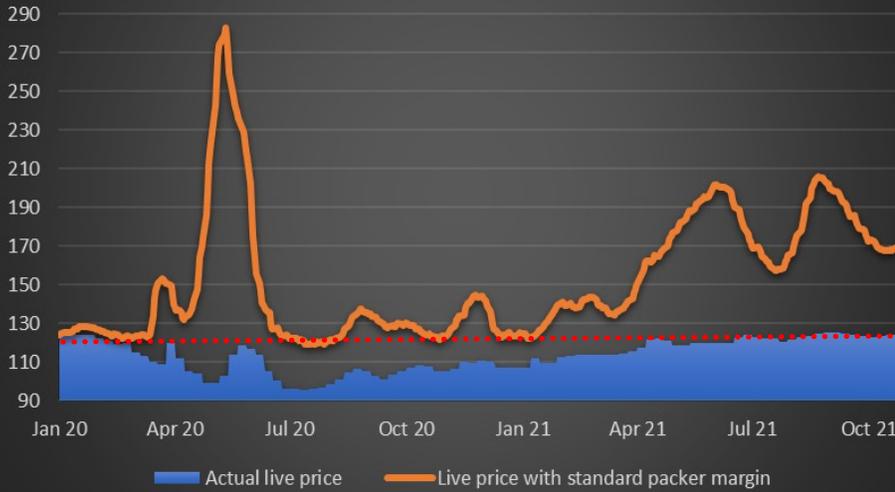
*Does the mask make this more, or less scary?*

### In This Issue

- Marketing Buzz
- How the packer stole the beef rally
- Are hogs going to bring down cattle?
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## Actual vs. Where US Live Cattle Should be with a Standard Packer Margin



What is and what should be...

## How the packer stole the beef rally...

When you look on the beef counter and compare it to finished cattle prices since before the start of the Covid crisis, there is quite a discrepancy which you are painfully aware.

Let us quantify that discrepancy and you can determine whether the big packer monopoly system is better than smaller custom plants.

We must use US prices because Canadian cutout values are unreported at this time.

Live cattle prices Jan 2020: \$1.27/lb  
 Live cattle prices today: \$1.27/lb  
**Increase/decrease: 0%**

Choice cutout price Jan 2020: \$2.07/lb  
 Choice cutout price today: \$2.85/lb  
**Increase/decrease: 38%**

Above left we have shown what the live price of cattle would be if packer margins were the same as before Covid. Then compare that to the actual live price.

Today's live price would be around \$1.70/lb compared to \$1.27/lb. That is around \$600 USD per head higher than actual prices. That spread got as much as \$2500 last year.

## The Marketing Buzz (Oct 22)

### Canner cows, heiferettes and bulls

**Cull cows:** \$50-78 (avg. \$70 D2)    **Heiferettes:** \$120-148

**Cull Bulls:** \$80-125

### Breds

**Bred Heifers:** \$1300-2000 (mostly around \$1800);

**Bred Cows:** \$1200-2000 (*very little volume*)

### Feeders (*Light heifers are on sale!!*)

<b>Steers:</b> 450 wts \$2.38	<b>Heifers:</b> 450 wts \$1.88
550 wts \$2.11	550 wts \$1.79
650 wts \$2.01	650 wts \$1.77
750 wts \$1.97	750 wts \$1.74
850 wts. \$1.90	850 wts \$1.72

**Slide 550-850:** 7 cents/cwt    **Heifer:steer @ 750 lbs:** -23 cents

### Finished Cattle

\$1.56 live; \$2.57-2.60 rail

**Feeder Basis:** -2 (futures)    **Finished cattle Basis:** +3 (futures)  
 -2 (cash)    +3 (cash)

*(Note: Futures prices are trading right on cash levels in the US, and Canadian fat cattle are trading premium to US because we have packer capacity an no backlogs. US still have 400k head backlogged)*



Our foreign owned monopoly packers have cornered the market. The solution is more smaller custom packers or we stop producing.

### Bulls are out...



## Hogs compared to cattle...

### Are hogs going to bring down cattle?...

Cattle prices are susceptible to competitor meat products as can be seen by the correlation on the top graph comparing hog prices to live cattle prices from 2003 to today.

You can see the peak in pork prices in 2014 during the Ped.v pork virus epidemic. That rally pulled beef prices up with it to record highs. Hogs turned first, and a few months later, the meats collapsed.

Hog prices once again rallied last year as China and Asian countries suffered African Swine Fever (ASF) cutting their sow herds literally in half. This was of course significant as China produces half the world's hogs. That herd loss is now over.

Hog futures are currently trading around 70 cents, off from highs of over \$1.20/lb. Recent Stonex projections for 2022 have average hog prices around 56 cents, another 20% down from current levels.

The hog prices in China (inset in the middle) surged and have now collapsed. China has produced all the way back to pre-ASF levels in just 2 years.

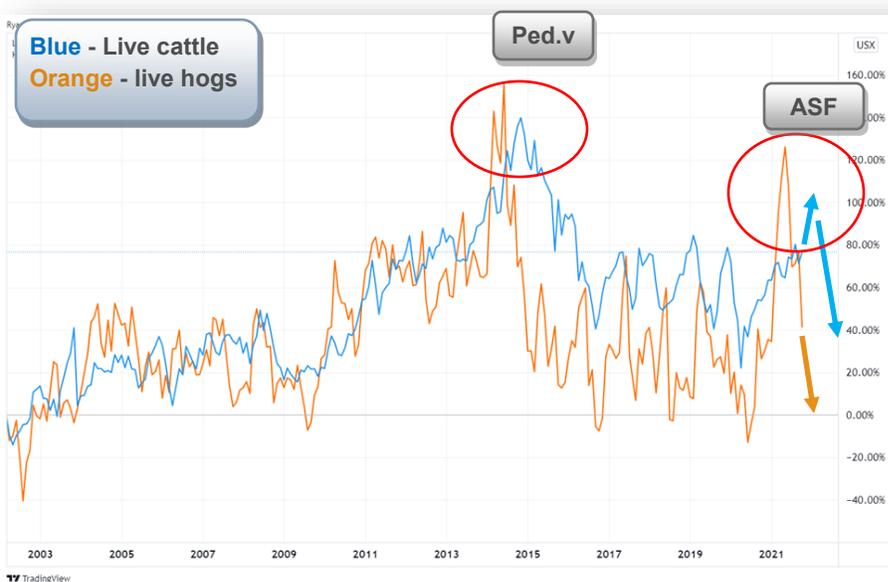
Total output in 2020 of China's top 22 producers was 78 million head. In 2021 it is expected to be 159 million. That is a doubling of production in one year!

The middle picture is the Muyuan facility in China producing 2.1 million hogs per year in 21 buildings, 6 stories high each.

Until the next event comes along, pork prices dropping another 20% could pull cattle prices down with it as can be seen in the top chart. Looking at the feeder prices in the bottom graph, it looks like time to hedge feeders here.

What are positive catalysts? ASF outbreak in North America? Continued inflation pushing grains and meats higher? Low inventories?

We do know the seasonal pattern of fat prices is to rise from now until March. And then? Keep hedging.



# Cowboy Bean Counter Program...

We are offering a new service outside of our standard services.

Full in-depth ranch analysis and assistance with:

**Enterprise analysis** – determine what operations are working and which ones aren't ex: land, haying, grazing, cow/calf, feeding

**Overhead calculation and analysis**

**Financial structuring**, analyzing your banking or finance structures

**Benchmarking**

**Understanding your accounting statements**

**Creating management reports and dashboards** so you can keep your finger on the pulse of your operation

**Goal setting and strategy**



We want to be sure you not only succeed in your cattle operations, but actually profit by focusing on goals and strengths and cut out parts that are costing you time and money!

This is a brand new offering, and we hope you will take advantage of it. Give us a call or send us a note.

## 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...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

So where is this 1970's style inflation rally in cattle prices we have been waiting for? Did we miss it? Did those greedy packers take it all? Perhaps they did for now, but the way inflation is roaring in things like fertilizer and grains I don't expect cattle will stay low for too long. Cheap grain, cheap cattle works in reverse too. The peak in production is in.

For now, cattle on feed numbers in Canada are over 30% higher than the five year averages and 8% higher in the US. The US still has fat cattle backlogs of 400,000 head to work through which has given the packers all the leverage when it comes to pricing. That will end. There is 25% more cattle on feed five months or longer in the US than normal, some two million head (18% of total cattle on feed) that are clearing the system as we speak. Until these excess cattle in feedlots clear the system, cattle prices will be sluggish. Pork prices dropping, and grains rallying will also be headwinds.

US beef cattle inventories of 31 million head are at the second lowest levels since the 1960's and down 2% from last year. In Canada, beef cow inventories of 3.5 million are the lowest since the 1980's all while export values have risen 25% in the last 15 years. Cutout prices are 25% higher than long term average levels. You see, there is good news too that will come into play to counter the excess cattle on feed or rising pork inventories.

In short, we have short term pain for hopefully longer term gain to come. Prices will likely tug-of-war until we see the next catalyst kick in, and then we may see the bigger rally ensue once again—next fall? The year after that? Not sure, but buckle down for one more year of sluggishness until we get the leverage away from the packers who appear to have stolen our cattle rally on this first surge. Heavier feeder cattle will likely sag lower into March as is their seasonal habit. You will want to hedge your backgrounders here. Lightweight calves seem to have hit their lows.

Lets encourage this industry away from the mega multinational packer model into more regionalized custom plants. Uruguay for example has a land mass 1/3 the size of Alberta, has the same processing capacity as Canada, but **27 federal plants** and exports 75% of its product, fully traceable. It is possible if the industry wills it. Take care — RC