



THE WATERROUGH

Cows in Control Newsletter

January 2021

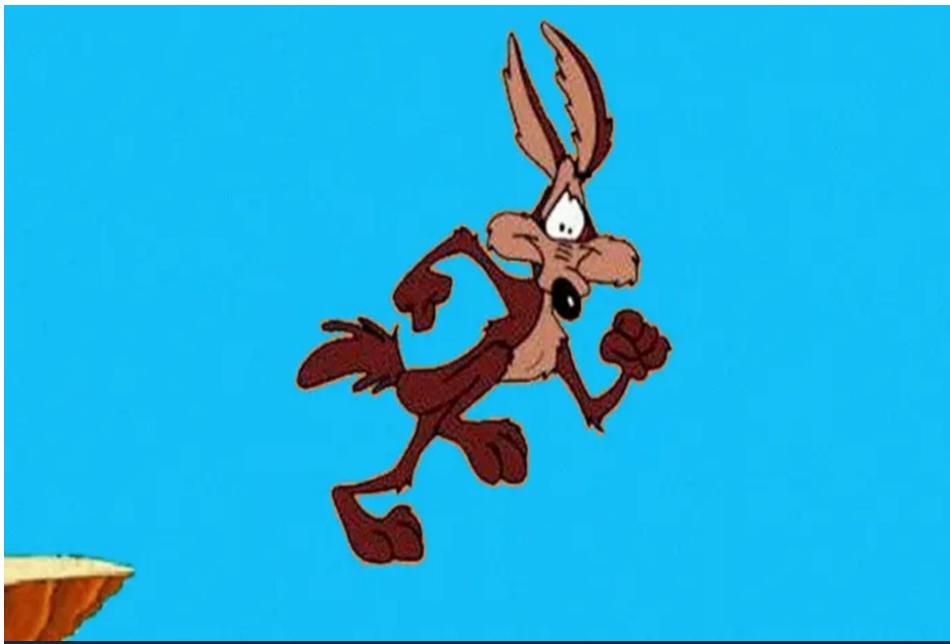
...a time to build...

This world is definitely mad, and governments are printing money faster than it can hold its worth. “Real things” like commodities are the most undervalued and underappreciated they have been in well over 50 years, but may be the only thing with value if the masters implode the financial markets with too much easy money. Though we may see one or more price drops when financial bubbles pop, there will be a sea change coming where this undervaluing of commodities will reverse itself, and we as producers need to gear for it. We are dedicating this issue to highlighting this trend change coming. In the words of Ecclesiastes, there “...is a time to plant...and a time to build”.

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



What do you mean, “what is the underlying value of my stock portfolio?”

In This Issue

- Marketing Buzz
- Commodity Boom
- How far could grain and cattle prices rise?
- Mystery chart
- Thoughts on the industry



The Marketing Buzz (Jan 22)

Canner cows, heiferettes and bulls

Cull cows: \$58-82 (avg. \$75 D2) **Heiferettes:** \$110-144

Cull Bulls: \$90-125

Breds Breds: \$1225-2300; Bred heifers: \$1375-2300

(what a range in breeds!!)

Feeders (light weight prices should outperform heavy now)

Steers: 450 wts	\$2.42	Heifers: 450 wts	\$2.05
550 wts	\$2.20	550 wts	\$1.89
650 wts	\$1.97	650 wts	\$1.77
750 wts	\$1.81	750 wts	\$1.65
850 wts.	\$1.72	850 wts.	\$1.59

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

Finished Cattle

\$1.51 live; \$2.50-2.51 rail

Feeder Basis: -3 **Finished cattle Basis:** +2 (futures)
+10 (Cash)

(Note: these are exceptionally high basis levels for Canadian fat cattle!)

Commodity boom...

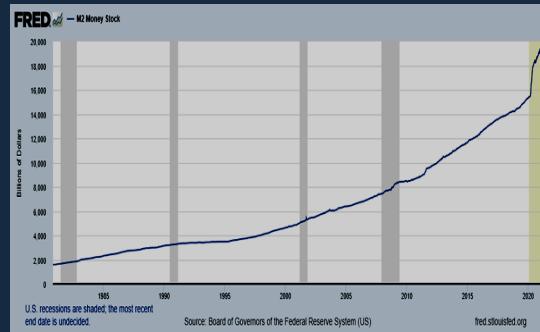
In this month's issue, we will discuss the commodity boom that seems to have started.

You can see at left that commodity prices (grains, oil, cattle, lumber, gold, steel, coal, etc.) are trading at the lowest level in over 50 years relative to stocks.

The last two times that commodities got this low was in the 1970's and early 2000's, both starts of major "secular" bull markets in commodity prices (secular meaning multi-year).

When prices for goods rise, this is called "inflation". In the 1970's inflation raged for over a decade. In the early 2000's we saw commodity price inflation that lasted for 12 years. It looks like we are about to enter a similar period of rising commodity prices.

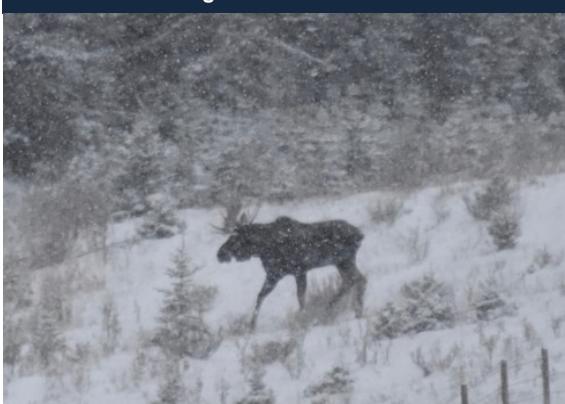
There are multiple reasons for inflation, but this time around it is simply too much money printing by governments around the world, and interest rates that are too low for too long, especially since Covid 19. The chart below is the money printed since 1985 in the US.



This excess money has found its way into the stock market, but is now set to migrate into the commodity markets. The wealth created is causing a pull on commodity demand.

Producers have been shunned long enough. We need to gear ourselves for higher cattle prices ahead.

Little bull sneaking off in the cover of snow...



Using history as our guide...

We are seeing grain prices rally after 8 years of stagnant grain prices. Barley rallied to over \$6/bu so far, canola is over \$15/bu as we speak.

We are in a commodity rally due to inflation. Grains tend to move first and fastest, cattle prices trudge along behind to higher prices like cattle following the grain wagon.

So what does an inflation led commodity rally look like? Well we had one in the 1970's, and another in the early 2000's. It looks like we may be set to enter another one.

In the 1970's cattle prices rallied 150% in a 10 year period...



At right, I have the magnitude of price rises in the grain and cattle markets of the 1970's and early 2000's.

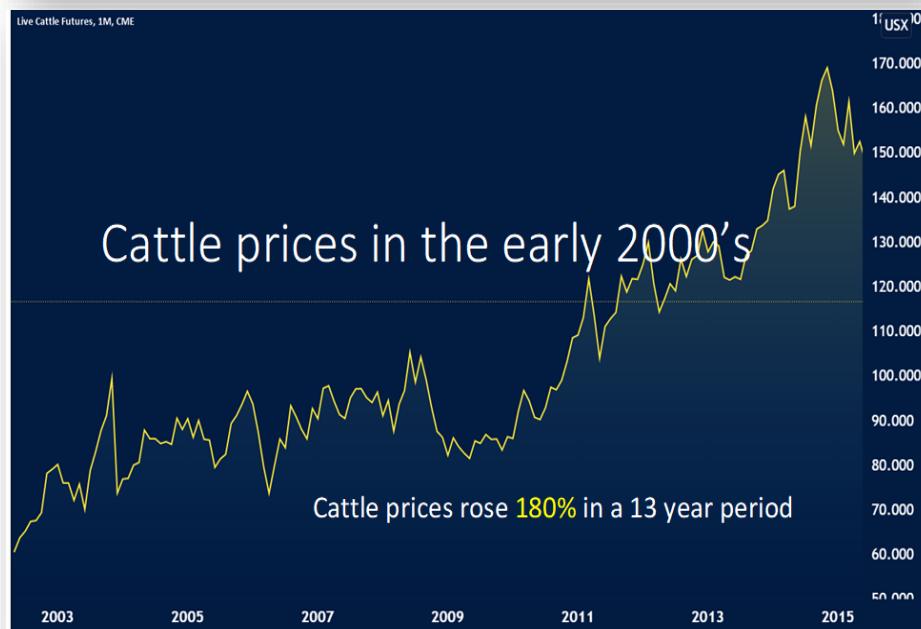
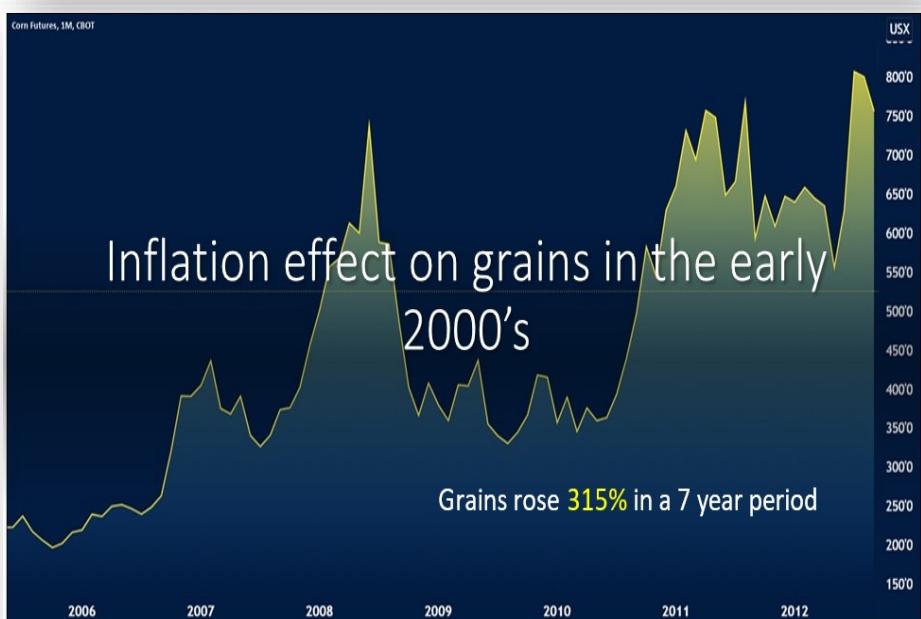
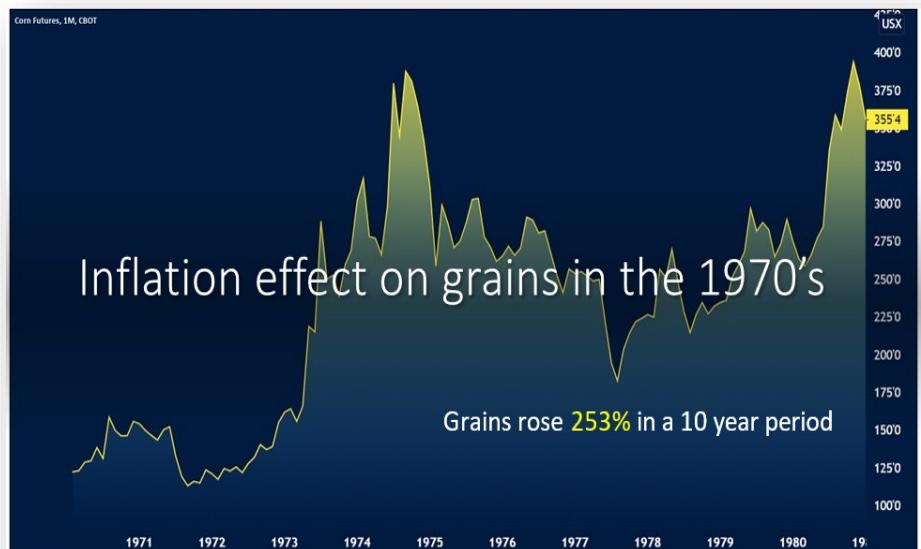
From the lows to the highs, we could expect the following prices if we used a similar magnitude growth today:

- **Corn—\$11.52/bushel USD**
- **Barley - \$14.68/bushel CDN**
- **Fat Cattle - \$2.87/lb CDN**
- **850 lb feeders - \$3.43/lb CDN**
- **550 lb calves - \$3.93/lb CDN**

Do you believe it possible?

We should also note that amid the big run ups, there were often 40-50% price dips on the way up. You need to have price protection even in raging bull markets so you don't get shaken out along the way! Our optimism must also be tempered by fallout in the financial markets.

Historical look at previous commodity bull market cycles...



Mystery chart...

Guess what this unnamed chart is comparing...



The red line at the bottom is cattle prices since 2010, up a paltry 26%. The yellow line is John Deere's stock price up 400% in the same time frame. Investors who see agriculture as a stable investment pile into the few agriculture stocks out there, blowing them into a big bubble. Eventually ag investment capital will have to roll out of stocks and into the producers of the products themselves. This chart will come together over time.

This is typical of the overall markets. Stocks are expensive, commodities are cheap. It also says that equipment dealers are getting well rewarded while producers stagnate. Cattle producers will find ways to raise cattle with little to no equipment if possible. Let the cattle feed themselves with grazing systems (swaths, cover crops, bale grazing) rather than mechanized feeding methods.

Cows in Control, serving the cattle producer

Thoughts on the industry

This issue doesn't seem to be very cattle focused for a cattle publication, what the heck? We wanted to highlight for you this huge trend change in the works of higher inflation and commodity prices. Let us offer suggestion for how to manage your operations in light of this sea change:

- **Own cattle, lots of them** - cows and calves actually have the most leverage in a rising cattle price environment because the cow and the calf both rise in price, giving you a double whammy. Yearlings will work as well, they don't have the double torque of cows and calves, but you can run more of them with less overheads.
- **Breed your heifers** - bred cattle have more upside appreciation than feeder cattle. This is the year to breed your heifers. Don't buy expensive bred heifers, raise them, teach a young person how to calve heifers.
- **Forages are cheap, load up on them** - you can't give away forage bales right now because we had a good season. This is ludicrous in light of \$15/bu canola prices. Many forage acres in the prairies will be torn up to grow canola at these prices. Now is the time to load up on forage supplies before that happens. Hay will go back over \$200/ton.
- **Reduce grain usage** - grain is going to be very expensive going forward. Try to eliminate feeding grain to cattle where you can to keep your costs low. Focus on forages and grass, and cattle that don't need grain
- **Reduce equipment usage** - you saw the John Deere chart above. Equipment prices rise alongside grain rallies. Try and trim your equipment usage. You need a horse or quad, a dog, stock water, and good fences, what else?
- **Be careful with debt** - it is ok to use some leverage when prices are rising, but be careful. Rising interest rates can often accompany inflation rallies because borrowing demand increases when prices are rising. Banks get greedy.
- **Lock up land** - farmland is one of the best investments during an inflation boom, and the hardest to find in one
- **Manage risk** - the market will go up over time, but there will be jaw-dropping price drops along the way. It's not as simple as hanging on for the ride. If you manage the dips along the way, you will double your profits. 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...I WILL PROVIDE GRASS IN THE FIELDS FOR YOUR CATTLE, AND YOU WILL EAT AND BE SATISFIED." - DEUT. 11:13