

THE WATER TROUGH

Cows in Control Newsletter

June 2022

Always look on the bright side...

The world can be tough, mean and thoughtless sometimes to those who are working so hard to make it a better place, keeping food on the table and keeping capital and jobs flowing. A good friend of mine said “recessions transfer wealth from the undeserving to the deserving” (or to the rightful owners). Forward prices for cattle are looking positive. Rain has settled much of the drought issues. Grain prices may be cooling. No one likes Beyond Meat. Time to give thanks, celebrate the small victories. Be prudent with hedging the good prices, but have enough optimism to consider growth as well.

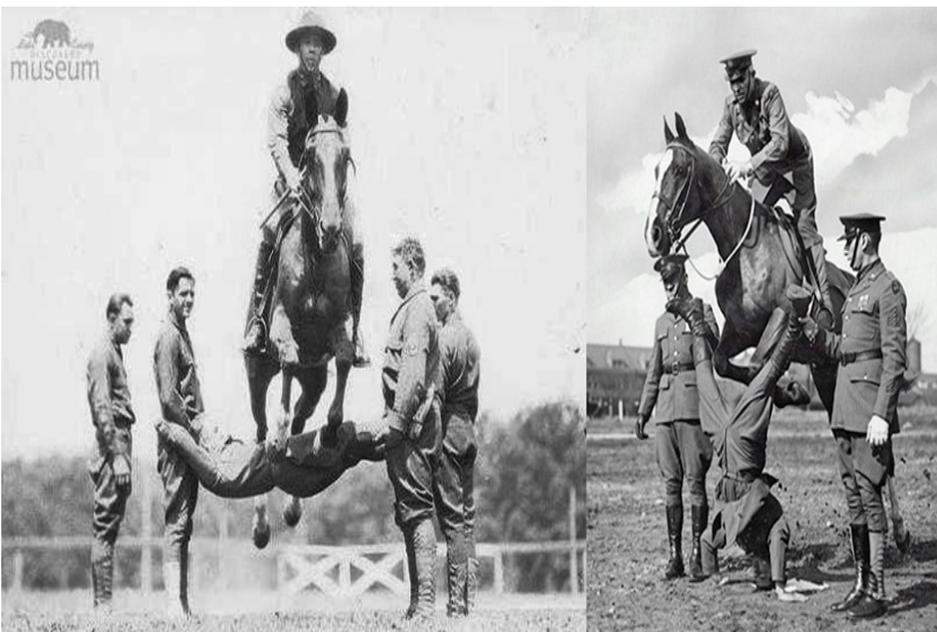
Cows in Control services:

- 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 pricing
- 4) Making sense of the markets

Give us a call for a free consultation

“When I was a boy, and I would see scary things in the news, my mother would say to me ‘Look for the helpers. You will always find people who are helping’”

~ Mr. Rogers



Now is the time to be brave, but balance feats of bravery with a bit of risk management!

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Breakout?...

Looking at the longer term feeder futures chart at left, it looks like feeders have finally managed to breakout higher at long last.

The next step above is around 195 which works out to around \$2.52/lb for an 850 lb steer in Canada. August futures are already pricing \$2.25/lb today. With 850 lb steers trading \$2.01/lb today that give us a good 25 cents of upside by August if futures hold.



You can see looking at the Canadian 8 weight prices above that we have been in a miserable downward slide since 2017, and are finally beginning to break out of that trend as well.

Fertilizer tripled this spring, hay prices tripled, gas, diesel and other inputs also rose significantly while cattle just trudged sideways to down. That is ending finally.

Using futures to price our fall grass yearlings, there is a good \$300+/head profit in grassers right now even from today's higher prices. You can lock most of that profit in today with options or a good portion of it in with fall LPIP.

Recession and a weak economy are putting pressure on markets in general and likely beef prices, so locking in those types of gains is a good idea even though we are bullish these feeders on their breakouts.

Seasonally, feeder prices rise from now until September. Get hedged now, roll up later.

The Marketing Buzz (June 24)

Canner cows, heiferettes and bulls

Cull cows: \$85-115 (avg. \$106 D2) **Heiferettes:** \$110-147

Cull Bulls: \$110-150

Breds Pairs: \$1675-2700

(\$1000 spread high to low)

Feeders *(8 weights steers are over \$2! Heifers are lagging.)*

Steers: 450 wts **Heifers:** 450 wts \$2.05

550 wts \$2.35 550 wts \$1.99

650 wts \$2.34 650 wts \$1.94

750 wts \$2.19 750 wts \$1.87

850 wts. \$2.01 850 wts \$1.75

Slide 550-850: 11 cents/cwt **Heifer:steer @ 750 lbs:** -32 cents

Finished Cattle

\$1.75 live; \$2.90-2.93 rail

Feeder Basis: -22 (futures) **Finished cattle Basis:** 0 (futures)

- 11 (cash) -10 (cash)

(Note: US cash slaughter prices are well above futures, futures don't trust the strength in the market. Feeder futures are August so they are pricing in a premium over cash, cash cattle could rise 20 cents to meet them!)

Who spooked who?



What if?

Many in the media seem convinced that we are headed to food shortages and higher grain prices. Most in part to the war in Ukraine, but also drought in South America, Canada, and the US the past year.

Stocks are tight. Cash prices for grains are well above futures prices even still. The war in Ukraine rages, grain elevators are being blown up, production is halved in Ukraine, Black sea ports are still closed.

Meanwhile, we have got rain in Canada and much of the US regions that were severely droughted out (not all, but some key regions). Brazil has elevators with soybeans and corn being piled outside on the ground as China has backed off their purchases. Now they have a grain surplus. Somehow Ukraine was able to export half of their expected grains (better than zero!).

The world made a one way bet on grain prices going higher.

Our barley prices as shown top right have broken support. Canola prices have collapsed. Short term blip or has something changed? Not sure yet, a major US grain report is coming out on June 30.

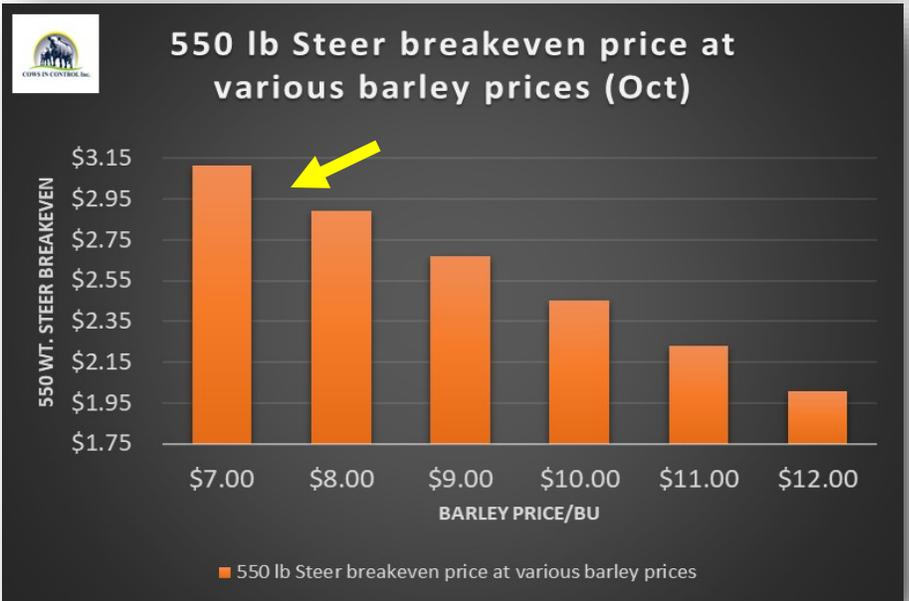
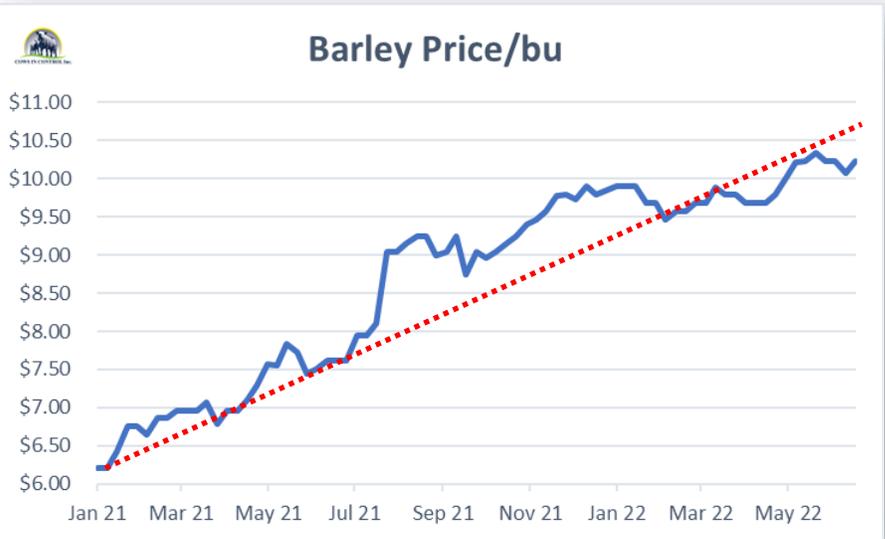
At bottom left are corn prices in the 1970's and in the 2000's. The corn rally lasted a full decade in both instances, but in between was a major 50-60% correction in prices before corn prices hit new highs.

A 50% correction in barley prices would bring barley down to \$7.50/bu. The middle chart is the break even price feedlots could afford to pay for 5 weight calves this October at various grain prices.

In no way are we predicting this yet, but there is a chance for higher calf prices this fall if the corn/barley crops get taken off in good shape despite all the negative news on grains.

Whenever the market is betting one way on a commodity, be ready to consider taking the other side.

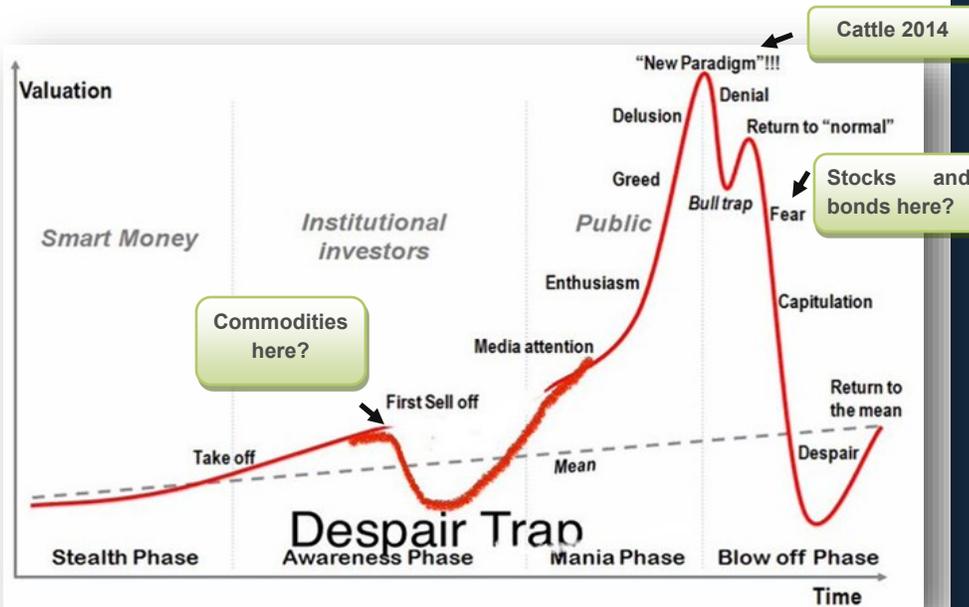
Keep your hedges up on cattle, but this is worth considering.



Check your emotions...

As humans, we need to check our emotions constantly in these markets. Markets are driven by fear and greed. So where are we in this cycle of fear and greed?

Stocks and bonds are a little easier to judge right now than cattle and grains. Stocks and bonds appear to be in the "fear" stage which can lead to further downside risk.



Commodities have had a nice run, but have we seen the public investing in them in a big way, the sign of a true bubble? Or is it still just institutional investors playing?

Hard to say for sure, but commodities though possibly due for a pullback, could still be in the very early stages of a bull run while the rest of the world is selling off.

Cows in Control, serving the cattle producer

Thoughts on the industry

In this issue, we have discussed breakouts in cattle prices, and potentials for higher prices amid all the doom and gloom in the world these days. I haven't talked to anyone who is actively growing their inventory, or is happy with the cattle business these days. That is the time when we should be paying attention. "Buy when there is blood in the streets" as the famous Baron Rothchild once said.

I am not smart enough to know where this market is headed, I don't think anyone is. All I know is what is certain. Grass cattle can be locked in today for a decent profit. Calves can be locked in higher than last year. There is a ton of doom in the market, yet further out futures are giving us a chance to lock in decent long-term returns if you capitalize on it. In the business of "hedging" or protecting your prices, it is never about what you think the market should do, but what you can do today with the tools available.

It is likely we are headed to a recession. It also seems like we may be in a cold war with Russia and the Eastern block (18 food processing plants have caught fire this year, an LNG terminal in Texas, and numerous gas and oil installations globally suggest the new war is about hacking monitoring systems rather than chucking bombs). This is par for the course for the time, but also the reason why real things like food and energy will take prominence over the luxuries of life like technology and consumer goods, even bigger and better houses. Our role as producers of essential goods should gain in influence rather than recede, despite the silliness of politics and public opinion today. Reprioritization.

Even though recessions can be hard on demand for high priced steaks and dining out, don't forget that 75% of the animals we produce contain lower-end cuts and hamburger which are staples. Rather than spending just 10% of our incomes on food, we are likely headed to paying significantly more, and scaling back on new cell phones, streaming services, and travel for example. This is how beef manages to stay high despite weak demand in tough economies.

A few inches of topsoil and some rain has always been what has supported society. Take care out there — 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