

# THE WATER TROUGH

Cows in Control Newsletter

July 2022

## As the world turns...

It is impossible to rationalize the fundamentals when analyzing how grains can make new all time highs and then give back 60% of their gains in a month or two despite a burning heat wave and 25% of the world's wheat supplies in jeopardy. Or what about natural gas prices that get cut in half in the worst energy crisis Europe has ever faced, and then regain their highs a month later. Are we having fun yet? This volatility can create major upside potential for our cattle prices but risk from the inputs side. We'll discuss how hedging can smooth that ride out for you.

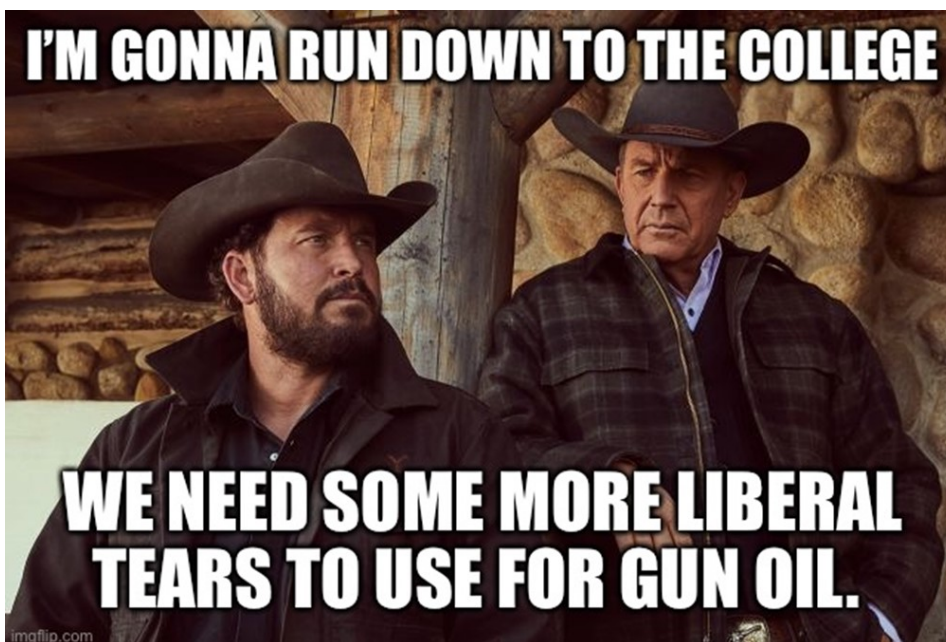
### Cows in Control services:

- 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

*"In the midst of chaos there is also opportunity"*

*~ Sun Tzu*

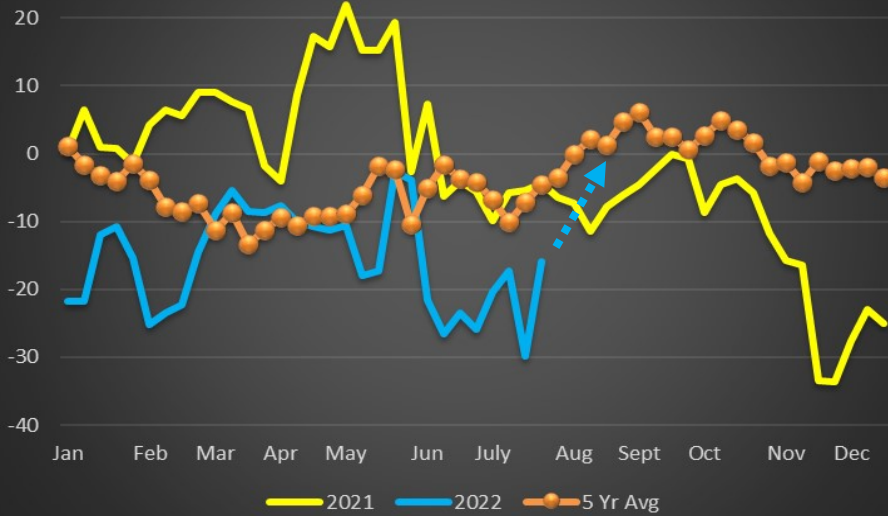


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- Thoughts on the industry



# Canadian feeder prices relative to US



## Canadians on sale...

A good way to look at whether Canadian cattle are cheap or expensive, going up or down is to compare them to US cattle priced in the same currency.

In other words, you take a US steer and an equivalent weight Canadian steer and price them both in Canadian dollars to compare. This comparison is what they call "basis".

Last year was a year of extremes for "basis". Typically Canadian cattle trade 5-10 cents cheaper than US cattle most of the year. By May of last year, Canadian cattle were trading 20-25 cents above US cattle. New feedlots were coming on stream, and demand was hot.

Then the drought hit and you can see that Canadian prices literally collapsed in June. Some drought subsidies helped stabilize prices, but a Cargill strike and later border closures due to the trucker convoy dropped Canadian prices to over 20-30 cents below US.

Canadian cattle have spent most of this year gaining back that basis until recently. Prices dropped in June partially due to late rains in much of the southern plains cattle areas in Canada, which pushed cattle into markets.

It also was simply a lagging of the enormous strength of the deferred months futures market from August on. Futures prices took off, and Canadian cash cattle were left on the docks. Lastly, grain prices dropped in the US faster than barley dropped in Canada which lowered domestic demand for feeders.

Reasons for our discount are disappearing however. Drought pressures are relieved, grains are dropping, cattle on feed are dropping. A trip back to the 5 year averages should be very likely.

A trip to 5 year averages means that Canadian feeders could rise 15-20 cents easily in short order. Low basis is a buy opportunity.

Canadian cattle on sale...

## The Marketing Buzz (June 24)

### Canner cows, heiferettes and bulls

**Cull cows:** \$90-119 (avg. \$111 D2)      **Heiferettes:** \$120-155

**Cull Bulls:** \$125-155

**Breds**      Pairs: Young: \$2500-3000; Older \$1700-2400

*(\$2300 spread high to low, what is the depreciation on a cow?)*

### Feeders

<b>Steers:</b> 450 wts \$2.46	<b>Heifers:</b> 450 wts \$2.08
550 wts \$2.39	550 wts \$2.14
650 wts \$2.33	650 wts \$2.12
750 wts \$2.20	750 wts \$1.97
850 wts. \$2.14	850 wts \$1.89

**Slide 550-850:** 8 cents/cwt      **Heifer:steer @ 750 lbs:** -23 cents

### Finished Cattle

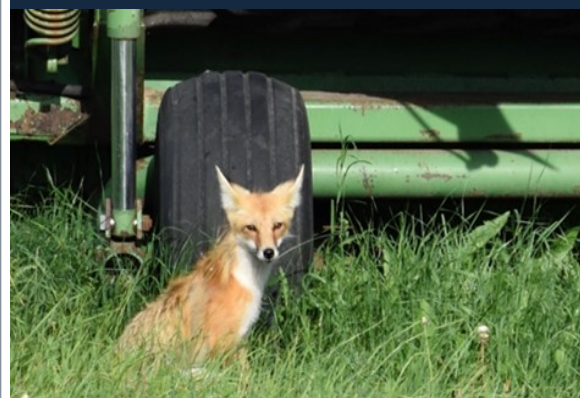
\$1.75 live; \$2.90-2.92 rail

**Feeder Basis:** -21 (futures)      **Finished cattle Basis:** -3 (futures)

-7 (cash)      -9 (cash)

*(Note: US cash slaughter prices are well above futures, futures don't trust the strength in the market. Canadian feeder prices are on sale!)*

Fox hanging out behind the haybine



## A look at the future...

Feeder prices are slowly ascending this summer according to their typical seasonal pattern of rising to their highs by August/September.

The top right graph shows the typical seasonality of prices for 8 weight steers. You can see the usual peak in the Aug/Sept period.

The middle chart demonstrates the futures projected price of Canadian 8 weight steers. Also included on this chart is the levels you can lock in today with options or LPIP feeder insurance net of the cost of these products.

Below that on the bottom graph is the futures projected price for 550 lb steer calves and again what you can lock in today with options and LPIP feeder insurance.

Both of the futures charts are demonstrating an uptrend that carries beyond the seasonal highs and continues to escalate in 2023.

Do you trust the traditional seasonality chart, or do we trust the futures market's projections for the true trajectory of prices into the fall?

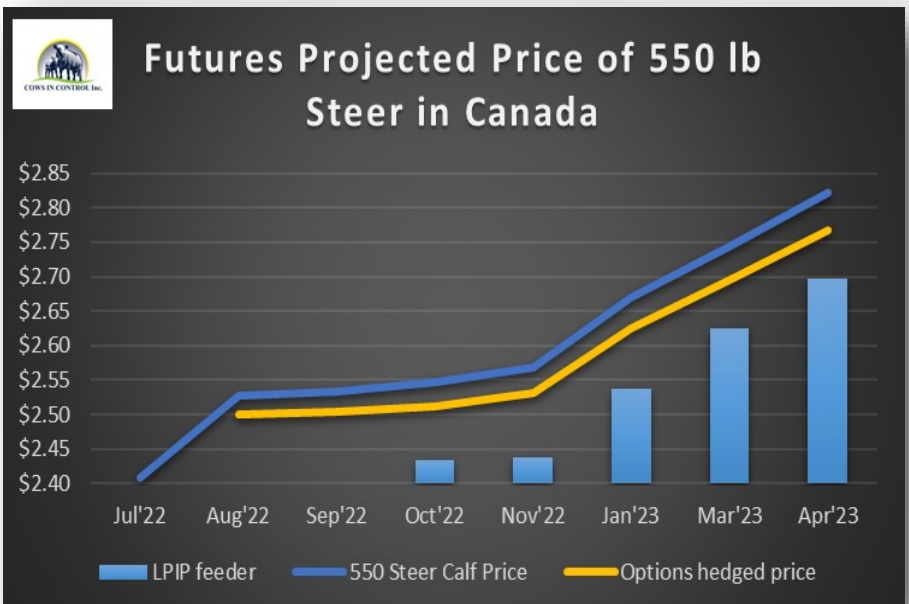
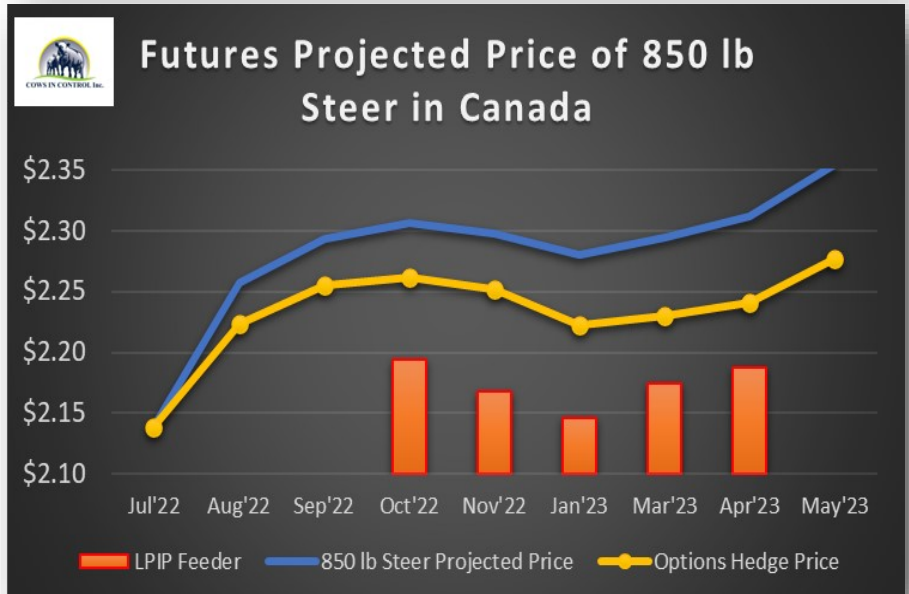
Whatever your viewpoint on this question, the undeniable fact is that you can lock in yearling prices 10-15 cents higher than today's levels going out to October and as far out as May.

Deferred calf prices are even more lucrative. You can lock in \$2.50/lb going out to Oct/Nov and significantly higher further out if you plan on light backgrounding.

Forward cash sales in the US for the fall have been as high as \$2.10-2.30/lb USD which equates to \$2.65-\$2.90/lb CDN which is again higher than even futures are projecting.

There is bullish optimism in this market despite rising recession fears, rising rates, wars etc. Perhaps take advantage of the optimism while it is here and consider locking in some of these prices for your fall sales and spring backgrounding. If you are wrong and lose money on your hedges that means cattle prices rose. No harm.

### Futures prices...



## It's "natural" gas, Greta...

Since 2020, natural gas prices in North America have risen from \$1.50 to \$9/mmbtu, a six fold increase in prices. What a significant lift, driven by failed government energy and environmental policies creating massive underinvestment in baseload energy sources and over-investment in inefficient renewables. Greta Thunberg told us to.



Europe is in even worse shape. Nat gas in Europe went from 4 Euros to over 200 Euro's per MWH, a fifty fold increase in prices! That equates to around \$60 USD compared to our \$9 in North America, and it only costs \$3 to convert our gas to LNG and send it over. Where do you think our nat gas prices will go in light of that?

Russia is cutting its Nord stream pipeline feeding Europe down to 20% capacity. What do rising nat gas prices do to fertilizer costs going forward, or factories in Europe that run on natural gas? All of this is very inflationary as energy use can be quite inelastic.

We are working with clients to find ways to hedge nat gas prices to protect our fertilizer, feed costs as well as utility and energy expenses.

Cows in Control, serving the cattle producer

## Thoughts on the industry

These are definitely turbulent times. Grains made all time highs during the Russian invasion of Ukraine only to collapse in the last two months taking grain prices right back to where they were before the entire country of Ukraine was taken off the global grain export stage. Its like the war never happened, 25% of the world's grain magically reappeared. Right.

Natural gas prices rose from \$1.50 - \$9, then got cut in half in the month of June, only to regain the highs one month later. Fertilizer prices tripled this spring, and have now given back 40% of those prices while half the world's fertilizer production area is in a warzone. What are next spring's fertilizer prices going to be? You tell me, but I'd be looking.

We saw much of this type of volatility in the 1970's as well as early 2000's, the previous two major commodity cycles in our recent history. We blame grain and natural gas blow offs on weather, wars and whatever reasons of the day are around. The reality is that these commodity cycles just happen periodically when commodities are undervalued too long and need a revaluation higher to keep up with inflation, the economy, money supply, etc. We are in one of those cycles now, and they often last 10 years as the rest of the economy slows.

In both the previous cycles, there was a 50-60% correction in commodity prices in the midst of the cycle before commodities pushed to new all time highs. Grains increased four fold in the 1970's and 2000's cycle, cattle increased three fold. We may be in the midst of that commodity correction period now, which means new highs will lie ahead for grains and cattle.

Cost inflation due to commodity prices rising really takes a bite out of household wealth and increases business costs. Fortunately cattle and land prices generally rise in an inflationary environment which allows ranchers to weather the storm better than many of our urban friends. It is important however to play the volatility. Lock in sell prices when they get elevated, or fix input costs such as natural gas when it got cut in half and regained its highs just one month later. These are opportunities to smooth out the risk in your operations using hedging amid the chaos. Otherwise it will feel like you are out there in a paper boat on the ocean in a storm. Hedge profits take away alot of that feeling.

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