

THE WATER TROUGH

Cows in Control Newsletter

October 2022

Have trouble sleeping at night?

...well have we the solution for you. In this issue we will discuss how these high priced calves this year still pencil a healthy profit if you wish to back-ground or take them to grass next year. Today, you could lock in enough margin on your calves to give you many a night's rest, and give you energy to deal with the myriad of battles that come at us each day. Don't let market risk be one of them. We will also discuss some turmoil in finished cattle pricing and question the idea of feeding cattle to such gargantuan weights in feed-lots. Enjoy!

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

"Even if you are on the right track, you will get run over if you just sit there"

~ Will Rogers



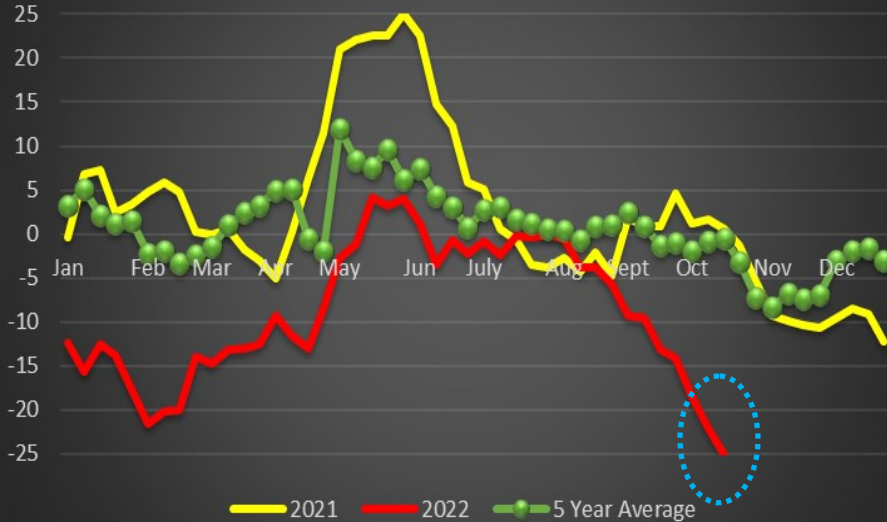
The dream of early ranchers, are we there yet?

In This Issue

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CDN Finished:US Finished Basis



Canadian barley is falling behind corn...

Something is broken...

Canadian finished cattle prices are now trading at a 25 cent discount to US finished prices when priced in Canadian dollars. They should instead be trading at near zero basis.

That is \$375/head that Canadian feedlot producers are not receiving relative to their US counterparts. Something is broken.

If we take the US Composite cutout value of \$2.53/lb that gives packers about a breakeven live buy price of \$1.78/lb in Canada. Packers are actually losing money at these cutout levels. Of course we don't know this for sure, because they don't report their cutout prices, but we will deduce this from US numbers.

With 15% more inventory on feed in Canada than 5 year average levels, our packers are well supplied and digging their heels in to not pay any more than they have to while packer margins are down.

This is one theory for low Canadian prices.

Another theory is that there is something wrong. Packers are struggling with inflation, too much regulation, or something is ailing the sector, and they are passing on their woes to the feedlot sector. Reports are circling of cancelled contracts. Time will reveal this to us. We are trading lower than last year's Cargill strike and even the convoy border closure.

Canadian calf and feeder values are still near the highs reached in August/September and haven't reacted to these weak finished prices.

It is suggested that if feedlots are receiving a -25 basis (-\$375/hd) and feeder prices are trading at no discount to US prices, that there could be some near term weakness to expect in yearling and calf prices in Canada.

Meanwhile US prices are breaking to new highs and pointed bullish. Hold off on Canadian cattle purchases and get long paper.

The Marketing Buzz (October 21)

Canner cows, heiferettes and bulls

Cull cows: \$80-113 (avg. \$104 D2) **Heiferettes:** \$110-150

Cull Bulls: \$120-160

Breds

Pairs: none reported. \$1300 calf + \$1300 cull cow value

Breds: no commercial sales reported (\$2200-2600?)

Bred heifers: no commercial sales reported (\$2400-3000?)

Feeders *(heifers are off a full dime, steers flat from last month)*

Steers: 450 wts \$2.98 **Heifers:** 450 wts \$2.39

550 wts \$2.67 550 wts \$2.26

650 wts \$2.55 650 wts \$2.20

750 wts \$2.48 750 wts \$2.17

850 wts. \$2.38 850 wts \$2.12

Slide 550-850: 10 cents/cwt **Heifer:steer @ 750 lbs:** -31 cents

Finished Cattle

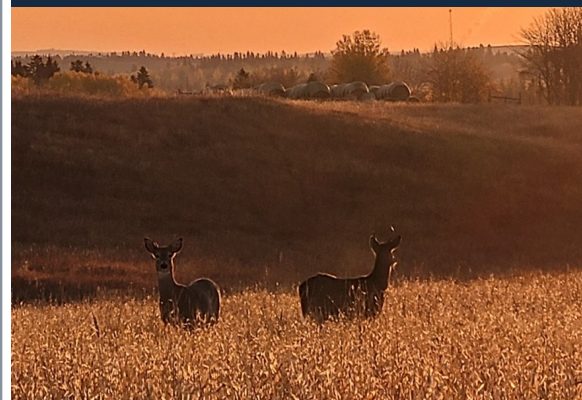
\$1.81 live; \$2.99-3.01 rail *(hasn't moved!)*

Feeder Basis: -1 (futures) **Finished cattle Basis:** -25 (futures)

+2 (cash) -26 (cash)

(Note: Something is wrong with Canadian red prices! Too low!)

Fall morning colours...



Backgrounding heifers...

Backgrounding...

Many calves have sold near or over the \$3/lb mark this fall. With barley near \$10/bu and calves near \$3/lb is there any sense at all in even talking about backgrounding?

The answer is a resounding YES! These calves work, they are penciling very well, especially the light ones including heifers.

A 1000 lb feeder heifer for next September is over \$2500. You can lock that in today with futures.

At top right you can see the gross margin returns for buying a 5 weight heifer today, backgrounding til May, and then going to grass next summer. Over \$600/head gross margin returns.

The middle graph is the projected price of an 850 lb steer based on the futures projected prices. Shown also is what prices you can lock in today with either options or LPIP feeder insurance net of the cost of premiums for both of those.

The bottom chart is the difference in price between 5 weight steers and heifers. Heifers have never been cheaper relative to steers.

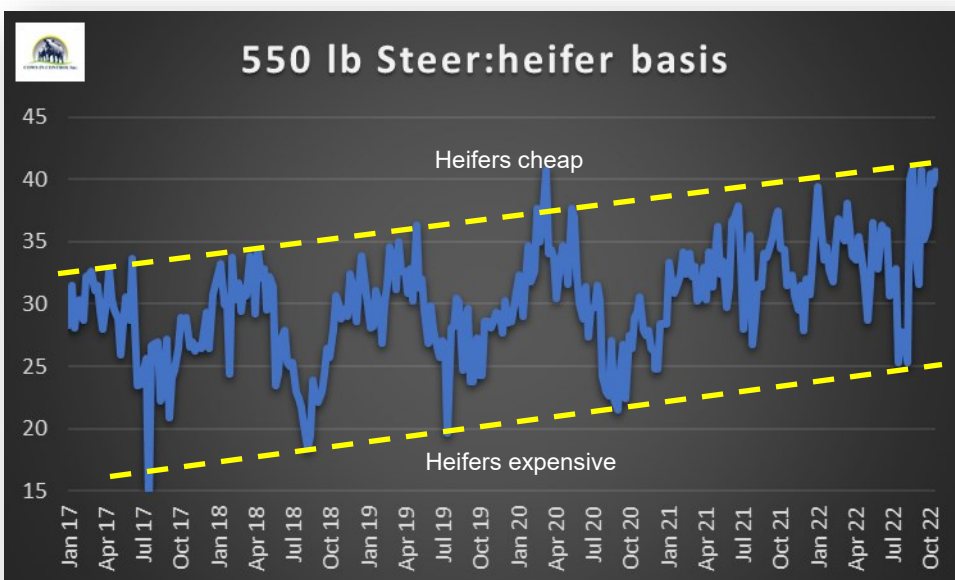
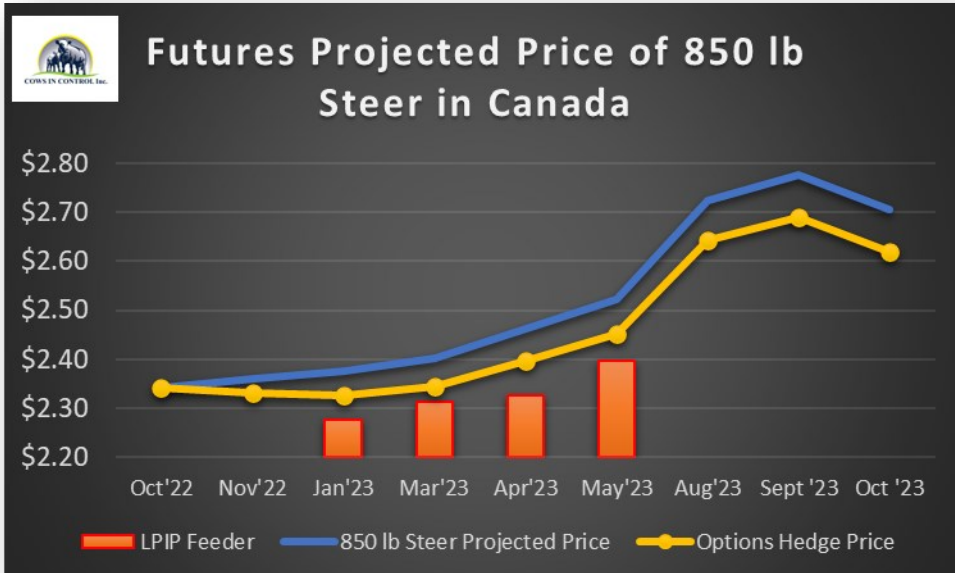
Why? The average steer carcass weight is 972 lbs today. That is an 1800 lb live animal. It is hard to make heifers get up to 1800 lbs, and their finishing cost of gain can be 15-20 cents more expensive than steers. Feedlots prefer steers.

However, if you slow-raise heifers by backgrounding and grassing them, that conversion difference and steer: heifer discount shrinks the older and larger they get.

This is how ranchers take advantage of the feedlot's bias for steer calves over heifers. If you are not paying attention when selling your heifer calves, the volatility of the steer: heifer calf price ratio can be as much as 20 cents. Watch the ratio for timing heifer sales.

So if you are backgrounding, take advantage of the high futures prices further out. Lock up your Canadian dollar, try to fix your feed costs and enjoy a good turn in backgrounding.

25-Oct Buy:	500 lb heifer @	\$2.32 /lb =	\$ 1,160	500 lbs
20-May Background to May:	\$ 3.00 /head/day	1.5 lbs/day =	\$ 621	811 lbs
30-Sep Grass to September:	\$ 0.95 /head/day	1.5 lbs/day =	\$ 126	1010 lbs
Breakeven	1010 lb heifer in September:		\$ 1,907	
			\$ 1.89 /lb	
	Futures projected price in September:		\$2,535	
			\$2.50 /lb	
	Gross Margin Profit		\$628 /head	



Feeding elephants...

The average steer carcass weight in Canada is now 972 lbs. This puts the average live steer somewhere near 1800 lbs. If that is the average, it means that half the steers are heavier than that. At this weight, to date this year 83% of the animals are yield grade 2,3, and 4 or below. It also highlights how many dairy cattle must be in the system because there aren't too many beef cattle that comfortably finish over 1800 lbs. It is long-fed Holsteins that bring that weight average up.



Of course, when we feed animals to 1800 lbs, their trim is mostly fat (<50% lean), but retail likes 85% lean trim product, so we must blend them with 90% lean cows and bulls or lean import beef/cattle. As Canada's cow herd shrinks, it will be harder and harder to find lean product to blend and we will have to rely more on imports and dairy cattle.

Or, packers could put carcass limits, focus on yield, and solve this fat problem tomorrow. Our cattle industry is in the grain marketing business through elephant sized cattle chasing marbling. It may be time to assess if this is indeed the path we wish to be on. Is marbling at all cost, high grain/low forage cattle production really what is best for the industry? Should Canada market quality as something more than simply marbling?

Cows in Control, serving the cattle producer

Thoughts on the industry

The cattle industry has survived a nasty drought year. We have also watched as fertilizer prices have tripled, feed prices have risen and energy costs have escalated due to droughts and wars mostly in other places on the globe. Now we are scrutinized over methane reductions, fertilizer emissions targets, carbon taxes, plant based meat alternatives and the usual property rights issues we deal with on a daily basis.

It seems overwhelming and certainly can be, so keep your mental health in check. Thankfully the good Lord gave us the outdoors and beautiful creatures to work with that keep the sanity levels in check when all around us seem to have lost their common sense. A good sunrise, or sunny day on a saddle horse can cure a lot of ills of the heart and head.

This year has started to reward us for some of the pains and trials of the past few years with higher cattle prices. Our goal at Cows in Control has always been to help ranchers get some more sleep at night by taking the risk out of market movements and shield us from the insanity of urban driven markets. We have enough to deal with battling the elements, we don't need the risks that come with market melt downs and wars. But at times, we can use these markets to our advantage to de-risk our operations.

Right now the futures market is pricing in much higher prices towards the end of the year. These are prices we can capture and lock in with hedging tools that can shelter you for up to nearly a year. All the myriad of stressful triggers that accost us in any given year: politics, wars, droughts, environmentalists, vegans and busy-bodies can not stop you from locking in pretty amazing backgrounding and 2023 grazing returns today. Knowing your margins are protected gives you resources and mental energy to go out and fight those battles as they come.

The next few years should start to prioritize real things like food and energy and take us to higher prices. No journey to a mountain top is without risk, toil and valleys along the way. We will keep trying to eliminate the known, manageable risks so we can tackle the unforeseen ones as they come. 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