



THE WATER TROUGH

Cows in Control Newsletter

December 2022

Merry Christmas!

We at Cows in Control, are thankful for you, our loyal and dedicated cattle producers for the thankless work and service you provide our society. Traveling around, looking at the beautiful ranchlands preserved and sustained by hard work, and that most beautiful of all creatures, the old cow, we get instantly reminded of the beauty of the system you maintain. Converting solar energy preserved in grasslands into useful products that feed and sustain us all, as well as nurture the environment the world is so fearful about. Keep in the game! You are doing good work, the world will realize this soon enough. Thank the Lord for the season and His provisions!

"For God so loved the world, that he gave His only begotten son, that whosoever believes in Him should not perish but have everlasting life"

~ John 3:16

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



"Seeing Santa Clause" -

Charles Russell

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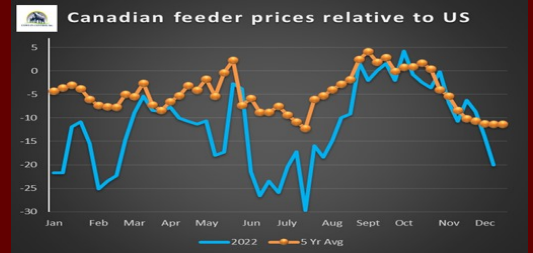
CDN Finished Price Compared to US



Packers play hard ball...

Canadian finished cattle are holding 25 cents cheaper than the US and have been since October. That's around a \$400/head discount.

Feeders have fared much better than the finished cattle, but as you can see below, they are now starting to drift lower in sympathy. Feedlots can not afford to keep paying up for feeders and losing it on the finished end.



Canadian cattle still on sale..

What's causing all this? Not sure. We have been pointing it out since October and really all year. Exports are good, imports are down. Cattle on feed are high, but under last year.

US packers in Washington and Utah have slowed Canadian cattle purchases. As new packing space opens up in the US this year, this basis should improve and normalize.

Packer margins are tightening, but new packing space is opening up in the US which will drive more competitive pricing of our cattle which should strengthen our prices.

The Marketing Buzz (December 9)

Canner cows, heiferettes and bulls

Cull cows: \$65-92 (avg. \$82 D2) **Heiferettes:** \$120-155

Cull Bulls: \$100-150 (\$2500-3000) *(hold your culls! Better prices ahead)*

Breds Pairs: n/a

Breds: \$1325-2800 *(whew, what a range!)*

Bred heifers: \$1775-2950 *(quality matters!)*

Feeders *(heifer calves 47 cents back from steers, load up!!)*

Steers: 450 wts \$2.97 **Heifers:** 450 wts \$2.37

550 wts \$2.72 550 wts \$2.25

650 wts \$2.50 650 wts \$2.15

750 wts \$2.40 750 wts \$2.07

850 wts. \$2.31 850 wts \$2.01

Slide 550-850: 14 cents/cwt **Heifer:steer @ 750 lbs:** -33 cents

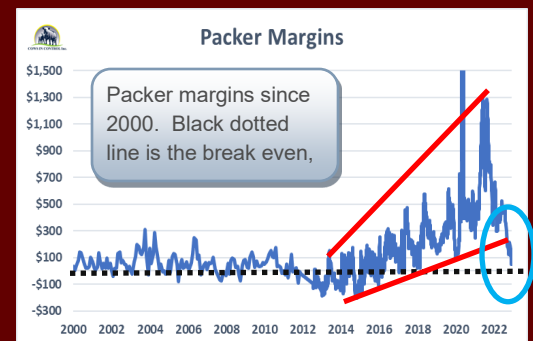
Finished Cattle

\$1.86 live; \$3.035 rail

Feeder Basis: -20 (futures) **Finished cattle Basis:** -24 (futures)

-13 (cash) -27 (cash)

(Note: Something is wrong with Canadian prices! Too low! Canadian cattle are on sale!)



Snow doesn't mean the end of grazing...



Positive margins...

As much as possible, we try not to predict prices. Instead, we look at the futures market to what margins we can actually lock in today for the future to take out the guess work.

With our weak relative Canadian cattle prices now (weak basis), feeders are cheap to purchase relative to what futures expected end prices are looking out to next fall.

The futures market is pricing in some large upside due to shrinking herd inventories, more packing space opening up, and demand staying relatively flat (for now).

You can see upper right, the returns per head that can be locked in with futures or options. Pretty impressive, especially taking light heifers to grass next summer.

The middle graph shows projected prices using a somewhat normalized Canada/US basis looking ahead. Calves near \$3/lb and 850 lb steers around \$2.70/lb by next fall. Not bad.

The bottom graph is the feeder futures chart going back to 2020 Covid lows. You can see the up-trend, but also the repeating pattern of flat, choppy prices from September to May, and then the explosion in prices from May to September each year.

Will this seasonal pattern repeat this year again? Not sure. Fall futures prices are where the yellow star is at. A lot has to go right to get there, but it is feasible with where our inventory numbers are.

The point in all this is that futures are pricing in optimum conditions and higher prices. Reality is that we have recession fears, war, China in Covid lockdowns, rising interest rates and inflation playing havoc with consumers, energy issues, and a host of other worries.

When you can lock in these types of returns with our hedge tools, why would you not do so, and rest easy until next fall? No matter what fears and worries come about, your cattle are locked in at substantial margins. This is sustainability.



Hedgable Profits/Losses per Head by Weight Class

Summary for

December 9, 2022

	Back ground	Finish	Grass (2023)	Breed (2023)
Steers				
450 lbs	\$ 420	\$ 378	\$ 560	
550 lbs	\$ 264	\$ 301	\$ 471	
650 lbs	\$ 190	\$ 142	\$ 229	
750 lbs	\$ 150	\$ 104	\$ 184	
850 lbs	\$ 129	\$ 87		
Heifers				
450 lbs	\$ 498	\$ 375	\$ 686	\$ 365 @ \$2200 bred
550 lbs	\$ 539	\$ 264	\$ 583	\$ 210
650 lbs	\$ 280	\$ 172	\$ 385	\$ 69
750 lbs	\$ 329	\$ 179	\$ 380	\$ (86)
850 lbs	\$ 380	\$ 187		
Cows	\$ 443	\$ 343	\$ (88)	\$ 209
Feeder Basis:	\$ (13.5)		Fat Basis:	\$ (24.3)



Futures Projected Feeder and Calf Prices in Canada



Thoughts for 2023...

Looking at the number of bred cow sales this fall (an extraordinary amount), we know this old cattle business has been in some trial and tribulation. Hopefully we are at the start of a new, very strong bull market. **Lets look at some thoughts for your operation in the coming new year:**

Manage debt levels - interest rates are on the rise. 7.5% interest rates mean a loan on your \$2000 cow is adding \$150/cow/month in interest cost if using debt.

Cows need to feed themselves - Inflation is causing equipment, fuel and all other costs to rise. Cattle can and will feed themselves without mechanical input. Bale graze, swath graze, standing corn, stockpiled forages. Seek to have cattle feed themselves as close to 365 days a year if possible. Park the equipment.

Optimize your mix - Ideally a cattle ranch should be a third cows, a third yearlings/calves, and a third feed production. Yearlings provide cash flow, and liquid inventory in a drought or to play market highs/lows. Global fertilizer will be tight looking ahead, make sure you have enough feed production. Don't be 100% cows.

Keep cattle on the ranch as long as possible - transportation and sales fees are expensive, especially with energy/trucking shortages. Move cattle less, save transaction costs. Avoid shrink losses. There is around \$200/head in shrink losses from weaning to the packing plant and at least \$75/head in transport costs from wean to background lot to finishing lot to packer.

Capture your carbon - though in its infancy, the carbon market is real. Ranchers are sinking 1-4 MT/acre/year of carbon on average. At \$50/MT that could be \$200/ac we should be receiving for the work we do preserving grasslands.

Get to know a farmer - the era of putting 100-200 lbs/ac of fertilizer on a crop may be ending. Much of our global fertilizer comes from China, Russia, Iran, Africa and other unstable partners. Farmers will need cover crops, legumes and livestock to get the fertilizer they need going forward. You are the solution!

Manage your risk - higher prices mean higher downside risk. Have a plan!

Pass it on! - Focus on transition and getting the next generation involved!

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

Merry Christmas to all!

We want to especially thank our clients from BC to Manitoba and even Montana. We have some very wonderful clients. Loyal, enthused, hard working, and progressive. What a blessing to serve such a group of people who we believe are truly making the world a better place. You keep grasslands alive, you feed us, keep your local communities active, work selflessly despite challenge. When I get discouraged by the attacks on our industry, I am reminded of the good people in this industry and immediately am lifted and motivated to push on. Good times are due and coming to you.

2014/2015 gave us a taste of what a good, profitable industry could look like. Unfortunately it was a very short lived and in my opinion pre-mature cattle rally. We had one good year of exceptional prices. I truly believe we are entering a new cycle of much higher relative commodity prices in general for longer, of which cattle will be a part.

The era of tech and financial asset speculation may be outshined by an era of valuing the "real" things that sustain day-to-day life. Food, energy, materials, and hard working people. These things have been underappreciated in a world that has recently hit 8 billion people as of November. We need to start focusing on these hard assets if we are to sustain our global population in the opulent state we have now grown accustomed to.

Recently, I heard our Prime Minister say that preserving the environment is our most important task. I disagree. I think preserving people and the well being of people is the most important task. That includes preserving the environment we live in, but also ensuring our world's population is well fed and the energy and materials that sustain us continues to flow.

Christmas is a time to reflect on our blessings. On a cold winter morning, I am thankful for a fridge full of food, family, heat flowing from my furnace, cattle in the field, freedom of religion, the Charter of Rights and Freedoms in our country, the hard working people that make all of our modern life possible. We have much to be thankful for and this is what I choose to focus on this Christmas! Thank you cattle people for all you do! Take care out there — RC