

THE WATER TROUGH

Cows in Control Newsletter

August 2022

A time to plant...

Ecclesiastes talks about there being a time to plant and a time to uproot. It certainly hasn't felt like a time to be digging in roots in the cattle industry, but it is usually at times of maximum pessimism that we should be doing just that. Not a lot of love out there for poor old cows, but anyone with a bit of knowledge of how nature works knows that cows are the solution to the fears our urban brethren are worrying themselves sick about. Carbon, water, fires, food crises, fertilizer shortages, even energy (cattle are net producers of energy on a calorie basis). A bull market lays ahead for cattle and an awakening. It is time to plant, build, go for it. Just mind your risk along the way.

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

"Invest in inflation, it is the only thing going up"

~ Will Rogers



Maybe this is the solution to cow burps?

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550 lb Steer breakeven price at various barley prices (Oct)



Calf break evens relative to grain prices...

\$3 calves?!...

Forward internet sales are happening now and we are seeing some of the light weight calves selling for the fall at prices over \$3/lb. Finally!

Are those prices justified? Absolutely.

At \$7.50/bu barley and with June live cattle futures at over 153 (\$2/lb finished price in Canada), feedlots can pay \$3 for a calf and still breakeven.

All of this is being fueled by strong futures prices and lower grain prices. September is the seasonal low period for grain prices as it is the typical harvest season.

However, should grain prices begin to rally once again, you can see the stair stepping down on calf prices at left as grain prices increase without a corresponding lift in cattle futures to offset the rise.

One of the most effective things you can do to protect your calf, yearling, and backgrounder prices for the next 6 months is to put on grain hedges that allow you to get long on the price of grains. The profits from being long grains will offset the drop in cattle prices that could result from rising grains. Every \$1/bushel higher is about \$0.20/lb off your calf prices.



You can see the nasty drop in the price of corn in June/July, but this corn chart is pointed higher again. Hedge accordingly.

The Marketing Buzz (August 26)

Canner cows, heiferettes and bulls

Cull cows: \$90-124 (avg. \$116 D2) **Heiferettes:** \$120-155

Cull Bulls: \$115-160

Breds Pairs: \$1950-2475

(\$1500 calf and a \$2000 bred cow make these seem too low)

Feeders *(load up on heifers, the market is broken on pricing them)*

Steers: 450 wts \$2.69 **Heifers:** 450 wts \$2.27

550 wts \$2.59 550 wts **\$2.18**

650 wts \$2.50 650 wts **\$2.18**

750 wts \$2.44 750 wts **\$2.19**

850 wts. \$2.37 850 wts \$2.13

Slide 550-850: 7 cents/cwt **Heifer:steer @ 750 lbs:** **-25 cents**

Finished Cattle

\$1.80 live; \$2.99-3.01 rail

Feeder Basis: 0 (futures) **Finished cattle Basis:** -3 (futures)

0 (cash) **-7 (cash)**

(Note: Canadian feeders were over 20 cents behind US cattle last month and have caught right back up to par!)

Look who's hanging out in our hayfield



Seasonality in bull markets...

Seasonality is about 75% of your decision making tool when deciding when to sell your livestock or when to put on price protection.

Seasonality is the typical supply and demand fundamentals based on normal processes of the cattle industry. For example, calves are born in the spring and weaned in the fall. Therefore you know there will be an abundance of calves available in the fall.

Or, many yearlings will typically be on grass in August/September, so there is a shortage of yearlings on the market in those months all while feedlots are flush with feed. A good time to price yearlings.

This is the time of year when we should be looking at forward sales or putting hedges on cattle we intend to sell in the next 6-8 months.

However, what about in bull markets? When there is a shortage of cattle overall, prices can stay high for longer, often well into late fall. We can see this in the middle graph during the 2010, 2013, and 2014 bull markets.

The bull market we have this year is a very strong one. Perhaps that strength will carry into the later fall and spring. In that case, you want a hedge tool like LPIP or options that give you upside, while locking in the floor price rather than a forward sale that caps your gains.

What about if grain prices take off, or cattle futures cool because of a slow down in demand? Looking at the top graph, we suggest you find a way to protect these good prices while they are here.

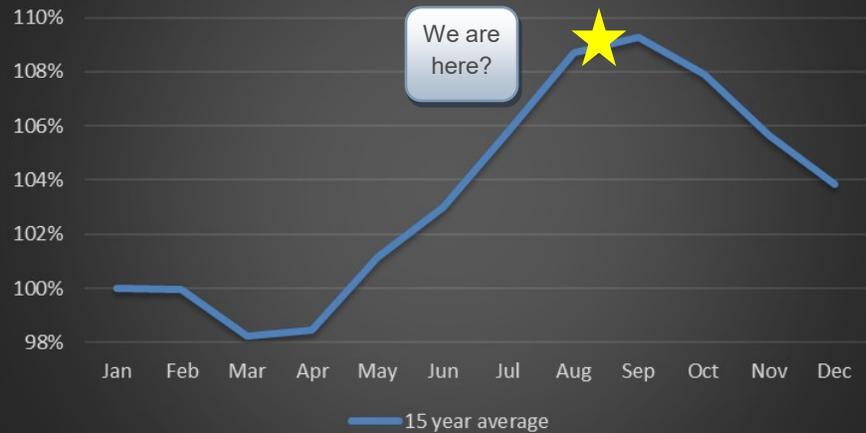
If you plan on backgrounding, there are decent returns that can be locked in today for your 550 lb calves this fall. With current grain prices, the harder you push the calves, the better the returns.

Lock in your grain prices, lock in your cattle prices and Canadian dollar and you should be pleased with the returns.

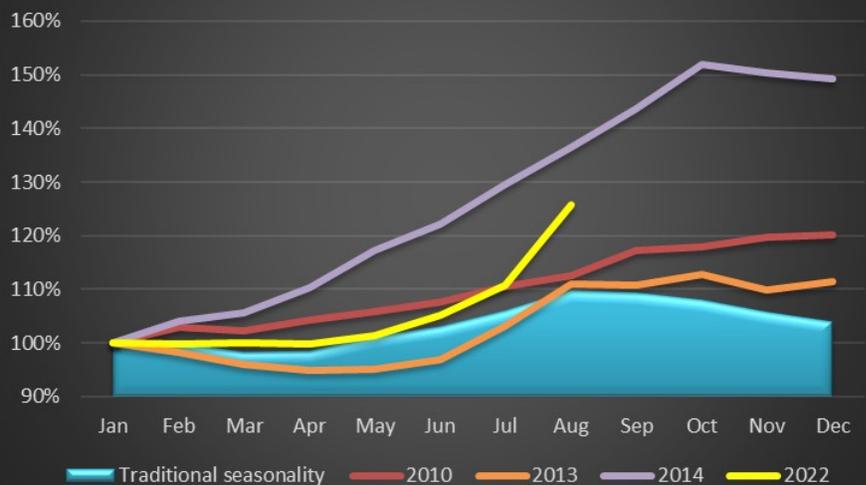
Seasonality...



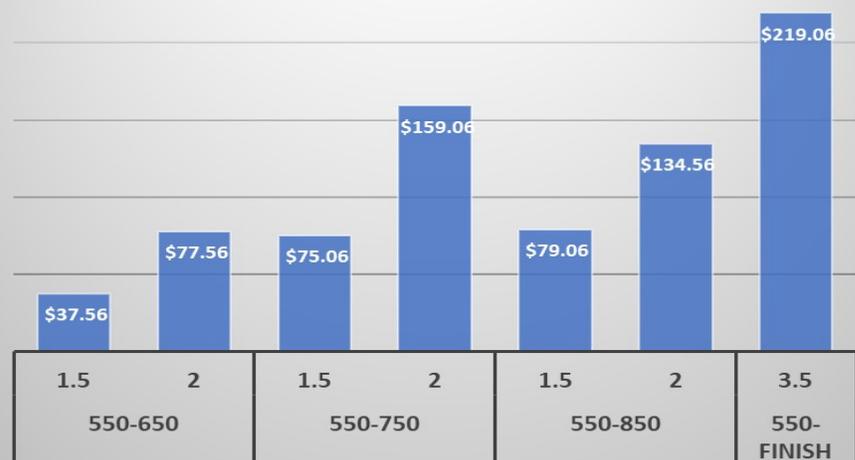
850 lb Steer Seasonality



Feeder price seasonality in rising markets (Ex. 2010, 2013, 2014)



Backgrounding/Feeding Returns



The air up here...

If you ever want to get some perspective about where things stand generally, look at long term charts. This is a chart going back to the 1970's. I think it gives pretty good perspective of where we can expect cattle prices to trade in the next while as we enjoy a new cattle cycle of lower inventories and strong demand.



We have now just broken into the new higher range as we are looking at the lowest herd inventories in 40 years. These sideways trading ranges are pretty reliable.

2014/2015 was an anomaly, a short lived bull market blow off that took us prematurely into a new trading range, but quickly reverted back into its previous range in 2016

This time is "for real". This cattle cycle should keep us in this higher range for a good while, and we've only just entered it. There is a lot more upside potential to get us back to the 2014 highs. But also note how wide the range is. There is 30-50% price volatility in this new range from high to low. Learning how to protect prices in this wide range will be a key survival tool looking forward. Better prices, more volatility ahead.

Cows in Control, serving the cattle producer

Thoughts on the industry

The bull market of 2014/2015 was a cruel tease to cattle folk. We were teased with \$3 calves for a brief period and then it all came slamming down in 2016 when calf prices collapsed to \$1.80/lb. Ouch. Heartbreaking.

This time around we are finally seeing \$3 calves again, and hopefully it will stick around for a while. The 10 year cattle cycle is still intact, and the peak is not anticipated for another couple of years yet. The drought liquidations of the past year will only fuel the longer term rally as cow slaughter is up 22% on the year in the US and our Canadian inventories are off around 3% year on year on already reduced inventories.

The trouble as you well know is that input costs have risen far more than our cattle prices. We need higher prices just to keep up with inflation of things such as grains, fertilizer, hay, equipment, fuel and utilities. It doesn't feel like the inflation of these items is going to go down anytime soon, and could keep rising as droughts and energy crises are emerging.

Even though we are looking at a bull market ahead, it will be critical to protect yourself from rising input costs and to lock in positive returns on your cattle when the opportunities arise such as now. We hope this issue has demonstrated that effectively. Prices don't go up in straight lines. They go up in a series of fits and starts and you'll have to cover yourself along the way from sudden downward price shocks.

Prices can go up 50% and drop 30% in this new trading range, and if you are caught off guard on your timing, it can mean a 30% drop in your bottom line. Risk management will be critical going forward.

Fortunately, we have tools to protect yourself from these input cost price shocks and cattle market volatility. We are dedicated to finding ways to do so for our clients.

The anti-oil and anti-cattle rhetoric that has come with this environmental fanaticism will cease as winter approaches on nations that sacrificed a warm home and a full belly for the sake of climate alarmism. Soon the realization will arise that cattle are the solution to carbon sequestration, fire prevention, fertilizer and food shortages. Take care out there — RC

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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