

THE WATER TROUGH

Cows in Control Newsletter

September 2022

Vigilance...

Hearing lots of happy ranchers these days who have sold calves and yearlings at comparatively lofty prices relative to prior years. So happy to see. While we feel this is a continuing bull market, we are discussing in this issue some things to keep your eyes on in the next while that could put some risk on margins. Don't worry, there are ways to protect your margins from these risks, but we must be ever vigilant. Risk rises as cattle prices rise. For now, enjoy better prices, and let's look for ways to make sure we don't give away the nice profits we can sock away.

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

"Let the eye of vigilance never be closed"

~ Thomas Jefferson



THE
NEWS WITH
SHEPARD
SMITH

**NORD STREAM GAS PIPELINE LEAKS
RAISE SUSPICIONS OF SABOTAGE**



In This Issue

- Marketing Buzz
- Barley is lagging corn
- King dollar
- A pause in the cattle bull market
- Thoughts on the industry
- NEW: Opportunities page

The way wars are fought today. Got fertilizer?



Corn vs. Barley Prices



Canadian barley is falling behind corn...

Barley is lagging corn...

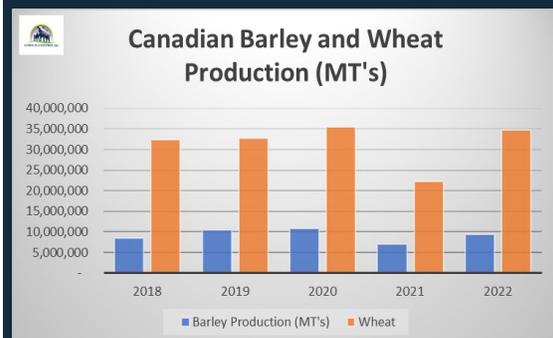
For much of the harvest period, barley has been selling under \$8/bu. This has made feeding break evens much more respectable than last year's nose bleed prices.

Cash corn prices in most of the United States are \$7-7.50/bu, a good 30-80 cents over where the corn futures are. When you do a straight conversion of Omaha corn today into Canadian dollars it is \$10/bu. Compare \$10 to our current barley prices under \$8. That doesn't even include freight into Canada. Barley prices may have to rise to catch up to corn prices.

Last year, due to our drought in Canada, barley prices stayed well above US corn prices. Western Canadian feedlots were importing US corn to the tune of 10,000 MT's a week (100 rail cars) for much of last year's feeding season as barley was scant.

That gravy train is over.

US corn is expensive, feedlots will switch to Canadian wheat, barley and home grown corn.



The problem is we are sitting on record high cattle on feed numbers, and barley and wheat production over the last five years has been flat (not to mention the major drop in inventories last year).

Barley will likely go higher, lock in your winter supplies now at these prices.

The Marketing Buzz (September 23)

Canner cows, heiferettes and bulls

Cull cows: \$80-115 (avg. \$102 D2) **Heiferettes:** \$120-160

Cull Bulls: \$120-185

Breds Pairs: \$1500-3000

(\$1500 calf and a \$1300 canner cow, should be \$2800)

Feeders

Steers: 450 wts \$2.88 **Heifers:** 450 wts \$2.48

550 wts \$2.73 550 wts \$2.37

650 wts \$2.59 650 wts \$2.31

750 wts \$2.49 750 wts \$2.26

850 wts. \$2.39 850 wts \$2.17

Slide 550-850: 11 cents/cwt **Heifer:steer @ 750 lbs:** -23 cents

Finished Cattle

\$1.82 live; \$2.99-3.04 rail

Feeder Basis: -3 (futures) **Finished cattle Basis:** -14 (futures)

-6 (cash) -14 (cash)

(Note: Canadian fat cattle starting to lag US finished prices)

Bred heifers, next year's golden investment...



King Dollar...

The whole commodity inflation rally has been put on pause this year by the almighty US dollar that seems to be dominating the global markets in its influence.

Oil has slid from \$130 down to \$80. All other currencies have been destroyed by the strength in the US dollar, including the Canadian dollar. Gold, copper and a lot of other commodities also. And, of course, interest rates have risen and given strength to the US dollar.

Why we discuss this, is the effect on the Loonie and its impact on cattle prices. Feeder futures in the US have fallen from around 188 down to 175 (7% drop in prices) in the last month, yet we have seen relatively no corresponding drop in Canadian feeder and calf prices.

This is because Canadian cattle are being cushioned by the falling value of the Loonie. The Loonie is now getting down to very low levels.

Can it go lower? Perhaps, it could go below 70 cents. But looking at the top chart of the US dollar, it looks like the 2022 blow off spike higher in the dollar could be coming into some resistance and could reverse. This would cause the Canadian dollar to spike higher.

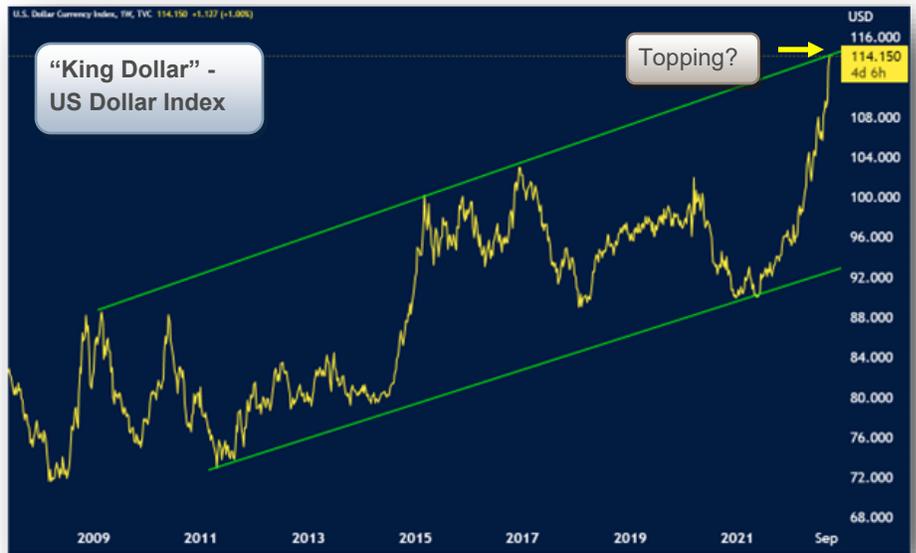
You can see at bottom the impact of changes in the Loonie on your backgrounded March yearlings. A pop back to 80 cents could knock 9% off the value of your yearlings by March with steady cattle futures.

With LPIP today you can lock in \$2.34/lb for March for a cost of 5.68 cents. Look at where that price compares on the bottom chart. What if the Loonie is 80 cents by March? LPIP can work as a dollar hedge for you.

We can also protect cattle prices using Canadian dollar call options. For the cost of about 1.5 cents/lb, you can protect against movements in the Loonie. 1.5 cent cost to protect against a possible 21 cents of downside. That's a good trade off.

Protecting grain and dollar are good ways to protect cattle prices now.

King Dollar...



March Feeder Futures price		178.38	
Canadian dollar	850 lb Steer Price/lb	850 lb Steer Value	
70	\$ 2.48	\$ 2,106	
71	\$ 2.44	\$ 2,076	
72	\$ 2.41	\$ 2,046	
73	\$ 2.37	\$ 2,017	
74	\$ 2.34	\$ 1,989	
75	\$ 2.31	\$ 1,962	
76	\$ 2.28	\$ 1,935	
77	\$ 2.25	\$ 1,910	
78	\$ 2.22	\$ 1,884	
79	\$ 2.19	\$ 1,860	
80	\$ 2.16	\$ 1,836	

A pause in the cattle bull market...

We are bullish cattle prices for the next few years. Inventory numbers and our



trajectory in the cattle cycle indicate stronger prices going out into 2025.

However, as this long term chart of feeder futures indicates, we may be at a period of sideways price action for the next several months if past is prologue in this cattle rally.

Markets are overbought as can be seen in the bottom momentum indicators on the graph. The market must cool off until this remedies itself.

We suggest we could see a range bound market from now until May of 2023 with 188 (\$2.50/lb CDN for an 850 lb steer) on the high side and 170 (\$2.33/lb) on the low side of course dependent also on what the Loonie does. This is a trader's market, buy 170, sell 188 on feeder futures hedges until May.

Cows in Control, serving the cattle producer

Thoughts on the industry

The great cattle hedge of last year was to be long grains in some form or another. That may be true again this year. Barley does seem comparably cheap relative to corn prices in the US. The two tend to come together over time. Load up on your winter feed grains and pellet supplies now, before prices rise.

In this issue we suggest cattle prices could trend sideways for much of the next 6 months, but are susceptible to something many people are unaccustomed to watching, currency movements. A cheap Canadian dollar hedge could be your best protection on cattle prices. Futures could simply go sideways, and Canadian feeders could drop 10% on just a re-strengthening of the Canadian dollar.

Many ways to skin a cat when it comes to protecting cattle profit margins aren't there?

If the US dollar is in fact topping out, it could cause inflation to run again. That means energy costs, commodity prices and food prices in general could rise. To be clear, we don't know for sure that the dollar is topping out, it may have much further to go. We are simply looking at the dollar chart from 2008 and seeing it is at the top of its trading range.

Time to protect ourselves from the things that might be affected. Get long energy, pre-buy fertilizer, hedge the Canadian dollar risk on your cattle, expect higher grain prices, fill your fuel tanks. Be prepared to be long all those input costs that are affected by higher inflation even if the economy is weak (ie: food and energy).

One of the things we are also watching in the cattle sector is packer margins. Packers have made an absolute killing (mind the pun!) since Covid 2020. Packer margins are actually down to breakeven now and look to go negative if cutout prices continue to drop. Hmm...negative packing margins; just as a bunch of packing plants are coming on stream in the US. This is concerning and may justify the sideways price action we are predicting in cattle prices. Tyson shares are down 33% from their highs. The glory days are behind for packers.

Take care out there — RC

Contact Us

Give us a call for more information about our services and products

Cows in Control

45081 Township Rd 244
Calgary, Alberta T3Z 2N2

(403) 775-7534

admin@cowsincontrol.com

Visit us on the web at
www.cowsincontrol.com



"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

Opportunities: *(coming next month)...*



Businesses, send us your 2x3.5" business card ad or logos...

Input Suppliers, send us your special monthly promotions. Several hundred ranchers are watching.

Ranchers, selling livestock direct? Give us a 3 line promo on them, cell phone pics and your contact info so buyers know the cattle are available

Wanting to buy or sell feed?
Use this as a spot to let people know

Announcements: Industry groups, government or businesses can use this forum to spread news, make announcements, or alert producers

Call Kelly at 403-775-7534 for pricing or to book your spot on this page:

- 2 x 3.5" business card advertisements
- Cattle or products for sale
- Special promotions, opportunities and announcements