

# THE WATER TROUGH

Cows in Control Newsletter

April 2023

## Flying high...

Golly, we knew better prices were coming for the cattle industry as supply tightens up, we just didn't expect it all at once. The market is pushing now to all time highs and not looking back apparently. Bank failures, recession fears, weak hog prices, no matter. Full steam ahead. The world is eating a lot of beef right now, and paying up for it. We'll ride this wave higher, but definitely have a safety strap on your surf board. The hog market is crying warnings. All the same, amazing, game changing returns can be locked in on cattle as we will explore in this issue.

### 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

- "Why do you look for the living among the dead? He is not here; He has risen!"

Happy Easter season!



New all time highs!...

## In This Issue

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- How high?
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Live cattle futures



# How high?...

Fed cattle prices in Canada and the US have both broken to new highs above their old all time highs made in 2014.

So now what, how high can they go?

No one is certain, but we can look at these long range live cattle futures charts to get an idea. The top green line at left is the upper trend line going back to the 1970's. It points to 200. We are currently near 175.

200 on the futures is roughly \$2.67/lb live weight price in Canada equivalent. That is \$4139 for a finished animal in Canada! Another 22% higher than we are today! Our current finished cattle price is around \$2.18/lb.

At 200 futures, if we use a \$1.60/lb steer cost of gain, that means the break even price feedlots could afford to pay for an 850 lb steer would be \$3.55/lb or \$3019/steer.

If we go further, using \$1.50/lb cost of gain backgrounding, the break even price of a 550 lb steer calf is \$4.67/lb.

Now we must remember there are margins, trucking, shrink and other factors that play in here, but it shows that if live cattle futures can get to 200, we are talking calf prices well in excess of \$4/lb.



We may not get there all in one go, but it is something to target!

Live cattle futures going back to the 1970's...

## The Marketing Buzz (April 6)

### Canner cows, heiferettes and bulls

**Cull cows:** \$105-148 (avg. \$130 D2)    **Heiferettes:** \$155-185

**Cull Bulls:** \$145-185

**Breds**    Breds: \$1200-3000 (Old \$1200-2000; mid \$2000-2700; young \$2700- 3000)

**Bred heifers:** \$1700-2900    **Pairs:** \$1800-3550

**Feeders**    (6 weight heifers still 40 cents back from steers, big spread that will tighten as heifers are held back for breeding)

<b>Steers:</b>	450 wts	\$3.40	<b>Heifers:</b>	450 wts	\$3.00
	550 wts	\$3.23		550 wts	\$2.87
	650 wts	\$3.14		650 wts	\$2.73
	750 wts	\$2.83		750 wts	\$2.52
	850 wts.	\$2.58		850 wts	\$2.32

**Slide 550-850:** 22 cents/cwt    **Heifer:steer @ 750 lbs:** -31 cents

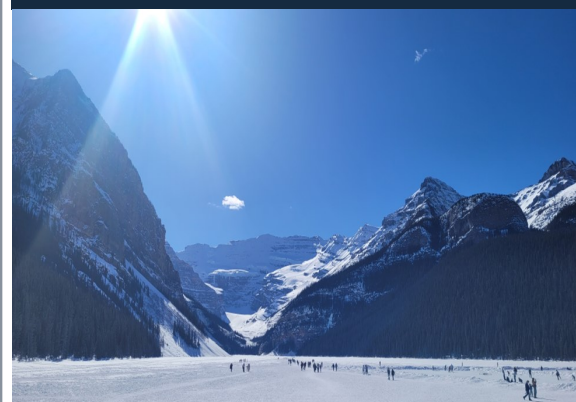
### Finished Cattle

\$2.18 live; \$3.615-3.635 rail

**Feeder Basis:** -12 (futures)    **Finished cattle Basis:** -13 (futures)  
 - 3 (cash)    -21 (cash)

(Note: Canadian fed cattle still over 20 cents behind US fed cattle)

### Beautiful Lake Louise...



Another look at prices...

## Gaps to fill...

We highlighted that finished cattle prices are making all-time highs.

Feeders on the contrary, still have a ways to go before they get to their old 2014 all time highs as can be seen at the futures chart at right. There is still 20% of upside just to return to old highs, let alone make new highs like finished cattle have.

The middle chart demonstrates calf prices and how they actually have attained their all time highs from early 2015 at \$3.30/lb. They briefly ticked the \$3.30/lb level in March and are now retreating slightly.

Bred cows are just beginning to catch up to calf prices. You can see that high end commercial bred prices track calf prices pretty closely. At \$3.30/lb calf prices, higher end commercial bred prices should be between \$3000 and \$3500.

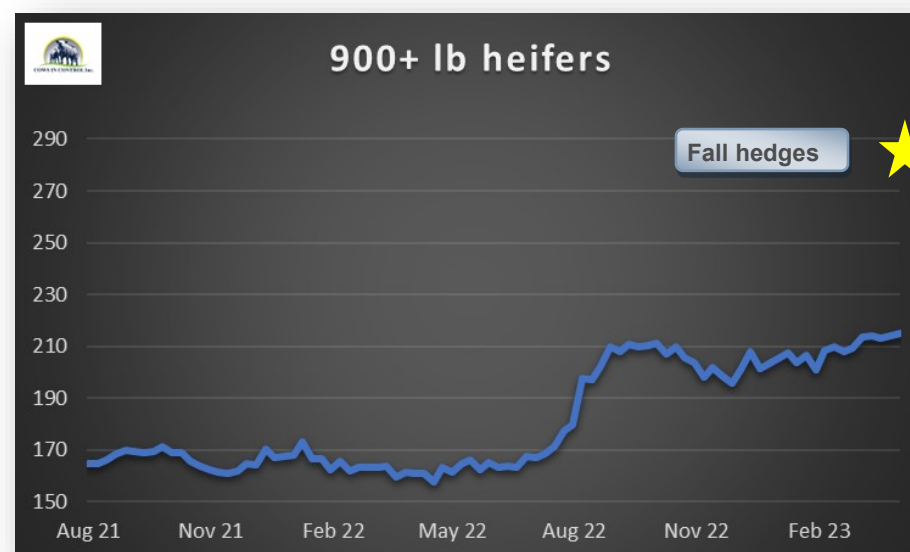
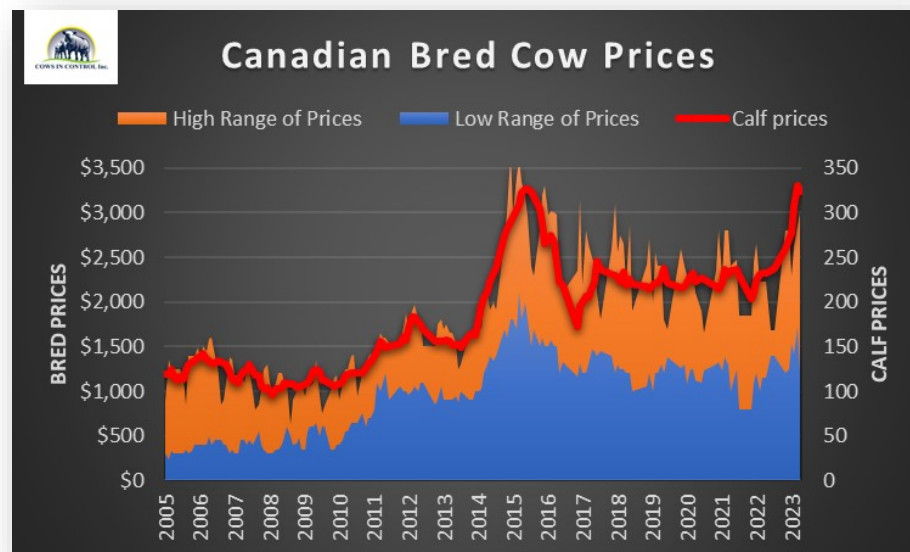
If we look at the futures projected prices for calves this fall, October feeder futures are at 230. This translates into roughly a \$3.20-3.30/lb calf price. LPI Calf Insurance is running around \$3.12/lb for a 6 weight which is \$3.17/lb for a 550 lb steer. Not too far off of where futures are.

Calf prices are at all time highs, and we can lock in nearly all of it with insurance or options. Certainly something to take a look at.

As far as grass cattle, the futures are indicating a price of around \$2.80/lb for 950 lb heifers in October. You can lock in the mid \$2.70's/lb for a 950 lb heifer in October with LPI Feeder insurance. You can see where that is by the star at right.

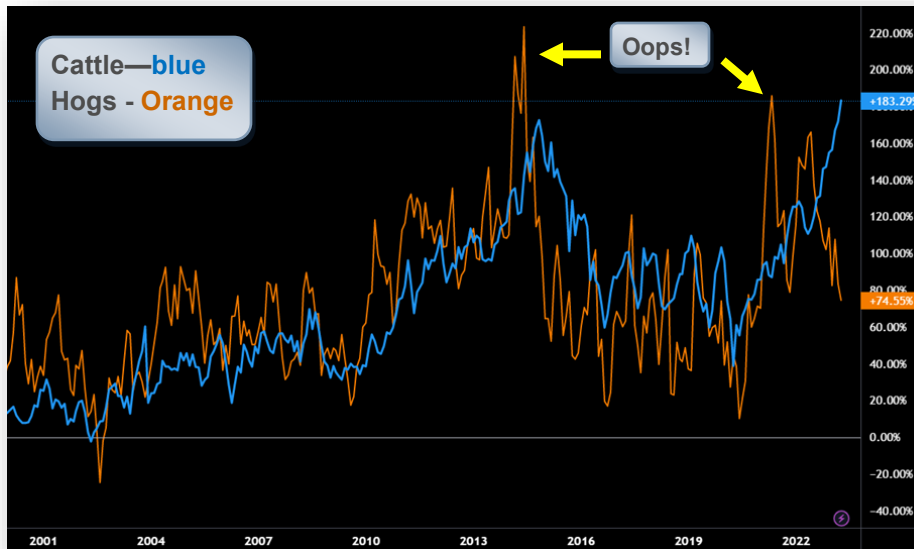
A 750 lb heifer is \$2.55/lb today or around \$1912. You can lock in her 950 lb sale price off grass in October for \$2.75/lb which is \$2613. That is \$700 of room between your buy and sell price. That's worth setting a floor price on isn't it?

If you hedge 100%, you are looking at a \$70/head cost of hedging to lock in \$700 of value appreciation.



## Pearls and swine...

Cattle and hog prices have a very high correlation to each other meaning they trade similar. This chart goes back to 2000 and you can see how they have traded very much in tandem...until this year.



Cattle have trucked on to new highs on supply issues while hogs have retreated. Cattle have risen 35% since last June while hogs have dropped 37% in the same period.

China and Asia are seeing African Swine Flu emerge again and pork producers are dumping hogs before they are forced to euthanize.

Can cattle continue to push higher while hogs are selling off so violently? History says no. In 2014, hogs sold off all time highs and cattle followed on a lag. These kinds of things are why we continue to hedge even amid bullish supply/demand fundamentals.

Cows in Control, serving the cattle producer

## Thoughts on the industry

When cattle or other prices break to new all time highs, it becomes a virtual no-man's land for technicians to try to figure out how high and fast things can go from there. Its like a lone yearling steer breaking out of the herd. They run off in a straight line for a while and then stop, look around, realize they are in no man's land, and make their way back to the herd. That's what prices do too. They run hard for a bit after breaking out, then stop, and reverse back to the previous old highs until they get oriented near their comfort zone.

We are in the breakout stage. This market needs to move higher until buyers get tired of buying, or fundamentals change. That can often be much higher, but could do some zig-zagging on its way up, beware of the chop.

Supply fundamentals in cattle have never been more bullish. This is sustainable for a bull market. However, what is happening to hog prices is a major caution that can not be ignored. At the end of the day, average consumer still has a choice to buy beef, pork, or chicken, and when one gets significantly cheaper than the other, cost can rule all.

Also, lets not forget recession fears are on the rise, and many countries are fighting major inflation. There are headwinds to cattle prices from the demand side to consider.

That being said, when I look around at what is the best investment in terms of places to put your money, cattle are a pretty solid investment. A 20-30% fully hedgable return on grass cattle that you only own for 5 months is not to be sneezed at! This is a great time to be in the cattle business so long as you be sure to lock those margins in when they come, because we all know how they can disappear too!

The other thing to be aware of is that inflation comes in waves. In the 1970's stagflation period, inflation came in 3 major waves. We saw a similar thing in the 1940's/50's. We just went through our first wave last year, and now prices are cooling off. Things like nat gas, fertilizer, lumber and other inputs have dropped significantly. Be sure to capitalize on these pullbacks in input prices and use high cattle margins to procure forward supplies. 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