COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter **May 2023**

Having a fence to climb...

Anyone who has sorted cattle in a corral knows the feeling of adrenaline when a wild one comes up the alley with fire in its eyes and you in its sight! There is that immediate mental calculation of which fence to climb, just how many steps away it is, and how quickly you can get up it! Hedging cattle prices is a lot like that. Generally all goes smoothly until that time or two when we need a fence to climb when markets get wooly. We are in a bull market, let's not be afraid to get in the ring. Just remember, when markets turn, price insurance is like being two steps from the rails in a dry corral. Having no coverage is like having your gumboots stuck in the middle of a muddy corral.

"You will never reach your destination if you stop and throw stones at every dog that barks"

- Winston Churchill

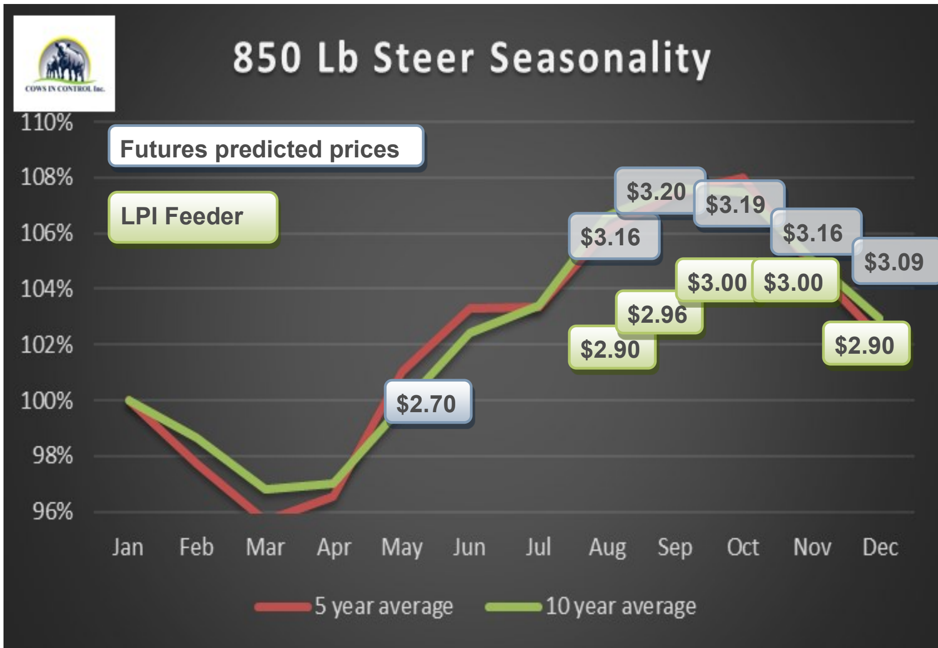
Cows in Control services:

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

Sure, why not? Higher still!...

In This Issue



Seasonality of feeder prices in Canada...

The Marketing Buzz (May 12)

Canner cows, heiferettes and bulls

Cull cows: **$120-164 (avg. $150 D2)** **Heiferettes:** **$160-200**

Cull Bulls: **$155-200**

Breds

Pairs: $2700-3800

Feeders

(7 weight steers now at $3/lb, last year they were $2!)

Steers:	450 wts	$3.58	**Heifers:**	450 wts	$3.17
	550 wts	$3.45		550 wts	$3.06
	650 wts	$3.25		650 wts	$2.89
	750 wts	$2.99		750 wts	$2.71
	850 wts.	$2.70		850 wts	$2.52

Slide 550-850: **25 cents/cwt** **Heifer:steer @ 750 lbs:** **-28 cents**

Finished Cattle

$2.31 live; $3.85-3.90 rail

Feeder Basis:	**- 8** (futures)	Finished cattle Basis:	**8** (futures)
	- 2 (cash)		**- 4** (cash)

(Note: Canadian cattle doing much better than prior months)

Seasonality

One of the most important things to look at in forward pricing or hedging is typical “seasonality”.

Seasonality is the tendency of prices to raise or lower based on natural cycles in the cattle business. For example, most calves are born in the spring and weaned in the fall. Therefore there is a shortage of marketable light calves in the spring, and an abundance of them in the fall.

For larger yearlings, most of those fall weaned calves are backgrounded and become 7-8 weights by March, creating a seasonal low in prices for yearlings in March. Then as summer comes, cattle get put out to pastures, and feedlot silage pits fill with silage. By August/September most years there is a shortage of yearlings to be found by feedlots, and a seasonal price high occurs.

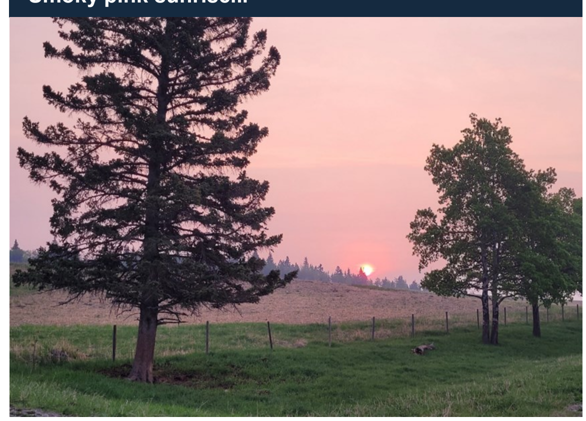
At top left, you can see the typical seasonality of 850 lb steer prices. I have also indicated the futures predicted prices for 8 weights in the various months. These are prices you could lock in today with futures or options.

You can see the typical seasonality has already been priced into the futures markets. Therefore is it presumptuous to expect more upside than what is already offered by the market for fall prices? 50 cents of upside from now until October? We will see.

Livestock Price Insurance (LPI) is pricing in upside, not quite as much as futures perhaps, but still 30 cents of upside with currency and basis automatically fixed. That is over $250 per head of price appreciation that can be fully locked in. That’s easy economics.

The market has the potential to keep rising as supplies dwindle, but it also has the potential to fall if cattle follow hogs which are plummeting in value, or if a recession hits. Lock in.

Smoky pink sunrise...



How much to insure with LPI and at what price?...

We often get asked what percentage of the cattle should we be insuring or hedging? The other question that follows is do we do it at the highest price or at a lower price that costs less?

First of all, in matters of what % to hedge, that is a matter of personal preference and may be determined by the probability of the market climbing or falling, and how big of a loss you can sustain if a 15-20% market pull back occurred.

Lets assume we are using LPI Feeder insurance to hedge 850 lb steers off grass in September or early October. We will use the October 9 expiry date on LPI Feeder.

At top right are the returns per head for your overall herd at various % insured levels if buying LPI Feeder insurance at a $3.00/lb strike price.

If the end price stays flat or rises, the difference between your returns is nothing more than $33/head from the highest % hedged to the lowest. However, if the market drops 20%, the difference is now $350/head!

So if you think it is a bull market, you could insure less % and save some cost, but you would regret it if the market fell significantly.

Now what strike price should we use? We will look at locking in at the highest strike ($3.00), a mid range level ($2.86) and the lowest level ($2.72).

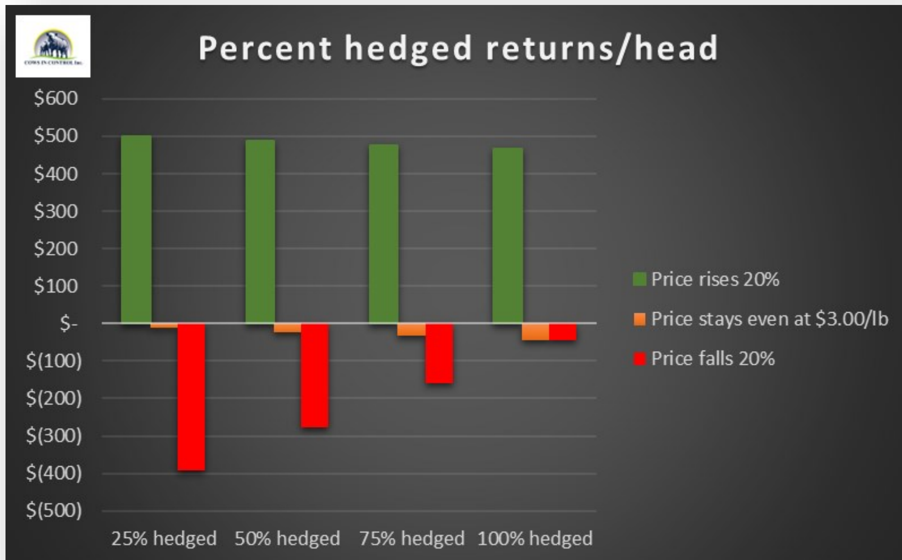
The bottom table shows that if the market stays flat or moves higher, the difference in overall return is a measly $29/head difference from the highest to the lowest strike.

However, in a significant down turned market, that difference could now be over $200/head.

Average probabilities suggest buying at the highest strike possible, and weight your % to hedge on market opinion and ability to withstand financial loss in a downturn.

% to hedge or insure and at what strike level?...

Net Returns per Head:	25% hedged	50% hedged	75% hedged	100% hedged
Price rises 20%	$ 499	$ 488	$ 477	$ 466
Price stays even at $3.00/lb	-$ 11	-$ 22	-$ 33	-$ 44
Price falls 20%	-$ 394	-$ 277	-$ 161	-$ 44
Average Probability *(+20%, even, -20%)*	$ 31	$ 63	$ 94	$ 126



LPI-Feeder

Alberta Premium Table as of : 17-05-2023

Note: These premiums and coverage levels change on a daily basis.

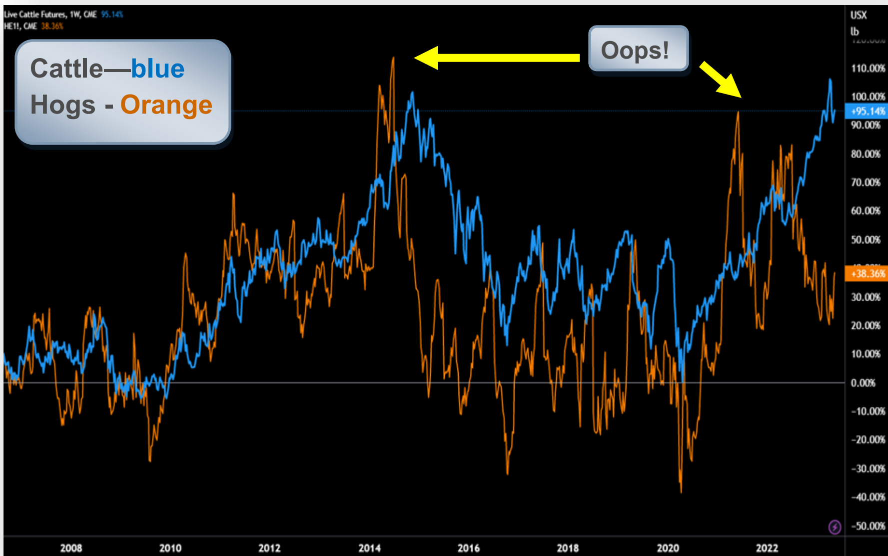
The following policy lengths are currently unavailable for Alberta: 32 weeks

	Premium ($/cwt)				
Insured Index ($/cwt)	12 weeks 14-Aug-2023	16 weeks 11-Sep-2023	20 weeks 09-Oct-2023	24 weeks 06-Nov-2023	28 we 04-Dec-
300			5.20	6.22	
298			4.80	5.79	
296		5.67	4.45	5.39	
294		5.13	4.12	4.96	
292		4.77	3.84	4.66	
290	4.63	4.36	3.54	4.34	
288	4.17	3.87	3.29	4.04	
286	3.81	3.59	2.93	3.75	
284	3.36	3.30	2.70	3.49	
282	3.00	3.06	2.60	3.26	
280	2.70	2.71	2.40	3.07	
278	2.43	2.47	2.19	2.87	
276	2.11	2.18	2.00	2.59	
274	1.93	2.06	1.83	2.40	
272	1.76	1.85	1.71	2.26	

Net Returns per Head:	LPI highest $3.00	LPI Midrange $2.86	LPI Lowrange $2.72
Price rises 20%	$ 466	$ 485	$ 495
End price is $3.00/lb	-$ 44	-$ 25	-$ 15
Price falls 20%	-$ 44	-$ 144	-$ 253
Breakeven	$ 3.00 /lb		

Pearls and swine (part 2)...

Last month we highlighted the fact that cattle futures and hog futures generally track each other as competitive meat products...until recently.



Hog prices have sold off quite violently this year all while cattle prices have roared on to new heights. In 2014, hogs topped out first and then fell dramatically. Cattle ultimately followed on a 5 month lag. Pork topped out in 2021/22 and yet cattle are still roaring.

A select beef carcass is around $2.82/lb in the US. A pork carcass is 88 cents/lb. Standard beef is over 3 times as expensive as pork on the rail (usually 2-2.5x). Even more so on the retail shelves. The idea of beef running higher while pork continues to drop suggests the consumer is price insensitive. That is a dangerous assumption.

Pork must rise or beef must fall, but the ratio of these two is out of line.

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

Thoughts on the industry

The futures market is telling us cattle prices are likely to be much higher this fall than they are today. The beauty of the futures market and Livestock price insurance is that when that is the case, you can generally lock most of that gain in by buying insurance or some sort of derivative like futures or options and rest easy knowing you are profitable.

Its not every year that you can find those positive margins to lock in, so you want to do so when you can even if the pundits are telling you the market is moving higher.

The worst feeling in the world is watching profits erode away in a market sell off when they could have been protected. You know what doesn't hurt so bad? Getting a measly $30-40/head less profit because your insurance/hedge expired worthless. Pretty easy to get over that. On a $2500 yearling, a $40 hedge cost isn't a whole lot.

The herd is set to shrink another 5% this year in the US and likely similar in Canada as well. Fundamentally, the outlook is bullish from a supply side. Exports and demand are high though behind last year levels. Overall nothing too concerning there.

However, what is going on in the hog market is something we feel necessary to bring to attention as a warning to future demand. The average consumer has choice between expensive beef and cheap pork. If all these bank failures and interest hikes result in a recession, and consumers tighten up, that ratio will become more important.

The other consideration is the collapse in grain prices. Though cheaper feed costs mean higher returns on cattle, ultimately cheap grain = cheap cattle. As grain gets cheap, more pounds of hogs and poultry are produced, and more pounds of beef likely in the form of yet higher carcass weights. There can be a lag, but one follows the other.

So enjoy the bull market, it is real and justified. We are just urging you to keep coverage on despite the bullish winds blowing now. The valleys on mountain tops are just as treacherous as those down below when scaling to higher prices.

Take care out there — RC