

# THE WATER TROUGH

Cows in Control Newsletter

June 2023

## The air is thin up here...

Anyone who has climbed to high altitudes knows that it gets harder and harder to breathe the higher you get as oxygen thins out. The body has to work harder, the heart beats faster, for the privilege of the view from the summit. Anyone buying cattle these days can sympathize with the “gasping” feeling, the rapidly beating heart, and the thrill of what prices could be at the summit. “Are we there yet?”, “are we close?”. In this issue we will dig into where we are in this rally, where we could go, and where we could drop if the market slips. The view is fantastic up here, but not for the faint of heart. We encourage a safety harness.

### 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



In Switzerland they airlift some cows to higher Alpine pastures...seems fitting.

*“It isn’t the mountains ahead to climb that wear you out; it’s the pebble in your shoe”*

*- Mohammed Ali*

## In This Issue

- Marketing Buzz
- Is that the top for now?
- Is this a supply or demand rally?
- Comparing bull markets
- Thoughts on the industry



## Is that the top for now?

The feeder market has gone ballistic, vertically higher since the Covid lows.

\$2 feeders are now \$3. \$1200 bred are now \$3000. \$2 calves are now \$4/lb? What a run we have had on short supply. Finally.

The chart at left is the feeder futures chart going back to the 1970's representing the average price of 600-900 lb feeder steer prices in the US (most people assume 850 lbs).

Prices have finally attained new all time highs going back to the 2014 highs. But, futures are stalling out here. Is that the top?

When charts go vertical, you can call them "blow-off" markets. Blow off markets can go further and faster than you can imagine as they did in the late '70's and in 2013/14. We may see prices go higher to the upper trend line on the chart, but they have to breach and hold old highs first, so far they haven't held.

In the '70's, the market after having topped out, pulled back about 50-60% to the red dotted line.

The next big cycle was 2002-2014. When it topped out, it pulled back 50-60% to the yellow dotted line, the lows of the last 7 years.

In the latest rally since the Covid lows, we are only 2 years into a much larger cattle cycle. But, have we seen an intermediate top? August futures are near 234 (\$3.12/lb for an 850 lb steer in Canada). A 60% pull back would take prices to 180 (\$2.40/lb CDN).

It is not likely we will pull back that far this early in the cycle, we may only retrace the latest rise which would be the green and red bars near the 200-210 level (\$2.66/lb CDN).

A pull back to this range would be 30-40 cents lower than what you can lock today. Insurance and options cost only 5 cents.

### A wonderful time of year...



## The Marketing Buzz (June 16)

### Canner cows, heiferettes and bulls

**Cull cows:** \$123-163 (avg. \$152 D2)    **Heiferettes:** \$175-210  
**Cull Bulls:** \$150-200

### Breds    Bred cows: \$1875-2525; Pairs: \$2400-3800

*(Fair value for pairs is over \$4000 if you use \$2800 bred price for the fall and \$3+ calves. Drought and high feed costs are a risk though to these prices. Could make sense to sell cows if you are in a drought and replace with yearlings).*

### Feeders *(no one believed us when we said we would see \$3 8 wts!)*

<b>Steers:</b> 450 wts \$3.56	<b>Heifers:</b> 450 wts \$3.17
550 wts \$3.45	550 wts \$3.06
650 wts \$3.38	650 wts \$2.99
750 wts \$3.16	750 wts \$2.87
850 wts. \$2.94	850 wts \$2.70

**Slide 550-850:** 17 cents/cwt    **Heifer:steer @ 750 lbs:** -29 cents

### Finished Cattle

\$2.47 live; \$4.12-4.14 rail

**Feeder Basis:** -16 (futures)    **Finished cattle Basis:** 12 (futures)  
- 7 (cash)    -1 (cash)

*(Note: Canadian feds doing well, feeders lagging the US, drought?)*

Comparing today's cattle market to 2014...

## Is this a supply or a demand rally?...

We are told the cattle market is rising because of the shrinking cow herd. The US beef cow herd is expected to shrink another 5% this year. Heifer retention is poor. Similar statistics in Canada.

But, at the end of the day, when you tally the cattle on feed inventories in the US and Canada, you certainly don't see evidence of much inventory contraction yet.

Just comparing to 2014, the last high in the cattle cycle, we have 11% more cattle on feed in the US and 21% more in Canada today than back then. Rolling over, but still very elevated.

Despite having more cattle on feed, cattle prices today are breaking new records, higher than 2014.

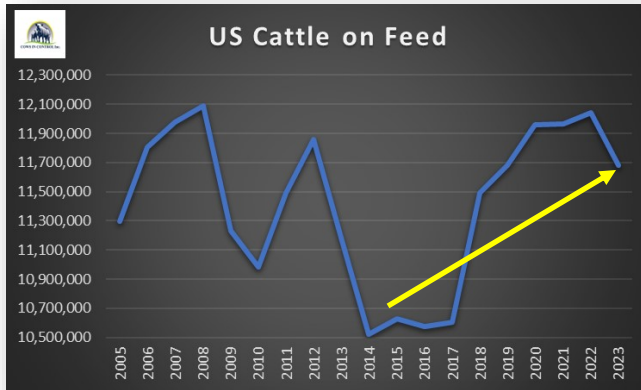
Today's hot prices are a supply driven rally as users are looking at less cow numbers ahead. But it is really the demand that has pulled this market higher and what we should be watching as risk.

Cutout prices (Choice wholesale beef carcass prices from the plant) are now 35% higher than they were in 2014. \$337/cwt carcass and a 63% yield less a \$350/head packer margin puts you at today's \$1.88/lb cash fed live price in the US.

In 2014, \$250/cwt carcass and flat packer margins (times were tough then for packers) should have equated to \$1.58/lb live price. Yet prices got as high as \$1.74/lb. That was a "blow off" market. It was unsustainable at its highs, packers went broke, and the market fell.

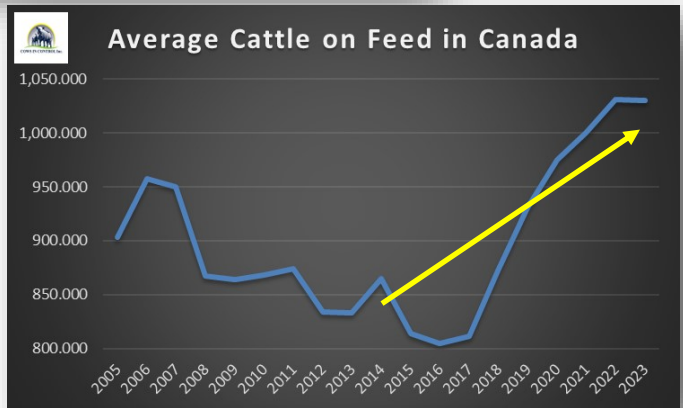
So far, our market is sustainable. All players from the producer to wholesale are making money. But the consumer? This market can move higher as long as retailers can justify the high cutout prices, and consumers continue to choose expensive beef over pork. Pork cutouts are now over 3.5X cheaper than beef cutouts.

Consumer demand and trader interest will drive this market from here.



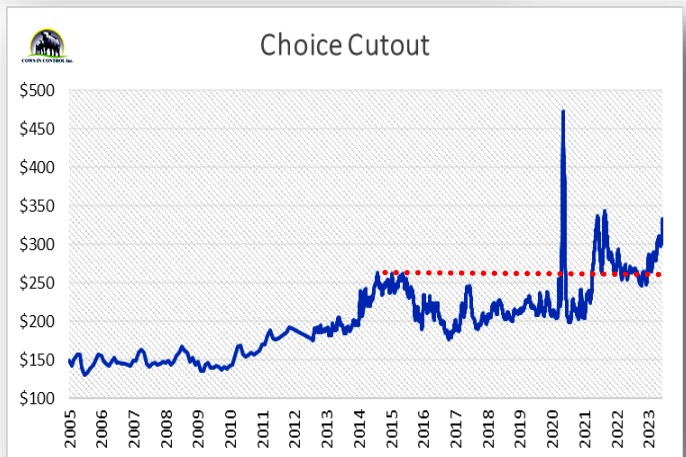
11% more cattle on feed in US than in 2014

21% more cattle on feed in Canada than in 2014



Higher fed prices than in 2014

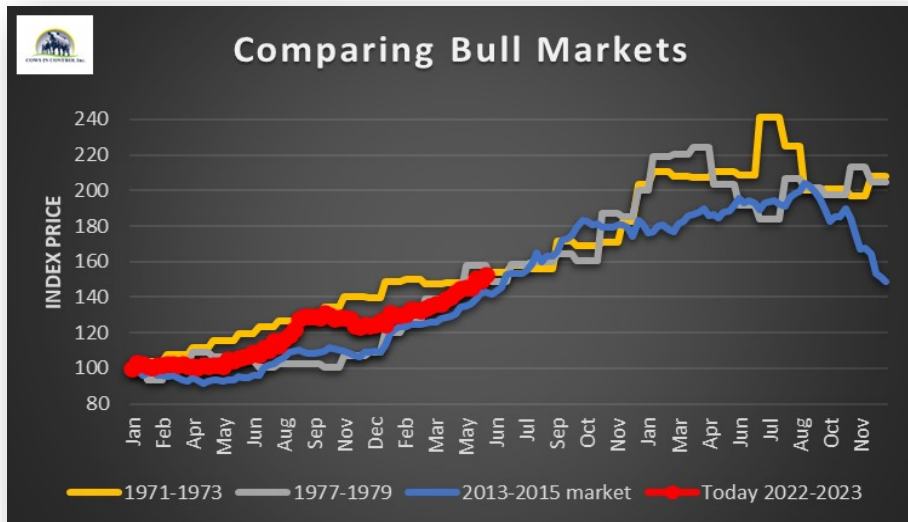
35% higher cutout than in 2014



## Comparing bull markets...

"History never repeats..." but as Mark Twain quipped "...but it often rhymes". Shakespeare said "What's past is prologue". So what can we learn from the past?

In order to get some context for these bull markets, we compared the three major inflection years in the greatest cattle rallies since the 1970's. Two rallies in the 1970's that many consider the glory years for the cattle business, the 2014 rally which was our nearest comparison, and today's rally are compared.



The final 3 years of each of the rallies generally rallied over 100 index points or basically doubled in price. Though these rallies were often part of much larger rallies, we used the 3 final years of the blow off stages of each major rally to compare.

If history does "rhyme", there could be another 40-60% upside to this market which would take cattle a full dollar higher by this time next year. This is why we use protection tools that protect your downside, but also leave your upside potential open.

Cows in Control, serving the cattle producer

## Thoughts on the industry

This week we just witnessed some 4-5 weight calves selling for \$4.50/lb! In the US, we are seeing calves sell for over \$3/lb which is over \$4/lb Canadian. This market is getting hot as a firecracker. Charts are exploding higher. \$2000 calves, \$2500 yearlings, \$3500 fed cattle, \$4000 pairs. Lots of dollars invested and at risk now.

We tried to give some scope of where we are in this bull market and what some of the price risk is. When markets start exploding higher, speculators pile in. There is a lot of "managed money" in the cattle futures these days. Those are money managers speculating on cattle, and they are very long cattle. They are also very fickle, be on guard.

A lot of ranchers are looking eagerly to unload expensive bred cattle this fall if prices are good. Been too tough for too long. Too dry. Grass, and money are tight. I have only met a few looking at expansion despite massive calf margins.

As demonstrated, there could still be decent upside in prices yet in this rally. Heck, even if we get a pull back, the correction will likely take us to much more elevated prices than where we have been the past seven years.

We want to build, expand. We want to leave our upside potential open. We need to do succession plans and invest in the future and next generation. We need to grow this business back up to keep communities shored up and strong. We must keep feedlot and packer capacity up, otherwise we could lose it. A lot of our business could move south.

All that said, to give back 50-60% of the price gains in the market are quite common after hot bull markets. When we have \$2000, \$2500, or \$3500 tied up in an animal, that amounts to large dollars. Ranchers are used to just eating risk as we deal with it every day in the form of weather, disease, death loss, mean cows at calving, and markets. But now the stakes are so much higher than ever before and the volatility in markets far surpasses that of the past. Spending \$20 -50/head to save \$3-500/head is something that should just become a routine part of your budget if you want to be sustainable longer term. One bad year of losses generally offsets 6 years of gains. That's when debt creeps in.

Price risk tools leave upside open and fix downside risk. Easy, safe and good for sleep. 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