

THE WATERTROUGH

Cows in Control Newsletter

August 2023

Hang on to the cow's tail...

To all you cattle producers out there, this is your rally call. Feed is expensive and in short supply, it has been a tough go in the cattle business and prices are good to sell cattle. Why keep replacement heifers when you can sell them for good money? Why spend money on feed that makes you lose your breath when you find out what it costs? Because this is a bull market! Those heifers and replacements are going to get very costly to buy over the next few years, so a bird in hand now is better than trying to build later. No matter what this drought market throws at us this year, hold the cow's tail if you can!

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

"Hard times create strong men, strong men create good times, good times create weak men, and weak men create hard times"

- G. Michael Hopf



Hang on to the cow's tail, Mexican style...

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October 850 lb steer prices	LPI Feeder	Options	Forward Sell
Highest price (C\$/cwt)	\$318	\$344	\$322
Premium (C\$/cwt)	\$6.02	\$5.87	\$0
Effective hedge price	\$3.12/lb	\$3.38/lb	\$3.22/lb
Cost of hedge	\$51/head	\$50/head	\$0
Advantage/head	-	\$221 (8%)	\$85 (3%)

Comparing hedge tools...

As fall approaches, we see feeders going well over \$3/lb and calf prices stretching to get to \$4/lb. You may be wondering if it is time to lock a bit of that tremendous value in. This time last year, 8 weights steers were \$2.25/lb and calves were \$2.50/lb by comparison.

The internet sales are going strong, with lots of cattle being forward sold for the fall. Here we offer some analysis on those prices and other comparable hedge tools.

8 weight steers today are about **\$3.15/lb**. Most of the forward prices for October/November are indicating around **\$3.20/lb** or better.

Livestock Price Insurance (LPI) Feeder Insurance will allow you to lock in **\$3.18/lb**.

When we use the October feeder futures with the 5 year average zero basis for October, the futures predicted price for that 8 weight steer is **\$3.44/lb**.

Both forward sales and LPI are indicating 25 cents/lb less than where futures are indicating, or a -25 basis or so for October.

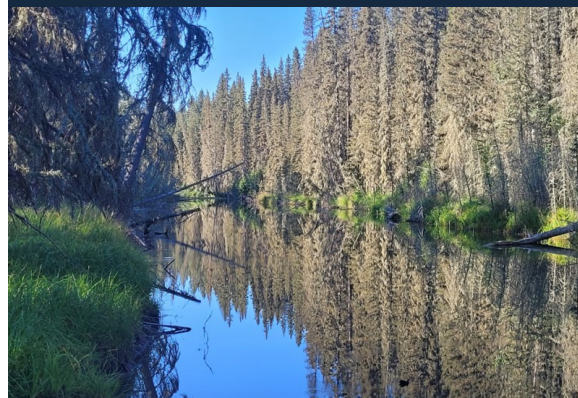
If the futures are right, we have another 25-30 cents higher to go by the fall. But, August is usually the seasonal high period for feeder cattle, so are futures perhaps too optimistic?

If you lock in with LPI you still have upside potential if cattle prices rise. With a forward contract you may get a little higher price with no hedge cost, but you have sealed your upside potential if the market continues to rise.

With options, you can lock in the full futures value, but you are susceptible to basis and currency risk (currency hedged separately).

All these tools are effective, it is your choice. You can also use these for locking calf prices.

Dry trees on a very calm Jumpingpound Creek



Comparing hedge tools...

The Marketing Buzz (August 18)

Canner cows, heiferettes and bulls

Cull cows: \$125-162 (avg. \$150 D2) **Heiferettes:** \$175-220

Cull Bulls: \$150-205

Breds Bred cows: Pairs: \$2600-3600

Feeders *(The steep discount of heifers: steers shows no hold back!)*

Steers:	450 wts \$4.19	Heifers:	450 wts \$3.43 (-76!)
	550 wts \$3.65		550 wts \$3.13 (-52!)
	650 wts \$3.42		650 wts \$3.11 (-31!)
	750 wts \$3.33		750 wts \$3.00 (-33!)
	850 wts. \$3.15		850 wts \$2.91 (-24!)

Slide 550-850: 17 cents/cwt **Heifer:steer @ 750 lbs:** -33 cents

Finished Cattle

\$2.33 live; \$3.88-3.93 rail

Feeder Basis: -18 (futures) **Finished cattle Basis:** -9 (futures)
-15 (cash) -20 (cash)

(Note: Canadian cattle starting to lag US prices. Perhaps it is all the talk about COOL, or drought, or that Canadian packers are slowing down and we still have lots of cattle on feed. Or is it opportunity?)

A look at fall sales...

At long last we are seeing light weight calves trading over \$4/lb and just about every weight class is above \$3/lb now which is a full dollar a pound higher than last year.

At top right are the internet fall delivery prices for the various weights of steers sold. We have drawn a red line to give you a marker to determine where your fall steers should price at the various weights.

If you look at the slope of the red line, that is your average slide, around 20 cents or so per cwt.

That slide last year and previous years was closer to around 6-8 cents. As cattle get more expensive, the slide adjustment goes higher. Slide is also impacted by the cost of feed.

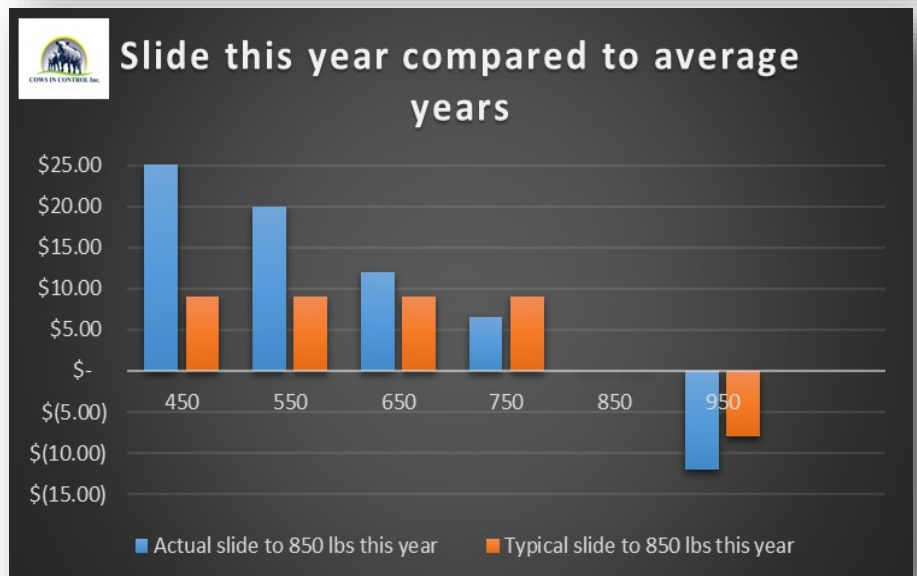
We use the slide from 850lbs a lot as most of the hedge tools are based on 8 weight steer prices. Last year, slide from 500-850 lbs was about 8 cents/cwt, this year it is 20 cents. If you are doing forward sales you will want to make sure you are estimating your weights properly or you could get an unwelcome slide adjustment surprise!

We recommend you don't forward sell more than 85% of your cattle so that you can sort off heavies or lights to keep your weights in line if needed. Most feedlots will buy the extra cattle at delivery time anyway.

850 lb steers in October are being priced at \$3.20/lb or \$2720 a head. A 950 lb steer is around \$2926 per head. So you will get another \$206/head by keeping them to 950 lbs. even when the slide is 15 cents rather than 6 or 8 cents. It still pays to pour the smoke to them, just remember to hedge.

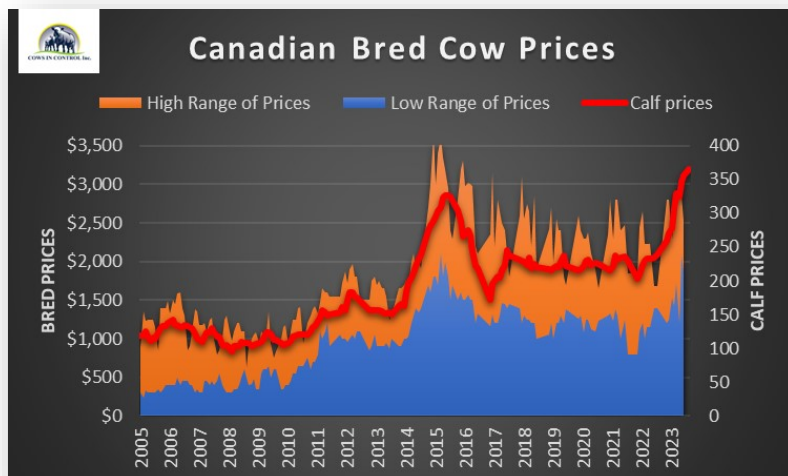
Lastly, we will show the bottom chart again for emphasis. We are not sure where the top of the trading range is yet, but the new trading range is huge. Old resistance becomes new support. \$2.40/lb was the old resistance and the bottom of our trading range. We hope to never revisit that, but an \$880/calf trading range is a monster! This is why we hedge!

Forward sales...



Hold on to the cow's tail!...

Let us revisit our bred cow to calf price chart as so many are wondering what to do with bred cattle this fall amid drought, high feed costs and flashy heifer prices.



The biggest impact on bred prices is calf prices by far. Feed costs are a distant second but they do impact the steer calf to bred cow value ratio. On average, a 550 lb steer calf is 55% of the value of upper end commercial bred cow price. At \$3.65/lb that would put an upper end commercial bred cow at \$3650 this fall.

High feed costs and drought could dampen that ratio. The highest that ratio got was in 2008 to about 95% during the financial crisis and a drought. Cull cow prices are holding around \$2000-2200 which should be a base. If you use a present value calculation based on the future value of her calves at today's prices, she should be near \$4000.

The ratio should gravitate to that 55% ratio over time or \$3650-4000. Replacements will get costly to buy. If the drought causes bred prices to be sub \$3k this fall, it will pay to do whatever you can to hold them even at high feed costs. As they said in Gladiator, "hold the line!" or cowboys might say "hold on to the cow's tail" on this one.

Cows in Control, serving the cattle producer

Thoughts on the industry

I talk to a lot of producers in multiple provinces, and it is amazing how many I talk to that are considering downsizing or heavily culling bred cattle into any potential strength in prices this fall. The cow business has been a grind, and ranchers are tired, plain and simple. We all saw the 2013-2015 bull market boom and bust, and just about everyone is fearful of a repeat of that short lived bull market.

The climate intelligentsia of this world have villainized cattle as polluters when we all know that is not true, but their voice is loud and ours is soft. Cattle folk feel pretty dang unappreciated these days. Our "masters" create wealth destroying inflation by killing commodity production. Our farmland and cattle are our defence against this war.

There is no guarantee of beef demand continuing at its record pace (July set another retail price record). Beef is definitely expensive relative to pork. But the consumer is amazingly resilient in light of rising interest rates, inflation and such. The demographic shift in emerging nations is pushing demand for more beef when we have less to offer them.

The supply fundamentals are woeful, just like most commodities these days. The anti-commodity narrative is pushing the world to a severe supply crunch situation with a population that just hit 8 billion and people, rising out of poverty at an astounding rate. At the rate we are going, commodity inflation is inevitable, not a possibility, including cattle prices.

There is very little sign of any heifer hold back. Even now, more and more heifers are being put on feed, heifers are still heavily discounted to steers. This is not 2014/2015. By now there would have been a huge hold-back if it were like then. We have not seen that.

We could see some depressing bred prices this fall as ranchers are tired and short of feed. If we could just don our best smile and wave the biggest flag we can wave in support of you our producers. Please hold, please build, believe it this time, it is time for a revaluation. It will be swift and expensive to build after it starts, the time to hold heifers is now. I would trade my Apple or Nvidia shares for heifers any day of the week, its our time. 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."
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