



Cows in Control

Special Report – 10 “What-If’s?” for 2024
December 31, 2023

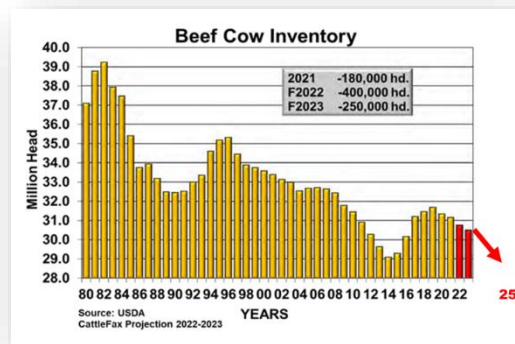
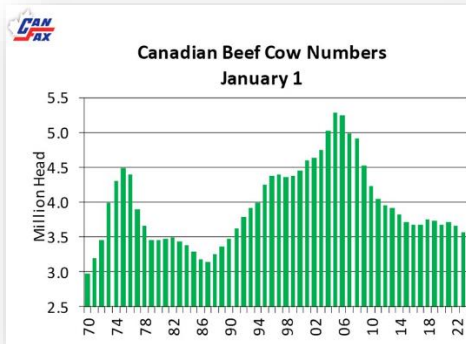
Special Report - What-if's for 2024

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Introduction

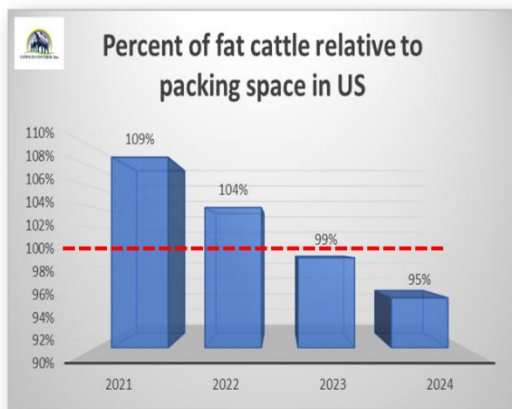
We wish you a very prosperous and happy new year for 2024! In this issue, we have no crystal balls or magical insight on what to expect for 2024, but we thought we might give you some “What-if” scenarios for you to consider that might have impact on your operations and lives. It is just an exercise for your SWOT analyses for the new year [S- strengths; W-weaknesses; O- opportunities; T- threats]. Some of it is about hard subjects, but it is really for your interest.

1. Cattle numbers continue to shrink, none or minimal herd rebuilding



What usually happens when the herd shrinks too much is supply tightens, prices rise (feedlots and packers pay up to get access to limited supplies of cattle), profits improve on the production end, ranchers expand, 5 years later the rise in inventory levels softens prices, and there you have the 10-year cattle cycle in a nutshell.

Our North American herd is shrinking at a time when new infrastructure is being added...



8-10,000/day new packing capacity coming on stream!!



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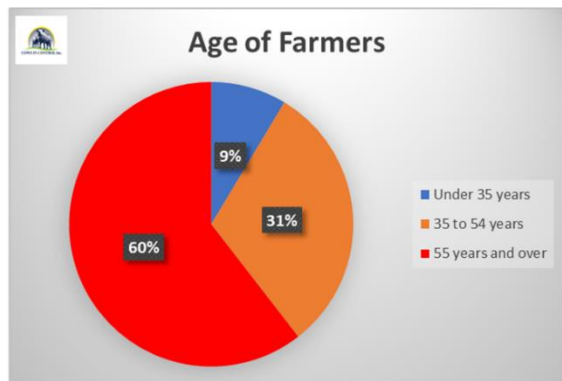
Our Canadian feedlot capacity is higher than it's ever been, and the US is actively building packing plants thanks to the Biden \$1B packing subsidies designed to break the back of the large packing monopoly. It will likely work in reverse of that theory. There are 8-10 major new packing initiatives coming on stream in the next 3 years, and a slough of smaller ones on the wings as well. All of this at a time when supplies are shrinking and no sign of herd rebuilding.

What about dairy and beef-on-dairy?

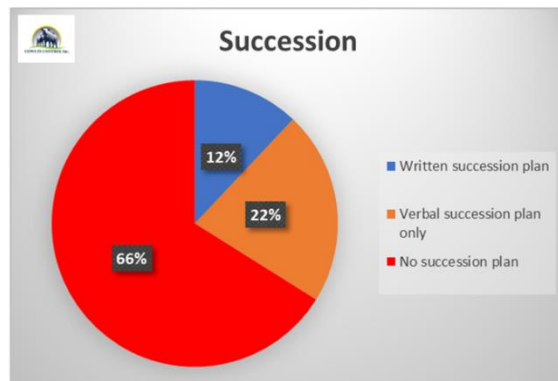
Dairy numbers in North America are static, meaning dairy inventories are not growing. Yes, a larger percentage of dairy calves are entering the beef feeding system, but that should max itself out in the next year or two.

What if the herd doesn't rebuild the way it historically has done through the 10-year cattle cycle?

The average age of producers is well, dare I say it, aging. Too old to be calving heifers in mass. Succession planning is a disaster with only 12% of farmers having a formal written succession plan. Could it be possible that the big herd rebuilding doesn't happen, or happens very slowly?



Source: Statistics Canada



88% of farmers have no written succession plan!

As ranchers retire, much of the land is sold or rolled to non-farming children who ultimately convert the land. The cost to start or operate a ranch is expensive and the workload is large. The cure for high prices of land and cattle is high prices for non-dedicated ranchers. They sell.

If enough older producers sell land in the next 20 years, perhaps land will get cheap enough to entice new operators to stick their toe in. Or will it be sold and converted?

As more land is sold and converted to other uses, it tightens up the forage and grass supply yet again, making the cost of ranching even more expensive. The herd will not rebuild or grow unless cattle prices can keep up with the increase in forage and grass price increases.

What to expect? Cattle prices could go to astronomically high prices, but so could costs. New producers or producers not in in for the long haul will find it difficult to get started or have to take on too much debt. The herd could further shrink, which puts stress on the feedlots sector and the overbuilt packing sector. Plants go dark, the big 4 packers buy them up for pennies on the dollar, and away the packing monopoly goes again with fewer players and a smaller industry.



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Tight supplies mean high beef prices. If consumers want to keep beef in the diet, they will have to find ways to support the beef industry instead of letting it be scapegoated as a climate killer.

Governments may step in with subsidies, conservation easements and programs to keep ranchers on the land. Or they nationalize the industry and gain access to the much-coveted ranch and grasslands of which they will likely institute highly regulated conservation and environmental efforts, further shrinking the herd. We must be on guard.

Cattle and ranchlands are going to be enormously valuable assets and hopefully profitable for a while for producers, but the bust in infrastructure is what to watch for and defend, because monopoly packers and government will try to pick up the pieces. We can't let them.

The solution to all this scenario is:

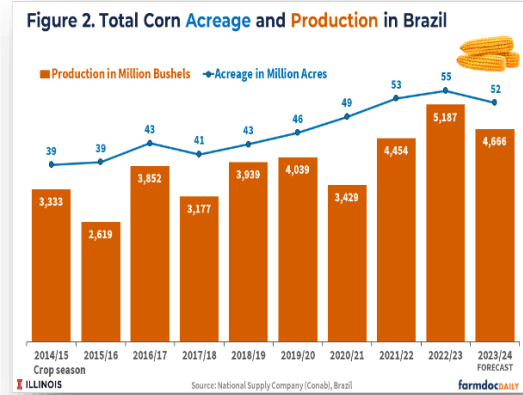
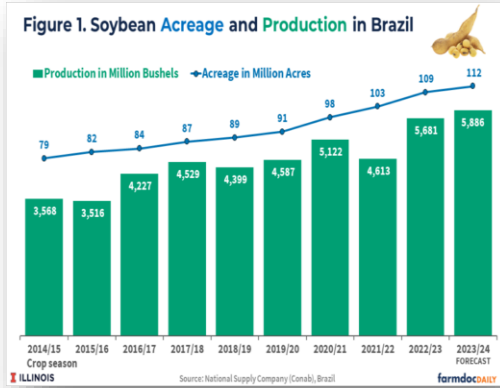
1. **Succession planning** – we need to prioritize this!
2. **Equity solutions** – find ways to get land and cattle into young producers' hands without using debt and expensive land rent.
3. **More ranch to retail solutions** to keep the packer as a service entity rather than our bottleneck and overlords.
4. **Low cost ranching techniques and managing debt ratios.** Cows need to feed and calve themselves. Cows should feed themselves 300+ days/year.
5. **Grain and byproduct feeding** – there will be lots of grain and byproducts from the ethanol and renewable fuel industry. Forage and grassfed programs in North America are likely not competitive with other areas of the world. We have to use the feed stocks available to us. Cover crops, corn and swath grazing will be major sources of grazing. DDG's and other grain byproducts will be the supplement.
6. **Beat the anti-beef racket** going on and dispel the climate and methane lies. We mustn't let the government into our business with regulations and subsidies. Stay independent. Demand carbon sequestration and biological goods and services markets be established to compensate the work we do preserving these for society.
7. **Work more cooperatively with the farming industry** to utilize farmlands for growing rotational cover crops, hay in rotations, and livestock as part of their regenerative farming practices. We may actually convert farmlands back to grazeable acreage or at least have access to more grazing on farmed lands.
8. **If a lot of the land rolls over in the next 20 years due to aging farmers, there could be opportunities to pick up land at affordable rates. Patience.**

2. The era of the domination of farming over cattle production could end

There has been a massive amount of conversion of grass and grazing lands into farmlands putting pressure on our access to forages and grass. This trend could reverse itself even if for just a little bit. Farming may be about to get unprofitable. Low grain prices coupled with high input costs, and possible troubles accessing beloved synthetic fertilizer and chemicals.

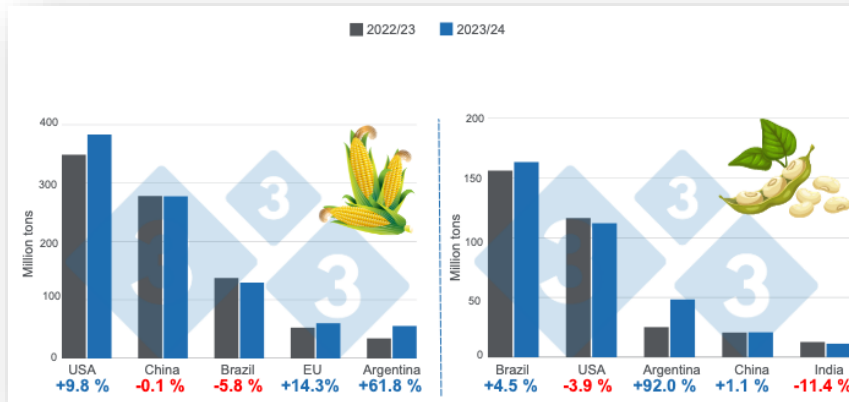
Let's start off with Brazil and the US's massive, planted acreage upcoming for 2024. Both countries are expected to plant large or record acreages of corn, soy and wheat this year.

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The trend is up in Brazil for acreage and production.

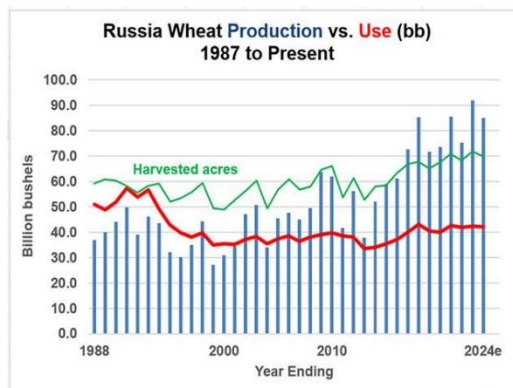
Farmdocdaily Dec. 12 2023



A look at the big global producers' share and intentions for next year

Pig333.com

Then there is the massive wheat production in Russia and possible return of production in Ukraine if the war slows or ends...



Russian wheat production is large and keeps growing, though they don't use a lot, it will be exported!

DTN Progressive Farmer

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And what about Argentina now that they have a business-friendly government? Farmers were restricted from exporting grains and most farmers were sitting on their grain inventories anyways as protection from runaway inflation. Their currencies were devaluing but grains were tracking higher with inflation. It was an inflation hedge for them to hold it. That may reverse at some point and Argentina could be a major grain exporter once again. Maybe.

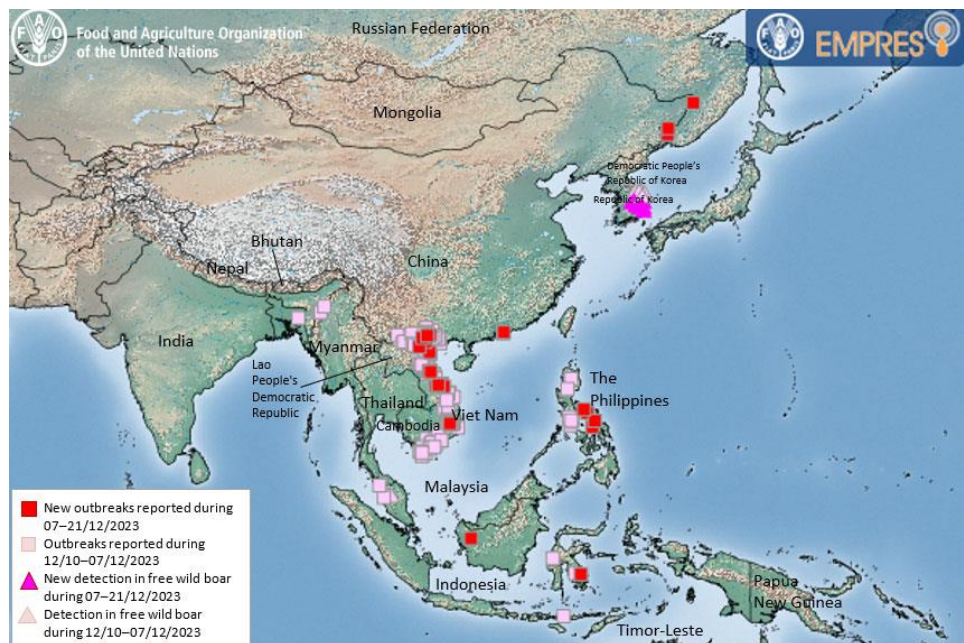
There could be a lot of grains of all types in the world in the upcoming year. Margins may tighten up for farmers. With high cattle prices, farmers may return to owning livestock again, feeding cattle, or even just allowing livestock, cover crops and hay to be part of their rotations again.

If there is any growth or herd rebuilding in our industry, it could come from the farming sector.

Ethanol and renewable fuels may be what alters this outlook. Around 40 percent of the US corn crop already goes into ethanol with a 10% blend rate. If the blend rate gets bumped up to 15% or higher, this would definitely increase grain usage (and will also create a lot more DDG's and byproducts for livestock feed). It will also re-invigorate food inflation. Thus, hesitation at 15%.

Renewable fuel technology for airplanes and diesel applications are improving drastically where unlike traditional bio-diesel or ethanol, these fuels can be used exclusively without blending. This could also increase grain usage drastically, but could take some time to build out. This also makes the case for massive food inflation further out.

3. African Swine Fever and meat demand

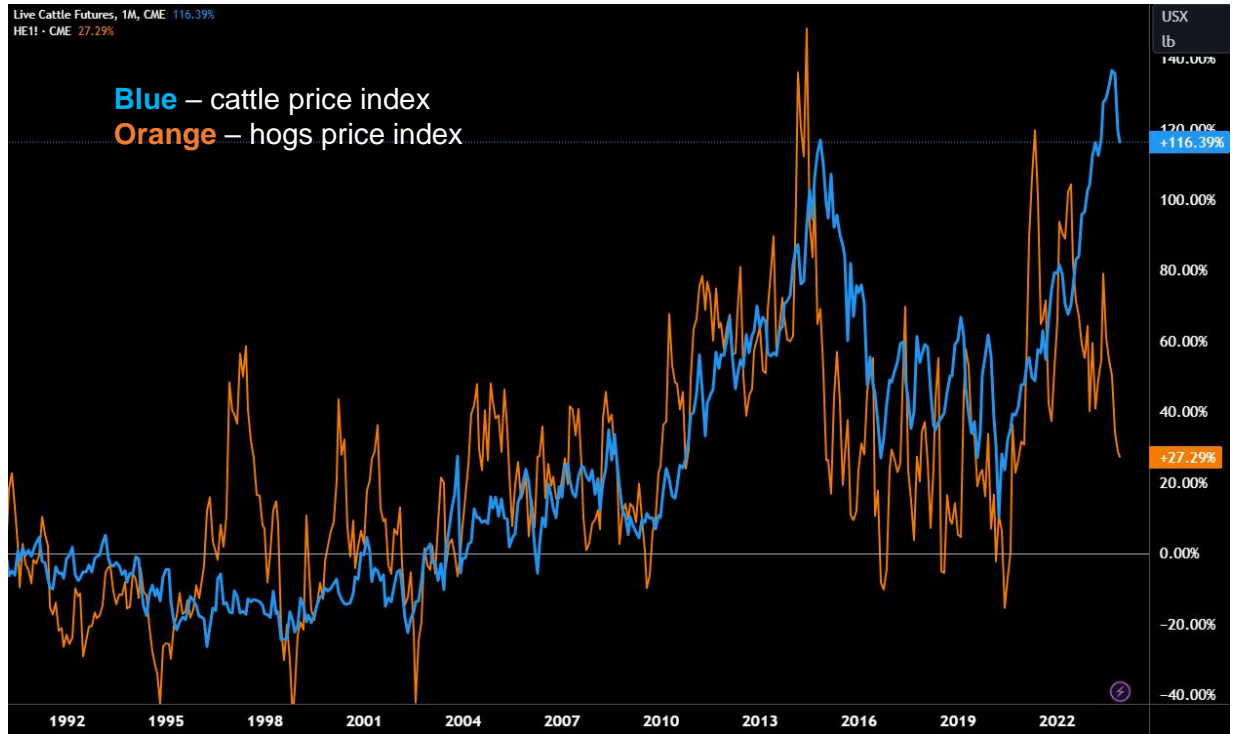


African swine fever outbreaks distribution in domestic pigs in Asia as of March 16, 2023 (Source: FAO EMPRES-I – Data sources: Viet Nam: WAHIS & media information, Republic of Korea, the Philippines, Indonesia, Timor-Leste: WAHIS and government websites, Other: WAHIS)



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China and much of Southeast Asia are still battling with ASF in their pork production. An ASF vaccine would definitely be a game changer on this front and surprise factor for 2024. Until then, the pork sector has been having challenges as China has been liquidating hogs ahead of outbreaks, keeping pork supplies up, imports down, and hog prices suppressed.



Here are a few surprises to watch for in 2024 that could affect pork and ultimately cattle prices:

- **Vaccine gets developed** – bullish pork prices as pork herds will get rebuilt.
- **ASF causes more herd liquidation** – bearish pork, bullish cattle (current situation)
- **China ends liquidation phase** and needs to import more pork from North America and rebuild herds – bullish meats in general.
- **US gets ASF** – bearish shorter term, bullish longer term for meats.

I don't have any insights, just highlighting some outcomes. If China and Asia get short on pork, they will have to substitute it with other meats which is why cattle have been high while pork has been low. At the end of the day, however, you can see above that pork and beef generally track each other, until this past year. At some point they will have to reconverge in pricing. Let's hope the reconverging is pork prices rising, and not cattle prices falling.

This is just something to watch.

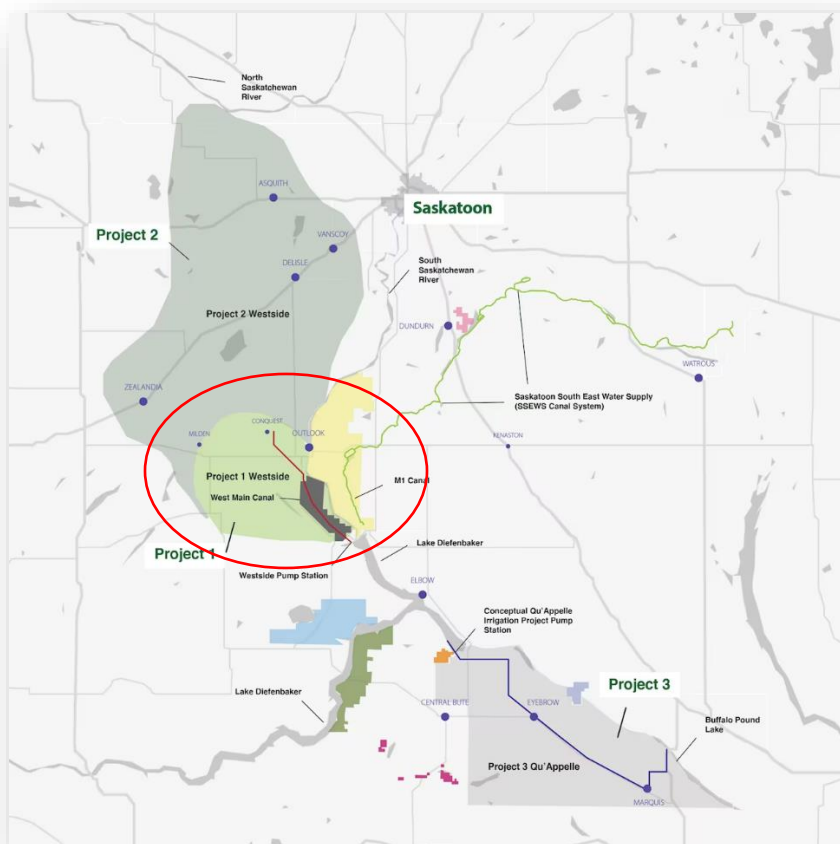
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4. Saskatchewan's Lake Diefenbaker Irrigation Project

This is not necessarily a 2024 thing to watch, but something you will want to keep on the radar for the next few years. Saskatchewan is building a \$4 billion irrigation project in the next 10 years that could turn Outlook, Saskatchewan into the next Lethbridge.

Besides more irrigation projects around the area, we could see feedlot alley shift to the region where there will not only be irrigation and access to feed grains, but maybe less red tape? We will see grain processing and grain infrastructure focus in on the region. SW Sask farmland could get more and more valuable as a result. Likely a lot more cattle and grain production in the region to occur.

I think this is the trend of the decade to keep abreast of. A true game changer for the prairie provinces and the feedlot, grain and food processing sectors that will flock to the region as the project develops out. Could we see packing plants develop in the region as well?



Initial project is around the Outlook area. Eventually as canals are built, it will spread to Phase 2 and 3 covering much of South and West Saskatchewan. The old Palliser Triangle dry region could now become one of the most important regions in Saskatchewan and the prairies in general!

CBC news March 2023

A map from a provincial government website shows the projects planned as part of the Lake Diefenbaker irrigation project. (Lake Diefenbaker Projects)



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5. The end of the left leaning political madness and climate hysteria?

The rise of ESG (environment, social, governance), climate alarmism, carbon dioxide hysteria, WOKE politics, gender fluidity, and anti-beef and oil lobbies over the past few years has been extraordinary and taxing on level-headed, hard-working people like those in the energy and cattle industries who are constantly in defence of their industries. Not to mention also under attack on traditional family and moral grounds.

There is no love out there if you happen to be a white, male, heterosexual, Christian, cattle producer. Villainized and hated it seems. Women ranchers are fighting this battle as well, maybe just hated a little less than the men right now, but still fighting for traditional family values and survival of the industry.

The 1960's and 70's also went to war on traditional values and sanity, Leftists used misogyny, racism, and climate emergencies as their weapons of choice for people to rally around. Some good came from it, but also a lot of division. Then the 1980's came about, and Ronald Reagan, Margaret Thatcher, Billy Graham figures emerged to reverse the Leftist flow. Pierre Trudeau was removed after a swath of culturally dividing (multiculturalism, bilingualism) policies were instituted during his reign. We may be entering one of those periods of change for his son.

In Canada, the right-wing political figures are mounting a resurgence. In the US, it is not only Trump that is gaining traction, but a host of prospects with very far left ideals. In media, Jordan Peterson and Joe Rogan have more viewership combined than the large main street politically influenced media outlets.

Argentina finally broke away from its endless socialist governments and elected a libertarian candidate preaching to downsize government. Netherlands as well. What if more countries vote to reduce government? Leftists like Trudeau and Biden are losing voter support drastically. The world is tired of the World Economic Forum's influence, UN Agendas, big governments, deficits, violations of freedoms and continual environmental alarmism based on one sided research. The Covid experiment was a disaster.

The "What-if" for 2024 is what if the leftists and communists are outvoted, removed or demoted much like the 1970's era leftism was in the 1980's? Could it result in:

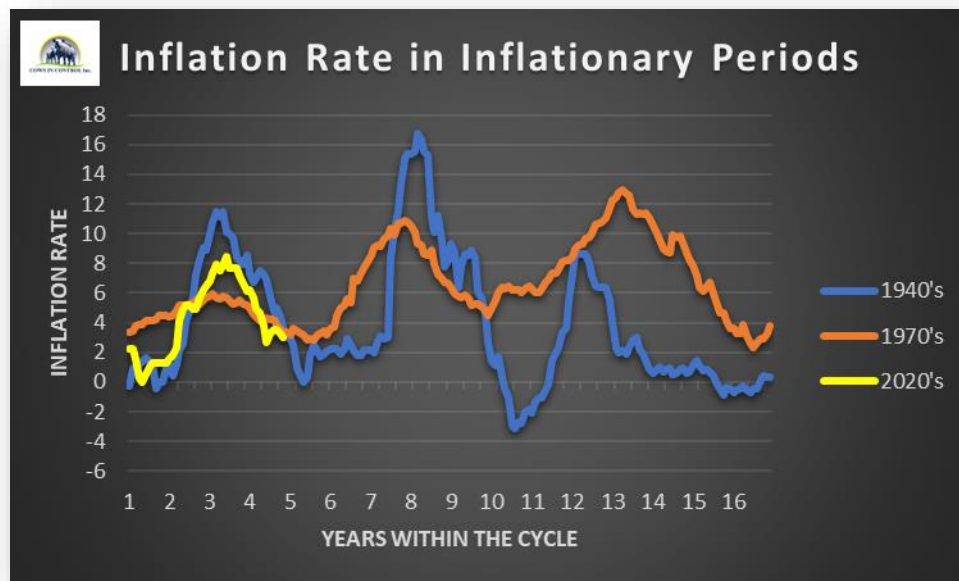
- End of the carbon tax?
- End of the carbon market in general or at least in scope?
- Resurgence in mining, energy production, cattle production, and other commodity production? Reduction in anti-beef sentiment?
- Reversal of the flawed renewable energy and electric vehicle mandates?
- Races, genders, political and religious differences coming together to seek solutions rather than being divided by political maneuverings to garner support?
- Re-established immigration controls?
- Balancing of government budgets?
- Re-establishment of family values, individual freedoms, reduction of privacy invasions by our governments and returning privacy of individual's data to themselves?

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Hey, we can dream, can't we? All I am saying is that the right wing and traditional values are making a comeback. Who is the next Billy Graham type person to make a resurgence in family values, morals and ethics, regardless of the religious persuasion? Governments have been hugely divisive in these areas. Corporations have pandered to it as well to gain government favour. Look what happened to Disney and Bud Light with their hard stances on Wokeism. The people voted, and not in their favour.

6. Interest rates keep rising, inflation rears its head again.

The world is universally convinced that the Fed and other central bankers are going to now reduce interest rates because inflation is dead. I am not so convinced and there is a case to bet against it, though it is a lonely bet right now.



The largest inflationary periods of the last 100 years were in the 1940's during and after the war, and during the 1970's oil embargo era. You can see inflation came and went in waves and lasted 15 years in duration. We have just gone through a single wave of inflation. I doubt that is it. Let's look for some reasons why inflation may not be dead just yet:

- Environmentalism and ESG has decimated future commodity capital expenditure.
- Unions and government employees just garnered massive wage increases during this initial inflation run, wages are much higher now which is inflationary over the long run.
- Governments have raised minimum wages to ridiculous levels.
- Government money printing has gone exponential since Covid, as well as government debts. Cheap money must go somewhere. Thus, the stock market at all time highs.



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- Rising tensions and wars will be inflationary and wars are on the rise. Supply chains will be threatened and things like fertilizer that come from unstable regions could again be a challenge to attain, driving up food production costs.
- The aging farmer will be a drag on food production increases.
- Lack of service and commodity sector investment and few young people in the space will create shortages of commodities in the future which will drive prices higher.
- China's demographics are aging, shifting them from a producer of things to a consumer of things. Cheap goods from China have been deflationary. Now it will be inflationary.

Enough of that. Below is an 80-year chart of interest rates. We just came through a 40-year deflationary period in interest rates. We have broken out of that cycle. I am not sure the future trajectory, but I would say it is likely not down. Especially if inflation rears its head again.



Why is all this important to us? It means you want to:

- Own hard assets like cattle, land, gold and other commodities
- Watch your debt levels, fix them on any downturns in rates.
- Lock in your input costs where you can like feed, fuel, fertilizer, land, etc.
- Produce your own inputs like feed, fertilizer (manure), and reduce inputs overall.
- Bet on commodities and real assets over things like stocks and paper assets.
- Be prepared for supply chain shocks, embargoes and wars/terrorism related to governments trying to corner commodities.

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7. The global chess board will move and it will be about commodities

Russia, China, BRICS nations in general, and now much of the Middle East oil producing nations that used to use the US dollar exclusively (Petrodollar) for trade are now pushing back on the US's dominance both militarily as a police state, and as the global reserve currency.

Russia is about to defeat the Ukraine despite the massive amount of US and NATO money sent to support Ukraine. Watch as areas like Poland, Turkey and Armenia and Azerbaijan which are further expansion areas, are being destabilized now as we speak and likely conquest targets for Russia's push for re-establishment of the old Soviet bloc.



Russia produces commodities like energy, wheat and hard commodities. A lot of their production may go direct to China, but we are also seeing destabilization in the Caspian and Black Sea regions as Russia seeks exit routes to the south for its commodities. Istanbul in Turkey, gateway to the Black Sea. Azerbaijan and Armenia give direct access to Tehran/Iran which could give them access to the Arabian Sea. They have defeated the Ukraine which is a commodity rich treasure. Now there is talk about media blackouts in Poland, typical Russian behaviour pre-takeover. Kazakhstan and Belarus already have Russian puppet governments.

Russia is making a big play here, and they are coordinated with Iran, China and others to connect Asia and Africa, and destabilize the US and NATO chokeholds in their regions, as well as control the major routes like the Suez, Red Sea, Arabian Sea and ultimately Africa, which is why we are seeing so much activity in these regions. The China Belt and Road initiative could be the final piece to tie it all together.



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Then you have the Muslim nations in the Middle East and Israel/Palestine. Israel is the last US holdout nation in the region. We are seeing the balance of power being challenged.

I am not a military strategist, but I highlight this as much of our fertilizer, grains, uranium, oil, strategic metals all come from these regions and need to go through these bottle neck corridors to get to us. What we saw in 2022 with the supply chain disruptions could be par for the course going forward. Relying on synthetic fertilizers from Russia, Kazakhstan, North Africa, Pakistan and other regions is not a safe bet. We need to be smart about fertilizer use going forward and expect supply chain disruptions to bring about inflationary shocks in our input prices.

8. The Rise of Mexico

As our Eastern supply chains get more challenged, Mexico will be the likely beneficiary of this all. The US is focused on the migrant invasion occurring right now, but Mexico could possibly take the place of China as the leading provider of goods to the US and Canada. Here are some reasons why:

- Good demographics, lots of young workers
- Adjacent to the US, free trade agreement, common values
- Lots of food and commodity resources as well as labour, gateway to South America
- Cheap currency
- The Mexican migration into the US has created wealth for a lot of those Mexican immigrants who can send that money and intel back to Mexico to establish and develop business in Mexico. Look at the housing going on in places like Cabo and Cancun by non-residents for example. The Mexican people have learned the tricks and are profiting from the knowledge. The migration could be south going forward, rather than north.

They are also building farms, ranches, feedlots, packing plants and a strong dairy industry in Mexico. They should gain prominence as a major import/export partner for our agricultural goods. This is where our governments and exporters should be focusing perhaps.

9. First Nations sovereignty

Keep an eye on the First Nations. They are starting to demand and gain more control over the resources and resource corridors on their nations. They are seeking active financial involvement and control and are getting a lot of support from outside capital and government to get sovereignty and put systems in place to manage it. (<https://cib-bic.ca/en/sectors/indigenous-infra/>; <https://www.newswire.ca/news-releases/alberta-indigenous-opportunities-corporation-provides-103-million-loan-guarantee-to-facilitate-multi-generational-economic-benefits-for-five-first-nations-and-metis-communities-in-alberta-863932215.html>)

Other countries like Australia and New Zealand are exploring the idea of referendums to give the reserve lands and resources back to the indigenous people and abolish the reserve system. This could happen in Canada as well. The First Nation sovereignty moves in Canada that are so heavily financed may be pre-cursors to that type of move.

I am not making opinions or judgements, just saying it is a trend worth watching.



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10. Bullish future cattle-on-feed reports

We have covered a lot of heavy subjects in this "What-if" piece, so wanted to bring it back directly to cattle production and some good news for the upcoming year.

The biggest shock to our cattle prices looking forward could be when the glut of cattle in the feedlot system gets worked through, and the true supply deficit situation comes to light. Here are the reasons why we have a supply glut in feedlots right now:

- Drought in the past year in Canada and the US pushed cattle into feedlots.
- Large percentage of heifers on feed
- Packers slowing down kills which backs cattle up in the system.
- Packers allowing larger carcasses which allows cattle to stay in lots longer.
- Beef-on-dairy and dairy cattle entering the beef system.
- Large cow kills backing up the slaughter system.

The latest cattle-on-feed report in Canada showed November placements being down 16% from last year and down 15% from their 5-year average. This shows chinks in the armour of our large cattle-on-feed numbers. At some point we will see these types of drops in the US numbers as well. That will be when the market starts to run again.

Here are some counter reasons to the points above that have created the temporary supply glut:

- Perhaps the drought will end at some point?
- High prices should induce heifer hold back which we haven't seen yet. What happens when 10-15% of the heifers on feed are actually held back as replacements? That will make a huge hole in the cattle on feed numbers!
- Packers can keep slaughter rates subdued for a while, but there are 8-10 new plant initiatives coming on stream that will force them to get competitive on the buying front!
- How much larger can we make these carcasses? Are 20 oz ribeyes to be the new norm?
- Beef on dairy and dairy numbers should level off as the dairy herd growth is flat.
- Cow kills should subside if the drought subsides (if).

All in all, I think there are lots of reasons to be bullish, especially on female cattle prices. Let's just get through this glut and look for blue sky out the end. We look to spring and beyond as a window for bullish prices.

Happy New Year to you, and thanks to our clients for your interest in our program! We wish you joy and prosperity, and look forward to your triumphs and successes in the new year!

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