COWS IN CONTROL Inc.

THE WATERTROUGH

Cows in Control Newsletter July 2023

Sell high, buy low...

It has been a tremendous year for prices so far. Our feeder cattle are a full dollar higher than last year all while costs have cooled which is helping put some cash back in the system for ranchers. Its about time. Now that forward cattle prices are solid, it may be time to secure those high prices and re-invest those high returns into forward buying some of these inputs that have come a long ways down in price. Cattle have been steadily rising while fuel, feed, fertilizer, lumber and other costs have fallen over the past year. We don't think the run is over for cattle, but there are some cautions that we will highlight. Remember to sell high, buy low.

"Fortunes are made by buying low and selling too soon"

- Nathan Rothschild

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

Its all fun until something breaks, just like the cattle market.

In This Issue

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- What are fall calves worth?
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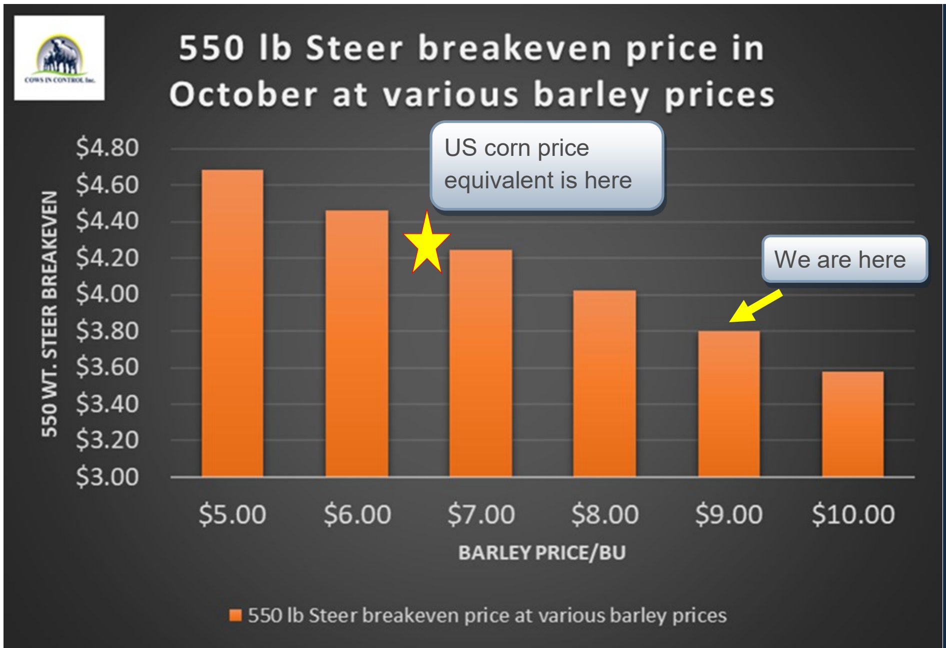


Calf prices relative to grain prices...

The Marketing Buzz **(July 21)**

Canner cows, heiferettes and bulls

Cull cows: $125-166 (avg. $154 D2) **Heiferettes:** $175-220

Cull Bulls: $145-195

Breds

Bred cows: **Pairs:** $2700-3200

(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)

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

Steers:	450 wts	$3.79	**Heifers:**	450 wts	$3.21
	550 wts	$3.64		550 wts	$3.16
	650 wts	$3.42		650 wts	$2.99
	750 wts	$3.18		750 wts	$2.91
	850 wts.	$2.99		850 wts	$2.80

Slide 550-850: **22 cents/cwt** **Heifer:steer @ 750 lbs:** **-27 cents**

Finished Cattle

$2.38 live; $3.95-4.03 rail

Feeder Basis: **- 26** (futures) Finished cattle Basis: **1** (futures)

- 16 (cash) **-5** (cash)

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

What are fall calves worth?...

Grain prices have been in correction mode for the last year. They have softened since the highs last year when Russia first invaded Ukraine and rallied wheat.

The latest developments in the Russia/ Ukraine saga where dams, bridges and grain facilities are being bombed, and grain export agreements cancelled, has caused these grains to catch a bid once again.

Canadian prices have not dropped as much as US corn and wheat has dropped mostly due to our drought in Canada.

Our current barley prices in Canada are around $9/bu. If we look at June live cattle futures, and $9 barley, it suggests that feedlots can only afford to pay $3.80/lb for a 550 weight steer in October to break even.

In light of some of the forward internet sales where calves are selling over $4/lb by the fall, perhaps the ideal is being priced?

When you convert fall US corn price into a Canadian barley price equivalent, it is only around $6.50-7.00/bu. If we assume barley prices are going to gravitate down to where December corn is priced, you can see from the chart that calf breakevens could be well over $4. This and the potential for higher live cattle prices are what forward buyers are pricing in to these calves.

The question is whether barley will drop towards corn prices, or is corn going to rally and catch up with our barley prices?

Forward sales have priced in the optimum scenario. If grains rally, that star on the chart could begin to gravitate to the right. It may make sense to take advantage of the optimism in these forward sales.

Moving in...

Packing pickle...

The packing business has always been a rather cutthroat breakeven business historically. For years, packers made money one year and lost it the next.

By 2014/15 things got so bad in the packing sector that plants started to disappear. 4 major packing entities since that period emerged and controlled over 80% of the total kill in North America.

Cattle were plentiful and packing space was in short supply, so packers gained leverage and attained some of the best margins ever.

That is reversing now. Packer margins are headed to the zero bound line again. The graph middle right shows how prior to this year we had too many cattle for the packing space available. Now going forward, it will be the opposite.

With President Biden's $1B pledge to build up the packing space (at just the wrong time), packing plants are popping up all over the US.

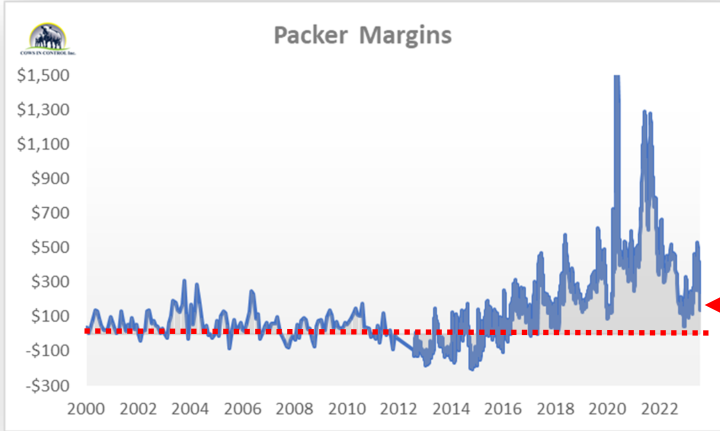
Margins will compress for packers as they are forced to pay up to get cattle in a tightening supply situation. Retailers are squeezing from the other end as their margins are compressing as well.

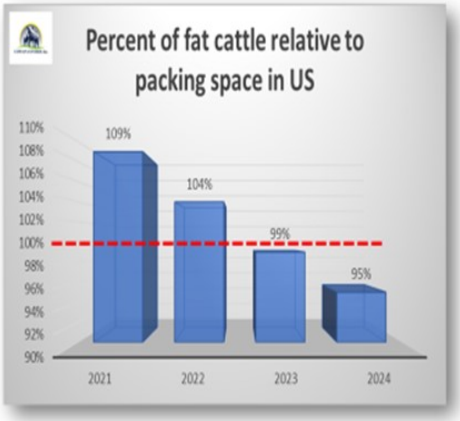
Plants in the US that will be short of cattle will have to look to Canada for supply. Currently only 10% of Canadian cattle are processed in US plants. That number should begin to rise. What will that do for our other Canadian packers if cattle start going south?

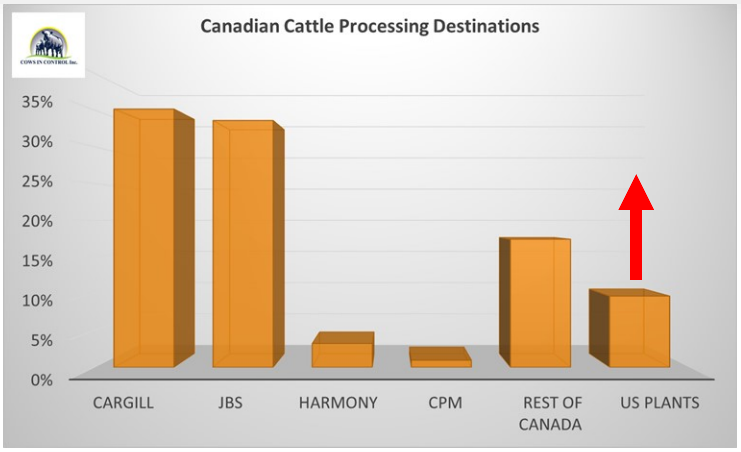
Tight margins and disappearing cattle is already starting to show up in Canada. The latest cattle on feed report showed "marketings" which is how many cattle the plants process being down 20% year on year.

Packers are cutting back Saturday kills and rationing slaughter volumes as margins compress. Short term the packing competition is extremely bullish cattle prices. Longer term, plants could be in trouble which is not good for prices.

The packing situation...







Retail: “price check in the meat aisle”...

We are so grateful for our consumers who continue to pay $45 for a steak, and continue to order steak in the restaurant for a week’s salary. Retail prices continue to rise, they don’t actually seem to ever go down. Even now they are making new highs.

One ratio we follow is the all fresh beef retail price to live steer price ratio. That is the price per lb of retail beef divided by the price per lb of a finished steer. Much ado has been made about how high beef prices have been since Covid, and they have been high. However, when priced against the price of a fed steer they have actually not kept pace as finished cattle prices have risen so quickly since 2020 lows.

Where the retail to steer ratio was nearing 6:1 before Covid, it has dropped to nearly 4:1 now. That is a drop of 30% in the ratio. That means retail margins are falling. Retailers have lots of margin, but at what point do they decide to switch beef offerings to pork or chicken when margins fall enough? We are watching this ratio as a caution.

Contact Us

Give us a call for more information about our services and products

Cows in Control
45081 Township Rd 244
Calgary, Alberta T3Z 2N2

(403) 775-7534

admin@cowsincontrol.com

Visit us on the web at
www.cowsincontrol.com

"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

Cows in Control, serving the cattle producer

Thoughts on the industry

As cattle prices rage higher in both the US and Canada, we celebrate with our clients who are locking in or selling cattle at exceptional levels. What a wonderful relief compared to prior years where prices weren’t enough to keep up with the inflation of costs around us. We might finally turn some profits!

This issue has some cautions and warnings just to keep us watchful, humble and diligent. Not to scare or discourage people in this industry. Corrections can be swift and large in these hot markets, but the set backs will be to much higher levels than we have lived in the past. We can celebrate this. Futures markets are giving us a good 30 cents of upside still between now and the fall. Forward buyers are offering that and more sometimes. These are great opportunities to lock in some of your prices and protect downside risk if some of these cautions come to fruition.

We have 5 cautions we are looking at currently that should encourage you to keep up your price protection:

1. The number of cattle on feed is still historically high relative to how high cattle prices have risen
2. Packer margins are heading lower to the zero bound, and cutouts may have topped
3. Retail price: steer price ratio has dropped 30% since 2020, retail margins are tightening
4. Canadian drought means more cows and heifers could enter the supply chain this fall
5. Grain prices look to have bottomed and may be headed higher again

These are all issues that are manageable and will take some time to play out. The reality is that the supply situation remains very bullish for cattle prices. This bull market will last for a good long time. The issues we highlight will be what keep the market in check, and will likely create some volatility along the way which is why we must remain diligent.

An 8 weight steer was $2/lb last year and he is now $3 this year. A full dollar higher. A standard pull back in prices could be as much as 50 cents which is over $400 per head. Pay 5 cents to protect 50 cents of downside risk? That could be the best investment you make this year. Take care out there — RC