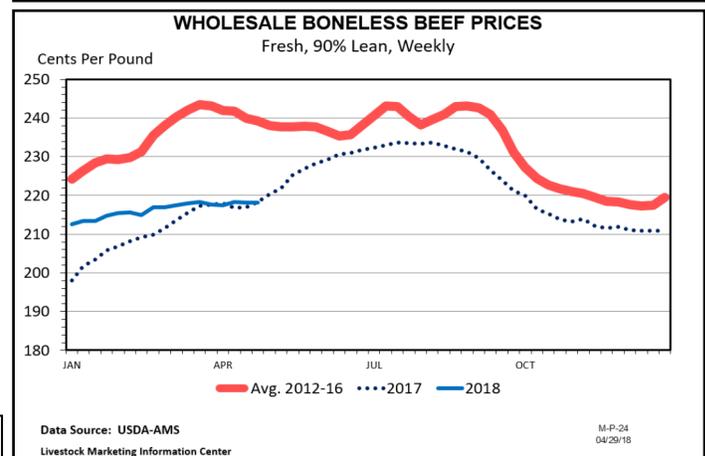
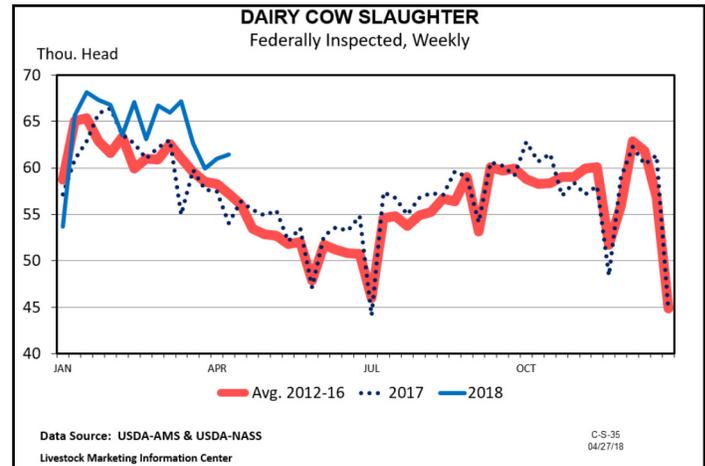


Dairy cow replacement prices took a hit last quarter, tumbling \$160 per head from the previous quarter and are the lowest value since 2011 according to USDA-NASS's Agricultural Prices report. Ample supplies of replacements and low milk prices have contributed to the lower replacement prices. The first quarter of 2018 was also the first quarter the national replacement value has edged below \$1400 per head since 2013.

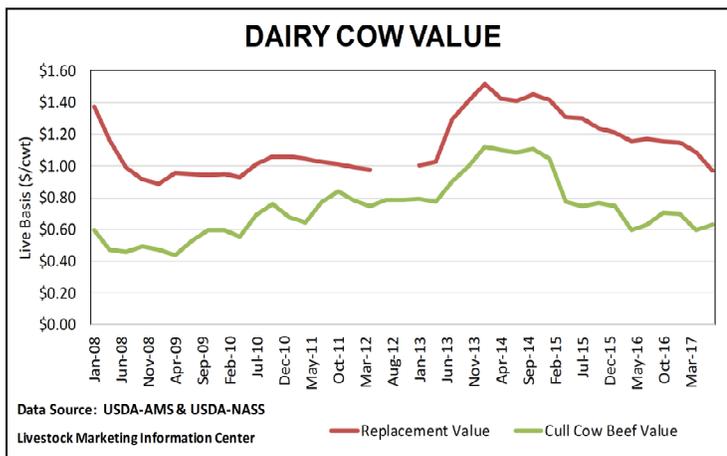
Dairy cow milk replacement values are determined by the lower bound in the price of beef and upper bound in the price of milk. The typical weight of a cutter cow is close to 1400 pounds, making the relative value a dairy replacement cow being valued under \$1 per pound on a live basis. Comparatively, the cutter cow values, over that same quarter were \$0.59 per cwt on a live basis. Dairy cow slaughter tends to move higher when the replacement value and beef value of these animals compress. Dairy quarterly replacement values are only reported quarterly, while the nationally there is a USDA-AMS reports a weekly cow and bull price. The current gap between these two relative prices was still relatively large in 2017, but in the first quarter of 2018, that number shrunk by nearly \$0.20 per cwt, a nearly 30% reduction in the gap.

Dairy cow slaughter was up double digits in the most recent data from the same week a year ago, up 14%. All year the weekly slaughter numbers have been above a year ago and are up 5.5% year to date. About 70% of the cutter cow carcass is 90s ground beef. These culled dairy cows are primarily going into 90s ground beef. That price may show



some additional downward momentum if dairy cow slaughter remains. Beef cow slaughter is also up on a weekly basis.

Slaughter cow imports from Canada have been down which means the ground market is more reliant on U.S. dairy cows and lean import products to mix ground beef. Given cow slaughter levels, it is surprising the 90s have not slipped more compared to year ago prices. There are a lot of moving parts here, but the dairy beef side of beef production system looks to have taken a turn, with milk prices being below breakeven costs on a national basis for quite some time. The gap between how these animals are valued may be small enough that dairies adapt and contribute more animals to the beef sector.



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