HAY MARKET TRENDS IN CALIFORNIA

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ABSTRACT

Due to dry conditions in California and a strong wheat grain market, growers planted 76 percent more acres to wheat in 2008 compared to last year. Consequently, alfalfa hay acres were down 4 percent and production was off 5 percent compared to 2007. This was a significant development because historically after such strong alfalfa hay market year like 2007 acres in California would be up a least 10 percent the following year. Growers were not willing to take a risk with alfalfa hay given the outlook of dry conditions and uncertainty of irrigation water in 2008. With fewer acres and reduced production and record high grain prices the first half of the year, it appeared that the alfalfa hay market would stay strong in California throughout the season. Unfortunately, due to an unexpected drop in milk and grain prices and tremendous production of wheat straw, there was a record change in alfalfa hay prices from early to late season, with the biggest drop in the dry cow alfalfa hay market.

Key Words: dry conditions, wheat and alfalfa hay acres, drop in milk and grain prices, change in alfalfa hay prices

2008 CALIFORNIA HAY MARKET RECAP - THE GOOD, THE BAD AND THE UGLY

THE GOOD

Alfalfa hay prices opened the 2008 season stronger than the previous year. Supreme alfalfa hay prices in the Imperial Valley reached $225 per ton in the spring. Prices on Supreme alfalfa in central California opened the season in the $230 to $240 fob range and moved higher to reach $250 to $260, occasional $265 fob in the north central area by July. While California over base milk prices were mainly in the $16.00 to $17.50 cwt. range the first half of the year, the outlook was for at least $19.00 milk by August and September. On June 12, the Class 3 milk futures prices for August thru December 2008 ranged from $20.65 to $21.20. This gave dairies incentive to buy hay at very strong prices. Additionally, with corn trading for $6.50 to $7.50 bushel in mid to late June (rolled corn delivered to dairies in central California topped at $310 to $330 per ton in late June) along with very strong protein feed prices, alfalfa hay was very competitive in milk cow rations. Higher TDN alfalfa hay with high crude proteins was topping the market as it could replace corn and some higher priced protein feed in milk cow rations.

Even with skyrocketing fuel and fertilizer prices, growers were still making decent profits on alfalfa hay the first two thirds of the season. The price spread between Supreme and Fair quality alfalfa hay prices was $20 to $30 per ton in mid summer with top Fair quality dry cow alfalfa trading for $230 fob in the central valley. Due to this narrow spread, growers in the central and

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northern valley harvested hay on longer cutting cycles and were producing for tonnage, not quality. Growers knew that dairymen would use wheat straw again in 2008 but with the dry land wheat crop hurt badly because of a lack of spring rain, it did not appear that wheat straw supplies would be excessive.

The major dairy cooperatives in California instituted a Milk Management program in March where dairymen had to hold milk production below their 2007 average production. Consequently, dairies were culling heavily and drying cows earlier than normal to hold production down. This not only held California milk production lower than it would have been otherwise but it increased demand for dry cow alfalfa hay in the spring due to the larger number of dry cows on hand.

THE BAD

In mid to late June the Class 3 milk futures started to move lower. At first it appeared that it was a short term correction because the market had made such a bullish move the previous 45 days. Aided by a few bearish USDA reports on cheese stocks and nonfat dry milk production and inventories the market continued to slide into July and August.

At the same time corn prices in late June nearly reached $8.00/bushel just before USDA's June acreage report was released. When the report showed U.S. corn acres higher than many analysts expected and spring floods in the Midwest causing less damage than first thought, the market began to fall. The large amount of hedge fund money that was drawn into the corn futures market when it was escalating began to be pulled from the market. The collapse of the corn market in the next 3 ½ months was unprecedented, dropping $120 to $125 per ton. December corn futures on November 7 were trading at $3.75/bushel compared to a top of around $7.86/bushel in late June, or a 52 percent drop in price in four months. While this was great news for dairymen, alfalfa hay growers knew that the sharp drop in corn prices would not be positive for hay prices.

Another development in July and August is the U.S. dollar began to strengthen, which was bearish to U.S. dairy product exports and grain exports. This occurred at the same time when New Zealand and Australia were coming out of severe droughts the past few years and were back to more normal dairy production and exports. Combined with this was the devaluation of currencies from both countries which made their dairy products much more competitive and attractive to foreign buyers. This was very significant because U.S. dairy product exports were very strong in 2007 and the first half of 2008. This is why nonfat dry milk prices in the fall of 2008 were nearly $1.00 a pound lower than in the fall of 2007.

And lastly, while dry land wheat production in California was below normal in 2008, irrigated wheat production was phenomenal. All wheat yields set a new record at 2.72 tons per acre, up from the previous record of 2.59 tons in 2004. Wheat production in California this year was up a whopping 91 percent from last year. While surface irrigation water supplies were tight in central California, much of the wheat crop was harvested before the worst of the surface water cut-backs occurred. As a result, wheat straw yields were at record highs. Some growers reported 2 to 3 tons per acre yields on wheat straw. The much larger supplies of wheat straw would have a big impact on the dry cow alfalfa hay market which started to fall in mid August.

THE UGLY
It was one of the slowest Octobers ever for hay trading in California. Many of the dairies that that still needed hay were either off the market or buying smaller volumes. Additionally, due to higher than anticipated yields on corn silage, dairymen spent more money than expected on corn silage which exhausted their feed line of credit or cash for feed by early October. While lower grain and hay prices pushed milk production costs lower, many dairies had higher priced hay on hand from earlier in the season. While grain prices had dropped significantly they were still much higher than the past five year average. It was estimated in early November that bare bones milk cost of production in California was still in the low to mid $15 cwt range, unless the dairy was locked into a higher priced corn or other feed contract.

Milk prices continued to drop in the fall with Class 3 milk futures falling 30 to 35 percent from their summer highs. Cheese, nonfat dry milk and butter prices were all lower than in the summer. The outlook for milk prices from December 2008 through the first half of 2009, if realized, would translate into the biggest financial hit to dairy producers since 2006. With the November 2008 over base milk price estimated to be in the low to mid $14 cwt range and December to fall into the mid $13 range, projected losses by dairies would be $1.00 to $2.00 per hundredweight or more.

The meltdown on Wall Street and the financial crisis in October added to the problems for the dairy industry. Demand for dairy products both domestically and internationally was slowing. Australia and New Zealand were taking more dairy export customers away from the U.S. which was putting additional dairy products back into a sluggish domestic market. The financial crisis and tighter credit couldn't have come at a worse time for the dairy industry. As milk prices were softening in late in 2008, the financial viability of some dairies was eroding. Sources were saying some dairies would have a difficult time getting financed for 2009. In the fall, some dairies were asking growers and hay dealers if they could pay payments or delay payment on hay and silage. It was amazing how different things were from the year before.

The only bright spot for the dairy industry was the announcement in late October that a second CWT Herd Retirement program would be held in 2008. Sources estimated that a larger number of cows would be accepted in this program, possibly 50,000 or more compared to the 25,000 head accepted in the program held in mid-summer. A few smaller dairies (500 to 1,050 head) were sold in north central California during October and it was anticipated that other dairies would sell out in the weeks ahead.

I mentioned previously how the dry cow alfalfa hay market started to weaken in mid August. Unfortunately, that market kept falling for the following two and ½ months in central California. As of this writing (November 10) much of the outside un-tarped hay had been sold in central California with the tarped and barn hay market not tested yet. Fair quality dry cow alfalfa hay prices fell $70 per ton between mid August and early November to reach a top of $160 fob. It appears that this is the largest drop in alfalfa hay prices in the same season that has ever occurred in California. During that same period higher quality alfalfa hay prices fell but not as severe. Supreme alfalfa hay prices dropped $20 to $30 during that period with some $40 off in early November.

The reasons for the dramatic drop in the dry cow alfalfa hay market in central California the second half of the season included the very heavy summer alfalfa hay production, much larger than expected supplies of wheat straw, and the unexpected drop in milk prices. The yields on summer alfalfa hay cuttings were so high that USDA revised its alfalfa hay yield for California from 6.90 tons in mid summer to 7.10 tons on October 1. Hay dealers confirmed that dairies were carrying large supplies of wheat straw and were also purchasing wet Distillers Dried Grain, almond hulls, and off-grade or grassy alfalfa hay at very competitive prices in the fall. The demand for corn stalks, rice straw, and other roughage feeds was much softer than last year.

As a result of the collapse of the dry cow alfalfa hay market, the amount of unsold Fair and low end Good quality alfalfa hay on hand in central California was significantly above the fall of 2007. With the financial deterioration in the dairy industry the second half of the year, it was expected that larger supplies of hay would be in growers hands compared to last fall. However, the unsold supplies, particularly in the north central area exceeded expectations. Much of this hay is tarped or in barns and is in strong hands. As one grower mentioned, if it is a drier than normal winter his tarped and barn hay prices should be strong the first quarter of next year. If it is a wet winter he said his irrigation water will cost him less next season and will offset his lower prices on carryover hay.

Hand-to-mouth dairy buyers will pay more for tarped and barn hay in the weeks ahead but the premium may be less than in the past. There will be strong competition to move the ample supplies of hay through the winter and this will intensify as the new crop season approaches. While supplies of dry cow alfalfa hay will be plentiful, there will not be as much higher test barn and tarped alfalfa hay available.

RETAIL/HORSE HAY MARKET

The market on retail alfalfa hay remained consistent much of the season mainly due to balance in supplies of lighter weight bales versus demand. Early sales of barn hay in the fall indicated that the market was still holding. While feed store prices varied widely in California from $13.00 to $18.00 per bale for light alfalfa, overall sales in California appeared to be down from a year ago. It also appeared that some stables were buying hay direct for their customers rather than going through the normal feed store channels. If they were buying regular weight stable type alfalfa they were paying lower prices in the fall compared to mid summer due to the drop in the alfalfa hay market to dairies.

The market on orchardgrass or orchardgrass/alfalfa hay mixes opened the season very strong. Early contracts in the northern mountains of California on orchardgrass hay were reported in the $260 to $270 per ton range for winter take out. While the orchardgrass hay market held pretty consistent through the season there was a little softening late in some areas on hay for current delivery. There was not an oversupply of orchardgrass hay. It was amazing what orchardgrass hay was selling for in feed stores in the central coast and southern California with prices reported at $22 to $24 per bale.

HAY EXPORTS

The amount of alfalfa hay exported from California to Japan in 2008 was more than double the normal amount but still would not amount to more than 3 to 4 percent of production. The market on export alfalfa hay began in California in late spring with strong demand and prices. In the Imperial Valley Good quality alfalfa hay traded in the $205 to $215 range in June with Japanese buyers much more active than normal due to the very high alfalfa hay prices in Washington State. Prices advanced and by early August Good quality alfalfa was trading from $220 to $235 in the Imperial Valley, still very competitive compared to prices in Washington. Export alfalfa hay prices in central California were also strong early in the $225 to $240 range and $210 to $225 in the northern valley and mountains. Prices softened by fall as alfalfa hay movement to Japan turned slower.

The sudan hay for export market opened in July with bullish prices in the $210 to $220 range in the Imperial Valley on Premium quality. Prices advanced to $230 to $240 by August with some sales for the Japanese Wagyu market topping at $250 or higher. Prices on top sudan hay in mid summer in the central and northern valley traded from $180 to $210. Sudan hay prices began to fall in late August and September. Fair quality sudan hay in late October and early November in the Imperial Valley was trading from $100 to $110, down $80 to $85 from similar quality in July and early August. Good/Premium sudan hay in central and northern California dropped to a range of $90 to $100 by early November, down about $100 per ton from the highs in August. This drop of $80 to $100 per ton in a space of three months was a record change in similar quality sudan hay in the same season. New crop sudan hay movement was extremely slow to Japan in the summer and early fall. Japan was using up old crop hay supplies and purchasing more competitively priced oat n hay from Australia in the early fall.

NOTE: All of the above information and more was in The Hoyt Report as it happened each week in 2008. Subscribers were also sent outlook reports for 2009 in October which are revised and updated when necessary. Please contact us for a sample report and subscription form for this vital weekly report so you can keep abreast of the latest in the hay/forage and dairy industries in California and the West.

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