

# HAY MARKET SITUATION IN WESTERN STATES

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## 2013 Overview

Weather played a larger than normal role in hay markets in much of the west in 2013. While drought conditions worsened as the season progressed, it was the untimely rains and in the case of Washington, constant rains that plagued growers. The only area that seemed to not have rain issues through the season was the central and northern valley of California. Some growers in the State of Washington had all of their alfalfa hay cuttings rained on and a large amount of timothy hay was also rain damaged. Export buyers from Washington were more aggressive in purchasing hay in Nevada and Utah due to the large amount of rain damaged hay in Washington. Rain caused above normal damage to alfalfa hay in Idaho and Utah and some areas of Nevada. Even in the Imperial Valley, Blythe, and Arizona rain took its toll on the alfalfa and other hay crops. Consequently, a larger than normal amount of rain damaged hay was on hand in the fall of 2013 in some areas of the west. Alfalfa hay markets were impacted by not only the rains but drought that threatened irrigation water supplies in some areas. Areas such as southwest Idaho where Supreme quality new crop alfalfa hay prices charged out of the gate in June of 2013 at record high levels of \$240 to \$250 fob stack. The first cutting Supreme alfalfa hay market was in a frenzy with talk of irrigation water supplies being cut off earlier than normal in some areas of southwest Idaho, which eventually did happen. It was interesting that after very bullish prices early, the Idaho alfalfa hay market began to soften and by fall prices retreated to levels below 2012.

Due to negative margins, overall demand for alfalfa hay from dairies in central California (the biggest concentration of dairies in the nation) was not what we saw in 2011 and 2012. This was evidenced early in the season on first cutting in the Imperial Valley where Supreme alfalfa hay traded for \$215 to \$220 fob the stack, compared to \$250 to \$260 the same time in 2012. Overbase milk prices in California in the first quarter of 2013 ranged from \$16.33 to \$16.66 cwt while milk cost of production (according to CDFA) was \$17.69 cwt. Rolled corn delivered to central CA dairies ranged from \$315 to \$330 per ton in March. While rain and rain delays reduced the amount of early season higher quality alfalfa hay, Supreme alfalfa delivered to Tulare-Hanford dairies in the \$265 to \$285 price range in March & April were down 10% from the previous year. Even overall demand for better quality alfalfa hay in Nevada and Utah during the season was not what we had seen from CA dairies the previous two years, although part of this was due to below normal tests or rained on hay. While dairies in Utah found less competition from CA dairies for alfalfa hay in 2013, they were still forced to pay higher prices than they had vowed not to pay before the season began. This was due to competition from export buyers and from less than normal supplies of non-rain damaged hay. With falling corn prices and stronger milk prices, margins improved at dairies in the west in the fall and most dairies were profitable in November 2013. This pushed the prices on Supreme alfalfa hay delivered to central California dairies to \$285 to \$315, depending on test, steady to \$10 per ton higher than the previous year.

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Tight supplies of Premium & Supreme alfalfa hay throughout the season held prices in Nevada, Washington, and Utah in the \$210 to \$230 range. Washington dairies found very little higher quality alfalfa hay this season within their State due to unprecedented rain events throughout the season. Some purchased Premium & Supreme alfalfa hay in surrounding States and others were forced to feed lesser quality milk cow hay. Declining corn prices in November and an outlook for low corn prices in the first half of 2014 will continue to lower milk cost of production. This should be a positive for dairy profitability in the west as long as milk prices hold or only make slight declines.

Hay exports from west coast ports from January through August 2013 at 2,811,056 short tons, were up 6 percent from the same period in 2012. California ports continued to outpace Washington and Oregon ports in volume of exports. While Japan **\*\*was\*\*** still the largest market for overall hay exports from the west coast, the UAE was the biggest export destination for alfalfa hay. However, in terms of year to year expansion, alfalfa hay exports to China made the biggest surge, up 56 percent in the first nine months of 2013 compared to the previous year. At the current pace, it appears that China will overtake the UAE as the leader in alfalfa hay exports from the west coast in the next one to two years. With the tremendous growth in the Chinese dairy industry (currently 14 million cows compared to 2.5 million not many years ago) and signs of continued growth in the years ahead, alfalfa hay requirements will be significant. While there are alfalfa hay production projects in parts of the world, including in China, to meet this growing demand for alfalfa hay, there will still be strong demand for alfalfa hay from the western U.S., at least for a few years. We keep hearing of expanded alfalfa hay shipments to Saudi Arabia, maybe 2014 will be the year we see this occur. Although, there is evidence that some of the alfalfa hay exports to the UAE have actually ended up in Saudi Arabia. There are a few other emerging markets for alfalfa hay such as Vietnam and India but we're not seeing much volume exported to these countries.

### **Outlook for 2014**

When looking at where the alfalfa hay market will go in 2014, there are more dynamics than we have seen for some time. While heading the list would have to be the amount of rain and snow pack that occurs in the west this winter. The other major development is fewer crop options for growers after the drop in grain markets, specifically corn and wheat compared to the past few years. It now appears that it will take above normal precipitation and snow pack in the west to restore irrigation water supplies to adequate levels. In States such as California and Washington, it appears that growers will have a few more options of what to plant than growers in other parts of the west. They will have crops such as processed tomatoes or cotton in California and sweet corn and dry beans in Washington. But in States such as Idaho and Utah that have had heavy wheat acres the past few years, it appears that alfalfa hay acres will be higher in 2014. Seed company representatives in Arizona indicate that alfalfa hay acres in 2014 should be higher. Early indications are that alfalfa hay acres in Washington could be the same to a little lower and California acres should be lower in 2013. However, alfalfa hay acres in California may not be down as much as I was thinking a couple of months ago. Alfalfa hay acres in the southern CA desert (Imperial Valley and Blythe) are up and fall plantings in the northern valley may be better than what was expected. There is no doubt that alfalfa hay plantings in the central and southern San Joaquin Valley are down because of water concerns. This is the largest alfalfa growing area in California. In the scenario that there is above normal rain and snow pack and the irrigation

water picture looks much better by late winter, there could be above normal spring plantings on alfalfa hay in some areas of the west which could push overall alfalfa hay acres higher.

It appears that alfalfa hay usage could be down in 2014, mainly because of fewer pounds fed per day to dairy cows in the west. With lower corn prices, it is expected that many dairies will increase pounds of corn and reduce pounds of alfalfa hay in milk cow rations in the months ahead. Some of this could be tempered if protein feed prices stay at high levels which would make higher quality alfalfa hay with strong proteins more attractive to feed. A key will be overall improved weather during the 2014 alfalfa hay production season so that higher quality alfalfa hay can be produced. There are ample supplies of feeder hay in some areas of the west, particularly the PNW and hopefully they can return to better quality production in 2014.

Export contacts think that alfalfa hay shipments to China from the west coast will be up again in 2014 but there is differing opinions on hay exports to the UAE. One contact who exports to the UAE doesn't see much growth in exports to that market in 2014 but another contact sees more tonnage shipped to the UAE next year. Most export contacts believe that Japan and Korea are mature markets with not much growth potential in the future. The weak Japanese Yen has definitely been a game changer on exports to Japan and will be a big factor again in 2014. With increased alfalfa hay shipments to China, we could see overall hay exports from the west coast up again in 2014. The key will be the alfalfa hay market in the west, which if lower than 2013 could attract more export demand.

There are some interesting dynamics in what the alfalfa hay market could do in 2014. As I say every year my price forecasts are subject to revisions. Because of tight supplies of higher quality alfalfa hay and pent-up demand, I believe central California dairy hay buyers will show strong demand for first cutting Supreme quality alfalfa hay in the southern desert in March 2014. I believe the market in the Imperial Valley could be the same to a little stronger on first cutting Supreme alfalfa hay in 2014 than the \$215 to \$220 fob stack we saw this past season. But with lower corn prices I don't think any increase would be up very much, maybe to \$220 to \$230. This is contingent on dairies remaining profitable because if for some reason milk prices fall and dairies go into a negative financial position, all bets are off. I think the market could ease down on second and third cutting in the Imperial Valley but it really depends on irrigation water supplies in the central valley. If drought conditions persist in central CA and there is no increase in spring planted alfalfa hay, top alfalfa hay prices may not slip much in the southern desert on spring alfalfa hay. It is really hard to predict early alfalfa hay prices in central CA but unless there is more than expected plantings and a better water picture, prices of \$245 to \$260 fob stack for Supreme alfalfa hay could occur. However, this could be tempered if plantings in northern San Joaquin Valley are more than expected and if some water districts in that area have sufficient irrigation water. I think pent-up demand for higher quality alfalfa hay, whether for dairy or export, could hold first cutting alfalfa hay prices higher than they would otherwise be in other areas of the west as well. Having said that, corn prices and alfalfa hay acres and production will be key factors. For example, if Idaho alfalfa hay acres are up as some expect, we could see early Supreme alfalfa hay trade between \$180 to \$200 but a dry winter could change this. I think Supreme alfalfa hay in Washington, Utah, and Nevada could trade a little above the Idaho market in the low \$200 area but again weather will be a key element. For example, there are such large supplies of lower quality hay in Washington, that there will be pent-up demand for better

quality alfalfa hay. This could push first cutting alfalfa hay prices in Washington higher than would otherwise be the case but the corn market, again, will be the limiting factor.