

HAY MARKET TRENDS IN 2016-2017

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LOOKING BACK AT 2016

As you look at where things might go in 2017 in the western hay market, the impacts from the past year continue to weigh on the hay industry as we go into the fall of 2016. It is hard to believe that after record alfalfa and other hay prices in 2014 that things could be so bad in 2016, particularly on Fair and Good quality alfalfa hay. The thing that was very evident from early in the season was the below normal demand for alfalfa hay from dairies in the west. After reaching record high prices in 2014, milk prices deteriorated to levels below the cost of production. Many dairies were carrying sufficient hay inventories so they could delay buying hay in 2016. As we discovered in 2009, when dairies are losing money and go into a survival mode their hay buying patterns change and we saw this in 2016 in the west. If it wasn't for demand from export buyers there would have been weeks the first half of the season where very little alfalfa hay would have traded in some areas of the west. But how things changed later in the season, demand for export alfalfa hay turned light in slow trading. China, the main buyer of alfalfa hay from the west coast, was offering lower prices on hay. Unfortunately for hay growers, because of a lack of crop options, growers planted more alfalfa hay in the west in 2016 than what some were expecting. The combination of more alfalfa hay combined with a drop-off in dairy demand the first half of the season and light demand from export buyers late in the season was very challenging for hay growers, particularly in states like Idaho. Even higher quality alfalfa hay prices dropped substantially in Idaho and Fair quality feeder hay was at low levels not seen since 2009. Low to middle quality alfalfa hay supplies were large in some areas of the west. There was a little more demand from central California dairies, particularly for higher quality alfalfa hay in the late summer and fall but demand from Washington and Idaho dairies continued well below normal. Dairies in Washington were feeding more silage and less hay which was stretching existing hay inventories.

ALFALFA HAY PRODUCTION IN THE WEST 2017

Many alfalfa hay growers in the west are trying to reduce acres in 2017 but because of a lack of crop options alfalfa hay acres may not be off much in some areas. In Arizona and Blythe California early indications are that more cotton will be planted and alfalfa hay acres could be reduced. In Central California, sources and seed representatives say alfalfa hay acres will be down in 2017 but not sure how much. I did learn in early November after talking to more people that more cotton will be planted in central California and this will displace alfalfa and wheat for silage acres.

A couple of growers in central California said they were reducing alfalfa hay acres and planting more vegetables. Two seed representative said alfalfa hay acres will be down in Washington and this is verified by other contacts as well. It appears that alfalfa hay acres in Idaho could be down but don't look for a big drop because of a lack of crop options. One grower in Idaho told me that

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in spite of soft wheat prices he was planting more wheat because he said “at least I can sell it.” Others may also gamble on the wheat market for the same reason. There is 2016 alfalfa hay in Idaho, even bigger lots, that still have not sold. One buyer told me that a grower had 2014 thru 2016 hay on hand. But the reality is that without other crops to plant with profit potential alfalfa hay acres may not drop very much in Idaho.

It is interesting when you look at down market years in the past and what alfalfa hay acres did. In 2009 when alfalfa and other hay prices in the west were at depressed levels, alfalfa hay acres in California dropped 70,000 in 2010 and were off another 50,000 in 2011, a total of a 12% decline in two years according to USDA. Growers had crop options. In Idaho, alfalfa hay acres dropped from 1,140,000 acres in 2009 to 1,000,000 acres in 2011, a 12% decline because growers could plant other crops with profit potential. Early indications point to fewer alfalfa hay acres in the west in 2017 but it does not appear that it will be a drop like we saw in 2010 and 2011. Drought and irrigation water were still a factor in some areas, but it may be less of a factor if the pattern of above normal rainfall occurs this winter like it did in October 2016. Northern California, Washington and Idaho received record to near record rainfall in October.

The only feedback I’ve received on grass hay for 2017 is timothy hay for export in Washington where seed representatives think acres will be up. One seed guy said it may be “one and done,” meaning that unless the market is strong growers will pull out timothy after first cutting and plant something else, i.e., beans, sweet corn, etc.

DEMAND FOR ALFALFA HAY IN 2017

Demand from the dairy industry will depend on carryover hay supplies from 2016 and milk prices. When looking at hay carryover in the seven western States, the feedback I am getting is that the biggest carryover of unsold hay is in Idaho and Washington. Feedback I received was from hay buyers, growers, and tarp company representatives. It appears that Idaho will have the largest carryover of alfalfa hay (it was interesting that two California buyers were in Idaho the second week of November looking at hay). Higher quality alfalfa hay supplies do not appear to be burdensome with much of the carryover Fair and Good quality alfalfa. This could be positive for the Supreme alfalfa hay market early next season but a key to this will be where milk prices are. When dairies are making money they want to feed higher quality alfalfa hay. Higher milk prices and profitability at dairies will especially be important in Washington and Idaho where demand for even higher quality alfalfa hay was stagnant throughout the season. Sources think that there will be a big carryover of alfalfa hay in Utah and I don’t have a lot of feedback on Nevada, one source said he thought alfalfa hay carryover in Nevada would be higher than last year. In central and southern California, and in the Poston Arizona area I am not hearing of burdensome supplies of unsold alfalfa hay. In central California, one larger grower that had barn hay last year had no hay in his barns this year. Another grower that had 1,800 tons of alfalfa hay that he carried over into 2016 was sold out the second week of November. One hay dealer in central California said there is no abundance of alfalfa hay in central California and he said he was trying to buy higher quality alfalfa hay in Utah and Nevada for dairies in the central valley. In Washington, timothy hay demand was strong in the early fall and it appears that timothy hay carryover into 2017 will be down

Indications point to an improvement in milk prices around the world in the months ahead but the problem for dairies in the western states has been strong U.S. milk production and plentiful supplies of dairy products nationwide. Maybe there are changes coming. As I work on this

outlook report the first week of November, the all price index at the Global Dairy Trade auction in New Zealand was up very strong (11.4%), cash cheese prices on the CME were up 26.25 cents on barrels and 17 cents higher on block cheese. Class 111 milk futures were higher for the week. When markets go up this fast you wonder how solid a foundation they have. If the U.S. cheese market holds or continues to strengthen and dairies can return to profitability, this would be a tremendous shot in the arm for the western U.S. hay industry. The projection for the November 2016 overbase milk price in California is around \$15.40 cwt, the highest price since December 2014 and up from the estimated \$14.06 in October 2016.

The other big piece of the demand pie are exports. Everything I write about hay exports is information I obtain from export contacts. The growth markets in the future are China and Saudi Arabia. Japan, Korea, and the UAE are mature markets with not much growth potential. China is by far the biggest market for western U.S. alfalfa hay but it is not an easy market to ship to. Not only does the hay have to be GMO free and pass a test for verticillium wilt, but there are times like we saw in the late summer and fall of this year when China had large inventories of imported alfalfa hay and lowered the price they would pay for U.S. alfalfa hay. What added to this was that Chinese dairies were losing money because of low milk prices and some were buying lower priced local hay. The problem was that there was alfalfa hay purchased for that market by western U.S. hay exporters at a price that no longer existed. There will be challenges at times exporting alfalfa hay to China but the demand for western U.S. alfalfa hay from Chinese buyers has been strong and they like the quality. Quality alfalfa hay translates into better milk production in China. One exporter estimated that alfalfa hay exports to China from the western U.S. could reach 2 million metric tons in the coming years. Saudi Arabia is a market with growth potential and while some of the alfalfa hay going to that market will be integrated movement by the largest dairy company in Saudi Arabia, some export contacts think that there will be potential for more shipments of alfalfa hay to that large dairy company and to other dairies in Saudi Arabia in the coming years.

I don't have a good handle on overseas demand for sudan and kleingrass hay from the Imperial Valley but bermuda hay was in strong demand late in the season. Damaged hay crops in Taiwan helped the demand for Imperial Valley bermuda hay. There was also strong demand for timothy hay in the Pacific Northwest late in the 2016 season for Korea and Japan. The Japanese demand was due to weather that damaged hay crops in northern Japan. Some sources thought the good demand for export quality timothy hay would carry into at least the first cutting in 2017 in the PNW.

RETAIL HAY

One thing that occurred in a few areas in 2016 was an increase in retail alfalfa hay production because of a low market on Fair and Good alfalfa hay for the dairy market. This was the case in Blythe CA. The market did not change that much in Blythe from the early June prices of \$145 to \$150 fob stack on Good/Premium retail alfalfa hay and where prices were late in the season. The same story in the Imperial Valley where Premium retail alfalfa hay prices in June were \$170 to \$180 and in mid-November were \$165 to \$170. I don't have a good feel where retail alfalfa hay prices will go in 2017 but if the alfalfa hay market strengthens on dairy and export alfalfa hay in 2017 it will probably pull retail alfalfa hay prices higher because that has been the trend historically. Prices on higher quality Premium retail orchardgrass and timothy hay in northern CA and southern Oregon, while lower than last year, were higher than some people thought they

would be. Premium retail orchardgrass hay sold in a wide range from \$220 to \$270 per ton fob barns for winter take-out but demand and prices on lesser quality tapered off quite a bit. Top timothy retail alfalfa hay sold in wide range from \$250 to \$320 in the northern mountains, depending on bale weights and delivery. In Diamond Valley Nevada, retail timothy hay prices were nearly the same as in 2015. Premium to high Premium retail timothy hay was in good demand and traded from \$320 to \$368 per ton fob barn for winter take-out. Sources don't think timothy acres in Diamond Valley will change much in 2017. One seed source thought timothy and orchardgrass acres in the northern CA mountains would be down 10% in 2017 but another seed source thought orchardgrass acres in the Klamath Basin in 2017 would be up quite a bit from 2016.

CONCLUSION

While alfalfa hay acres could be down in the western U.S. in 2017 don't look for a big drop in some areas because of a lack of alternative crops to plant. In areas where growers have a few crop options, such as in Arizona, California, and Washington, early indications point to lower alfalfa hay acres. Early indications point to more timothy hay acres in Washington. The biggest carryover of alfalfa hay in some areas of the west is mainly feeder hay (Fair/Good quality) which could help strengthen prices on Supreme alfalfa hay next season. The key will be higher milk prices that bring dairies back to profitability. It may take longer for the Fair quality alfalfa hay market to improve because of heavy supplies in some areas of the west. It appears that there will be continued growth of alfalfa hay exports to China and Saudi Arabia but not much, if any, growth to other countries, according to sources. If demand for higher quality alfalfa hay improves from dairies in the west in 2017, export buyers may be forced to pay more for Premium to Supreme export alfalfa hay than they did in 2016.