

HAY SITUATION IN 2015 AND OUTLOOK FOR 2016 IN THE WESTERN STATES

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OVERVIEW OF 2015

The current situation in the alfalfa hay market has much to do with events from last year and early this year. Record high milk prices in 2014, a looming huge tax bill for dairies, and in California a threatening drought, prompted dairies, particularly in California and Idaho to buy large amounts of hay, mainly alfalfa hay. The other event was the work slowdown at west coast ports which halted normal shipments of hay to foreign markets and dramatically increased hay inventories at export companies. These two events resulted in much higher carryover of hay into 2015 and had ripple effects throughout the hay marketing season. There could be some impact even on the 2016 market. Add to this the increased supplies of low to middle quality alfalfa hay due to weather and you had all the ingredients for a very challenging year for many in the western hay industry in 2015. Large supplies of Fair quality alfalfa hay and large hay inventories at dairies are why the drought in California had no impact on the 2015 alfalfa hay market. It was a year where hay buyers wanted a home for hay before making a purchase. There was very little speculative buying in 2015 and it was hard at times to get a good handle on not only where the market was but where the market was going. A veteran hay dealer stated that trying to figure out where the hay market was going was like “trying to find a light switch in a dark room.” Hay dealers and growers were not finding dairy customers and export companies in the buying mood that they were in last year. Because of large hay inventories that were carried into 2015 and in the case of dairies, lower milk prices, overall demand for hay was lackluster compared to 2014.

Export hay demand from Japan and Korea was not what it was a year ago due to large old crop hay inventories in overseas markets and exchange rates that made U.S. hay more expensive to purchase. The frustrating thing for exporters is that when they couldn't get hay shipped late last year and early in 2015 because of the west coast port slowdown, some of their overseas customers had to find other sources of hay in the world. When the labor situation was resolved at the ports and hay began to move again in early March, hay inventories swelled in Japan and Korea which slowed exports in the months that followed. Demand for timothy hay dropped off sharply the second half of the season with a little interest for Premium quality but overall demand was weak and not much demand for timothy hay as the year was winding down. There were a few positives in 2015. The 30% increase in alfalfa hay exports to China from the west coast in January through September compared to the same period in 2014, according to the U.S. Department of Commerce, was good news. This was in spite of the west coast port work slowdown early in the year and a major explosion at a major port in China. Sources say China still needs alfalfa hay from the western states for their large dairy industry and it was evident in their purchases in 2015. The negative was that they still wanted a test that showed the alfalfa hay was non-GMO. A negative for Washington hay exporters was the cost to ship containers to

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China was still substantially higher than from Long Beach. That is why a growing number of Washington exporters were setting-up operations in southern CA to take advantage of the lower ocean freight. Alfalfa hay exports to the United Arab Emirates (UAE) rebounded from very low levels early in the year and reached 31,491 and 27,341 Metric Tons (MT) respectively in August and September. Alfalfa hay exports to Saudi Arabia were increasing in the July to September period.

OUTLOOK FOR 2016

Before we talk about demand, let's talk about supplies. Feeder/dry cow alfalfa hay supplies are much larger than normal in the west. The carryover into 2016 of Fair quality alfalfa hay will be big and I have no idea how long it will take to bring supply and demand balance back into that market. I talk to a lot of people every week in the west and many think the feeder/dry cow alfalfa hay market will be tough next season as well. One thing that I hear is that if El Nino brings above normal snow which will increase hay fed to beef cattle that will help to reduce feeder hay supplies in some States. One hay dealer in Idaho told me this week that he received a few calls from beef cattle producers after snow fell at higher elevations. It is not surprising that growers are taking out older alfalfa hay stands throughout the west. Although, in some areas of the west hay is about the only crop farmers can grow. While growers can't control the weather, they will be even in more of a mindset to produce quality alfalfa hay in 2016 as there are record spreads between the top and bottom of the alfalfa hay market. As we have seen in recent years including this year, sometimes it is difficult to put up quality alfalfa hay when there is unsettled weather and rain. Supplies of higher quality alfalfa hay have not been as plentiful as feeder hay with Supreme alfalfa hay prices in Idaho and Washington at \$180 to \$200 fob stack late in the season and delivered prices into Tulare-Hanford CA at \$255 to \$280 per short ton.

Looking at the hay export situation, the exporters we have visited with have mixed feelings about 2016 after a rough year for west coast exporters in 2015. Exporters don't see many positives on hay going to Japan due to the weak Yen and competitive prices on oaten hay from Australia. Japan is increasing production of hay and silage and this will weaken hay demand in 2016 and beyond. One exporter said the Japanese market for west coast hay is not flat, it is declining. But he noted that while the Japanese market is getting smaller they still import a lot of hay from the western U.S. Most exporters thought alfalfa hay exports to China would increase in 2016. According to the U.S. Dept. of Commerce there were 658,000 MT of alfalfa hay exported from the west coast to China in January through September 2015, compared to 660,751 MT in the entire year of 2014. Sources say China will import alfalfa hay from other countries but U.S. alfalfa will be the majority of imports. While alfalfa hay exports from the west coast are increasing to the UAE some exporters that ship alfalfa into that market do not see it getting back near the 661,000 MT level seen in 2013. One exporter thought if we reached 300,000 MT in the coming years that might be the maximum because the UAE can purchase hay in other parts of the world at competitive prices. Another exporter said the UAE market is confusing and they seem more focused on buying hay from other countries. Saudi Arabia will be the market to watch to see if increases in exports of alfalfa hay from the west coast continue to rise. One exporter thought that Saudi Arabia would move very slowly in committing to U.S. hay supplies. Another exporter said they see minimal opportunity in Saudi Arabia and they believe increased imports from the U.S. will come mainly from farms owned by Saudi Arabian companies (I know

of one in Arizona and one in the southern CA desert). They also believe that much of the demand for hay in Saudi Arabia will be filled by other countries. .

Demand for higher quality alfalfa hay in late October and early November 2015 was not like you would normally see for higher quality dairy hay in the fall. We know that some dairies not only had enough hay to carry them until next season, some have purchased enough hay to get them through next summer or longer. It is hard to say how much impact this will have on early demand next season but early indications are that the best demand will be for higher quality alfalfa hay. Trying to predict the early new crop alfalfa hay market in Imperial Valley in March 2016 is impossible (I did it for years) because of the many variables and not knowing how many dairies will not come into the early market because they have ample hay inventories. There was only moderate demand at best on early new crop Premium/Supreme alfalfa hay in the Imperial Valley at the start of the 2015 season. Having said that, if the early Imperial Valley alfalfa hay quality is very good and if the outlook for milk prices improve for the second half of 2016, demand could be better than might otherwise be the case. Demand has become very hard to predict because of dairies feeding less pounds per head/per day of alfalfa hay to milk cows which impacts how fast they go through their hay inventories. While dairies are feeding less alfalfa hay (a few don't feed any alfalfa hay), we're not hearing of a growing number of dairies in the west taking alfalfa hay completely out of milk cow rations. It appears that dairy producers along with most nutritionists see value in feeding alfalfa hay, even if it is fewer pounds. The value is not only in milk production but in the health of the cow.

Early indications point to fewer alfalfa hay acres in the west in 2016 but it will vary from State to State. In California, seed representatives indicate that alfalfa hay acres in the Central and Southern San Joaquin Valley of California will be down substantially while the Southern CA desert and Northern Mountains could be unchanged to higher. But because Central CA represents the biggest alfalfa hay growing area, the indications are pointing to fewer alfalfa hay acres in CA in 2016. The reality is that trees, mainly almonds will continue to displace alfalfa hay acres in the Central and Northern valley of California. Talking to growers throughout the west it was clear that alfalfa hay growers were looking at any option they could find to reduce acres in 2016. Another development was that some growers in the west were switching from GMO back to conventional alfalfa hay so they would have the option to sell hay to export buyers when dairy demand was weak.

Growers in some areas of the west, as they did in 2015, will watch the retail and stable hay markets and will put up small bales for those markets when there are opportunities to increase dollar returns. The key will be if retail and stable hay markets remain higher than dairy and export markets. We saw this on timothy hay in Washington and on alfalfa hay in California in 2015.

CONCLUSION

There will be a larger carryover of hay in the west into 2016. How much larger will depend on weather this winter and how much feeder hay will be fed to beef cattle, particularly in higher elevation States that can receive more snow. Dairies in the west, particularly in the two largest dairy States of California and Idaho, carried large inventories of hay into 2015 and many will carry large hay inventories into 2016. The challenge is trying to determine how long those supplies will last and what the early demand will be for higher quality new crop alfalfa hay.

Quality of early new crop alfalfa hay and the outlook for milk prices will also influence the early 2016 market on Premium/Supreme alfalfa hay. It appears that large supplies of dry cow/feeder hay in the west will keep price spreads wide between the top and bottom of the alfalfa hay market. It appears that the best demand will be for higher quality alfalfa hay as there are not excess supplies of Premium/Supreme alfalfa hay in the west. Shipments of alfalfa hay to China is the bright spot for exports but they continue to want non-GMO hay. Hay exports to other countries from the west coast will be mixed but the recent increases in alfalfa hay exports to the UAE may not be an indicator of a sustained upward trend and much of the higher exports to Saudi Arabia may come from integrated Saudi Arabian companies. The weak Yen, competitive priced Australian oaten hay, and hay and forage production in Japan will continue to impact U.S. hay exports to Japan. Early indications point to less alfalfa hay acres and production in the west in 2016. How that impacts prices will be determined by the variables in domestic and export demand mentioned above and pounds of alfalfa hay fed to milk cows in the west.