

STATUS OF THE WESTERN ALFALFA HAY MARKET

¹Josh Callen, The Hoyt Report

2019 IN REVIEW

As we look at where things might go in 2020 in the Western hay market some developments in 2019 will have an impact. Supplies of Fair quality alfalfa hay in much of the West were already tight going into last winter, and with the above-average snow in many areas, they tightened further. In areas of the Pacific Northwest and Utah the price spread between higher and lower quality alfalfa hay narrowed considerably. When new crop began trading in the Southern Desert, demand from export buyers was good but slightly tempered by the ongoing trade war with China. There was still some demand from China but mainly for Premium to Supreme alfalfa hay. Exporters said their Chinese customers figured if they had to pay the extra tariff they might as well get the highest quality hay. To start the 2019 season prices were steady to slightly lower on Premium and Supreme alfalfa hay. Buyers for the Middle East market were active with the best demand for higher quality alfalfa hay, and this helped make up for some of the lost exports to China. When new crop started coming off in Central California it was evident dairies would continue buying alfalfa hay for short-term needs with milk prices still in the \$14 range. Milk prices began improving by April, but dairies needed more time to recover financially from the low milk prices the last four years. The average price of Supreme alfalfa hay delivered to Tulare/Hanford dairies through the first five months of 2019 was \$280 per ton, down \$10 per ton from the same period the previous year. In other areas, when new crop Premium and Supreme alfalfa hay started coming off in May, prices were mostly steady to \$5 higher compared to 2018. With the rainy weather that hit in late May (more on this below), supplies of Fair quality hay increased across much of the West. Untimely rainstorms through the summer made production difficult in the areas of Nevada, Idaho, Oregon, and Nevada. In most areas, prices of higher quality alfalfa hay held mostly steady through the summer while prices for Fair quality hay slipped. In the Southern Desert, rainfall during the monsoon season was below average, and those areas saw favorable production conditions from late summer into fall.

2019 WEATHER & LOWER PRODUCTION IN THE WEST

Weather was a big story in the 2019 alfalfa hay season. A snowy and wet winter was followed by a rainy spring in much of the West. In the first week of November 2018, 50% of the 11-state West region was experiencing some degree of drought. By the first week of July 2019, that number was down to 5%. California was completely drought-free by the second week of March this year for the first time since 2011. In Central California, some areas received their entire monthly rainfall average in a few days. Rainstorms came through every few days delaying some from starting first cutting for 15 to 20 days. Because of the delays in cutting, the quality of the early cuttings was down, and by the end of the season many growers had lost a cutting. Areas of Washington, Nevada, Oregon, and Idaho saw the same issues from the early rain. Because of the worse than average hay production weather, more than the normal amount of Fair quality alfalfa hay was produced through the season. With this increase in supply, the price of Fair quality alfalfa hay dipped over the summer in most areas. For example, Fair quality alfalfa hay delivered to Tulare/Hanford dairies

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through the first five months of the year averaged \$227 per ton and \$210 over the next five months. At the same time, the delivered price of Supreme alfalfa hay stayed mostly steady in the first ten months of the year. In parts of Nevada, Idaho, and Utah, range grass was plentiful, and demand from beef cattle buyers was not near what it was last year. Another big storyline, especially in California, is the shrinking alfalfa hay production in the seven Western states. Alfalfa hay acres in California have dropped 50 percent in the past 13 years with the latest estimate from USDA at 560,000, the lowest acres on record dating back to 1921, and compares to 1.1 million acres in 2006. Alfalfa hay acres in Washington have also been declining with the estimate for 2019 at 320,000 acres, the lowest since 1948. Acres have been relatively steady in the other five of the seven Western states, but as stated above recent weather has hurt yields, and total alfalfa hay production in the seven Western states in 2019 is estimated to be the lowest since 1972. In areas that have a variety of crop options, alfalfa seems to be losing out. Many dairies in the West have responded by feeding less alfalfa hay in their milk cow ration. As documented by the California Department of Food and Agriculture, the average pounds of alfalfa hay fed per head per day to milk cows in California has gone from 11.7 pounds in 2009 to 7.2 pounds in early 2018. In Idaho and Washington, we hear from dairy contacts that many are feeding alfalfa hay to milk cows at a rate of three to five pounds per head per day. Alfalfa hay has had strong competition from other commodities in the dairy cow ration. In Central California from 2009 to 2013, the delivered price of rolled corn to dairies averaged \$10 a ton higher than Supreme alfalfa hay. In late 2013, the bottom dropped out of the corn market, and since then rolled corn prices delivered to Central California dairies have averaged \$90 less than Supreme alfalfa hay. Additionally, plentiful supplies of almond hulls from California are being used more in dairy cow rations in California, Idaho and Arizona.

HAY CARRYOVER

Hay supplies vary throughout the West with higher quality alfalfa hay supplies tight in most areas while Fair quality feeder hay supplies are mixed. We have been a little surprised at the number of grower contacts in Washington saying they are sold out for the season or just have timothy hay or lower quality alfalfa left. In Eastern Idaho, trading of Fair alfalfa hay has been very slow the last few weeks as many growers have been unwilling to sell at current offers. In all of Idaho, much of the Fair to Good alfalfa hay that is left to trade does not have the color, or the stack was not protected enough to work in the export market. Export buyers have said finding clean and green exportable hay has been hard, meaning a lot of the lower quality hay left will have to stay in the domestic market where demand for that quality of hay has been lackluster. One export contact said they have been telling customers they may have to buy some hay that is not as green as they are used to. How the 2019-2020 winter goes and the demand for feeder hay for beef cattle will be a big factor in many areas. In recent weeks in California, supplies of Fair quality alfalfa hay have tightened and the market undertone is firm.

OUTLOOK FOR 2020

If alfalfa hay prices, except retail, are going to hold where they are or get better, a few things need to happen: milk prices need to stay close to their current levels, a long-term trade deal with China needs to be reached, and dairies need to maintain the level of alfalfa hay that they are feeding.

The dairy situation has been improving with strong prices in the near term, but there is a drop off on Class III milk futures prices going into the first half of 2020. The improved dairy product prices have helped, but many dairies will need sustained prices at this level to get right-side-up on their balance sheets. In the USDA's long-term agricultural projections released on November 1st, the all milk average price is \$18.85 cwt up 40 cents 2018. On the flipside, corn prices are forecast to be down in 2020. In the dairy ration, alfalfa hay will continue to have stiff competition from other commodities in 2020. The USDA is forecasting the average corn price per bushel to be \$3.40 in 2020, 40 cents lower than their 2019 price average. This year farmers seem more skeptical of USDA corn numbers and how the 2019 corn harvest finishes up will have a big impact.

On the export side, things look to be positive going into 2020. The big news was the extra tariff exception given to U.S. alfalfa by China in September. Before that we heard China bought dehydrated hay heavily in Spain with one export contact that visited Spain this summer, saying he ran into Chinese buyers at almost every farm he visited. While removal of the extra tariff did help spur demand from China, the exemption is only good for one year, and without a long-term US-China trade deal in place, the extra tariff could come back in September 2020. Even without the tariff, Chinese customers are still tough on prices, and a stronger dollar versus the Yuan has not helped. Chinese contacts continue to say West Coast alfalfa hay is the highest, most consistent quality in the world, and with robust growth in dairy consumption in China, buyers from China will continue to look to the West Coast for high-quality alfalfa hay. Demand from the Middle East was very strong early this year but has since slightly faded. The water shutoff on large farms in Saudi Arabia has not been enforced as was expected and production of domestic hay is still more than expected. An export contact that visited Saudi Arabia this fall said the supply of domestic hay to dairies is still plentiful. Demand in other areas looks to be steady going into 2020.