HAY MARKETS IN THE WESTERN STATES

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ABSTRACT

To understand how the alfalfa hay market reached unprecedented high price levels in 2011 one must follow the events that started in 1999. The plunging milk prices and record losses in the dairy industry in 1999 and the resulting dramatic drop and financial losses in the hay industry resulted in changes in grower strategic planning. The dramatic drop in hay prices in 2009 changed how growers in the West look at the crops they grow for the dairy industry. They have become much more aware of milk prices and profitability (or lack thereof) in the dairy industry and the ability of getting paid. Growers have become more diversified in their farming operations. There have been more crop options for growers the past two years than we have seen in some time. Some hay growers in the west have few crop options, but in areas where applicable, growers do not want to be as exposed as they were in 1999 to the worst financial disaster ever in the U.S. dairy industry. The historical pattern of planting substantially more alfalfa hay after a very profitable year like 2011 has been replaced with a more cautious approach of looking at the financial condition of the dairy industry and at crop options. Prices on hay for export and for retail may grab the headlines at times but the dairy industry is still the main driver of alfalfa hay prices in the West and are on grower radar screens much more than before 1999.

Key Words: grower strategic planning, crop options and diversity, alfalfa hay plantings, grower radar screens, dairy main driver of alfalfa hay market

THE JOURNEY THAT BROUGHT US TO THE RECORD HIGH HAY PRICES OF 2011

Just as dairymen will never forget 2009, hay growers won't either. Growers came out of 2009 looking for alternative crops to plant and there were several options. Strong corn, wheat, cotton, and other crops displaced alfalfa hay in the West in 2010. This, along with the help of Mother Nature (rainy spring weather caused lower yields) pushed alfalfa hay production down 5 percent in the seven Western States in 2010. Strong hay usage by the dairy and horse industries and export movement created a 15 percent reduction in hay stocks in the seven Western States on December 1, 2010. These lower hay stocks combined with strong usage pushed May 1, 2011 hay stocks in the West dramatically lower, down 48 percent in the seven Western States.

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These lower hay stocks in the West were first manifested in the Imperial Valley in February and March of 2011. Premium/Supreme alfalfa hay prices which were around $140 per ton in mid-November of 2010 moved up $30 per ton by mid-January 2011 and then began a rapid acceleration

to reach $270 to $280 per ton by late March of this year, an unprecedented $140 per ton upward move in 4 ½ months. Supreme alfalfa hay from the Imperial Valley was delivering for a record high $325 to $350 to Tulare dairies in mid to late March. The alfalfa hay market settled down in the second quarter with Supreme alfalfa hay prices easing down to a $280 to $310 delivered range into Tulare. Dairy buyers controlled the alfalfa hay market the first two cuttings in the Imperial Valley as export buyers could not compete with the $260 to $280 fob prices. By third cutting the market had declined and export buyers were able to purchase Premium export alfalfa hay in the $235 to $245 fob range and Good export alfalfa hay $215 to $225 fob. Some export companies were not participating in the early market in the Imperial Valley because they thought the market would drop as they were hoping Good export alfalfa hay would trade around $200 or less by mid-summer. It never happened. As a result there was increased export demand for Good export alfalfa hay in mid to late summer, particularly from companies exporting to the UAE.

For the second consecutive year, the first crop alfalfa hay harvest in Nevada, Utah, Idaho, and Washington was delayed due to cold spring temperatures and rainy and unsettled weather in May and June and there was more rain damaged and overgrown hay than normal. This caused major disruptions to early season alfalfa hay marketing. Export buyers in Washington and dairymen that needed top quality first cutting alfalfa were faced with very little top quality alfalfa and a large amount of lower quality hay. This put Japanese buyers in a position to either purchase the best of the rain damaged offerings or gamble that second cutting would go up without any damage and that the prices would not be significantly higher. Some chose to wait while others purchased the best of the rain damaged offerings to hedge against what the quality and market would be for second cutting. Overall first cutting alfalfa hay quality was disappointing in Idaho and Utah as well with first cutting Supreme alfalfa hay trading in the $230 to $240 fob range. Premium export alfalfa hay in Utah on early sales traded around $220 fob with Good quality at $200. First cutting alfalfa hay in Nevada did not trade until the last week of June with Supreme alfalfa hay in central and northern Nevada trading from $235 to $240 fob to California dairy hay buyers.

CHANGES AND DYNAMICS THAT OCCURRED DURING THE 2011 HAY SEASON

One of the changes during the 2011 hay season in the West was how dairy producers, particularly in California, reduced the amount of alfalfa hay in dairy cow rations. For example, in milk cow rations in California, pounds of alfalfa hay dropped from 11.15 pounds in 2010 to 9.5 pounds the second quarter of 2011, according to the Dairy Marketing Branch in the California Department of Food and Agriculture. This will have an impact on hay stocks in California on December 1, 2011 which will probably be up a little from the previous year instead of the lowest carryover into 2012 in the past 50 years. Some California dairymen were feeding very little, and in some cases no alfalfa hay at all to dry cows. Dairymen in other States reduced alfalfa hay usage as well but it doesn’t appear overall that it was the magnitude of what occurred in California. Another factor that will impact the amount of old crop hay stocks on hand in the west in the spring of 2012 will be the weather and how much hay will be used for beef cows and other beef cattle in the coming months.

Another change was the move by some hay export companies to have a bigger presence in the Utah alfalfa hay market in 2011. These companies were shipping alfalfa hay into mainly Long Beach and taking advantage of lower ocean freight rates from California ports compared to the Pacific Northwest. Larger shipments of export alfalfa hay into Long Beach the second half of the summer was manifested in U.S. Department of Commerce export data that showed a jump of 27 percent more baled hay exported from California ports in August of this year than the previous month. The 150,921 short tons exported was the highest baled hay exports from California ports since last December. Because of the late start of the alfalfa hay season in some areas of the West and with some export buyers not in the market early, the alfalfa market was even more active with buyers playing catch-up on mid to late season export hay purchases. Further evidence of this was seen in alfalfa hay exports to the UAE in September of 51,879 Metric Tons, up 21 percent from September of last year and up 6 percent from the previous month. In some areas of the West, export buyers were purchasing alfalfa hay more aggressively than dairy buyers as they tried to make-up for the late start in buying hay to meet their overseas commitments for 2011. The fact remained that overall hay exports were still well below the amount of hay purchased and utilized by the dairy industry in the west. Export purchases in 2011 were bunched-up in the second half of the season. In the seven Western States in 2010, hay exports represented about 14.5 percent of total hay production.

A dynamic that occurred in the Western hay industry in 2011 was increased demand for alfalfa and other hay from New Mexico and Texas due to drought. This demand was both for dairy cows and horses. Normally, there is alfalfa hay that is purchased in Colorado and Utah that moves to New Mexico and Texas dairies but there was a larger amount of alfalfa hay purchased in Montana, Idaho, and Wyoming that moved to New Mexico and Texas, particularly West Texas dairies where alfalfa hay supplies were short. Also, due to the drought in Texas, there was a shortage of hay for horses and I believe this included short supplies of coastal bermuda hay that is produced in Texas. Consequently, demand for retail bermuda hay in the Imperial Valley was strong, especially in the past few weeks when it has been very strong. There were days in October and November when 10 to 12 loads of retail bermuda were leaving the Imperial Valley for Arizona and Texas.

An interesting development in 2011 was in central California where there were times in the past two months when rolled corn delivered to dairies in Tulare was selling for $30 to $40 per ton below delivered prices of Supreme alfalfa hay. This is a rare occurrence as historically corn normally delivers to Tulare at higher prices than Supreme alfalfa hay. When it has sold below Supreme alfalfa hay prices it has not been $30 to $40 per ton.

WHERE DO WE GO FROM HERE?

There are several factors that will impact the alfalfa hay market in the West in 2012. Hay Stocks on December 1 which should be down in the seven States, will probably be up a little in California due to less usage by the dairy industry. It appears that alfalfa hay acres, which historically would have been up 15 percent or more with such a strong alfalfa hay market in 2011, will be up only 2 to 5 percent in the seven Western States. Growers still have crop options and they are concerned about many dairies that are still struggling and as I mentioned earlier in this writing, farmers that can want to be more diversified in their farming operation. Where will milk prices be next spring and summer? We have seen much

improvement in the near term outlook for milk prices in November through January but there is still concern about where prices are going after January of next year. There are still questions if the strong domestic demand for cheese seen in late October thru mid-November will continue into the first half of 2012. World dairy markets have been moving higher and will that continue. U.S. milk production reports in the coming months will also be a key factor as to where milk prices will go in the first half of 2012.

Hay exports will be strong again in 2012 with good demand expected from the UAE, China, Japan, and Korea. While rain damage to Australia's oaten hay crop the past two months should improve demand for sudan and timothy hay in the Western U.S., it could even help demand for alfalfa hay. The export market on alfalfa hay in the West will be driven by the market on alfalfa hay for the dairy industry. Competition will be strong between export buyers but I believe a moderation of prices is what export buyers are hoping for. Their overseas customers were not happy with the very strong alfalfa hay prices in 2011 and are hoping that prices will come down in 2012.

CONCLUSION

I believe prices on the first alfalfa hay crop in the West in 2012 will be the strongest market of the season. The reason for this is because supplies of higher quality alfalfa hay for milk cows will be very tight coming into the 2012 new crop alfalfa season. How high prices will be on first cutting alfalfa hay will depend on how high milk prices are and supplies. Alfalfa hay prices on second and following cuttings in the West will decline, not drastically, and I believe growers average prices on alfalfa hay for the 2012 season will be down at least $30 per ton and could be as much as $50 per ton lower if alfalfa acres and production are higher than expected and milk prices are lower than expectations.