HAY MARKET SITUATION IN THE COLUMBIA BASIN

By Seth Hoyt, The Hoyt Report

2008 Hay Market - One for the Record Books

With alfalfa hay production estimated to be 30 percent below 2007 and with May 1, 2008 hay stocks down 13 percent from the previous year, there were all the ingredients for very bullish hay markets in Washington in 2008. I doubt there were many that predicted it would climb to be the highest hay market in the nation.

The "Perfect Storm" of events occurred that drove the alfalfa and timothy hay markets far above previous record high prices in the Columbia Basin.

2008 was a year when growers in Washington had several options of crops to plant. While wheat acres were 4 percent, other crop acres were also up such as sweet corn, hops, spearmint and others. Growers were being offered attractive incentives to grow sweet corn. Consequently, alfalfa hay acres were down 14 percent and other hay acres, including timothy were off 6 percent. To add to buyers concerns about supplies was the colder than normal spring and late start to the hay season which drove alfalfa hay yields down 17 percent from 2007 and other hay yields were off 13 percent.

Combined with the outlook for fewer hay supplies in Washington in 2008 was the attitude of the dairies and export buyers early in the season. Some, if not many Japanese hay buyers were telling the export companies to tie up hay even if the market is very strong because "we need the hay." As a result of the green light given Washington exporters early in the season, there was fierce competition for alfalfa and timothy hay in the summer and early fall in the Basin. Alfalfa hay prices on small and big bales opened the season in the low $200 per ton range but gained rapidly to the 240 to $260 range. Small three tie alfalfa for export was the hot commodity in late summer selling from $260 to $275, occasionally higher. When dairies realized that they were going to miss the train if they didn't get on board they became active in late summer and early fall buying milk cow quality alfalfa hay. Supreme alfalfa hay big bales to dairies traded in the $230 to $270 range.

Unfortunately, for export companies and dairies, the outcome they expected in 2008 was much different than what occurred. The Japanese buyers that told Washington export companies to buy the hay no matter what the cost changed their attitudes when they saw lower priced hay in California and Australia. Good quality export alfalfa hay in the Imperial Valley of California was trading in the $200 to $230 fob range in mid to late summer. Consequently, movement of new crop alfalfa hay to Japan from the PNW in the summer and fall of 2008 was much slower than normal. This has caused a financial strain on export companies and forced them to lower the price of alfalfa hay in order to be competitive. Even after lowering prices, movement remained slow because the Japanese had ample inventories and were taking delivery of hay from California and Australia. Exporters are hopeful that hay movement will pick up in early 2009 as it appears that hay inventories are not as burdensome in Japan.

For Washington dairies, the expectation of stronger milk prices in late 2008 and early 2009 evaporated with the downturn in the U.S. economy and a sharp decline in U.S. exports of dairy products, mainly nonfat powder milk and cheese. The $19.00 to $20.00 milk predicted for the fall months turned into $13 cwt milk for December and an estimated 11.50 price for January. The February milk price is expected to be even lower. This is a hard pill for dairymen to swallow when milk cost of production in Washington is currently running around $14.00 to $15 cwt. The strong hay prices that seemed like they would still work for dairies in the summer look high today. While the few dairies that needed hay late in the year were forced to pay higher prices than they wanted, it could be a different ball game in the months ahead, particularly on new crop hay.

Outlook for 2009

It appears that alfalfa hay acres will be up in the Basin in 2009, possibly 10 to 15 percent higher. Timothy acres could be down by that much. Alfalfa hay production may not be up as much as expected if the cold weather the past month negatively impacts yields on new crop alfalfa hay. It sill looks like alfalfa production will be higher and timothy production will be lower.

One of the problems with such a dramatic year to year price increase on hay as witnessed in the Columbia Basin in 2008 is that a sharp downward correction is very difficult for growers. But the reality is that the two main buyers of hay in Washington (dairies and exporters) will be limping into 2009 with heavy financial burdens. Those export companies that survive the current fiscal crisis will not be in the same mood they were in at the start of the 2008 season. Some say they will change the way they do business, only buying hay if there is a written commitment from an overseas buyer. In the very competitive export hay business one wonders if when the rubber meets the road in the upcoming season if anything will really change. However, 2008 may be the year that brings real change in how export companies do business and lenders could have a big part in it. In order to obtain financing, exporters may be forced to limit exposure to risks that have been a part of their business for years.

Washington dairies will be doing all they can to survive in the months ahead. With the prospects of $3.00 to $4.00 cwt losses on milk, they will be looking at reducing costs any way they can. They will not be in a mood to bid up the price of new crop hay when they are trying to recoup losses from the first four or five months of 2009.

There is no question that the new crop alfalfa hay market in the Basin will be lower than 2008, the challenge is determining by how much. It is very possible that the alfalfa hay market in 2009 could drop to levels seen in the second half of 2007. Top Supreme dairy alfalfa hay and Premium export hay in the Basin could be around $160 to $170 per ton fob. The market will fluctuate a little depending on production. The bottom line: if alfalfa hay production is up 15 percent or more and with the poor financial condition of dairies and hay export companies, there will be bearish pressure on the alfalfa hay market. While timothy hay prices will be down in 2009, lighter production will keep the year to year decline less than alfalfa hay.