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Report Name: Market Overview - Alfalfa Hay and Other Forages

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Report Highlights:

China's demand for imported forages, mainly alfalfa hay, has been affected by weak market demand for dairy products and the falling price of fresh milk. Although dairy consumption remained stable, oversupply of milk became a challenge due to the excessive investment in dairy farming over the last few years. Imported alfalfa faces headwinds because of the weak Chinese yuan and China's farmers' desire to lower costs through forage substitution with other feed ingredients in daily rations. Demand for alfalfa hay in 2024 is expected to remain at 2023 levels.

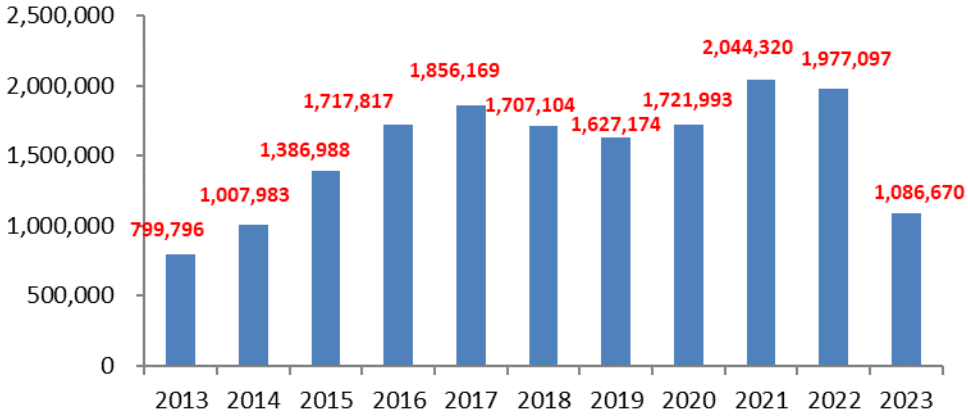
Executive Summary

Demand for alfalfa hay in 2024 is expected to remain at 2023 levels. Driven by strong demand for dairy products, China's dairy farming industry experienced rapid expansion and increasing herd size before and during COVID-19. However, the oversupply of raw milk and weak dairy consumption caused falling prices. In addition, the cost of dairy production, such as labor and some feed ingredients, kept rising. The adverse situation in 2023 led to a decreasing demand for high-quality imported forages such as alfalfa, Timothy hay, oats, and other products. Dairy farms had to use more substitutions in the daily ration to cope with high production costs and falling milk prices.

China's Decreasing Demand for Imported Forages

Import statistics from the General Administration of Customs of China (GACC) show that China imported about 1.1 million metric tons (MT) of forages in 2023, a decrease of 45.04 percent compared with 2022; the value of total imports similarly decreased by 46 percent to $542.69 million. It seems that in 2023, China's imports of forages returned to 2014 levels. Poor market performance of the dairy farming industry and insufficient consumer demand growth decreased demand for high-quality imported forages.

Chart I: China's Import of Forages (MT)
2013-2023



Source: GACC Statistics

China imported 999,518 MT of alfalfa hay in 2023, a decrease of 44 percent compared to 2022. Alfalfa imports accounted for 92 percent of China's total forage imports in 2023. The average cost, insurance, and freight (CIF) of alfalfa hay was $510.9/MT in 2023, similar to the 2022 CIF price level, which averaged $517.88/MT. However, the 2022 alfalfa hay price represented a 35.6 percent increase from 2021. China also imported other forage products, such as oat grass, timothy, and alfalfa cubes and pellets, which accounted for a small portion of total forage imports.

China is also a significant importer of oat grass, all of which is imported from Australia due to Australia's proximity, sufficient production, and a zero tariff on exports to China. However, in 2021, political tensions between Australia and China resulted in trade disruptions, during which most export permits for Australian oat grass facilities expired and were not renewed. In 2023, China imported only 72,029 tons of oat grass from Australia, a decrease of 52.72 percent.

The United States Continues to be China's Largest Alfalfa Supplier

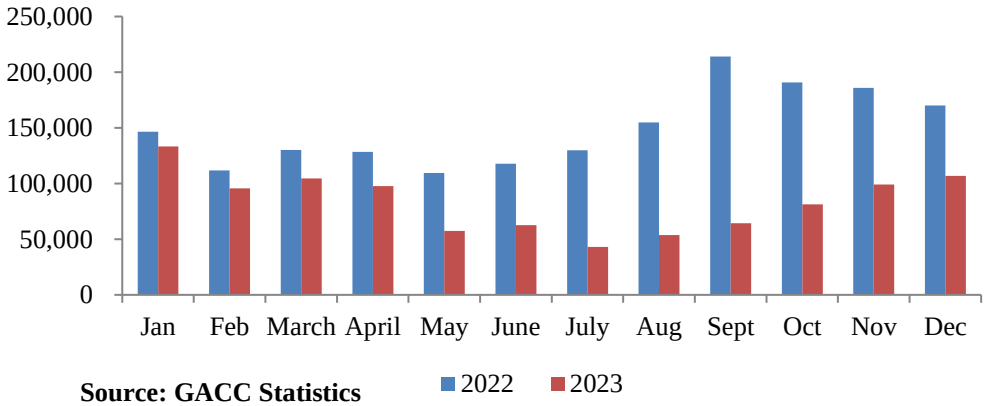
The United States exported 898,186 MT of alfalfa hay to China in 2023, accounting for 89.9 percent of China's total imports, valued at $461.7 million. South Africa became China's second largest alfalfa exporting country, replacing Spain, which moved to third. Total South African alfalfa exports to China in 2023 reached 44,427 MT, followed by Spain with 37,226 MT.

The United States has been the largest exporter of alfalfa hay to China's market since 2008, with a market share of over 80 percent. In 2008, the melamine food safety scandal drew attention to dairy product safety, and local producers began using more alfalfa hay to increase milk quality. Compared to other suppliers of alfalfa hay, Chinese dairy producers prefer U.S. alfalfa for its high quality and sufficient supply. The United States is the largest alfalfa producer in the world. U.S. forage statistics indicate that the United States produced about 48 million MT of alfalfa in 2022. Exports to China account for only two percent of U.S. alfalfa hay production. Most alfalfa exported to China originates from western states, including California, Washington, Idaho, and Utah.

Decreasing Import of Alfalfa Hay in 2023

China maintained stable imports of alfalfa hay in the first seven months of 2022, as shown in Chart II. However, from August to December of 2022, China's monthly import of alfalfa hay increased sharply, with total imports of alfalfa hay reaching a historical high of 916,076 MT in five months. At that time, market demand for dairy was intense as people believed dairy foods to be nutritional and beneficial for the immune system. This trend has continued since the COVID-19 pandemic. Importers and dairy farmers were optimistic about the dairy farming industry and economic growth.

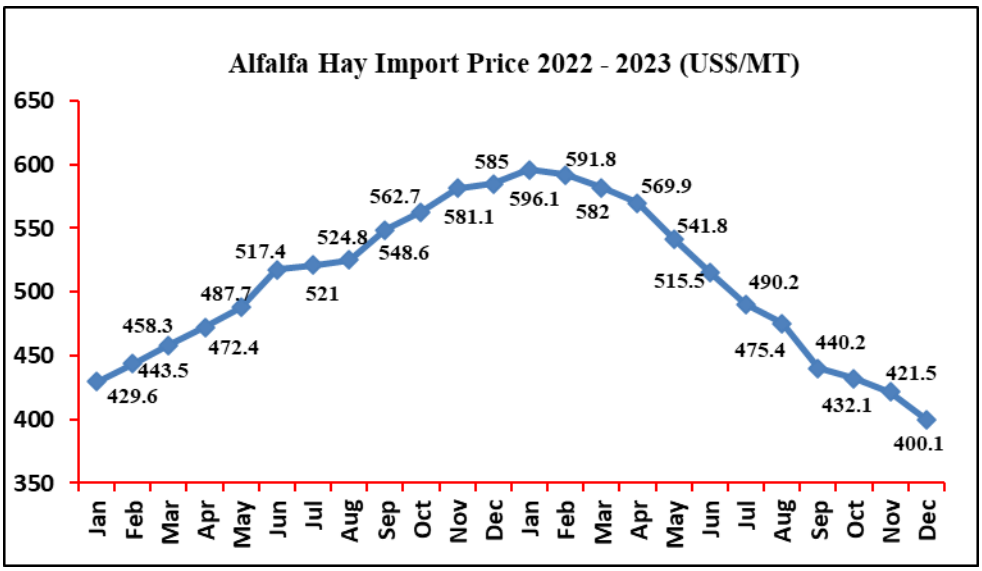
Chart II: China's Imports of Alfalfa Hay by Month 2022/2023 (MT)



Source: GACC Statistics

Meanwhile, the CIF price of alfalfa hay reached high levels in the same period, as shown in Chart III. In January and February 2023, the CIF price reached $596.1 and $591.8, respectively. At that time, milk prices in China were about RMB 4.05 – 4.1 yuan/kg ($0.56-0.57/kg), and dairy farms still profited. In addition, while ocean freight was expensive, importers worried that potential future lockdowns would increase freight prices further and thus decided to expand and replenish their inventories. Although the import of alfalfa hay decreased at the beginning of 2023 compared to 2022, levels remained high in the first four months of 2023. Increasing imports at the end of 2022 and beginning in 2023 led to an excessive inventory of some major importers as milk prices continued to fall after COVID-19. Post-COVID, demand for dairy products was much lower than expected. In 2023, the import price of alfalfa hay continued to fall from $596 in January to $ 400 in December. With decreased prices, more dairy farmers may be able to afford imported alfalfa in 2024.

Chart III: Alfalfa Hay Import Price 2022 – 2023 (US$/MT)



Source: Holstein Farmer (China)

Poor Performance of China's Dairy Farming Industry

Statistics show that China has about 11.60 million dairy cattle in 2022, an increase of 6.1 percent compared with 2021. In 2023, China produced 41.97 million tons of milk, an increase of 6.7 percent compared to 2022, marking the fourth consecutive year of a production increase of over 6 percent. This increase in production is mainly due to the rapid expansion of dairy herds over the past two to three years due to increasing investment in China's north, northeast, and northwest regions.

China's top five dairy companies purchased about 21 million MT of fresh milk in 2022; in 2021, the total fresh milk purchased was about 18 million MT. The two largest companies are YiLi Group and Mengniu Dairy. Currently, YiLi owns Youran Dairy, China's largest dairy farming company. Youran has seventy-eight dairy farms in China, with a total cattle production of 499,500 heads in 2022. Mengniu Dairy owns China's second-largest dairy farming company, Modern Dairy, which has forty-one farms in China, with 405,400 head of cattle in 2022.

Table 1: Fresh Milk Purchased by China's Top 5 Dairy Companies in 2021 and 2022 (MT)

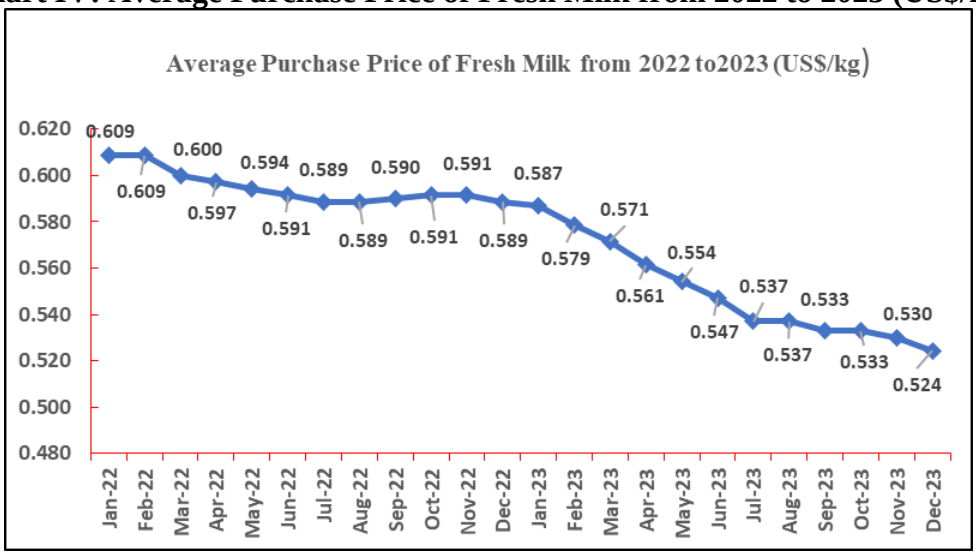
Company Name	2021	2022
YiLi Group	8,000,000	8,760,000
Mengniu Dairy	6,950,000	8,930,000
Ever Bright	1,350,000	1,300,000
Junlebao Dairy	1,095,000	1,200,000
New Hope Dairy	837,000	879,000
Total	18,232,000	21,069,000

Source: **Holstein Farmer** (China)

While China's dairy farming industry has been expanding, the purchase price of fresh milk decreased from January 2022 to December 2023, as seen in Chart IV. According to the Ministry of Agriculture and Rural Affairs (MARA), the average purchase price for fresh milk was RMB 4.26 yuan/kg ($0.61/kg) in January 2022. However, by December 2023, the average purchasing price declined to RMB 3.67 yuan/kg ($0.52/kg).

In 2023, milk production costs were high. According to the National Dairy Cattle Industry Technology System, the average production cost of raw milk on farms was RMB 3.82/kg ($0.546/kg). The profitability of dairy farming continued to decline, with the price-cost ratio falling from 1.07 in January to 0.98 in December of 2023. According to a survey on the production and operation status of 155 farms in March 2023, 59.8 percent of the farms were facing losses as their raw milk sales price were lower than total costs. Raw milk prices have declined since the survey results were released, and even more dairy farms have suffered losses. The 2023 Dairy Cattle Industry and Technology Development Report released by China National Dairy System predicts that raw milk production is expected to continue to increase in 2024 as dairy cow inventories continue to grow. The report suggests that insufficient growth in consumer demand and consumption has decreased prices of dairy products.

Chart IV: Average Purchase Price of Fresh Milk from 2022 to 2023 (US$/kg)



Source: FAS Translation of Monthly Report on the Analysis of Supply and Demand Situation of Agricultural Products (Fresh and Live Agricultural Products). Released by the Ministry of Agriculture and Rural Affairs.

The current situation has forced many small and medium dairy operations to exit the market; this trend is expected to continue. Statistics show that China's top twelve dairy operations have a total dairy cattle inventory of 1.98 million head, producing 39.32 million MT of milk and accounting for 17 percent and 25 percent of China's total, respectively. Smaller operations exiting the market will further increase the market concentration of the dairy industry in China.

Due to the decreasing price of fresh milk, dairy farmers must try to reduce costs where possible. Farmers may use more local forage or poor-quality forage ingredients in daily rations. As most of the increase in capacity is in northern China, dairy farmers can easily access local forages such as corn silages, local alfalfa hay, local oat grass, sheep grass, and other byproducts.

Recent Policy Updates

In January 2023, the Ministry of Agriculture and Rural Affairs (MARA) approved the import for processing two types of genetically engineered (GE) alfalfa. The approvals are valid from January 5, 2023, to January 4, 2028. The approvals are the first for U.S. GE alfalfa in China, a major importer of hay and other forages. For more information, please refer to the link: MARA Issues New and Renewed GE Biosafety Certificates

Outlook

China's demand for imported forages, mainly alfalfa hay, has been affected by weak market demand for dairy products and the falling price of fresh milk. Imported alfalfa faces headwinds because of the weak Chinese yuan and China's farmers' desire to lower costs through forage substitution with other feed ingredients in daily rations. Demand for alfalfa hay in 2024 is expected to remain at 2023 levels.

Attachments:

No Attachments.