

## MARKET REPORT APRIL 2008

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Reliable crop and yield figures of the various hop growing countries for the year 2007 are now available. The 2007 world hop crop is approximately 92,000 metric tons, corresponding to roughly 7,800 tons of alpha immediately post-harvest, or 7,000 metric tons of alpha in form of hop products for the brewing industry, which can be considered as an average harvest. As always, the yields in the principal producing countries USA and Germany had the greatest impact. Germany produced 2,800 metric tons of alpha immediately post-harvest.

The US alpha production of 2,800 to 3,000 metric tons was disappointingly low since shortly before and after harvesting, alpha acid was “destroyed” by a late outbreak of mildew. Additionally, a hail storm destroyed a major part of the Idaho harvest.

Chinese alpha acid production is estimated at approximately 750 to 800 metric tons.

Based on worldwide beer production of 1.850 million hectoliters at a hopping rate of 4.1 g alpha / hl from hop products, the alpha acid demand by the brewing industry on the 2007 crop for use during the 2008 brewing year is estimated at 7,600 tons of alpha, which is equivalent to a demand for 8,400 metric tons of alpha acid immediately post-harvest from unprocessed raw hop. Using a calculation based primarily on estimates, we expect an alpha acid undersupply for the brewing industry between 500 and 1000 metric tons. An additional demand for approximately 200 metric tons of alpha will be needed for non-brewing purposes. The brewing industry managed to balance this deficit as well as the deficit from the 2006 harvest only by again drastically reducing inventories. We are assuming that worldwide inventories have now reached a historic low, essentially approaching zero. For some breweries, this may even mean that their inventories will not last until hops from the 2008 harvest are available.

This negative balance of crop 2007 combined with a lack of existing stock lead to continuous price increases upon launch of the spot market. For instance, up to 15,00 €/kg were paid for the Aroma hops Perle/Tradition and up to 20,00 €/kg for Magnum/Taurus and Herkules. In some exceptional cases, particularly when breweries bought directly from growers, these prices were exceeded. Contrary to initial fears, growers did not hold back on sales. Consequently, a large part of the spot market hops was registered in the various pools. Thus spot market hops that could be offered to the inquiring breweries were made available to the trade. However, it quickly became clear that demand exceeded the available supply. As a consequence, on the brewery side, demand increased for pre-isomerized products that allow better exploitation of the available alpha acid supplies. We see an additional clear indicator for the unprecedented low stock situation in the brewery industry in the fact that buying back from breweries was as good as impossible. In Germany, attempts were made to balance the deficit on the high alpha hop side with the exceptional yields obtained with some of the aroma varieties. Spot market hops from the 2007 harvest are nearly completely sold out by now. Possibly, small amounts of product may still become available in the market after processing has been completed and yields are known.

Encouraged by the high spot market hop prices, a few growers and grower groups in European neighbor countries like Poland, Czech Republic, and Slovenia did not comply with the contracts and sold hops that were under contract elsewhere in the spot market at high prices. Such behavior entails considerable financial losses and risks for the trade. As a consequence, the brewery industry will concentrate solely on reliable producer countries when entering into future contracts.

Among the breweries, there is a renewed tendency to consider sufficient coverage with forward contracts after the recent experience with the markets. Forward contract business picked up concurrently with the spot market activity. Breweries inquired about contracts to 2013 and sometimes beyond. The volume of the contracts between the trade and the growers has reached a historical height. The rate of forward contracts between growers and trade for the next 3 harvests is at 90 % of a normal harvest, and thereby 100 % of the unobjectionable contract volume. For thereafter, forward contract rates are still at very high levels, with 80, 65 and 50 %, respectively.

The high spot market prices and the forward contract prices, which appear reasonable from today's perspective, coupled with a sustained demand from the brewers' has prompted growers to greatly expand the area under cultivation. We are estimating up to 1,000 ha in Germany, and 2,500 to 3,000 ha being added in the US 2008. There will be additional new acreage in other countries. While acreage in Germany and the other countries including China will not contribute to alpha acid yields until 2009/10, the US expects considerable, near full yields as early as during the first year.

As subsequent harvest technology sometimes does not grow as rapidly as the acreage, lower yields and diseases are to be expected due to prolongation of the harvest. Since mainly high alpha varieties are planted on the newly cultivated acreage, we are expecting more alpha acids than in 2007 if weather conditions are normal; that may lead to a slight relaxation in the hop market.

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Heinz-Jürgen Cooberg, Peter Hintermeier  
Deutscher Hopfenwirtschaftsverband e.V.