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MARKET REPORT ARPIL 2010

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Even if the final harvest figures of some hop growing countries are not yet available, we can still quantify with a low error rate the outcome of the 2009 world hop harvest. We are estimating the harvest to be almost 111,500 metric tons. The 2009 harvest is thus only about 1,500 metric tons below the record harvest of 2008. If we add the approximately 5,000 metric tons of hops which were destroyed in Germany by a heavy hail storm, the world's hop harvest in 2009 would have exceeded that of 2008 despite a slight decline in growing area (- 300 ha). This is mainly due to the newly added growing areas, which are now producing full harvests, and the increased cultivation of high-yielding high-alpha varieties at the expense of Aroma hops as a result of change of varieties.

The world alpha production in 2009 with an estimated 11,200 metric tons thus exceeds that of 2008 by approx. 400 metric tons. Of that, Europe accounts for 4850 metric tons of alpha acid (43.3%), the U.S. for 5150 metric tons (45.3%) and China for 950 metric tons (8.4%). From the amount of alpha produced in Europe, 3500 metric tons are accounted for by Germany alone. It is important to remember, however, that in Germany 500 metric tons of alpha fell victim to hail. In opposition to this, there is the demand of the brewing industry of at most 8500 metric tons for the brewing year 2010. This means there is an excess of 2,700 metric tons of alpha for the 2009 harvest. The 200 metric tons of alpha used for non-brewing purposes are, at best, a cosmetic improvement. All of these alpha amounts are based on alpha concentrations immediately post-harvest.

The significant overproduction from the 2009 harvest obviously has a corresponding effect on the course of the market.
With breweries that attempted to hedge themselves by entering futures contracts after the 2007 harvest, negotiations have been and will be held with the aim of finding solutions for overstocking. It should be pointed out once again that many breweries entered futures contracts assuming that a) beer production would further increase and that b) recipes would remain the same. Both did not occur. Beer production stagnated and in some countries even declined significantly; and due to the increased use of pre-isomerized products, the recipes changed. The originally estimated hop amount that was to be used decreased accordingly as a result of these two circumstances.

The negotiations with breweries have not yet been concluded in all cases. Postponing the deliveries of the contracted hop products from the 2009 harvest to the deliveries of future harvests, is in most cases not possible, because the products from the 2009 harvest would remain at merchants and would not be able to be sold. The losses resulting from this would not be able to be compensated. In many cases it has therefore been agreed that these products will be stored for appropriate fees and interest and be delivered at a later time. The same will probably have to be done for the upcoming 2010 harvest. The result will be that once the contracts have expired, breweries will have accumulated stocks amounting to the demand of 1-2 years. We are extremely concerned about this development. There is reason to fear that during this time no follow-up contracts will be concluded between breweries and merchants and merchants and growers. If production remains constant, there will thus be a surplus of disposable hops after the expiry of current contracts.

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To defuse the situation, merchants in Germany have started negotiations with growers and made efforts to reduce the contracted quantities as early as the 2010 harvest. By extending contracts, these reduced quantities are then to be deferred to subsequent harvests. The same would be done with the contracts with breweries. However, the area no longer needed as a result of the smaller contract amounts would have to be taken out of production immediately. An alternative recommendation for growers is to replace varieties that are no longer competitive with new varieties and reduce the growing area to an extent that corresponds to at least the higher yield of the new varieties.
Unfortunately, it has become clear that although the reduction of the contract amounts and the replacement of varieties have been perceived positively, growers currently lack the willingness to reduce the growing area. This makes us thoughtful, as the need for a reduction in the global growing area in the order of a few thousand hectares has been pointed out at numerous events by all trade and plant organizations. Although the growing area in the U.S. and China increased to a greater extent than was the case in Germany, it is still wrong to be diffident about reducing the growing area. In actuality, the reorientation to alpha and high-yielding varieties in Germany resulted in a larger increase than reflected by the mere ha figures. However, we are anticipating a considerable reduction in growing area for the 2011 harvest.

The beneficiaries of the above-mentioned overproduced market are those breweries that did not – or only to a lesser extent – enter forward contracts. Spot market hop is available in sufficient quantity and is being sold at very low prices. Some of these hops are being used to cover the current demand, some to build up stocks.

However, not all hops from the 2009 harvest have been sold.

According to our information, other European hop growing countries such as Slovenia, Poland, Ukraine, and the Czech Republic also still have unsold stocks. However, it is hard to estimate the scale of these supplies. A few hundred tons per country, however, is likely.

Giving an exact forecast of how the growing area will develop in 2010 is very difficult.
We expect no significant reduction in growing area in Germany.
In Slovenia as well as in Poland and the Ukraine there will be a reduction by approx. 200 to 250 ha.
In the Czech Republic we are expecting a reduction in growing area of 50 to 100 ha.
In the U.S., the growing area will decrease by about 2,500 to 3,000 ha.
China remains a question mark, but here too a considerable reduction is to be expected.

However, in all these ha considerations we must not forget that the growing area is not the only decisive factor for the production of hops and alpha acid, but that the cultivated varieties also have a huge potential.

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