

MARKET REPORT NOVEMBER 2010

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The hop-growing countries responded to the increasing overproduction of previous years with a marked reduction in overall acreage for the 2010 harvest. Acreage was further reduced for the upcoming 2011 harvest. We can therefore confirm that the world hop growing acreage has reached an historic low of under 49,000 ha., that is almost 10,000 ha. less than in 2008.

The country with the highest proportion of total reductions is the USA, with a fall of over 4,000 ha. since 2008.

But acreage has also decreased in Poland, the Czech Republic and Slovenia.

Germany's share in the reduction has been more modest due to the high level of acreage with long-term contracts. However, we do expect reductions in acreage when the existing contracts expire

The reliability of forecasts for China remains low. The publications of the two large trading companies, Barth and Steiner, provide an overview of the exact statistics

It is generally accepted that acreage is not the only decisive regulating variable in hops and/or alpha production. The varieties grown on the corresponding acreage also play an important role. Due to the success of the two most important growing countries - the USA and Germany - in breeding new varieties, especially high alpha varieties, we now have high-yielding and alpha-rich varieties which are quite different to those grown just ten years ago. Other than the fine aroma varieties which are mostly very similar to the traditional, old fine aroma varieties originally bred and grown in the respective growing areas, the most commonly used aroma varieties are relatively stable, as well as being rich in alpha and high in yield.

However, it is interesting that despite a slight increase in beer production worldwide, no significant increase in world alpha demand is expected. In our opinion, there is a need for acreage to be reduced, particularly for high alpha varieties. In Germany alone, the gradual replacement of the *Magnum* variety by *Herkules* must be accompanied by a considerable reduction in acreage of at least 1,000 ha.

It is difficult to assess the actual acreage required to cover demand. It must also be taken into consideration that, mathematically and in the short-term, in order to reduce inventories, it would appear sensible to calculate an even lower level of production than current demand would imply is necessary. It is highly unlikely that the hops industry will ever find itself in a state of long-term equilibrium.

If one takes a new look at the 2010 harvest, it can now be said that the figures quoted in Hobart in February were accurate, particularly those concerning the latest overproduction.

The bulk of the overproduction is in the hands of the breweries who have secured their position with long-term forward contracts. Most of these breweries have honoured their contracts and have taken delivery of the goods, albeit with some delays. When the current long-term contracts finally elapse,

there will be a large void, resulting in falls of turnover for both farmers and dealers. If acreage is not sufficiently adjusted forward contract quotas will fall accordingly, exerting pressure on spot hop prices. Those breweries covering their needs primarily on the spot market have benefited from this practice in the past and will probably do so again in the short-term future.

Other than a few purchases with fixed prices, the crop 2010 spot hops in Germany were quickly absorbed by the hop merchants' pools, albeit at low down payments. The sale of these spot hops to spot buyers was made at low prices resulting in very low revenues and final invoice prices for the growers in the early summer of 2011. The 2010 harvest in Germany is now almost fully sold, although delivery of the goods may well be delayed.

In some other European growing countries in which the forward contract quota is lower than in Germany, the situation is partly different.

The Czech Republic reported very good crop yields in 2010. Among other things, this suggests that, in our opinion, large amounts of hops remain unsold in storage in that country. In Slovenia, they are struggling to sell the Aurora variety in particular.

In Poland, despite the devastating floods and the associated reduced harvests there remains unsold stock which is, however, manageable.

Outside Europe, we forecast unsold hops in China in particular, which, due to their poor quality, will not affect the world market.

Demand in the brewing industry for future-contracts is very low, which reflects the aforementioned high stock levels. The limited cases of forward contract demand are at very low price levels. Growers will only be able to survive at these levels for a very short time. Should low prices become a long-term phenomenon, reductions in acreage and operational closures will be unavoidable.

As usual, we cannot rule out possible overreactions!

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