MARKET REPORT APRIL 2012
Economic Commission of the IHGC • Paris • April, 20th, 2012

Although the final figures of all hop growing countries have not been submitted yet, we can quantify the crop results of 2011 with sufficient accuracy. Accordingly we assume the world hop crop to be 97,500 tons (2010: 96,700 mt) produced on an acreage of 48,200 ha (2010: 49,200 ha). Hence, despite the reduced acreage, the 2011 crop exceeds the results of 2010 and can be considered as another record harvest. After the crop years 2008, 2009 and 2010, this is the fourth above-average harvest in series.

The global alpha production 2011 estimated at 10,400 mt (at time of harvest) will exceed the previous year by about 600 mt. 5,400 mt alpha acid (51.9%) from this surplus originate from Europe, 3,900 mt alpha acid (37.5%) from the USA and 650 mt alpha acid (6.3%) from China. From the total European alpha production, 4,400 mt (42.3%) come from Germany alone. On the other hand, for the brewing year 2012 the demand by the brewing industry amounts to approximately 8,500 mt. Thus, a surplus of almost 2,000 mt alpha acid can be calculated from the 2011 harvest. The amount of 200 mt alpha acid required beyond the brewing industry is more of a cosmetic enhancement. Any specified alpha acid quantities have been calculated according to the alpha acid contents after harvest.

The available figures show that the acreage of less than 49,000 ha worldwide has reached a historical low. Nevertheless, due to the increasing cultivation of hop varieties yielding to higher alpha and harvest results, more alpha acid has been produced on this reduced acreage than ever before. In purely mathematical terms, slightly more than 200kg alpha per ha have been produced worldwide. In order to compensate last years' annual overproduction which reached an amount of between 1,000 to 2,000 mt alpha, another acreage reduction by 5,000 to 7,000 ha is required on a global scale. It is, however, not possible to indicate an exact limit, as fluctuations in the harvest caused by the weather can play a decisive role. However, we should consider one thing an unquestionable fact: The main hop growing countries Germany and the U.S. must accept their responsibility for the acreage reduction. These two countries are producing more than 80% of the total alpha acid quantity worldwide.

The described significant overproduction resulting from the 2011 crop as a repetition of 2010 has an important impact on the market performance. Whereas last years' surplus amounts for the most part were purchased by the brewing industry to build up additional stocks, the spot market almost collapsed completely after the 2011 harvest. Even with prices hardly exceeding the processing cost, the market capacity is exhausted — there are no significant marketing opportunities left. It is anticipated that substantial quantities of the 2011 spot market and partly also deriving from previous harvests that cannot be precisely calculated at this point will not be marketable by the time of the new harvest of 2012. Those quantities will further depress the hop market in 2012, regardless of how the next harvest may turn out in terms of quantities and alpha acid content.

The breweries' sales will continue to rise worldwide, however, this is not to be expected for countries with traditionally high alpha additions. Here, the breweries' sales will remain constant at best, while more likely will decline. An increase is to be expected for countries with low to very low alpha addition. Therefore, the global demand for alpha acid is more likely to result in a very moderate increase only.
However, we have yet to see further developments in the craft brewer scene. Here, a niche has opened up, where hop is not only used for bittering, but also for flavouring. Alpha acid plays only a subordinated role in this case. The demand of the continuously growing niche, which represents only a very small proportion of the global beer production, is not suitable for our pure alpha consideration. In the years to come, this needs to be observed and accordingly taken into consideration. A positive aspect is the growing significance and interest in hops, though we are not supposed to expect a great deal from that currently.

In order to reasonably balance the market there is no alternative to acreage reduction. First serious efforts can be observed. Especially in Germany there are growers who want to dissolve contracts in whole or in part against appropriate compensation payments. In total we are expecting a reduction of the German acreage by more than 1,000 ha.
Also in other European growing countries set-aside of acreage is anticipated, however, mainly resulting from or forced by the extremely low forward contract rates being accompanied by substantial quantities of unsold hop from previous harvests.

Although there are some positive reports from the U.S. regarding acreage reductions mainly concerning alpha varieties, the focus is set on shifting to flavour and flavouring hop varieties. There will be a slight increase of the total hop acreage.

On an average, the international brewing industry disposes of an entire annual requirement equivalent of purchased and produced stocks as well as of purchased and harvested stocks.

Quantities on the spot market harvested in excess of contract agreements were taken over into hop pools in Germany and partly in the Czech Republic — in other countries, hops still remain with the producers.

A substantial part of the brewing industry is steadily increasing stocks from harvest to harvest due to existing forward contracts. The remaining part of the brewing industry can easily meet the current needs at low rates on the spot market and/or build up additional stocks. As described above, the market is saturated to an extent that a complete marketing from the spot market of the 2011 harvest is next to impossible.

The looming development (reduction) of acreage points in the right direction. Still, it remains to be seen whether the market shows reactions already in crop 2012. A great many factors come into play, such as the behaviour of the breweries, crop amounts and the alpha values, to mention only a few.

Heinz-Jürgen Cooberg
Peter Hintermeier