

MARKET REPORT NOVEMBER 2016

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Looking back on crop 2015

Last year's crop was a big challenge for marketing businesses worldwide. It led to a bottleneck in the supply of some varieties. The alpha clause was applied for all aroma varieties. Satisfying solutions for customers had to be found with time-consuming discussions. Crop 2015 resulted in an unprecedented shortfall in the magnitude of 2,500 mt of alpha acids. This could only be somewhat counterbalanced by the reduction of existing stocks, postponement of contracts and deliveries into the future and replacement deliveries.

These measures inevitably led to an increase in requirements for the crops to come. As a result, an active contract market started in all European hop production areas as soon as September 2015. The contract prices for almost all varieties were permanently rising. Contracting periods extended up to 10 years. Contracts were concluded until shortly before harvesting 2016 began.

Hop growing acreage 2016

The price signal for hops offered had a great influence on the development of acreage. Worldwide hops were put in the ground. The world hop acreage rose by 4,000 ha to 55,000 ha. This has been the highest level since 2009. What is striking is the continuing shifting of varieties in the U.S.A. While aroma and flavor hops are currently grown there on roughly 16,400 ha, the high alpha acreage amounts to only roughly 4,500 ha. Germany becomes increasingly important as a supplier of alpha for the world hop market.

Crop expectations 2016

Weather conditions were generally positive during the vegetation period 2016 and supported a good development of hops. The crop estimate for Germany of a predicted harvested volume of almost 41,400 mt of hops provided a highly promising result. This would be the biggest harvested volume since 1993 (42,428 mt).

Now that the majority of the crop has already been weighed, forecasts predict roughly 42,500 mt. The crop could even have been better if a heatwave during hop harvesting had not afflicted the late varieties by increased water shortage, diseases and pests.

In the other European cultivation countries – Czech Republic, Slovenia and Poland – the crop is above average as well.

The yield of the aroma varieties in the U.S.A. more or less corresponds to the long-term average. However, the yield per hectare and the alpha acid contents of the high alpha varieties are disappointing. The U.S. American high alpha quantity may well be almost 500 tons of alpha acid below a calculated average crop. Even though the crop results of the high alpha varieties in Germany are above average, the world high alpha production does not meet the long-term average.

According to the latest estimates, there is nevertheless a world harvest across all varieties of roughly 108,000 mt of raw hops or 10,300 mt of alpha acid.

Development of world beer production and alpha balance

The first time since the Second World War the world beer production has been declining for two consecutive years in 2014 and 2015. For 2016 another drop in production is expected. But the hop dosage tends to increase due to the disproportionate consumption of the craft industry. This overcompensates the drop in production so that the complete alpha

requirement will probably rise slightly. The supply of crop 2016 and the demand for the brewing year 2017 should result in an almost consistent alpha balance.

Supply situation and market situation

The market situation for each group of varieties is, in fact, different.

The superfine aroma varieties of so called "Saazer Formenkreis" were completely sold out after crop 2015 leading to an active purchasing market at elevated and rising prices despite this positive harvest volume.

Further fine aroma varieties like e.g. Hersbrucker, Spalter Select or Saphir were sold out in 2015 as well. Some contracts with customers could not be fulfilled completely. For this reason these varieties are also in demand this year.

Last year's deficit of Perle and Tradition could be balanced with stocks from the good harvest in 2014. This year's supply should correspond to the demand so that the development of prices of these varieties on the 2016 spot market was relatively moderate.

While German flavor hops still achieved top prices last year in the range of varieties, they are to be found in the middle of official listings. This could be due to a big part of supplies having reached full yield for the very first time. The supply of flavor varieties rose in Germany by 75% in comparison to last year. Official price listings for U.S. American aroma and flavor varieties are significantly below last year's as well. This can be taken as an indication that the flavor market is becoming increasingly saturated.

For high alpha varieties, the most considerable price increase is to be expected on the spot market. Obviously, the German supply of high alpha can not yet fully compensate for the continuing decline in the U.S. alpha acreage, although the bad alpha harvest in the U.S.A. tightened the supply additionally.

In Europe, high spot market activities set in quite early. Marketing takes place via pools and fixed price offers. It can be observed that growers count on pools because they assume that here they always obtain the highest fixed price.

Summary

In conclusion the following can be stated: Hop stocks probably have been reduced to a minimum worldwide. Due to the mainly high crop volumes the supply situation for nearly all variety groups is satisfactory at the moment. However, there is a strong demand for nearly all varieties, so that supply situation will remain tense within the next 12 months.

Spot market prices hold up quite well. This would probably be the case with upcoming contract quotations.

Price signals are remaining very strong so that worldwide hop acreage will continue to increase.

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The quantities indicated in mt alpha acids are based on the calculated alpha values at time of processing. Storage losses until processing have been considered, processing losses and further storage losses until use have not been considered.

All figures mentioned herein correspond to the opinion of the majority of the members of the German Hop Industry Association. The figures published by single member companies may slightly deviate.