



Market Report November 2006

Economic Commission of the IHGC: Nuremberg, November 14, 2006

In the market report of August 2006 we have already pointed out that we have to expect a tight market for crop 2006, but that ultimately the final crop results will be decisive.

Although unfavourable growing conditions (drought and heat) were known at the time of the crop estimates, normal to slightly below average yield expectations were reported. However, predictions about alpha acids could not be made at that time. Now we exactly know the results of the yields and alpha levels.

Europe suffered heavy losses compared to the benchmark figures of crop 2005 and even compared to estimates.

In 2006 only 84,400 mt hops were harvested worldwide. In case of some aroma hops the alpha levels were catastrophically low. In addition, a warehouse fire in the US destroyed another 110 mt of alpha acids.

Hops harvested in 2006 will result in a usable alpha amount in the form of products of merely 6,400 mt for the breweries. According to estimates of the two large trading houses there will be a need of at least 7,200 to 7,700 mt of alpha, leading to a significant deficit between approx. 800 mt to 1,300 mt of alpha acids in the brewing year 2007. As the old stocks in the breweries, trading companies and farmers have reached a historic low level, this side also lacks balance. The spot market trend of crop 2006 hitherto exactly reflects this situation. Producer prices have risen due to the limited availability of spot hops. Therefore sales to breweries had to be constantly on a higher price level, whereas the amounts requested by the brewing industry can by far not be satisfied.

Due to the previously mentioned significantly below average alpha levels, particularly in aroma hops, the alpha clause which was introduced after crop 2003 was applied for the first time this year. Talks with the breweries regarding the implementation of the alpha clause are currently running. It can already be stated, however, that the necessary contractual readjustments can be implemented by mutual agreement. The breweries know that the contracts will have to be concluded at a higher price which, nevertheless, will be considerably below the current spot market price. For the trade this harvest will again be a high loss potential which can only to a small extent be softened by the alpha clause.

In the US the harvest can be classified as normal regarding yields and alpha. Due to a very high quota of provisional agreements and the fire, only very limited amounts are available to the spot market.

In China the harvest is below average, and therefore it cannot cover the constantly rising needs of the brewing industry. For the first time in many years there has been an increased demand for European and American products.

We assume that the supply situation 2006 causes an increased rethinking concerning forward contracts in the brewing industry.

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Heinz-Jürgen Cooberg, Peter Hintermeier
Deutscher Hopfenwirtschaftsverband e.V.
www.hopfen.de – info@hopfen.de