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MARKET REPORT NOVEMBER 2014

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After five years of continued decline of world hop acreage, it has increased in 2014 for the first time since 2008 and is now approx. 48,000 hectares. This increase in acreage as well as favourable weather conditions for many varieties were reflected in the yield. Even though the weighing results are not the final ones yet, the figures available are sufficient to make quite detailed conclusions regarding crop 2014.

The world crop is supposed to be approx. 95,500 metric tons (mt) of hops, which is approx. 12,300 mt more than the year before. As a consequence, also the yield in alpha acids at approx. 9,200 mt is by approx. 1,000 mt higher than in 2013. Approx. 38,400 mt of this total, or 40 % of the world crop, come from **Germany** alone. Measured in alpha acid it is even 42 % or 3,900 mt.

According to current estimates, the **US** harvested approx. 32,900 mt of hops or 3,600 mt of alpha acids, which represents approx. 34 % of the hops and 39 % of the world alpha crop. Germany has produced significantly more hops and alpha acids than the US, in absolute as well as in relative figures. This shows particularly the US retreat from and Germany's increasing entry into high alpha production.

Czech Republic experienced a good crop at approx. 6,000 mt. Alpha values are slightly below the long-term average, therefore alpha quantity amounts to approx. 230 mt.

Hop growing in **China** continues to decrease. The harvested quantity this year is estimated at 5,700 mt of hops or 340 mt of alpha acids. In terms of mt of hops, China has fallen behind the Czech Republic for the first time in many years.

At approx. 2,400 mt the **Slovenian** crop can be called a good average one. Alpha values were surprisingly good, resulting in an alpha crop of approx. 175 mt.

In contrary, this year's alpha values in **Poland** must partly be called disastrous. Also the hop crop at 1,850 mt is below average. Alpha production in Poland is supposed to be slightly below 150 mt.

The increasing part of the craft beer industy in hop usage does not only strongly influence the world alpha balance but also the variety structure in the hop growing countries.

Even though world beer production keeps increasing, hop demand was decreasing until the brewing year 2008 due to the constantly reduced hop dosage. As a consequence, the hop industry was a declining sector with all the typical negative consequences for everyone involved. Under the influence of the US craft beer industry this development has been reversed since 2009. While we still calculated an alpha demand of approx. 7,600 mt of alpha for the brewing and beyond brewing industries in 2008, it is supposed to reach approx. 9,700 mt in the brewing year 2015. This shows clearly that the harvest quantity stated for crop 2014 of 9,200 mt of alpha acids will cause another deficit.

This deficit does not affect all varieties, it hits particularly the ones that are sought after by American craft brewers. As they purchase mainly on a regional basis, especially US aroma varieties are affected. But also European aroma varieties that are in growing demand by a limited number of European craft brewers show shortages.

The US growers react by changing their growing structure. They retreat more and more from high alpha production and instead grow varieties that give them a higher income per acreage. Demand for high alpha hops is therefore redirected to countries that are able to satisfy it. Consequences for the hop market are already visible since the end of 2013. Contract prices for high alpha varieties and later also for the other varieties have been increasing, first slightly, then clearly, a situation that has recently led to acreage expansions.

The good contract prices continued as spot prices 2014 despite the high quantity harvested – a rather uncommon situation on the hop market. The market for hops crop 2014 is considered to be sold out on the first stage of marketing. This is not true for the second stage of marketing.

The further development of the craft brewing sector cannot be foreseen clearly. This results in an insecurity which increases the decision-making risk. The consequence must be not to produce based on mere suspicion despite the good market situation. Long term delivery contracts emphasize how important they are. They contribute to stabilise production also financially in the long run.

Another insecurity not to be underestimated is the geopolitical situation. Hop production in most countries is mainly export focused and depends to a high degree on the consumption in the import countries. Thus hop production and marketing is and will always be directly affected by political turbulences.

In view of the current favourable situation, it is even more important that all market participants are not over-enthusiastic but make decisions with sound optimism but also based on necessary risk evaluation and protection.

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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.