

MARKET REVIEW JULY 2016

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The weather conditions in the summer of 2015, which were marked by high temperatures and an above-average number of dry days in large parts of Europe, resulted in the often-cited poor harvest in the fall of 2015. The disappointing weight results in nearly all European growing areas is well known and amounted to only 42,149 mt, which represents a significant decrease of 22.6% compared to the previous year. Few countries, including England and Spain, were able to avert weather-related water shortages.

In addition to the low yields, alpha acid values were also below the long-standing average. The so-called Alpha clause was therefore applicable – where contractually stipulated – for nearly all aroma varieties, according to which existing preliminary contracts with the brewing industry were modified so as to distribute the resulting economic burden.

All contract revisions represented a tremendous challenge to marketers, as the harvested yield of many varieties did not suffice to meet existing preliminary contracts. Consequently, extensive modifications were necessary over a period of many months in order to supply all market players with the respective varieties and products beyond the 2016 brewing year.

The harvest results of 2015 in the USA could still be classified as satisfactory, despite restrictions in the use of artificial irrigation due to low water reservoir levels, and were thus able to adequately meet the demand for individual varieties.

Evidently, the past harvest was quickly marketed and can be classified as cleared. Stock levels from previous years have further decreased due to the estimated alpha acid deficit, while existing stocks are highly variety-dependent.

Alpha acid production from the 2015 harvest amounted to 7,750 mt, only 149 kg/ ha post-harvest, and is thus even lower than in the harvest year 2013.

The price quote per kilogram of hops remained at an elevated level throughout the marketing period despite the tense situation, yet without any excessive fluctuations. This is also attributable to the poor quality of the 2015 harvest.

As a result of the rapidly developing craft beer market, the focus on specific varieties has evidently led to the development of a certain degree of price dynamics within the variety spectrum. The price per kilogram of alpha acid, resulting from the low alpha values, therefore considerably exceeded that of the preliminary contract value level for some aroma varieties.

The longer-term effect of this tense supply situation was a continuous price increase at the time of conclusion of preliminary contracts from European proveniences over the past 15 months.

As was the case in the previous year, the 2016 harvest recorded another increase in hop acreage. While the projections for Germany's arable cultivation show an increase of 743 ha (+4.3% compared to the previous year), other European cultivation areas registered a total increase of about 528 hectares (+4.7%) compared to the previous year.

The clearest increase in arable cultivation was once again, and for the third year in a row, observed in the USA. The expansion of arable cultivation across all U.S. states totaled roughly 3,300 ha, a sharp increase of about 18% compared to the previous year. The largest share is, understandably, in the Pacific North-Western region. It is noteworthy that traditional high alpha varieties continue to be cleared in favor of aroma varieties from private cultivation in particular, which meanwhile represent one-third of the region's overall arable cultivation.

At present, forecasts for the 2016/ 2017 hop market are speculative. What is certain is that the preliminary contract quota is relatively high and that growth conditions in most growing areas

seem favorable. As usual, demand for the brewing year 2017 and beyond will be decisive, but is already extensively covered by preliminary contracts.

Generally speaking, it is remarkable that significant amounts of alpha acids from high alpha hop have been removed from production in the USA during the last 10 years, which are instead increasingly being planted in Germany. This is taking place through the continuous switch from the Magnum variety to Hercules and a general expansion of the total high alpha acreage.

This also raises the question of what amounts of bitter varieties will actually be required globally in the coming years, as beer consumption is on the decline in many countries that are of relevance to the brewing industry. Russia, Brazil and China are just a few examples of populous countries that have witnessed a clear drop in output for some time and will thus require less hops in future.

For the brewing years 2016 and 2017, we estimate that global beer output will decline by roughly 2-3%. Only the strong growth of the craft beer segment should compensate the demand for hop and hop products, however with a different range of varieties.

The considerations cited above suggest that sound judgement should be applied in the expansion of high alpha acreage in order to avoid surplus production in future.

The hop market will, as in past decades, always remain cyclical – yet the timeframe remains the great unknown variable.

The long-term success of planters and marketers in all regions of the world hinges on the accurate estimation of cyclical market movements. While this is not an easy task in a market that has become very variety-focused, it is a crucial one.

This should be accompanied by a stabilization of European yields, despite fluctuations in weather conditions. Only time will tell whether this can be accomplished by comprehensive irrigation systems and/or by planting new varieties suited to the climate.

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