DHWV

Deutscher Hopfenwirtschaftsverband

MARKET REPORT - NOVEMBER 2015

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So soon after the close of the harvest a market report can only show first and major trends – for the same seasonal 2015 harvest there is still a long way to go for all market partners. It can be said, today, however: we expect a challenging run.

During the last three years harvests have been marked by weather-related crop fluctuations. With the amounts for the slender year of 2013 and a newly reduced harvest in 2015 the production of alpha acids will not cover brewing needs for the coming brewing year. Particularly, with the fine aroma types there is a deficit that will clearly create bottlenecks.

The robust growth in the Craft Breweries segment has certainly had a big impact on the partial deficits of the balance of supplies. Although this segment represents only a 2% share of the world beer output, it consumes 20% of the alpha production.

In the 2014 and 2015 harvests in Germany, Slovenia and the Czech Republic there were only moderate expansions in acreages of arable cultivation. Conversely, in the traditional arable cultivation area of the Pacifc Northwest in the USA, there was a clear increase of 16.3%. In other USA federal states, too, the hop harvest increased by around 500 hectares, so that the USA as a whole, increased the worldwide growing area by 18.307 hectares. All in all this gives a 2015 harvest of 51,800 hectares of hops and means an increase in the total surface area of 7% compared to 2014. To the middle of June 2015 the hops developed normally. After that there was an overall increase in temperature in Europe and extreme drought that negatively affected growth in August. The result was a huge loss in yields throughout all large European hop growers. In the USA, too, in the summer, unusually high temperatures dominated. As there are more watering systems and more „heat resistant“ hop types available there, the repercussions were not so great. Even though, there, for example, the earlier Centennial type was somewhat under the longterm average, in general it can be said that for the USA the 2015 harvest was good. According to the current figures 36,282 mt of hops were harvested, the quality and alpha values are good and lie within the longstanding average. The US 2015 harvest exceeded the result of the 2014 harvest by 12.7%.

Because of unfavourable weather conditions in Europe hop-growers and marketers have mainly been affected by the very low harvest, the result is likely to be only 41,514 mt here - a significant decrease of 23.8% over the previous year. Of these yield losses those mainly affected are Germany with a loss of -26.6% over the previous year; the Czech Republic with approximately 30% and Slovenia with around 35%.

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In Europe, after such a harvest, there were renewed calls for the introduction of large-scale irrigation systems for hop growers. This would require a careful balance between economics and ecology, to stabilize such weather-related fluctuations in earnings over the long term. This is a fundamental key to the income security of the planters and the subsequent value chain - from processing to marketing and consumption in the brewing industry. For this purpose, however, there is an adequate selection and breeding of climatically-adapted varieties. Developments of newer varieties in Europe showed themselves to be significantly more stable in this extreme year than a plurality of classic land types.

In addition to the amount of income in Europe alpha acid values are also significantly below the long-term average. The so-called Alpha clause is therefore applicable - if contractually agreed - when selling to the brewing industry to adapt existing preliminary contracts for all aromatic varieties. Although the bitter varieties are exempt from this requirement, the amount of alpha acid available on account balances is also insufficient.

Beer production has declined slightly for our current figures and estimates for both 2015 and 2016. The demand for alpha acid is expected to be stable in the coming year, assuming production of 1,927 million hl of beer. This need compares to Alpha production of only 6,900 mt from the 2015 harvest. The deficit of approximately 1,700 mt can be only partly met from available stockpiles. However, some European varieties such as Saaz or Slovenian Golding will not be sufficiently available because they were already undersupplied in recent harvests. In such a difficult situation among stakeholders, a particularly high degree of contract compliance is necessary.

This tight supply situation resulting in the conclusion in advance by more than two years of a a moderate but steady rise in prices. Nevertheless, area expansions in Europe and the US should be completed in the future to proportionally offset this.

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