

## MARKET REVIEW JULY 2019

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The world acreage of the coming 2019 crop is up by 2.6% and continues to expand for a sixth consecutive year. This brings the total cultivated area to 61,994 hectares and a total yield of around 122,000 mt would be expected assuming normal weather conditions (previous year 117,624 mt).

Compared to the previous year, a growth of 8% in alpha acid may be produced since last year's crop in Europe produced significantly below-average values for many varieties.

As in previous years, the largest increase in acreage took place in the USA, where continuous expansion has taken place since 2011. A total area of 24,390 ha is to be assumed for all US federal states for the 2019 crop. The partially significant reductions in acreage with traditional aroma varieties such as Cascade, Centennial and Willamette were more than offset by new aroma varieties, predominantly from private breeding programs.

In the field of high alpha varieties, the trend towards the expansion of cultivated acreage continues, with varieties from private breeding programs gaining market share in addition to the CTZ variety. The Nugget variety, which only has a significant share in Oregon, lost almost 20% of its acreage. The acreage outside the US Pacific North West area continued to decline, as it did last year.

The share of private breeding programs for the upcoming harvest in the USA is set to increase to around 57%.

In Europe the curve of acreage expansion is flattening compared to previous years. For the 2019 harvest, a moderate +1.2% is forecast, since numerous growers have reached their capacity limits in terms of land and harvesting technology. As an average harvest with a high pre-contract quota, the hops has almost been sold with the exception of some specialty aroma varieties. This also applies equally to all growing areas in Germany.

The Oceania region with production areas in Australia and New Zealand has experienced a significant surge in demand in recent years, which is reflected in limited availability and increased acreage. In this region, the 2019 acreage grew by + 8.4% (AUS) and + 31.8% (NZ), which added an extra of around 80% to a total of 1,407 ha within 5 years. However, this development had no significant impact on overall global supply.

### Weather conditions

The growth conditions that have prevailed since April were largely in the normal range in the main growing areas of Europe and the USA. However, the June temperatures in Central Europe, which were well above the long-term average with peak values of just under 40 °C, were noteworthy.

The precipitation in May was on a long-term average in most of the growing areas, while in June and July the plants had to deal with below-average rainfall. As a result of the cooler weather starting from the end of June, the effects on the crop had no negative effect to date. Rainfalls were only far below average in the German region of Elbe-Saale. The crucial factors determining the yield and alpha acid values, however, are the weather and the water supply of the next few weeks prior to the harvest.

The US Pacific Northwest region of the states of Washington, Oregon and Idaho, were without significant climatic deviations from the long-term average. The water supply in the reservoirs, which ensure the irrigation of hop farms, is assured.

The development of young plants was only below the expectations for newly introduced varieties, which are expected to deliver less yield.

#### **Market outlook:**

In the light of the renewed expansion of the acreage and an average harvest, the supply of breweries in the brewing year 2020 should be secured.

Any resulting bottlenecks or surpluses of certain varieties or groups thereof depends primarily on the harvest, which is subject to weather-dependent fluctuations, especially in Europe. Weak outcomes were repeatedly noted in recent year, especially in respect of the alpha acid values.

The market balance by groups of varieties indicates that the supplies of the classic European aroma varieties, such as pearl, tradition and aurora, are short, since the alpha acid values of the last two harvests were significantly below-average.

The stocks of so-called fine aroma varieties such as Saazer, Tettnanger and Hallertau Mittelfrüh will most likely be in line with the demand for the coming brewing year.

Specialty aroma varieties such as Cascade, Centennial or Mandarina Bavaria, which primarily serve the so-called craft beer segment in the USA and other regions of the world, the oversupply is set to continue for the coming harvest, since the areas were not reduced to the required extent. Even more extensive stock is available for these. By contrast, new varieties from private breeding programs continue to be in demand.

High alpha varieties were barely supplied in the 2019 brewing year, even though the acreage has grown steadily in recent years. However, the yield fell short of expectations particularly in Germany, resulting in significant price increases. The expected harvest for the 2019 crop year are already over 95% sold.

On the demand side, the US craft beer market continues to be a key factor. Output growth in the USA reached around 4% last year with a peak of more than 7,500 breweries. Additionally, the proportion of craft beer in other continents such as South America, Europe and Asia is growing steadily, even though it is far less important than in the United States overall.

The challenging framework conditions are set to remain in the coming years, especially since the political and social call for measures against climate change, as well as the promotion of biodiversity and water conservation, are expected to bring restrictions in terms of chemical plant protection and fertilization. In this context, the joint efforts of the entire hop industry will be required to keep the cultivation areas fit for the future with new, more climate-adapted and resistant varieties and effective irrigation concepts.

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