

No. 461

The Brewing Raw Material Journal

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04.08.2017

Executive Summary

Malting Barley Market

Prices rise rapidly on the EU market as the outlook for the German harvest turns bad.

Rainfall needs to hold off in the UK and Scandinavia for harvest to advance swiftly without quality losses.

Concerns over dryness Australia abate somewhat after good rains across all major growing areas.

The Canadian Prairies receive some much needed rainfall but southern regions on the USA border look poor.

Malt Market and Industry

Big brewers report good results, Sapporo buys into USA craft beer.

Global Grain Market

Trade locked in a weather market with buyers and farmers looking to the skies with anticipation and trepidation.



SAVE THE DATE

- * ~~France: 6 – 8 June~~
- * ~~Czechia/Slovakia: 12 – 14 July~~
- * ~~United Kingdom: 1 – 2 August~~
- * Scandinavia: 8 – 9 August
- * Canada: 27 – 29 August
- * Australia: 22 – 25 October

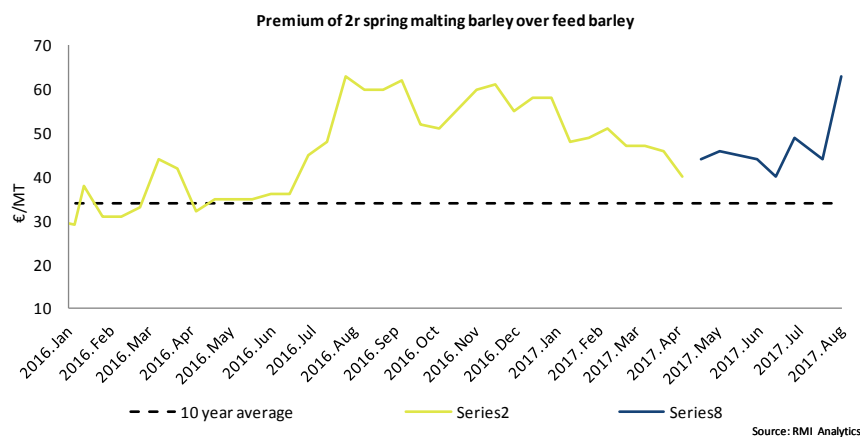
Barley Market

Europe

The EU barley trade (and the world grain markets) is firmly locked in a weather market trend as traders and farmers watch the skies with either trepidation at the prospect of further rain (or hope for continued showers). Leading the motivation for price rises this last two weeks was market participants becoming increasingly concerned about the state of the crop in many parts of

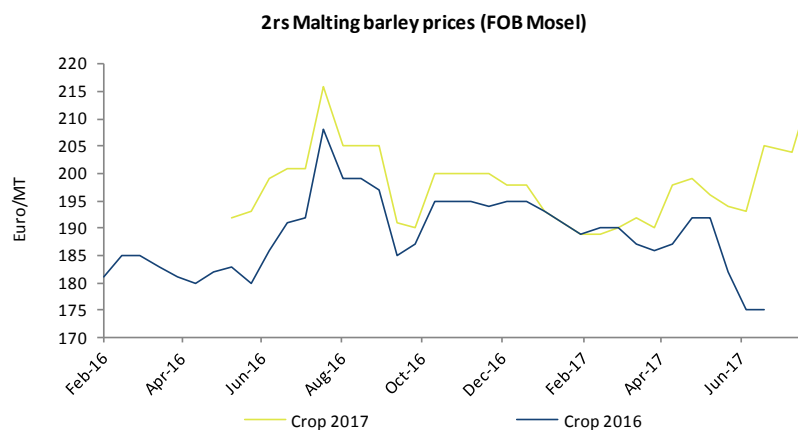
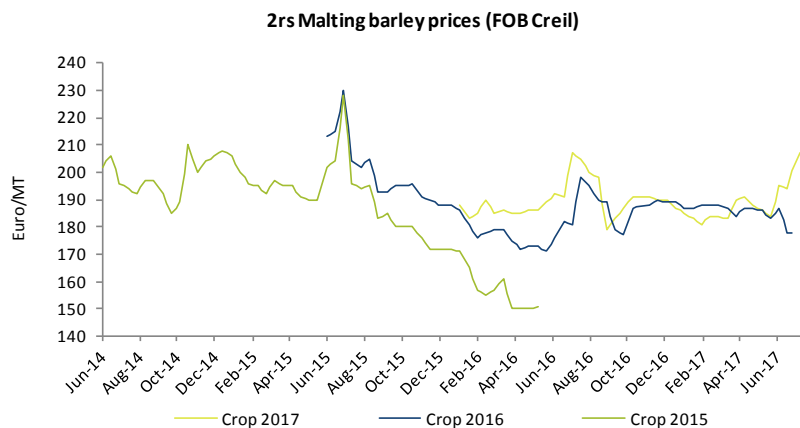
Germany where heavy rain has led to downgrades in high protein wheat, lodging in both wheat and barley, pregermination in malting barley and signs of fusarium infection. It's currently

being reported 40% of wheat will go as feed this year with spring barley set to be hit too but as yet it's not clear by how much. Some people in the trade expect Germany might need 1.1-1.4m MT of barley this year compared to the typical import volume of about 1m MT. In southern Germany traders have reportedly told silos to segregate all malting



grade barley up to 13% protein on expectations they'll need all the grain they can get in 2017. Throughout Europe we hear German traders and maltsters are looking for higher quality barley to replace their own national production. In third country trade we hear at least two boats (Panamax) have been traded out of France, presumably carrying winter malting barley to China with a third vessel rumoured to be currently being negotiated. Markets are highly volatile with prices going up by EUR6 on just two trades last Friday with this week seeing more price volatility with prices somewhat stable today. The biggest

issue right now is a lack of clear information on the results of the harvest in Germany, the ongoing harvest in the UK and the imminent harvest in Denmark. Any adverse information from the UK or Denmark could see prices pushed higher while if Germany turns out to be not



as bad as expected this could limit the potential for any increase in prices.

France Prices Basis FOB Creil in Euro/US\$ per tonne							
Single Variety (Optional)	Protein	Euro	+/-	Exchange Rate (Euro/US\$)	US\$	+/-	Shipment
Crop 2017							
Feed Barley		144,00	-6,00	1,206	173,72	-2,30	JULY 17
6r Winter Etincel	11,50%	167,00	+6,00	1,206	201,47	+12,54	JULY 17
2r Spring (Irina)	11,50%	207,00	+13,00	1,206	249,72	+22,07	JULY 17
2r Spring (Planet)	11,50%	204,00	+14,00	1,206	246,11	+23,14	JULY 17
2r Spring (Sebastian)	11,50%	209,00	+12,00	1,206	252,14	+20,96	JULY 17
Crop 2018							
Feed Barley		151,00	+5,00	1,213	183,13	+10,90	JULY 17
6r Winter Etincel	11,50%	172,00	+6,00	1,213	208,60	+12,77	JULY 17
2r Spring (Irina)	11,50%	209,00	+12,00	1,213	253,48	+21,07	JULY 17
2r Spring (Planet)	11,50%	201,00	+8,00	1,213	243,77	+16,09	JULY 17
2r Spring (Sebastian)	11,50%	212,00	+12,00	1,213	257,16	+21,22	JULY 17

Source: RMI Analytics

France Prices Basis FOB Mosel in Euro/US\$ per tonne							
Single Variety (Optional)	Protein	Euro	+/-	Exchange Rate (EUR/\$)	US\$	+/-	Shipment
Crop 2017							
6r Winter Etincel	11,50%	178,00	+6,00	1,206	214,74	+12,90	JULY 17
2r Spring	11,50%	215,00	+11,00	1,206	259,38	+19,98	JULY 17
2r Spring (Planet)	11,50%	212,00	+11,00	1,206	255,76	+19,88	JULY 17
2r Spring (Sebastian)	11,50%	220,00	+14,00	1,206	265,41	+23,67	JULY 17
Crop 2018							
6r Winter Etincel	11,50%	184,00	+8,00	1,213	223,19	+12,20	JULY 17
2r Spring	11,50%	219,00	+11,00	1,213	265,65	+14,52	JULY 17
2r Spring (Planet)	11,50%	215,00	+11,00	1,213	260,80	+14,25	JULY 17
2r Spring (Sebastian)	11,50%	222,00	+11,00	1,213	269,29	+14,72	JULY 17

Source: RMI Analytics

Denmark Prices Basis FOB Danish Port in Euro/US\$ per tonne							
2r Spring Single Variety (Optional)	Protein	Euro	+/-	Exchange Rate (Euro/US\$)	US\$	+/-	Shipment
Crop 2017	11,50%	205,00	+16,00	1,206	247,31	+25,52	OCT17
Crop 2018	11,50%	202,00	+9,00	1,213	244,99	+17,30	OCT18

Source: RMI Analytics

Denmark has seen the pattern of the last few weeks continue with rain continuing to fall and the crop slowly coming to maturity. We hear during next week's RMI Analytics Scandinavian Crop Tour we'll see little to no harvesting as only small isolated areas will be harvested in the next few days, weather permitting. That said if the weekend turns dry and warm then the crop could finish off very quickly and farmers would be eager to get the crop harvested as quickly as possible. At the moment the expectation is for scattered showers over the weekend then followed by mixed weather at the start of the week, so we're not confident of seeing much harvesting activity. Price wise we hear morning lately sees buyer interest but this evaporates by afternoon with prices highly volatile. We hear on the new crop 2017 EUR205/MT basis first half of October 2017 with the tendency for prices to move up by a few EUR or down within the course of the day with increased volatility next week as the trade inspects fields.

United Kingdom. Prices Basis FOB UK Port in £/Euro/US\$ per tonne									
Single Variety (Optional)	£	+/-	Exchange Rate (€/Euro)	Euro	+/-	Exchange Rate (Euro/US\$)	US\$	+/-	Shipment
Crop 2017									
2r Spring (South Coast)	186,43	+14,04	0,91	205,00	+12,00	1,21	247,31	+20,83	OCT 17
Crop 2018									
2r Spring (South Coast)	185,05	+12,26	0,91	203,00	+10,00	1,21	246,20	+18,52	OCT 18

Source: RMI Analytics

The RMI Analytics UK Crop Tour 2017 was held this week and market participants saw first-hand the weather problems causing concern for the UK crop, namely rainy days followed by sun and then more rain. In the regions of East Anglia visited by the tour crops were about 10 days off harvest due to the continued rain with one farmer saying he expected up to 11.8% protein and 7-7.5MT/Ha on their heavier land while on lighter land yields could be down to 4MT/Ha due to the early dryness. Currently market participants are watching conditions very closely as the crop finishes off in these less than ideal conditions. It's expected up to today 15% of the spring barley crop has been harvested with farmers tending to be favoring their wheat over malting barley leaving a question mark over barley quality. During a presentation on the RMI Analytics UK Crop Tour participants heard 725,000Ha of spring barley and 428,000Ha of winter barley would be harvested in the UK in 2017 for a total combined malting barley supply of 2.625m MT (excluding farm saved seed). In total UK domestic malting barley usage was seen at 1.9m MT and the exportable surplus of 725,000MT, one of the largest surpluses in recent times (largest recent surplus was in 2015-2016 of 807,293MT). Markets on the new crop (2017) are very volatile as the harvest begins in force and we hear EUR205-206/MT basis October-March on the new crop 2017 and EUR203/MT on the 2018 crop.

Russia & Ukraine

Dryness in Russia is supporting the ongoing harvest with 14.7% of the barley crop harvested at the end of July making for a total harvest of 4.4m MT, down compared to the same time in 2016 (5.4m MT), with yields a bit higher than at 3.69MT/Ha vs 3.36MT/Ha last year. In the coming days the weather outlook is for continued dryness with only occasional showers in the central and southern areas of Russia which should see the harvest advance rapidly. We hear protein is around 11.5% in the Black Earth Region with barley in the Volga Region split between early seeded crops at maturity and later seeded still in the filling stage with harvest set to start over the weekend, weather permitting. In Ukraine 7.1m MT of barley has been harvested (87% complete), well behind the 8.5m MT which was harvested at this time last year with yields down at 3.24MT/Ha compared to 3.33MT/Ha in 2016. Over the next week the weather outlook for Ukraine is mostly dry with some occasional showers and expectations the harvest will wrap up quickly.

Argentina and South America

In South America the weather is continuing to be detrimental to the outlook for barley with rain in Argentina slowing down sowing as the ideal planting period ends (normally end of July) while in Brazil a drought is putting already established crops under stress. We hear the expectation out of Argentina is for total barley acreage of 700,000Ha with a total harvest of 2.8m MT minus domestic consumption of 1.24m MT which would leave an exportable surplus of 1.56m MT. Uruguay should be able to supply about 140,000MT into the export market while Brazil will need up to 200,000MT of barley (more if the drought continues). Other South America nations will need about 500,000MT of barley for their domestic useage leaving the total which could enter the international marketplace at about 1m MT. We hear market wise wheat has been attractive to farmers (with about 400,000MT already sold) but a rising barley price is making late sowing of barley more attractive. Feed barley is heard at USD170/MT FAS with malting barley at USD212-215/MT FOB or USD192-195/MT FAS.

North America

In the USA barley crops are suffering only marginally less than the wheat crop with both grains battered by continued dry conditions which have sapped yield and quality. We hear one of the big problems areas is western North Dakota and eastern Montana but, that said, there's no sense of panic from the USA trade regarding this negative outlook. Regarding barley condition Montana is rated at 37% 'good to excellent', North Dakota 37% 'good to excellent', Washington

49% 'good to excellent' while Idaho is 84% 'good to excellent' and Minnesota is 80% 'good to excellent'. Across the five major production states 6% of barley was harvested as of July 30. We think it's very likely some higher quality malting barley will be exported into North America to try and make-up for the poor crop in the USA. In Canada there have been some scattered showers but for the most part it's remained dry across the Prairies, with crops in the far south close the USA border looking the most advanced (and the worst) while further north better soil moisture is seeing better crops. In Alberta the north of the state is looking better than the center and south with world early seeded barley has been harvested and it's returning some pretty poor results. In Saskatchewan it's a similar story with the east of the state looking pretty good while southern regions have lacked rain. In the Southern Prairies harvest is expected to get underway in two to three weeks while for the Central and Northern Prairies it will begin in about 3-4 weeks. There's still some seats left of RMI Analytics Canada Crop Tour 2017 from August 27-29 so if you'd like to see the fields in person please sign-up here and we'll be in touch. Farmers and the trade are both in a 'wait and see' mood considering the mixed weather and the gloomy global outlook so trade is sidelined. We hear a notional figure for new crop 2017 malting barley in Canada would be USD305/MT FOB.

Australia

Over the last ten days good rains (15-25mm) have come to most major Australian malting barley growing regions in New South Wales, Victoria, South Australian and southern Western Australia improving prospects for the crop. But it'll be further top up rains in spring (especially in September) which will make the crop, or if rains don't eventuate could result in a below average harvest. Market participants think if some more rain comes they could hit 8m MT or a little over, if good rain comes this could go much higher toward 9m MT but if rains are sparse harvest could be as low as 7m MT. Since this recent rain the weather premium has started to come off slightly with the premium of around USD40/MT over other international origins coming down to about USD30/MT with expectations it'll keep falling if rain continues to come. In the next ten days another 15-25mm of rain is forecast for all the aforementioned growing areas so the outlook is decidedly positive despite the Australian Bureau of Meteorology's spring forecast predicting hotter/drier conditions. We hear in WA/SA old crop 2016 barley is sold out but in Victoria there's reported to be some still in the hands of farmers, most likely feed grades only. Price wise we hear on old crop 2016 feed barley USD210/MT FOB on a September shipment while new crop 2017 is at USD220/MT FOB while malting barley is about USD225/MT on the old crop 2016 while new crop 2017 malting barley is heard at USD245-250/MT.

International Malting Barley prices basis FOB in US\$ per tonne

Crop 2017

Origin	US\$	+/-	Shipment
Canada	305,00	+17,00	AUG-SEP 2017
Australia	250,00	0,00	AUG-SEP 2017
Argentina*	215,00	-5,00	AUG-SEP 2017
Europe (2r spring)	259,09	+25,54	AUG-SEP 2017

*Crop 16

Source: RMI Analytics

Malt News

We think so, especially considering the information gleaned from our recent UK tour that a large south German grain collector is telling silos to keep all malting grade barley up to 13% protein and not direct it into feed channels.

We hear an Eastern European brewer has said they want the malting barley harvest segmented along protein lines into three lots; barley up to 11.5%, from 11.5% to 12.5% and from 12.6% to 13.5% with screenings at ideally at 85% and rejection below 83%. This is a clear signal from brewers they will accept higher protein malt but maltsters will, of course, blend to achieve levels lower than the highest of these figures. All this said we hear maltsters are well supplied into the first half of next year (March-April).

Theoretical malt prices
 Based on current market conditions, French malting barley prices and forward Euro/US\$ exchange rate

FOB Amsterdam-Rotterdam- Antwerp-Gent	Protein	FOB Bulk		FOB Bulk in containers		FOB in 50 kg bags In containers		Shipment
		Euro	USD	Euro	USD	Euro	USD	
Crop 2017								
6r Winter Esterel/Etincel	11,50%	357	424	379	450	389	462	Aug - Sep 2017
2r Spring /Irina/	11,50%	406	482	428	509	438	521	Aug - Sep 2017

Source: RMI Analytics

Hops News

Rain has been falling over German, and other Central European, production regions (Czech, Slovenia) which has improved the outlook somewhat but more rain is needed. In Yakima conditions still look excellent and market participants are expecting a bumper crop to be harvested in 2017. The RMI Analytics USA Hop Tour still has some place left so if you're interested in visiting the Yakima Valley and seeing the world's biggest hop harvest then [sign up now!](#)

Industry News

Beer producers in the USA have taken a hit with investment bank Goldman Sachs downgrading its outlook for the Boston Beer Company and Constellation Brands over slow sales and changes in tastes. Boston Beer's shares dropped by 5% after the downgrade with Constellation Brands down by 1%. The downgrade is based on lower alcohol consumption by under 35-year-olds and a preference for wine and spirits over beer. Goldman Sachs now has a 12-month price of USD110 per share for Boston Beer (down from USD140) and for Constellation of USD210 down from USD241 per share.

Ab InBev announced strong second quarter figures in the last two weeks with an overall revenue increase of 5% and a 0.3% rise in beer volumes to 305.6m HL.

Another week and another craft brewery has been bought by a large brewer. It was announced yesterday that Japan's Sapporo had bought San Francisco's Anchor Steam Brewery in a deal rumored to be worth 85m, a price that seems a steal compared to the sales of other craft breweries in the last 12 months. In more news out of Japan, Asahi has said it will raise its annual profit forecast by 22% thanks to a strong performance by its newly purchased Eastern European breweries, a deal which was concluded in March. The Japanese brewer said profit would rise from YEN146bil to YEN167.3bil with sales up 11.5% to over YEN2 trillion.

Scottish craft beer powerhouse Brewdog has announced they will build their third brewery outside Scotland on the East Coast of Australia. In an announcement they said they were looking at Newcastle, in New South Wales, and Brisbane, in Queensland, as possible sites and planned for a 4000sq/m facility. It's believed the brewery would operate similarly to their facility in Columbus, Ohio which brews the company's signature beers for the local market. Heineken has reported strong growth in 2017 with an increase of net profit of 10.5% with their largest market, Europe, seeing beer volumes up to 39m HL while their smallest region, Asia, saw the fastest growth of 6.3% from 11.5-12.6m HL. Much of this growth in Asia came from Vietnam where Heineken has been doing extensive promotional activities as it seeks to capture a slice of the rapidly growing beer market.

Global Grains Market

Chicago Board of Trade (CBOT) weekly average prices - WHEAT (Prices in cents per bushel)

Interval	Week	Sep 17	Dec 17	Mar 18
10 to 16.07.2017	Week No.28	532,50	556,15	574,30
17 to 23.07.2017	Week No.29	503,55	527,10	547,00
24 to 30.07.2017	Week No.30	480,25	505,20	526,75
+/-	W30-W28	-52,25	-50,95	-47,55

Source: CMEGroup

The international grains markets, as with the barley market, are set in a weather market pattern with a lack of rain in the USA/Canada/Australia while the EU harvest is held up by excessive rains. Some rains during the week improved prospects in the USA but it seems the

market has already priced in the decline in production out of the USA due to continuing dryness. In the USA winter wheat was 88% harvested with the spring wheat harvest sitting at 9% and the crop rated at 31% 'good to excellent' (68% in 2016). In the EU prices decline somewhat over the week due in part to the strong Euro and to the rains in the USA and the outlook from France that June's heatwave didn't do as much damage to the crop as expected. German buyers were heard to be on the French market looking for milling grade wheat as it becomes apparent about 40% of their wheat crop will go into the feed bin, double the usual rate. Export wise the USA exported 145,500MT of wheat well below the estimated 300,000MT to 500,000MT while out of the EU 225,000MT was shipped bringing the total to 941,000MT in the campaign so far. Regarding corn in the USA rains during last week and into this week improved the outlook in most growing areas except for Western Iowa where conditions remain too dry leading to a slight price drop. In the EU prices decline slightly on favourable conditions in European production regions and expectations of a good to average crop. Exports out of the USA were at 36,700 MT, lower than the 100,000MT of expectations with EU corn exports at 5,000MT in the last week. Ethanol production in the USA was up to 1002m barrels per week with stocks down to 20.85m barrels. On 10 August, USDA will release its next crop report and probably giving markets new directions.

Chicago Board of Trade (CBOT) weekly average prices – Corn (Prices in cents per bushel)

Interval	Week	Sep 17	Dec 17	Mar 18
10 to 16.07.2017	Week No.28	387,05	400,05	409,85
17 to 23.07.2017	Week No.29	381,05	394,65	405,40
24 to 30.07.2017	Week No.30	373,45	386,95	398,45
+/-	W30-W28	-13,60	-13,10	-11,40

Source: CMEGroup

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