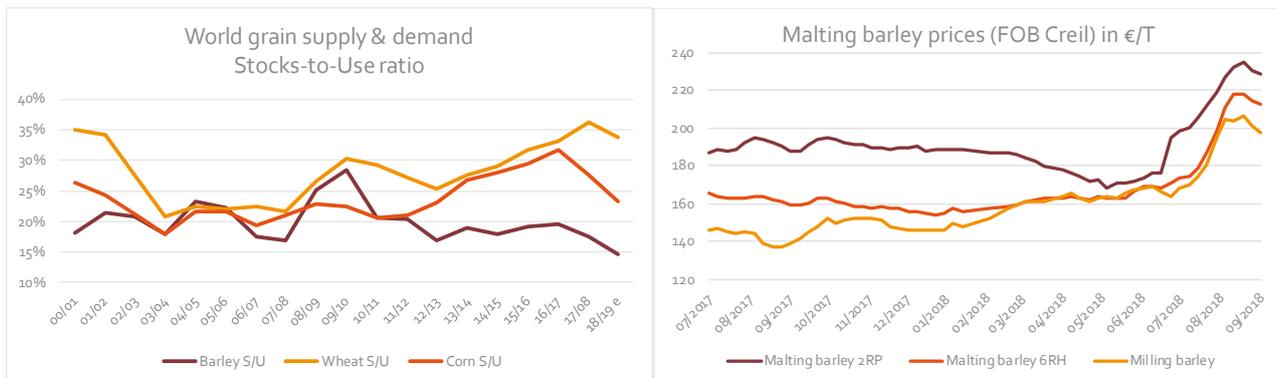




Unigrains – In Brief

Malting barley: should we fear a shortage?



Source: Unigrains based on CIC and e-malt.com

Global barley supplies are tightening

- The global outlook for the 2018/2019 season shows a tightening whatever the cereal. **Barley stocks appear the most tense** at this point, with the stocks-to-use ratio at a particularly low level, unprecedented since 1995/1996.
- The 2018 global production of barley, both feed and malting, is expected to decline sharply for the third consecutive year to reach its lowest level since 2012. Despite an increase in farmed areas, yields are affected by the drought that occurred in some major production areas, mainly in Europe (EU28, Black Sea). In Australia, the persistence of dry conditions in the eastern part of the country also raises uncertainties over the barley crop.
- Global demand is adjusting partially to the situation, mainly in animal feed, but remains fairly inelastic on the whole. Despite governmental intent of diversifying livestock feed rations, Saudi Arabia will remain a key player in the international market for feed barley. Turning to malt-quality trade, the situation is getting more tense as demand is not set to diminish. Argentina has just introduced export taxes on grains. For China, the alternative in the face of lower supplies expected from its traditional Australian supplier is to source from Canada, leading to a dwindling of its stocks.

Poor harvest of spring malting barley in Europe

- **Growing conditions were difficult in the EU28**, mainly in the northern, central and eastern countries. In its 30 August balance sheets, Eurostat forecast production of 56.2 MT all qualities combined, compared with 58.8 MT for the previous season. CIC expects production to reach only 55.8 MT. Some experts are more pessimistic, announcing figures as low as 54.8 MT.
- In the specific case of malting barley, production is impacted not only in quantity, but also in quality, with **high protein levels** and a **strong heterogeneity** in batches. Spring malting barley, cultivated mainly in the regions most affected by the drought, was the hardest hit, while winter malting varieties appear to have been only marginally affected. In its September 2018 forecast, Stratégie Grains announced production of 7.7 MT (8.6 MT in 2017) for spring malting barley and of 3.5 MT (3.4 MT in 2017) for winter malting barley.



Author: Céline Ansart-Le Run – Tel. +33 (0)1 44 31 16 35 – cansart@unigrains.fr – Publication date: September 2018
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Soaring prices

- At the same time, **European malt production capabilities increased** by 460 KT (i.e. 550-600 KT of malting barley), mainly in the Benelux, with notably the extension of Boortmalt's Antwerp factory and of Holland Malt's Eemshaven factory. This means that in theory, needs should increase.
- According to experts, the European malting barley balance sheet is in deficit, from 0.3 MT for Stratégie Grains¹ to at least 0.5 MT for HM Gauger. Analysts concur that the **deficit will be mainly in spring malting barley**.
- In addition, poor harvests of soft wheat and corn, combined with limited stocks of grass in the EU28 regions affected by the drought, spell a lack of fodder for the coming winter.
- **Prices for spring malting barley and feed barley are rocketing**. During the summer, prices rose by over €50/tonne (+30%) and more than €30/tonne (+20%), respectively. Over this period, quotations for winter malting barley, which has a more balanced balance sheet, moved in the wake of those for feed barley, from which they struggled to differentiate themselves. The gap tends to materialise in September, however.



Unigrains' opinion

Malting barley will be particularly sought after this season in Europe. This will have several different consequences:

- A **necessary easing of specifications** in terms of protein content and of negotiations between sector players so as to lock in the maximum amount of volumes. It is unlikely the Union European will resort to imports, as on the one hand, availability on the international market will be less abundant, and on the other hand, the cost would be prohibitive due to customs tariffs. Furthermore, brewers can incorporate alternative raw materials to make up for the lack of malt extract. That said, altering recipes is a complex operation, particularly at big brewers with highly industrialised processes.
- A **sustainable rise in malting barley prices during the marketing year**, variable depending on the region and quality, with a sufficient premium over feed barley to limit the risk of brewing-quality barley being used for animal feed. French producers of malting barley, who have been little impacted in volume or quality, unlike their Scandinavian neighbours, stand to benefit from these more remunerative prices.
- A **rise in the price of malt**, fully passed on to brewers. Maltsters' margins are secure within the framework of long-term agreements (LTA). Furthermore, demand for malt should remain sustained as new production capabilities are already factored in by the market. The issue is not crucial for large industrial brewers, however, as malt prices have little weight in the end product. For craft brewers, who work solely with spring barley malt, using higher proportions, the impact could be greater, all the more so in that hop crops were also hurt by the drought, hops playing a vital role in the craft brewing process.

¹ including exports; the European supply of malting barley would adjust to domestic demand, according to Stratégie Grains