



# Worldwide Barley Situation/Outlook

June 2011



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*collaborate > create > succeed™*

## *Outline*

- Agricultural Trends
- Worldwide Barley Situation
- Price Volatility
- Fight for Acres
- Increased Risks to the Industry
- Financial Impact to the Industry
- Outlook & Summary



# Outline

## **Agricultural Trends**

- Worldwide Barley Situation
- Price Volatility
- Fight for Acres
- Increased Risks to the Industry
- Financial Impact to the Industry
- Outlook & Summary

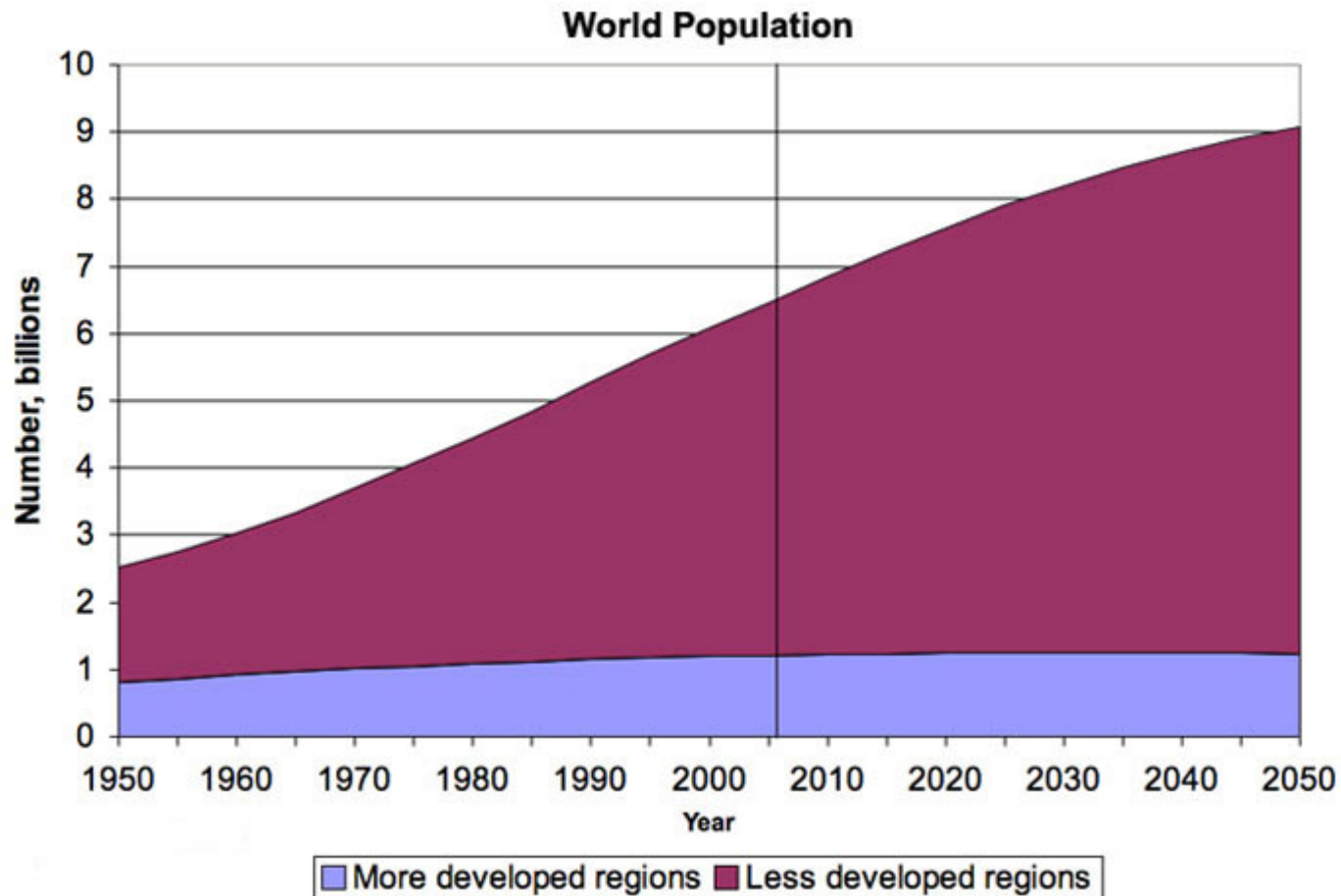


## ***Broad Trends Facing Agriculture***

- Growing World Population
- Growing Wealth
- Growing Need for Alternative Fuels
- Setback due to recession in 2008, but broad trends have returned.

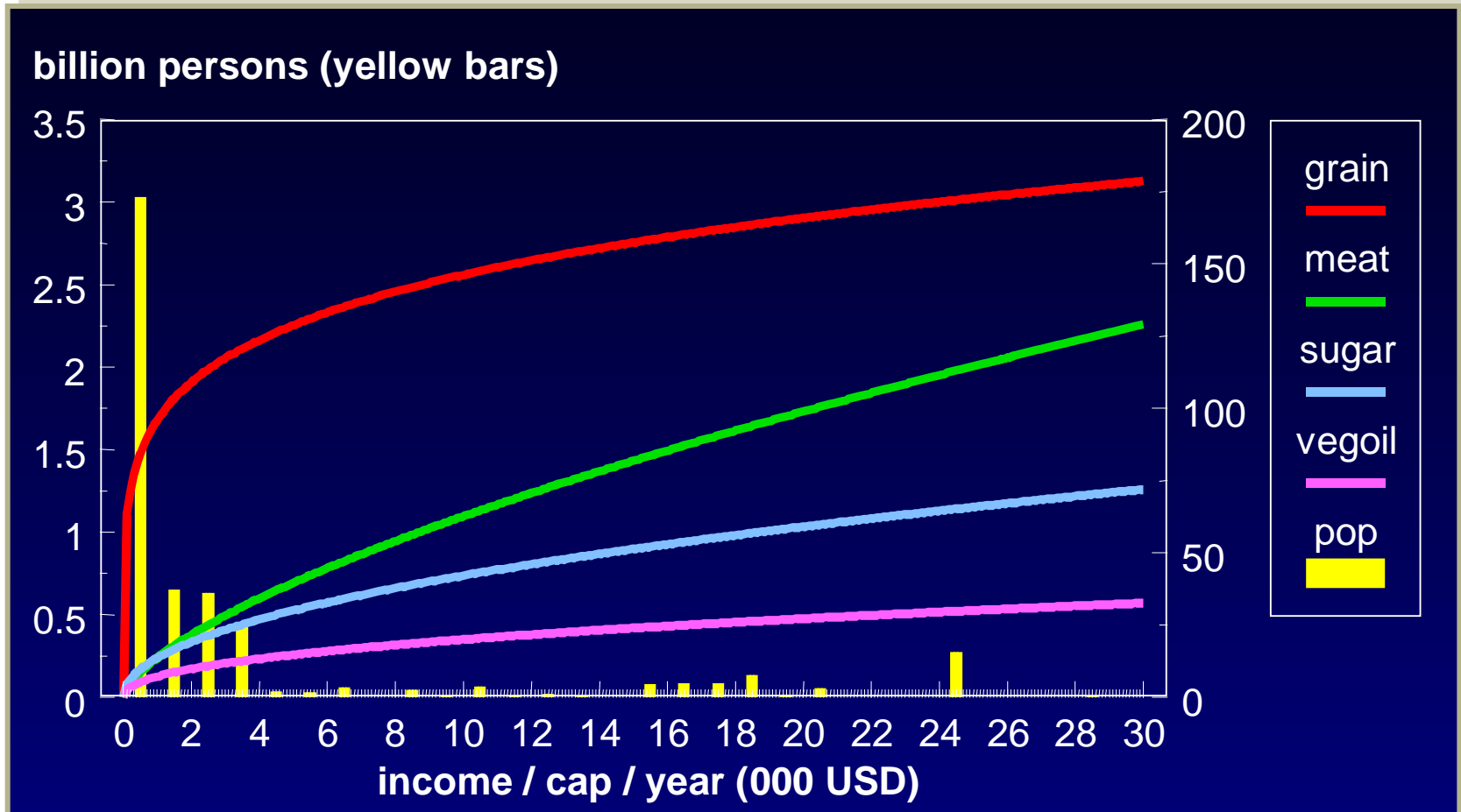


## Growing World Population



Source: United Nations

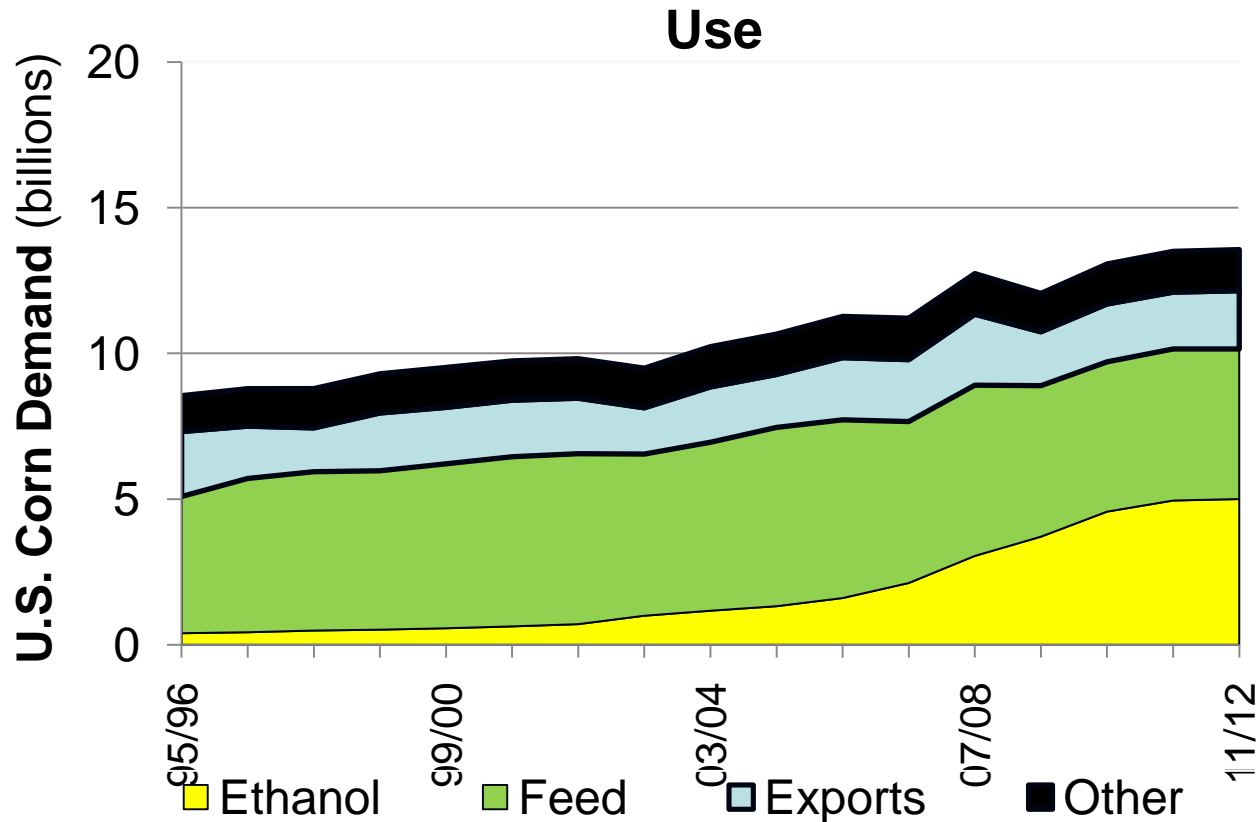
## Growing Wealth



Population, per Capita Income and Food Consumption

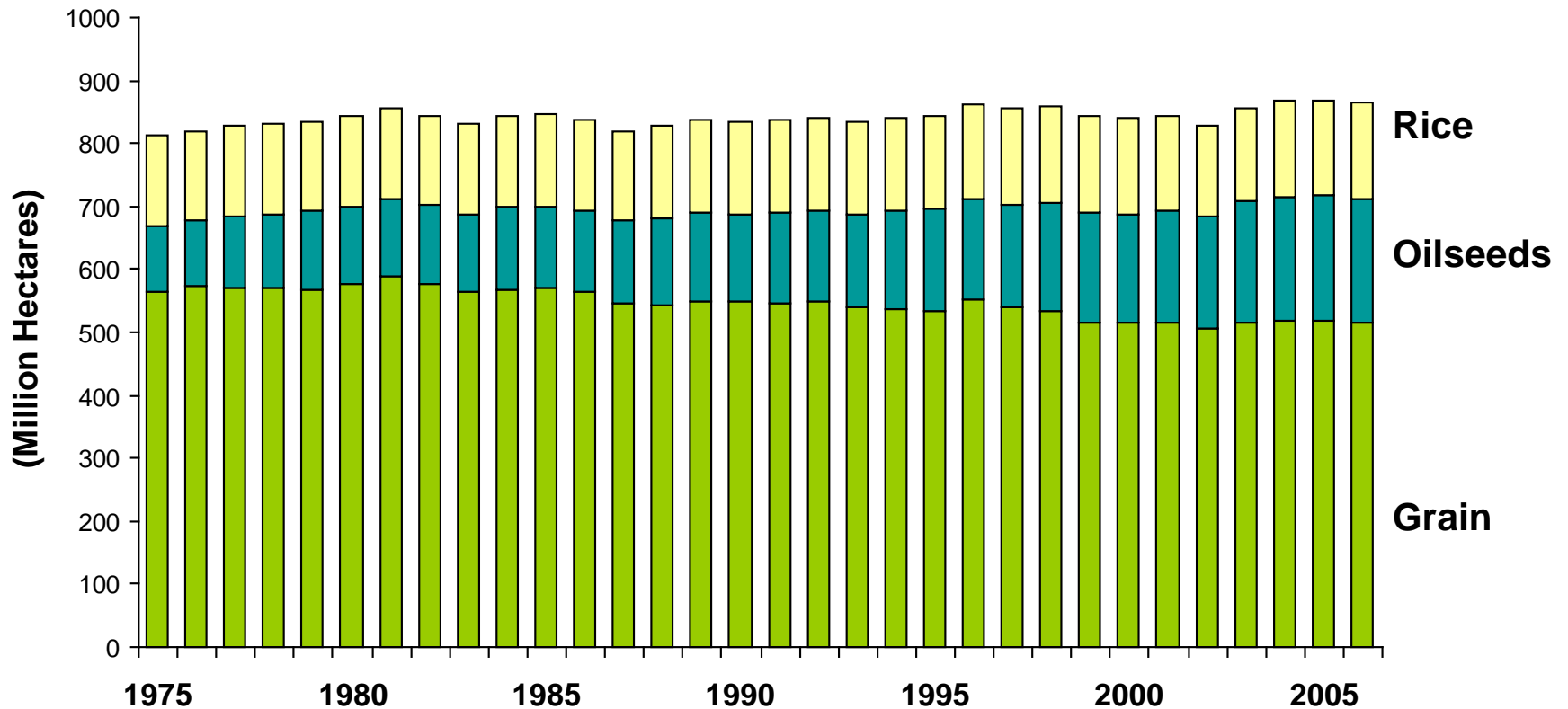
# Growing Need For Alternative Fuels

Ethanol Driving the Increase in US Corn Demand



Source: Michael Jewison, USDA

## Global Cropland – 1975-2005



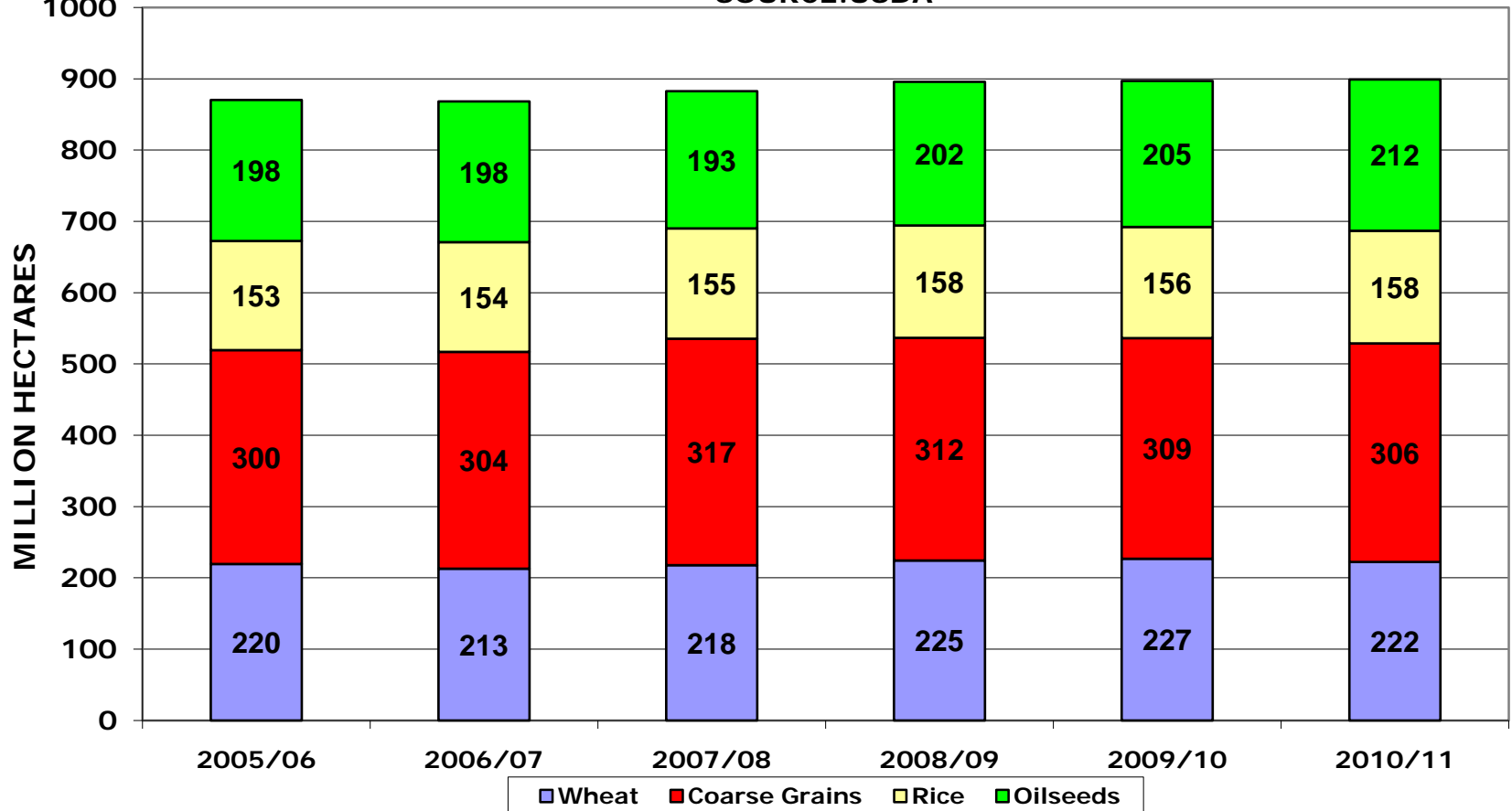
Source: USDA

# Global Cropland – 2005-2011

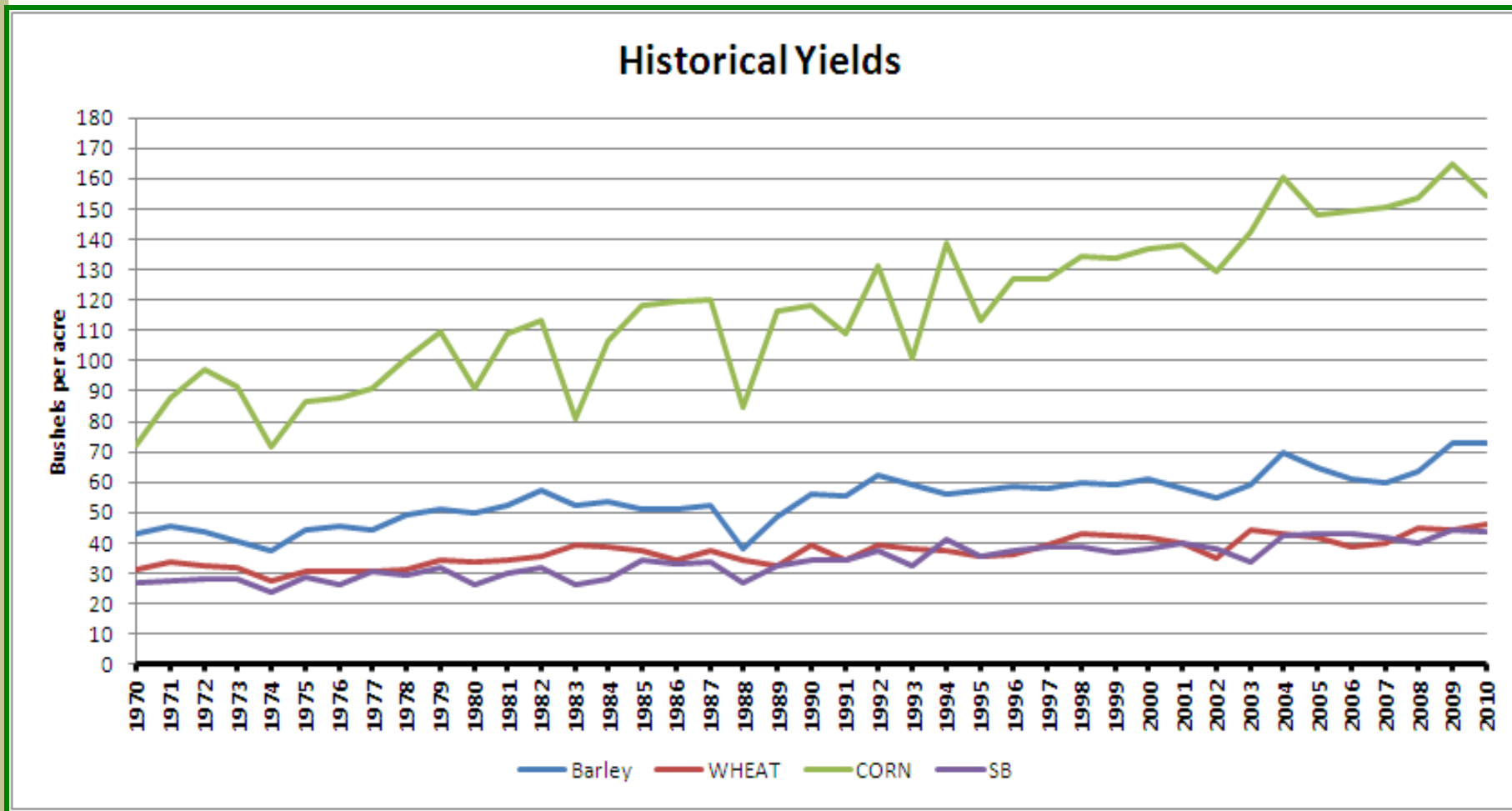


## WORLD GRAIN, RICE, OILSEED AREA

SOURCE:USDA



# Malting Barley – North American Yield Comparison



## *Impacts to Agriculture*

- Competition for land: Food, Feed, Fuel and between crops.
- Fewer acres are producing more output per acre. When a drought strikes, the per acre yield decrease has a much greater overall impact.
- Lower grain ending inventories.
- Higher prices and higher price volatility.



## *Outline*

### ➤ Agricultural Trends

### **Worldwide Barley Situation**

### ➤ Price Volatility

### ➤ Fight for Acres

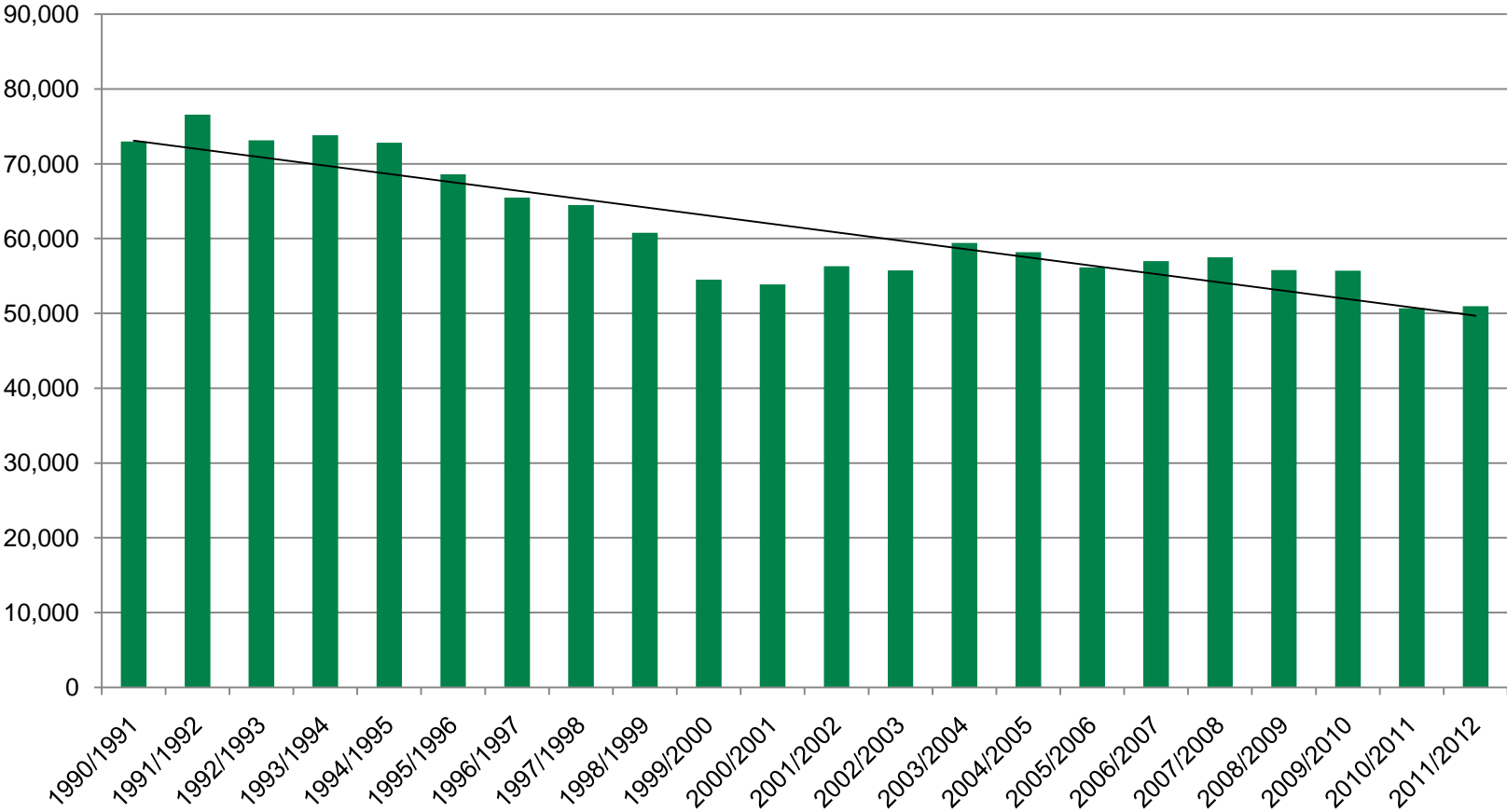
### ➤ Increased Risks to the Industry

### ➤ Financial Impact to the Industry

### ➤ Outlook & Summary



# World Barley Area Harvested (in '000 HA's)



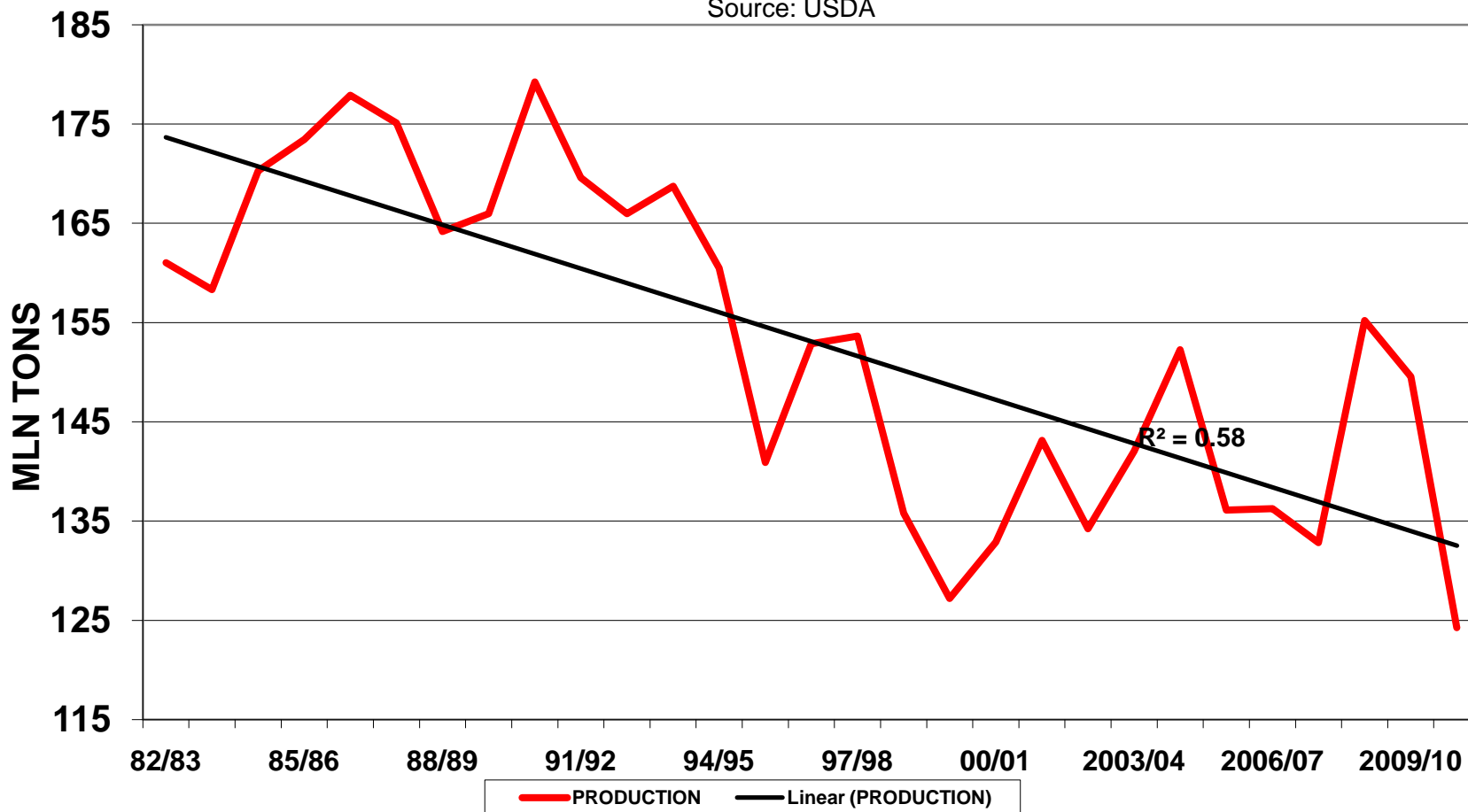
Source: USDA

# World Barley Supply

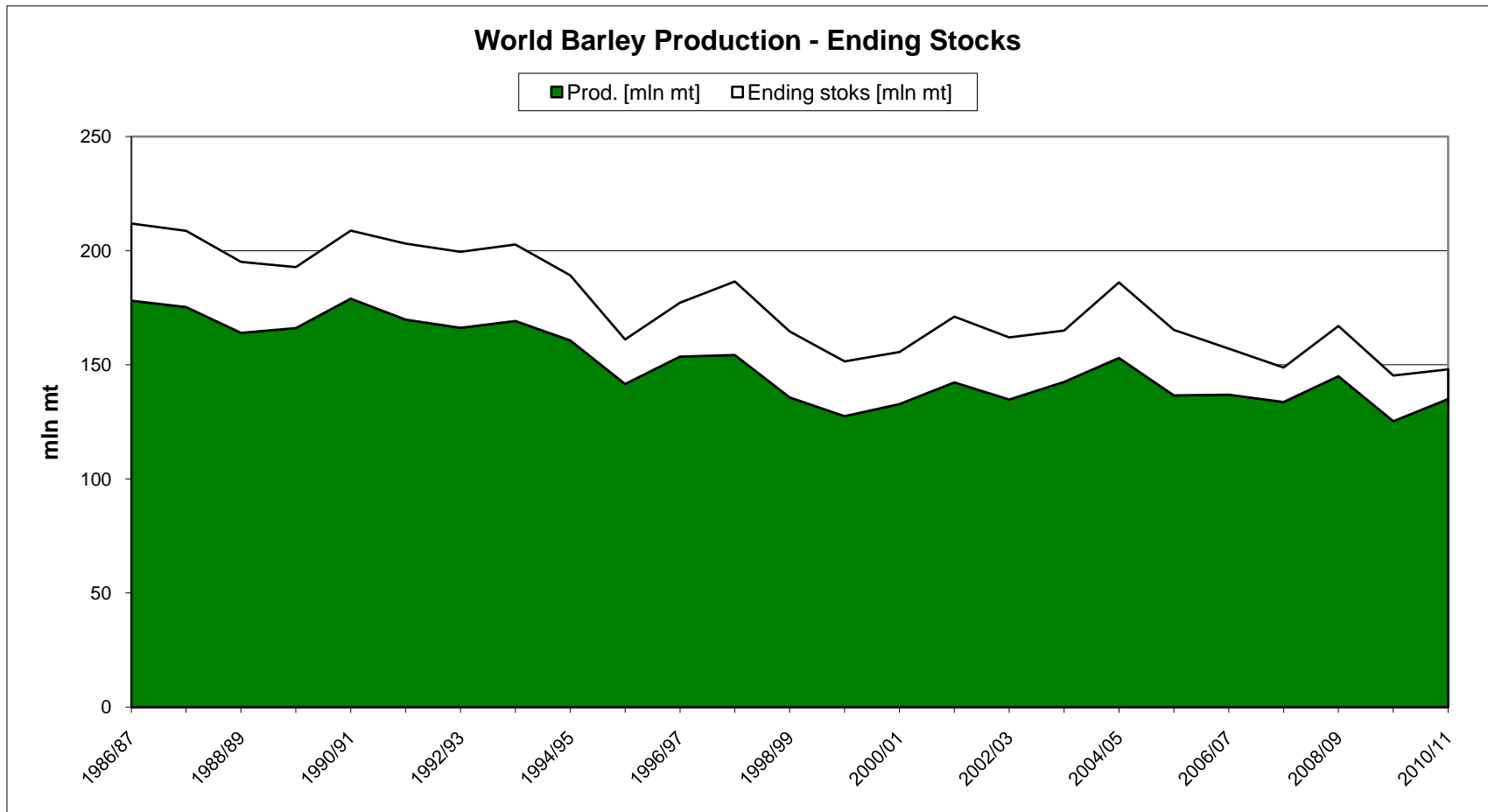


## WORLD BARLEY PRODUCTION

Source: USDA



## World Barley Production – Ending Stocks

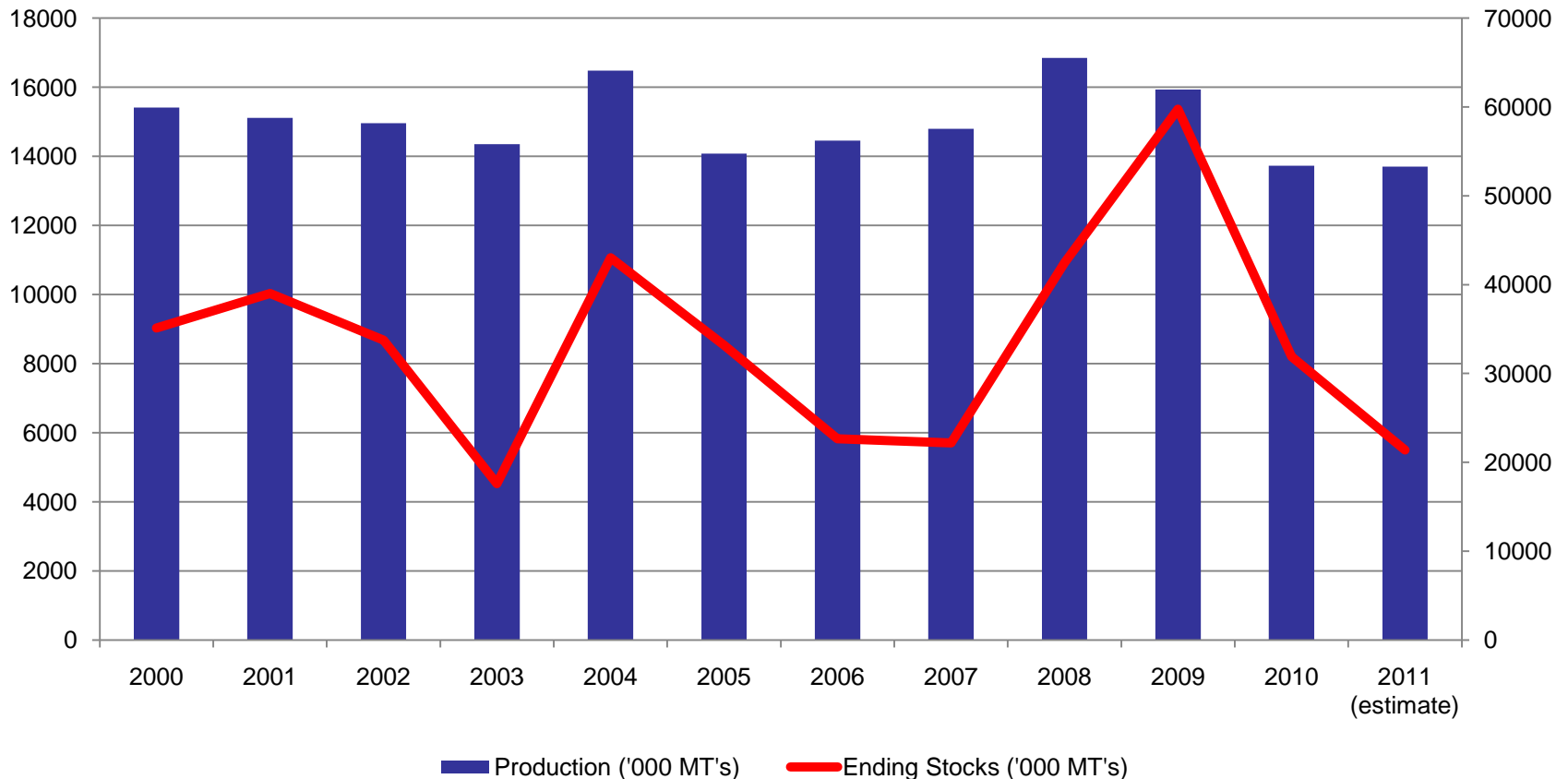


Source: USDA

## EU Barley Production & Ending Stocks

EU 27 S&D

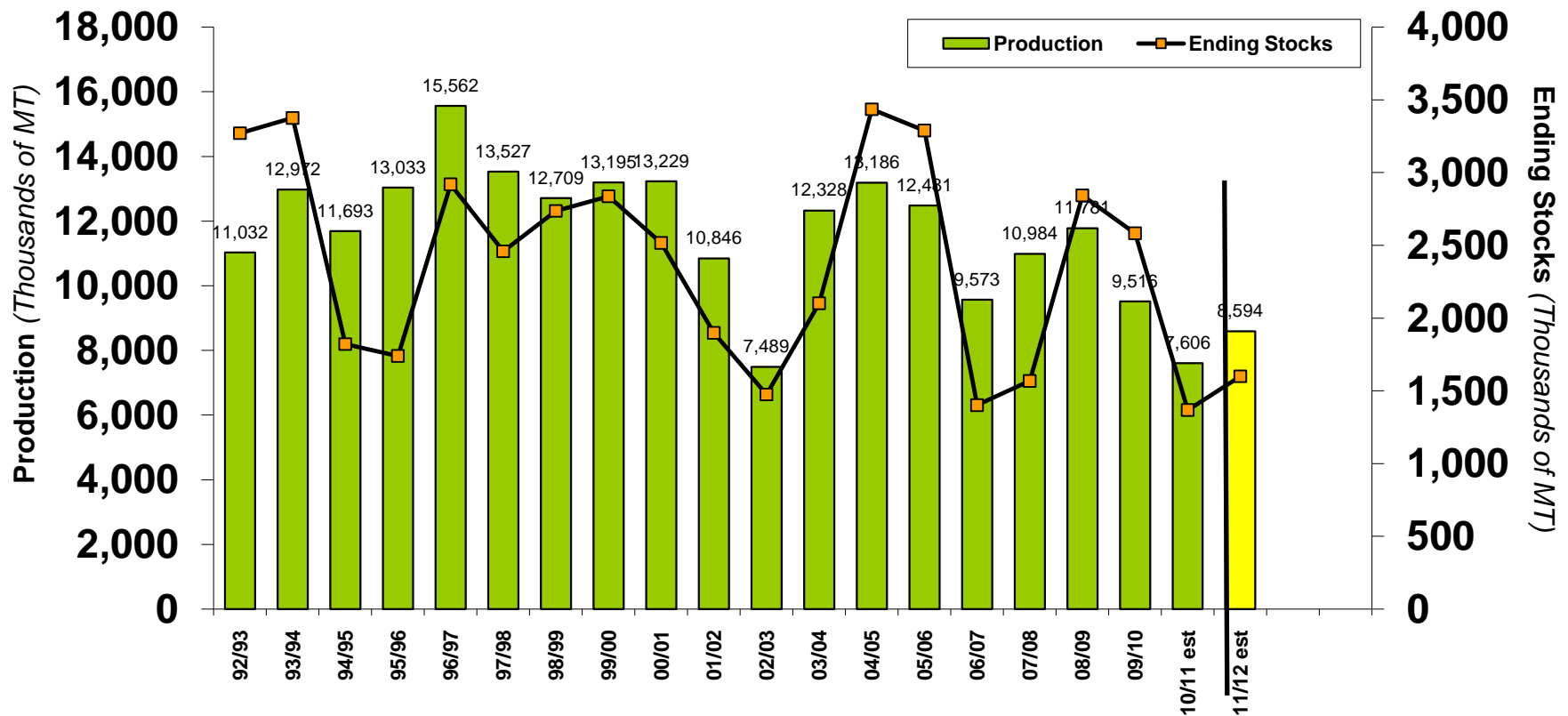
### EU 27 Production and Ending Stocks



Source: USDA

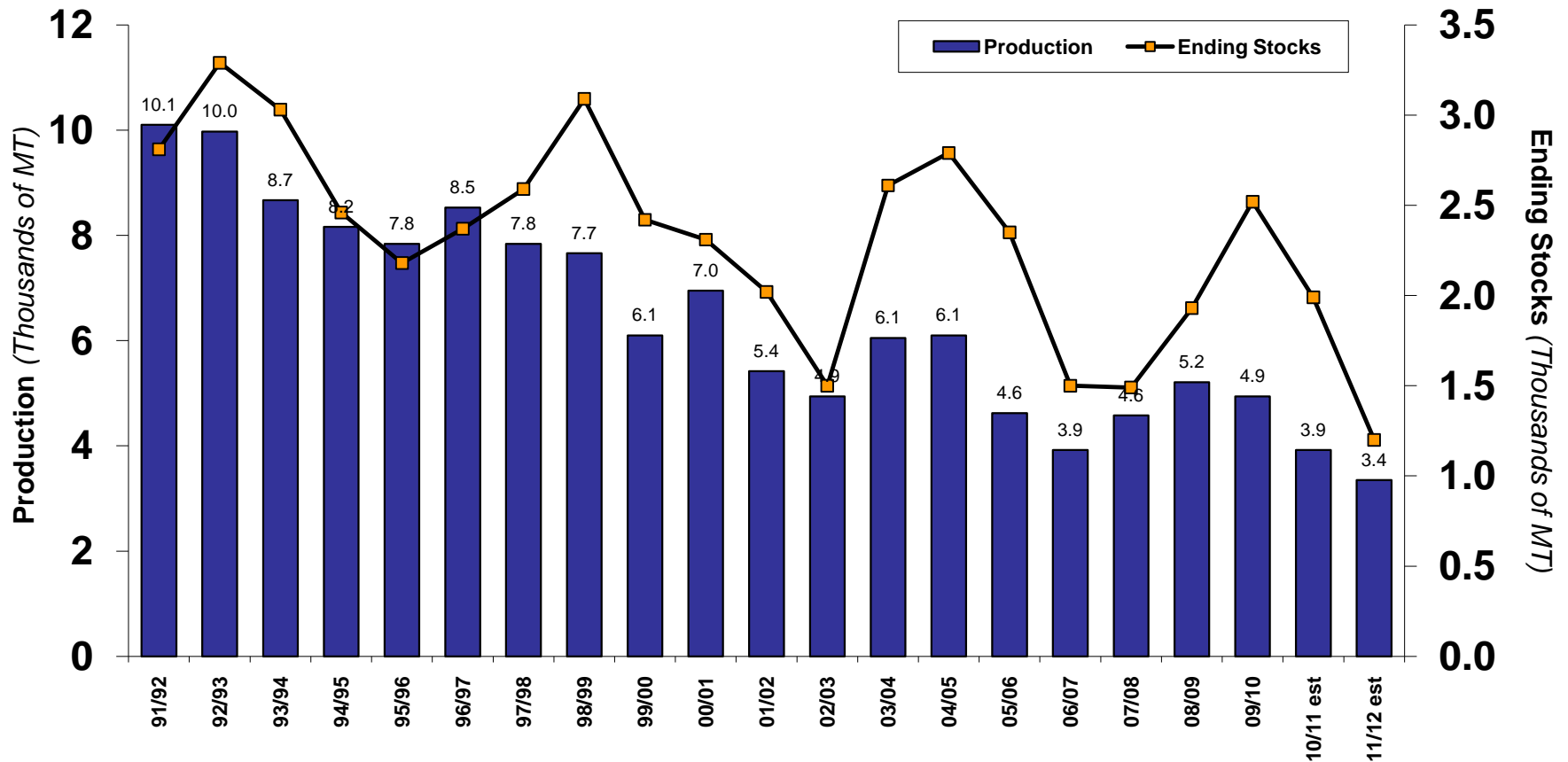
# Canadian Barley Production & Ending Stocks

Canadian S&D



# USA Barley Production & Ending Stocks

USA S&D




## North American Barley

- **U.S. barley carryout down 24 mln bushels from last year**
  - **Canada is coming in with a historically tight carryout**
  - **Acres are expected to down 5-10% this year**
  - **Wet conditions are preventing barley acres from getting planted**
  - **Corn and soybeans continuing to pressure production**
- **Prices are approaching highs set in 2008. If we have further weather issues we could surpass previous record highs.**

## European Barley

- **Tight carryout of 2010-2011 crop**
  - **Values are now over \$440/mt basis Creil**
  - **Worse drought that France has seen in decades**
  - **Continued liquidation of intervention stocks has eliminated safety net**
  - **Little if any barley will be available for export**
- **Europe will likely become a net importer of malting barley this years instead of its traditional role as an exporter. If we have dry conditions for the next month prices will move higher.**

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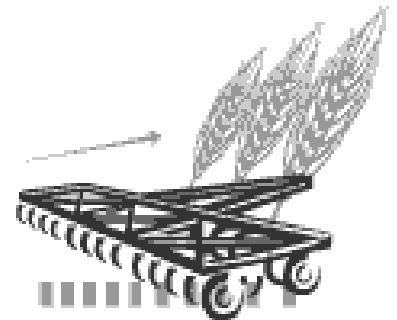
## ***Price Impact due to Tight Barley Supply***

### **Price Volatility**

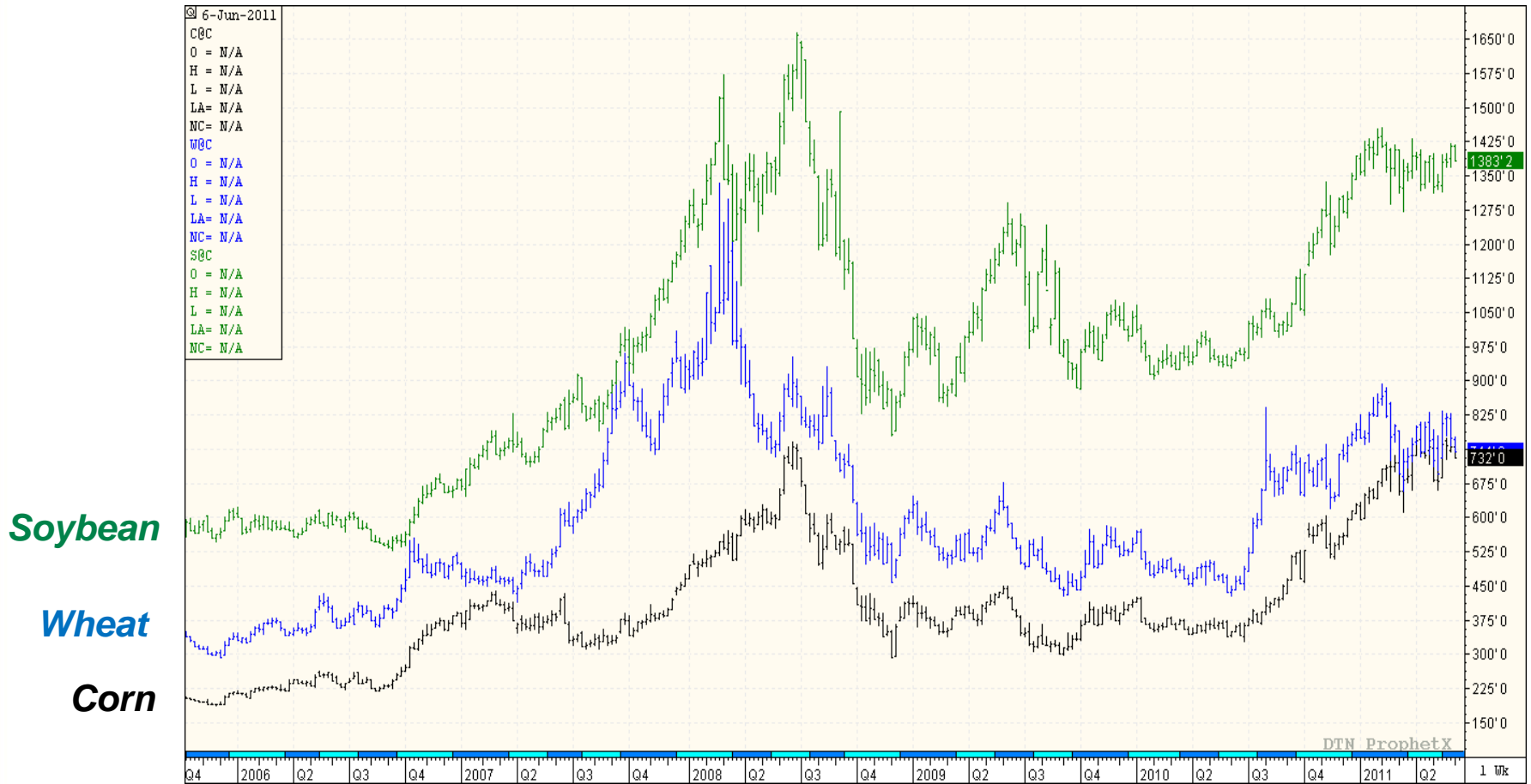
- Impacting all grains (Wheat, corn, soybeans, canola, etc.).
- Massive daily price swings in all commodities
- Daily price limits for some commodities have been increased. The daily wheat limit is now \$0.60.
- Increase fund participation is adding to price volatility

### **For Crop 2011, The Fight For Acres Continues**

- Many profit generating cropping options.
- Corn is battling for acres due to an extremely tight carryout
- Barley acres are under pressure from GMO crops
- Focus has switched to a “Weather Market”

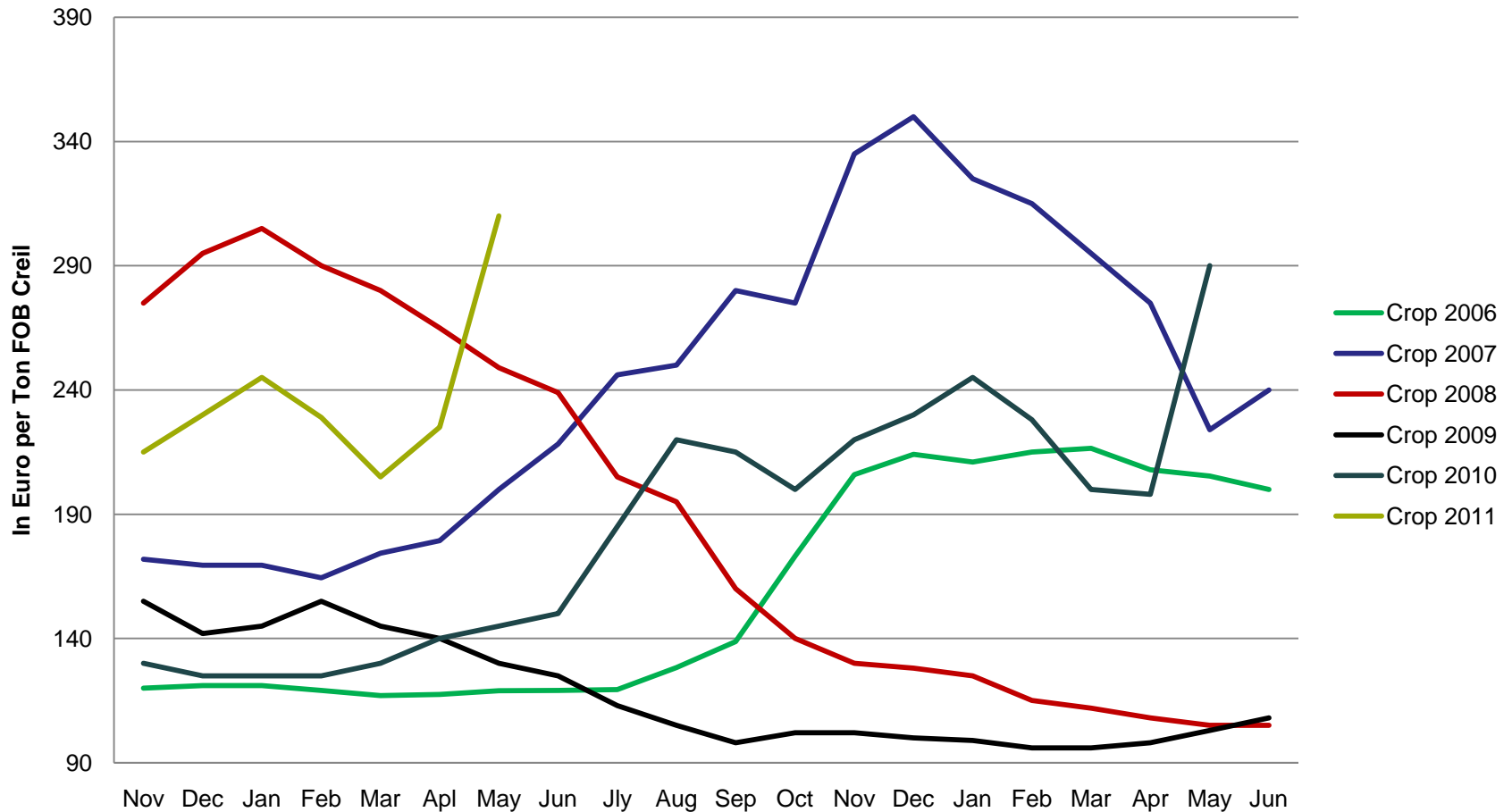


# Volatility



# Price Trend – European 2-Row Spring Malting Barley

## 2 Row Spring Prices



## Price Trend – 2 Row, Basis Vancouver

CWB 2 row Vancouver Value (US\$)



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## ***Fight for Acres***

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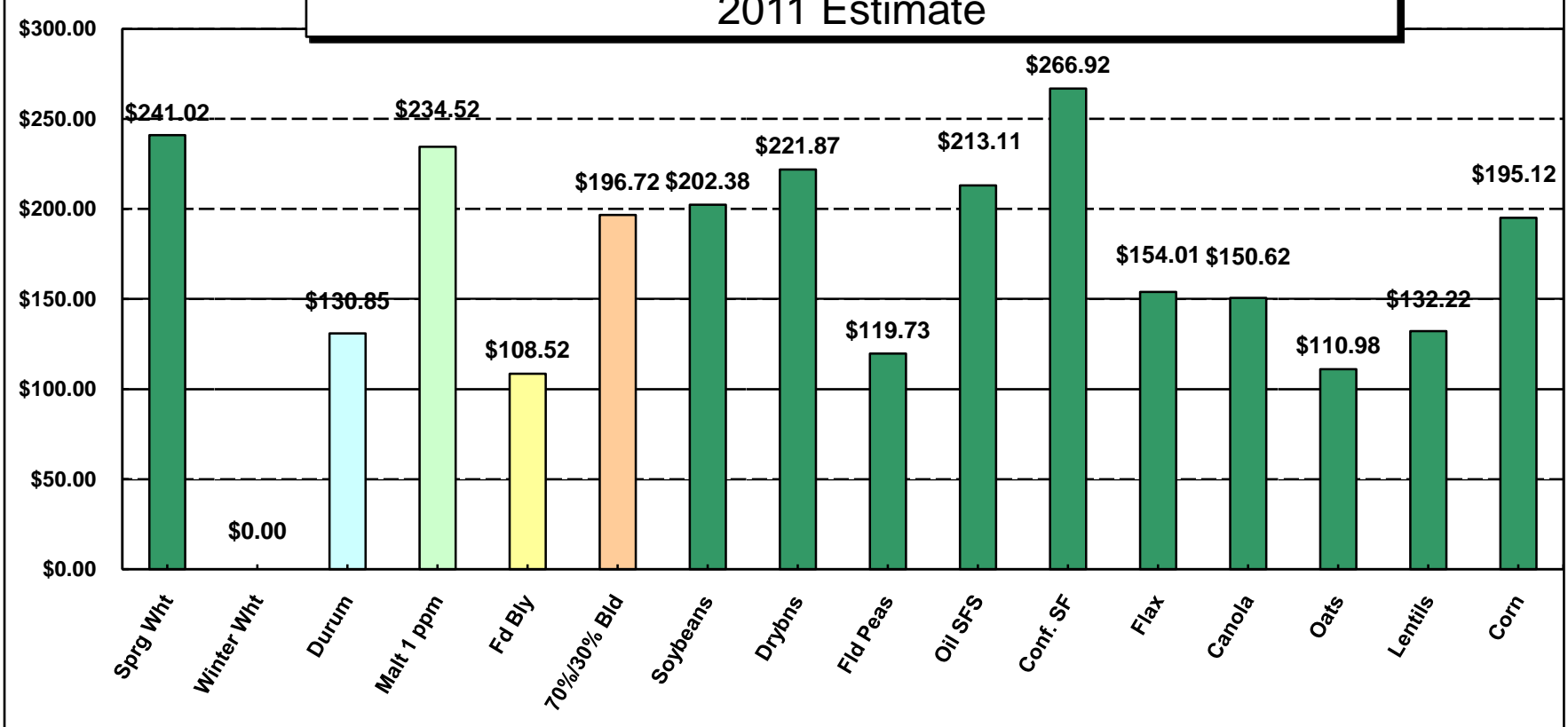
## ***20011/12 Canada Estimated Net Return Per Acre***



Source: Cargill Limited

## 20011/12 North Dakota Estimated Net Return Per Acre

**North Dakota Average Farmer Returns Per Acre**  
**District - North Central (Dryland)**  
 2011 Estimate



Source: Cargill Malt

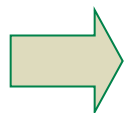
## *Malting Barley over time has become less attractive to Farmers*

**PRICE:** Barley prices relative to other crops have not been as competitive.

**YIELD:** Advances in yields for barley have not kept up with corn and soybeans.

**RISK:** Difficulty in achieving malt barley quality has increased risk of growing barley.

**COMPLEXITY:** Contract growing programs, variety requirements, and reduced marketing outlets, have increased the complexity to the farmer.



*Malting barley does not have a good story to tell!*

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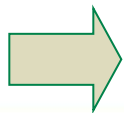
## ***Increased Risks to the Industry***

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## *Risk*

- No way to hedge risk exposure through a viable, liquid barley exchange.
- Complexity (Quality parameters & varietal confusion).
- Risk of non-performance on barley contracts.
  - “Act of God” contracts allow the farmers an out if their crop doesn’t meet quality specifications
- Added Legal fees and expenses to guarantee barley contract performance.
- CWB uncertainty will limit offerings as the barley desk may dissolve



*Malting barley will remain a specialty crop with unique risks.*

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## ***Impacting the Bottom Line***

- Increased costs of barley to replace non-performance of existing barley contracts.
- Increased processing costs – Energy, Labor.
- Increased supply assurance concerns.
- Increased Transportation costs and logistical congestion/delays.



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## ***Outlook & Summary***



## ***Outlook***

- Malting barley prices need to be competitive to competing crops at planting time, and have higher relative prices to feed barley after harvest.
- Together, the Brewing and Malting industry need to make growing malting barley more appealing through increased flexibility, reduced complexity, and improved relationships & programs with farmers.



## *Summary*

- Malting barley and malt stocks are extremely tight.
- Barley supply has been reduced due to some poor crops.
- Barley prices expected to stay higher than they used to be.
- Fewer industry players due to consolidation.
- Price volatility will remain a feature given tight carryouts.
- Potential remains for explosive prices if weather threatens yields.

