



Muntons Malted Ingredients

Winter 2008

Introduction

This Muntons Malted Ingredient (MMI) crop report is intended to be a concise synopsis of the global crop situation with particular emphasis on malting barley, looking at world cereal stocks, demand and the up to date crop position in the major growing regions in the world. We hope that this report will provide insights into the world cereal position and help to increase understanding in the factors affecting the availability, quality and costs of our most important raw materials.

Although the majority of Muntons production output uses quality malting barley as the raw material, we have included some other cereals in this report, which are used in some of the malted ingredients that we supply into the food industry.

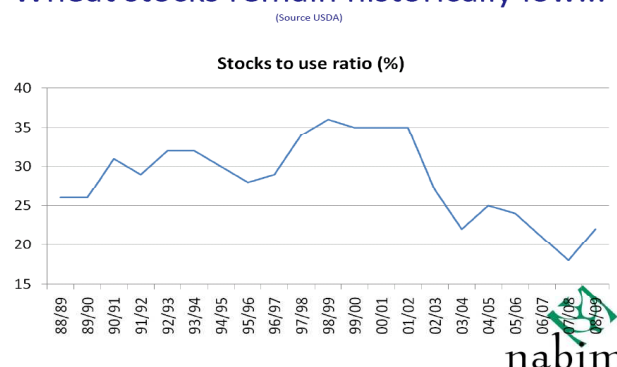
Executive summary

- ◆ World cereal stock remain low in spite of good harvest volumes in 2008
- ◆ Demand for cereals continues to increase
- ◆ UK harvest results split between pre and post August-rain
- ◆ Overall good quality from early harvested crops
- ◆ With low carry over stocks at maltsters, trade conducted at prices higher than last year
- ◆ Crop prices are falling but there is little trade as maltsters are now mainly covered
- ◆ High fertiliser costs and growers drilling decisions likely to impact on cereal prices next year

World stock levels

World cereal stock levels entering the 2008 harvest were at an all time low. Whilst crop volumes following the harvest were good, they have not as yet replenished stocks to levels that can be regarded as adequate or even sufficient. Demand for cereals continues to increase, fuelled by a combination of growing global beer production (currently growing at 3% per annum) mainly in China, South America and India, plus there is increasing use of cereals for ethanol and bio-diesel production. These low world stock levels means that there would need to be a succession of good harvests – not just one good year - to replenish them.

Wheat stocks remain historically low...



2008 Harvest

The UK barley harvest was effectively a game of two halves; divided by a wet August, where pre-rain winter crops were good quality and spring crops harvested after the rains of much poorer quality. Overall however crop yield was high and crop acreage high – certainly when compared with 2007:

TOTAL BARLEY UK ESTIMATES 2008 CROP		
	2007	2008
Area Hectares	885	1,033
Yield Tonnes per Hectare	5.8	6.0
Production Tonnes (Millions)	5.13	6.20
Source: DEFRA		

This table illustrates the latest UK barley estimates for 2008. The yield at 6t/ha is the largest for a decade, driven mainly by a phenomenal performance from winter barley at just under 7t/ha.

Spring barley was good at 5.5t/ha, but badly affected by the wet harvesting weather, particularly from the North and Scotland, where with the exception of the Inverness area, conditions were dire.

Similarly awful conditions were endured in southern England. This resulted in a crop estimated to be 6.2 million tonnes, up 21% on last year.

The comparison with previous years should be made with some caution, for the area sown was 17% higher as set-aside land came back into production and land formerly used for non-cereals came under the drill. This can of course swing back or move into other cereal crops in the future. In this situation and with average yields, we will be struggling to produce 5 million tonnes of barley and be in a shortfall position again.

Malting barley quality overall very good, with lower nitrogen levels from the 2008 crop - the lowest for many years. This suits the distiller and ale producer well, though is less ideal for lager production.

Estimates for barley production in Europe as a whole also show a sharp rise on 2007, again caused by good yields and an increase in area sown.

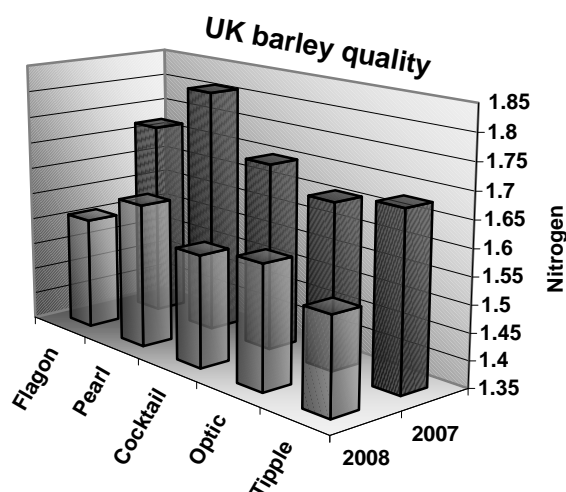
Around Europe conditions were variable, from excellent in France to poor in Denmark. This makes interpretation at this stage somewhat challenging.

Will countries with poorer quality have to import or will they use the grain on their doorsteps in order to avoid the increased cost of transport?

Scotland will almost certainly have to import malting barley. Already a fair quantity has been shipped from England. It is possible the shortfall could be as much as 200,000 tonnes.

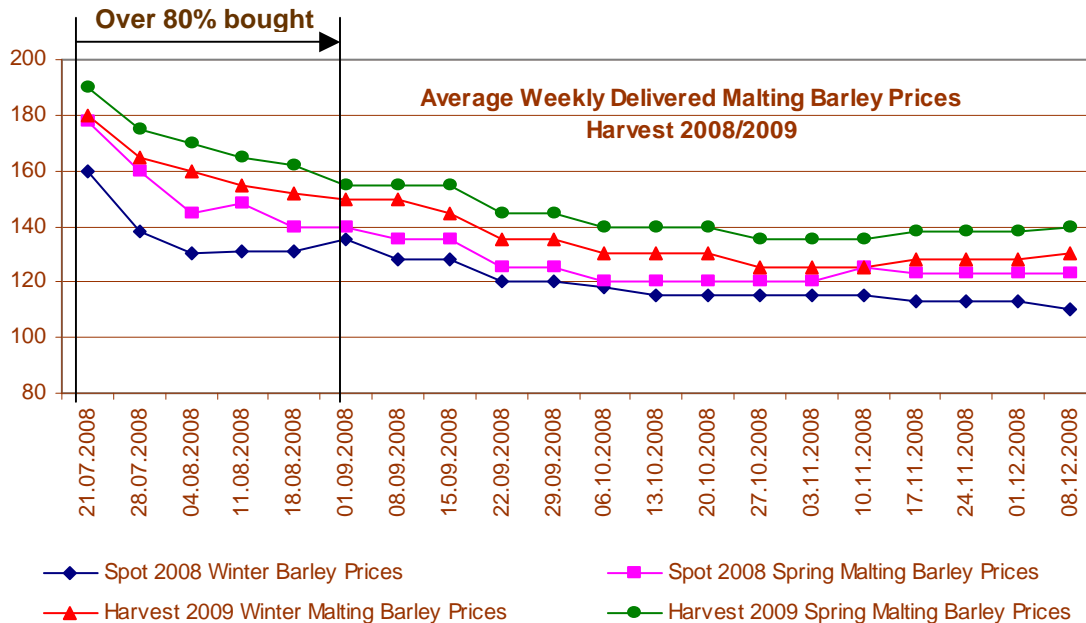
The Maltsters position

The 2007 crop, at double the price of the previous years crop and with quality malting barley in short supply, forced maltsters to buy short – a strategy also adopted by the brewer and distiller. A great deal of malting barley was bought against forward contracts to guarantee availability of supply and as



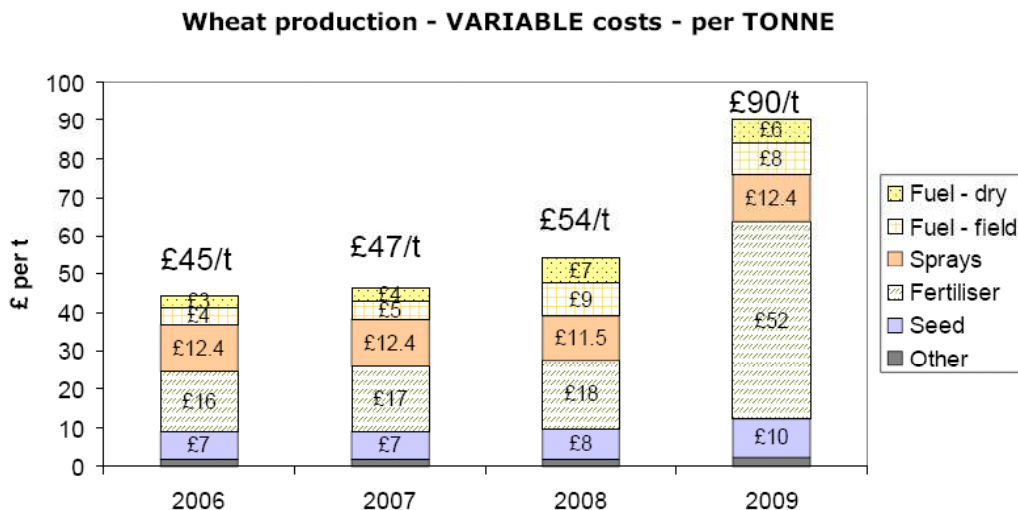
the 2008 crop became available maltsters entered the market early to secure supplies. Pricing at the start of the harvest was high but a great deal of trade was concluded.

Now, as demand has fallen, cereal prices have fallen dramatically – but there are few buyers:



Future prospects

Demand for cereals and oil crops by the bio-fuel industry will increase as Governments continue to roll out popular green policies, which may impact on the type of crop favoured by farmers. Set aside payments have gone and productive land will be brought back into use, increasing potential acreage. But farmer’s costs are increasing dramatically – particularly the cost of fertiliser:



Source: SAC

If farmers are not paid a fair price for the crops they grow, then there could be serious repercussions – dangerous with world crop levels at their current low position. Finally the dramatic currency changes that have occurred recently between the GBP and the Euro will impact on the UK ex farm price of cereals.