



CIATTI

GLOBAL WINE & GRAPE BROKERS

GLOBAL MARKET UPDATE – AUGUST 2014 VOLUME 5 ISSUE NO. 8

With tanks full around the world, we decided to offer a brief respite from the detailed version of the Ciatti Global Market Update. If you are reading this in the Southern Hemisphere we hope you are settling in for a nice winter as the wines finish and ready themselves for sale. If you reside in the Northern Hemisphere we hope that you are well rested from your summer vacations and ready for an eventful harvest season.

In the following pages, we hope that our direct and to the point, albeit abbreviated country comments will offer you some quick insight into the market as we see it today. As an added bonus however, Greg Magill has taken this opportunity to do a country by country round up of the World of Concentrate.

We would like to thank you all for being loyal readers, and will bring you a full and detailed report in September.



ARGENTINA

As mentioned throughout the last year, the Argentine economy has continually struggled. This is a consequence of the poor performance of the Government and the lack of knowledge of the President and her team. This has had a significant impact on the entire wine industry, affecting international market conditions. The outcome remains to be seen, as everyone waits expectantly.

In the meantime, authorities continue to analyze alternatives, such as subsidiaries for export or distillation, in order to remove significant volumes from the current stock of low quality generic white wines. These wines have not moved since the beginning of the year and show no positive results, due to the lack of funds. As a consequence, financial and economic problems are expected to continue for the majority of wineries.

AUSTRALIA

Demand is strong for premium regional material, as many buyers are looking for quality parcels from the Barossa, Adelaide Hills and McLaren Vale. Enquiries for vintage 2014 are slowly on the rise as buyers look ahead for future stock.

Australia's current total wine exports by volume have declined by 2% to 684 million liters and a value of AUD \$1.78 million. The export of bulk wine has increased in volume as we continue to see a shift towards packaging these goods in their destination country. These figures have risen by 4% to 392 million liters, an export mix of 58%, whereas the volume of bottled goods have declined by 10% to 285 million liters. The overall average price of exports has declined slightly, now valued at AUD \$2.60/L. Bottled goods have increased in price to \$4.77/L with bulk also on the rise at \$1.02/L. The 6% increase in bottled goods value is a reflection of the lower priced wines now being shipped out as bulk goods.

Source: Australian Grape & Wine Authority: WEAR Report June 2014.

NEW ZEALAND

Demand for Marlborough Sauvignon Blanc remains strong, as international buyers continue to express interest in the popular New Zealand white wine. Large crush figures have been released from *New Zealand Winegrowers* at 445,000 tonnes for New Zealand as a whole (330,000 tonnes for Marlborough). Prices range broadly with good availability of surplus now obtainable. Getting the style requirement is the biggest hurdle.

CALIFORNIA

After the large 2012 and 2013 harvests, many were speculating that California grapevines would take a break and give a lower yield in 2014. Harvest has now begun in the Southern San Joaquin Valley and the harvest looks reasonable at this point. Some grape varieties are showing moderate yields, but it is VERY early to make any sort of predictions just yet. California wineries that offer storage contracts had a brisk season, and there is virtually no space available as the crop starts coming off the vine. While the Central Valley may offer a slight respite from the past large harvests, the Coastal regions still look very good in terms of yield. Both the Central Valley and the Coast are showing excellent quality, with limited disease pressure in any area. Although the 2014 harvest looks very promising at this point, the drought remains top of mind as growers look to 2015 and beyond.

CHILE

The 2014 Crop Report has been released, with a total volume of 989,627,210 liters, down 22.8% from the previous year (1,282,095,225 liters). Wines with Designated Origin (DO) accounted for 840,964,940 liters, of which 71.1% were red and 28.9% white wines. The total wines with Designated Origin by varietal were: 35.6% Cabernet Sauvignon, 14% Sauvignon Blanc, 11.8% Merlot, 7.9% Syrah, 7.4% Carmenere and 6.9% Chardonnay.

Volume per variety compared 2014 vs. 2013 :

- Chardonnay – 38%
- Pinot Noir – 24%
- Syrah – 16%
- Carmenere – 35%
- Merlot – 22.5%
- Pais / Mission – 14%
- Sauvignon Blanc – 26.3%
- Cabernet Sauvignon – 19.3%

For the first time in history, Chile became the fourth largest exporter of wine in 2013 (in US\$): 1st France; 2nd Italy; 3rd Spain; 4th Chile; followed by Australia, USA, Germany, New Zealand, Portugal, Argentina and South Africa.

Export Figures remain fairly stable and are similar to last month. Bottled wines are up 3.5% compared to the same period last year (January – June). Bulk export are down 24% to 179 million liters, compared to 235 million liters in the same period last year. Total exports are down 11.24% compared to last year, at 401 million liters (452 million liters last year).

FRANCE

The latest crop size estimates (end of July) are announcing a total crop of 46.40 million hectoliters. This is a 9.5% increase in volume compared to the small 2013 vintage, but is in-line with the 5-year production average. However, the situation differs from region to region. Languedoc will have a smaller 2014 crop (12.6 million hectoliters vs. 13.6 MhL in 2013), due to hailstorms and drought. This could potentially lead to a fast buying campaign start for varietal wines. Most of the renown AOP producing regions such as Cotes du Rhone, Loire and Bordeaux (which will produce 50% more than last year with 5.63 MhL vs. 3.84 MhL in 2013) should register a bigger crop compared to last year. This will allow producers and negociants to re-build a naturally needed carry over stock, thus helping to soften the market in terms of price and inventory. Market pricing overall should be at a mid-buying campaign level, but certainly slightly higher than 2013.

GERMANY

July was another warm month in Germany, with enough rain and no hail or storm damage in the vineyards. Harvest expectations are even better than initial reports and the crop is looking very good in terms of quality and volume. The fact that the crop volume could be larger than average, is brightening the mood of the market. The last remaining lots of inventory have been released for sale, and buyers are expecting a slight decrease in pricing and better volume availability after the 2014 crop.

ITALY

The situation in Italy remains similar to last month. Regular rainfalls in the north are affecting grape ripening, which could move the start of harvest forward for white varietals (Pinot Grigio, Chardonnay, Prosecco varietals) to avoid grape rot. Consequently, alcohol levels are expected to be lower than usual. Rainfall is also being experienced in southern Italy (Puglia, Abruzzo) at a lower level, and could be a real concern in terms of alcohol potential for the region. In terms of market activity, pre-harvest conditions are causing an upward price trend for Rossissimo and 14% alcohol red blends. On the other hand, however, market pricing for other segments is uncertain and could be down compared to estimates made in recent months.

SPAIN

Harvest is about to start in Spain and producers are struck with the biggest market uncertainty that they have experienced in many years. The government is now trying to implement legislation that will force producers (both independent and Cooperatives) to bring part of their carry-over stock (up to 4 million hectoliters) to distilleries. Producers would have to do so at their own cost, without compensation (selection criteria based on yielding excess and stock at the 31st of July). Most producer associations are battling against this plan of action. Meanwhile, harvest looks to be promising in terms of volume and quality, causing growers to find needed space in their cellars and sell at very competitive prices with good opportunities. It is believed that pricing for the 2014 vintage should be similar or slightly higher than market prices today.

SOUTH AFRICA

The market is quiet in South Africa. All 2014 vintage wines, including reds, are through final preparation, but with summer vacations in full swing in South Africa's priority markets in the Northern Hemisphere UK, European and North America, shipments of wine are at a low, and suppliers are anxious for this to turn around from end-August. As a result, smaller parcels of white varietals, especially Chenin Blanc and even generic white are now coming available, which were previously reserved for regular clients. All red varietals are available, with larger parcels of Pinotage and generic red being offered than others. Normal cold and wet winter conditions prevail and producers are hoping that this bodes well for a continued normal season and another good crop for 2015. The ZARand currency remains stable, with only minor fluctuations against the large currencies.

CONCENTRATE

Generic White Grape Juice Concentrate

Argentina

Prices continue to soften as older 2013 stock WGJC still needs to find a home in the food and beverage marketplace. With the current political and economic unrest, and inflation rates which continue to pound the economy, a sense of desperation has begun to loom over many in the GJC industry in Argentina. There have been offers for landed product in the United States far below sustainable costs of manufacturing, as processors are in desperate need of currency to keep their facilities afloat.

Unfortunately, there have been reports of more concentrate processors shutting their doors, as they can no longer afford to stay in business. This is a very difficult time for Argentina.

Spain

As more new plantings of generic grapes have come onto the market, and the weak economy is keeping pricing low, Spain has re-gained a large European and Eastern Block market share back from Argentina. Unfortunately for Argentina, the upcoming harvest in Spain, along with some carryover from last year's crop, will keep pricing in check. The obvious advantage here is not having to ship product half-way around the world, setting up Spain to be very competitive. Having said this, the Spanish economy is not fairing much better than Argentina and constant concerns of currency devaluation and high inflation rates are still making day-to-day operations difficult in Spain.

USA

The generic grape crop for concentrate could be 20-25% shorter than last year's crop. Demand for domestic WGJC has waned over last year, mainly due to the lack of demand from both the wine and food and beverage industries. Raisin demand, however, has been rock solid - if a farmer can lay his crop down, he most certainly will. While pricing for the 2014 generic grape crop has yet to be established, both domestic and international carry-over stocks will keep downward pressure on this market. The problem being witnessed is that the high cost of domestic farming and severe lack of water and lower yields helped along by this drought, will cause more acres to be ripped from the ground after this harvest. Several farmers are lining up to continue the pullouts, in favor of saving and/or replanting for more economically sustainable crops in the valley.

Red Grape Juice Concentrate

Chile

Chile has carry-over stocks of RGJC, and at very favorable pricing. Chile, however, is being faced with an issue typical of the Tintorera grape used to make RGJC. It is becoming more and more difficult to maintain consistent color as the product ages. Processors in need of hi-colored RGJC are somewhat reluctant to secure larger volumes needed to balance the inventory.

Spain

Spain is seeing a very similar issue in terms of the lack of color in their carryover stocks, but with the new crop coming soon, darker colors are expected in the near future.

USA

There are mix reports regarding the Rubi Red crop at this time. Some are saying that the crop looks large, while others are taking a much more cautious approach, as the crop has yet to show size or color potential, due to severe drought conditions. The amount of water and quality of water available to the farmers is an important factor. An estimated 90% + of this crop is committed to long-term planting contracts, so price fluctuations are not expected.



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