



Global Market Report

August 2018
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**Ciatti Global Wine
& Grape Brokers**

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Two recurring themes in this month's report are the relatively muted levels of activity in the marketplace and the lack of precipitation around the world. Rain is falling hardly anywhere pertinent to the wine industry: Australia is in drought, July in the Western Cape was drier than hoped, Argentina and Chile are both experiencing drier than normal winters, while Europe and California's south Central Valley have been suffering from a prolonged, intense heatwave. When precipitation has come to France and Italy's growing areas it has often been as less than welcome thunder or hail storms.

That said, although it's premature to be fully confident, the European harvests still look to be returning to more normal sizes after short crops in 2017, with drought not an issue after wet winters. Spain's harvest is still expected to be comfortably larger than last year's; prices on remaining 2017 generics are thus softening there, which in turn is putting downward pressure on the entry-level material in Chile. Another squeeze on Chile's prices is the highly competitive pricing in neighbouring Argentina. Buyers, then, perceive the direction of travel – globally speaking – as towards lower prices and a more normal-looking marketplace in the months to come, so are holding off. They are not convinced of this, they are uncertain – and uncertainty is the enemy of action.

Of course, the picture is not uniform: Australia's entry-level red market remains hot, for example, while Chile's good quality wines came in at 1.05 billion litres after two short years, so availability on those is perhaps not as plentiful as the headline 1.28 billion litre figure might suggest. Prices on Spain's limited volumes of international varietal wines will be robust, though not as much as last year's vintage and the pre-harvest deals that have been made reflect that.

The **grape juice concentrate** could be said to be softening, globally-speaking: Argentina's GJC is down at USD1,100 per metric ton, not much above cost price, while Spain's GJC prices should fall off the back of the bigger grape harvest this time. California's competitive on red GJC; white is far tighter. The 2018 grape growing season in California's south Central Valley, meanwhile, has been running smoothly for 3-4 months now and there remains the expectation of a quality, average-sized harvest. There's still plenty of time for Mother Nature to intervene, however, so it's a case of waiting to see where we are next month. A reminder that if you would like more information on the Californian market – which can offer international buyers good quality wine in stably-priced, long-term contracts – you can find it in Ciatti's monthly *California Report*.

Robert Selby

California

Time on target



HARVEST WATCH: *On course for average-sized in the south Central Valley*

July and early August brought prolonged and intense heat to California's south Central Valley, with Fresno for example experiencing a record 30 consecutive days of 100°F+ temperatures, beating the previous record by nine days. The heat slowed the growth cycle in the south Valley vineyards, seemingly bringing it into line with a more 'normal' timetable after a cooler than average start to summer, and may have retarded maturity and sizing a little. That said, heat damage does not appear significant and – overall – the growing season over the past 3-4 months has probably been one of the smoothest in recent years.

In the south Valley some early crushing is underway. With no maladies or disease pressure, quality projections in this part of California look better than average. Last month's state-wide harvest estimate from Allied Grape Growers, of 4.25 million tons, remains unchanged. There has been some discussion around the potential smoke effects from California's wildfires: Ciatti's thoughts are with those affected by the fires and the fire crews battling them.

California's bulk wine market is cautious, with both buyers and sellers waiting to see how the harvest fares. There is as yet no indication that the state's exporters are about to reduce their offer prices in order to help clear tank space ahead of the new crush. Storage capacity is not as problematic as one might have envisaged considering the slow market, thanks in part to some big players providing spare capacity. If the harvest becomes compacted due to heat, however, there could be some logistical headaches.

Due to higher prices around the world, bulk wine imports into the US have decreased dramatically in 2018, to the benefit of south Valley bulk suppliers.

However, Ciatti does not necessarily expect this situation to continue: with prices now softening in international markets – such as in Argentina and Chile (*please see their respective pages*) – sourcing from these is likely to get back underway sometime in the fourth quarter of this year. This could place some downward price pressure on the south Valley's entry-level inventory, particularly as exports of it – mainly due to Brexit hitting UK demand – have slowed. That said, there is a feeling that international buyers will be – or are already being – wooed back to California by its ability to offer stably-priced, good quality wines on secure, long-term contracts.

Diving into the south Valley's market by varietal, we see that – in general – whites are in more demand than reds. The dry white, Chardonnay and Sauvignon Blanc markets are firm, Pinot Grigio stable; the Merlot market is stable, while the dry red, Cabernet and red Zinfandel markets are long. The healthy availability of Cabernet is not something confined to the Valley: it feels like for international buyers there may be some opportunities approaching on Central Coast Cabernet, as well as on other reds from this appellation. In addition, it seems likely there will be some good quality Washington State bulk red – such as Cabernet and Merlot – that will be attractively-priced for international buyers, potentially on multi-year deals.

On the **grape juice concentrate** market, California's white GJC remains tight and will continue to be so. The raisin market is as strong as it's ever been from a dollars-per-ton perspective, resulting from a strong Thomson seedless and generic grape price in the state. Californian white GJC will thus cost significantly more than Argentina's. California's red GJC market, however, is far less tight and more competitively priced.

To find out more about California's bulk wine market you can read Ciatti's monthly *California Report*.

See next page for more on California.

Key Takeaways

Aside from south Central Valley product, for international buyers there are potential opportunities on Central Coast Cabernet and other reds from this appellation, and on good quality Washington State reds. The coming south Valley crop is projected to be of good size and of above-average quality. California is able to offer stably-priced, good quality wines on long-term contracts, and is competitively-priced on red GJC.

Ciatti Contacts

Import/Export

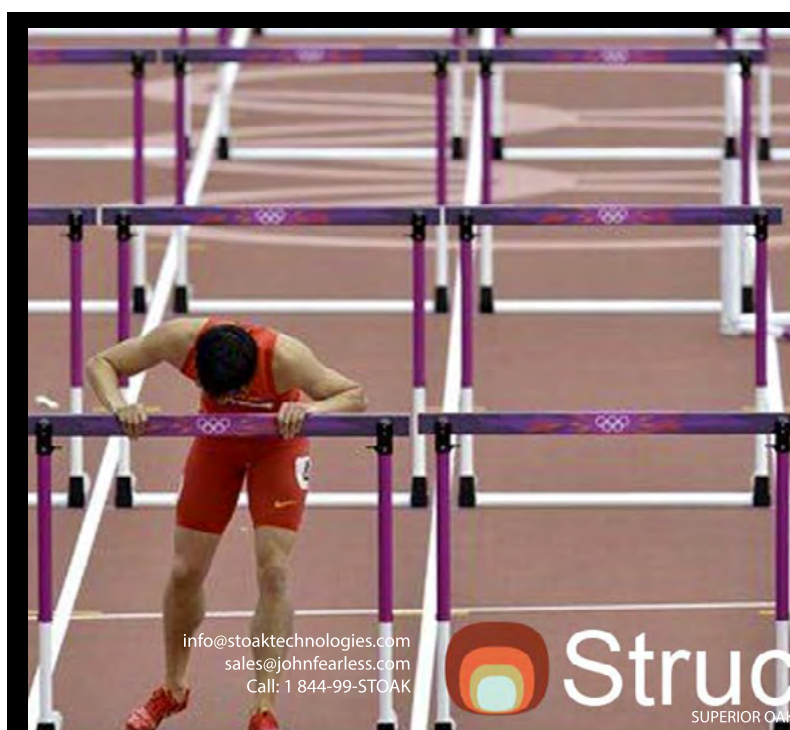
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California: Current Export Market Pricing (USD per liter)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2017	Generic White	0.85 – 0.99	↔	2017	Generic Red	0.85 – 1.05	↔
2017	Chardonnay	1.32 – 1.98	↑	2016/17	Cabernet Sauvignon	1.32 – 1.85	↓
2017	Pinot Grigio	1.19 – 1.72	↔	2017	Merlot	1.18 – 1.58	↔
2017	Muscat	1.12 – 1.45	↔	2017	Pinot Noir	1.59 – 2.11	↓
2017	White Zinfandel	0.83 – 0.99	↔	2017	Syrah	1.10 – 1.58	↔
2017	Colombard	0.86 – 1.12	↔	2017	Ruby Cabernet	0.95 – 1.05	↔
				2016/17	Zinfandel	1.18 – 1.85	↔



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Argentina

Time on target



HARVEST WATCH: *2.55 million metric tons; quality excellent*

Spring is on the horizon in Argentina's growing areas: temperatures are rising day by day, sometimes to as high as 18-20°C, and night-time temperatures are now above freezing. The second half of July was drier than normal, with less snow put down in the mountains – it is hoped August brings more snowfall to the Andes.

Argentina's bulk wine market is seeing a steady rate of export business; the domestic market remains quiet. There is interest in Argentinian bulk from regular and new international buyers. Some significant purchases have been carried out, but big buyers are mainly covering only their short-term needs while they wait to see how the Northern Hemisphere harvests fare. Quoted offer prices are largely consistent with last month but they are potentially open to negotiation, particularly on big volumes. There is interest in Argentina's dry red, which is one of the world's most competitively priced at approximately USD0.50/litre.

This wine is from the new, 2018 vintage (2017 having been a very short year and long sold out) and is of excellent colour and fruit, alcohol levels, and all-round quality.

Argentina's **grape juice concentrate** price also remains in-line with last month, at USD1,100/MT. The country's GJC market is calm but the price is unlikely to fall further as it is nearing cost price. It could begin rising again if the coming 2018 GJC output in California and Spain is shorter than expected, so now is a good time to take a position.

Also consistent with last month is the exchange rate, at 28 pesos to the dollar. A large devaluation similar to that seen in May/June – when the peso dropped from 22 pesos to its present level – is not expected imminently. However, economists believe the peso could be at 30+ to the dollar by the end of this year. This would have a downward pressure on Argentinian bulk prices from a dollar point of view (which could be exacerbated should the Northern Hemisphere have healthy crops). An upward pressure is the rising input costs that Argentinian suppliers are facing: electricity and gasoline prices are rising sharply, while inflation is at 30%+ and out of control.

Key Takeaways

Prices have stabilised in Argentina following a period of decline; international buyers are present, covering short-term needs while they wait to assess the Northern Hemisphere crop situation. Argentina can offer attractively-priced wines of excellent quality – dry reds and whites, and varietals – in good volumes. GJC buyers are recommended to take a position as the Argentinian price is unlikely to fall further but could rise depending on how the Californian and Spanish harvests come in.

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See next page for pricing.

Argentina: Current Market Pricing (USD per liter; FCA Winery)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2018	Generic White (Basic)	0.35 – 0.37	↓	2018	Generic Red	0.50 – 0.55	↓
2018	Generic White (Standard)	0.38 – 0.42	↓	2018	Cabernet Sauvignon	0.80 – 0.90	↓
2018	Muscat	0.45 – 0.50	↓	2018	Merlot	0.75 – 0.85	↓
2018	Torrontes	0.55 – 0.60	↓	2018	Syrah	0.70 – 0.80	↓
2018	Sauvignon Blanc	0.70 – 0.80	↓	2018	Malbec Standard	1.05 – 1.15	↓
2018	Chardonnay	0.80 – 0.90	↓	2018	Malbec Premium	1.20 – 1.50	↓
2018	Bonarda	0.60 – 0.70	↓	2018	Malbec High End	1.70 – 2.20	↓
2018	Tempranillo	0.60 – 0.70	↓				

Chile

Time on target



HARVEST WATCH: *1.05 billion litres of wine with designation of origin*

Chile's winter has continued to be dry with rain and snowfall levels well below normal. Intermittent snow on the ski slopes gives the appearance of a good covering but the layer is thin and soon melts. Aggregate rainfall in 2018 has so far been 54% below normal in Santiago (in the Maipo Valley), 43% below in Curicó (in the heart of the Valle Central), and 49% below in Chillán (in the Itata Valley). Some are forecasting that the rain has been delayed and will arrive in September – as part of an El Niño front.

Chile's Ministry of Agriculture has published its wine harvest report: the headline figure is a total 2018 crush of 1,289,896,982 litres, 35.9% up on the previous year thanks to conducive weather and water stocks. This 1.28 billion litre figure is at the upper end of forecasts but – diving deeper – wines with designation come in at 1.05 billion litres (+30.8% on 2017). Of the rest, nearly 11% of

the declared total is wines without designation of origin (135.8 million litres, +23.2%) and nearly 8% of the total is Vinos de Mesa (table wine; 101.2 million litres, +199.3%).

This is consistent with what Ciatti has been stating: that this year can be defined as having two wine qualities, with the 1.05 billion litres of good quality, designation of origin wines being of predominant interest to Ciatti and our clients. In addition, when it is taken into account that the return to a more normal-sized Chilean harvest in 2018 came after two shorter years, market prices for Chile's good quality bulk wines have been standing firm because availability of these still does not surpass demand. A lot of 2018 wines have already been contracted and that's where the quality is: those buyers who have contracted will receive the best quality wines and in the quantities they require. Prices on the best quality wines are not budging – if there is any change, it is due to the peso-dollar exchange rate: the Chilean peso was at 653.98 to the US dollar at the time of writing on Monday 13 August, weakening from

See next page for more on Chile.

645.95 the preceding Friday. The exchange rate average for July was 652.41 pesos to the dollar, weakening from 636.15 in June.

The lower quality wines, meanwhile, will struggle to find a home at prices the suppliers would like, given significantly reduced pricing in Argentina (which is applying downward pressure on Chile's own pricing) and the expectation of a more normal-sized Spanish crop this year. The bulk market in Chile is not frenzied: buyers are being judicious in what they buy quality-wise, and buying in small increments. The trend is thus for a softening of prices on entry-level wines.

Regarding production by variety, the Ministry of Agriculture's report shows that Cabernet continued to be well out in front in 2018, coming in at 302 million litres, up 28.7% on 2017. Sauvignon Blanc, meanwhile, cemented its relatively recent position as Chile's second most-produced varietal, coming in at 146.7 million litres – up 13.9% on 2017 and some 15 million litres ahead of Merlot with 132.4 million litres (+12.6%). The trend is for increased Sauvignon Blanc demand, and output is growing to meet it. Chardonnay was fourth, with 101 million litres (+9.6%). Vine stocks show growing of Sauvignon Vert, Semillon and Viognier is disappearing; Syrah cultivation is stable, with the varietal mainly being used as a high quality blender.

One varietal undergoing something of a positive image change is Pais. A traditional grape once over-exploited as a red blender, it is now being rediscovered as a quality wine to meet the trend for lighter, easier-

drinking reds. Pais is being nurtured by a handful of producers who grow it in far less quantities (35.5 million litres in 2018) using traditional methods on pockets of land where its best attributes can flourish. It is becoming a fashionable varietal to have on a wine label and some of its case prices – reaching USD120 FOB – now put it at the higher-end of Chile's offer.

Chile's January to June bulk export figures show a 18.76% decline on the equivalent period of 2017 (see below). This is off the back of a low inventory year in 2017 and the resultant higher prices; the value of bulk exports increased in the period by USD3.5 million to USD163.6 million.

Key Takeaways

Prices are softening on entry-level wines due to less than frenzied demand for that quality level. Chile's good quality wine output in 2018 rebounded after two short years but it represented perhaps 80% of the total headline figure, meaning those who contracted early were right to secure quality wines and in the volumes they required. Those buyers needing these wines and yet to do so should move soon as volume of quality wines will only reduce.

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Chile: Current Market Pricing (Pricing in bulk; FOB Chilean Port)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
NV	Generic White	0.60 – 0.65	↓	NV	Generic Red	0.65 – 0.80	↓
2018	Chardonnay	0.95 – 1.05	↓	2018	Cabernet Sauvignon (Basic)	0.90 – 1.05	↓
2018	Sauvignon Blanc	0.98 – 1.10	↓	2018	Cabernet Sauvignon (Varietal Plus)	1.20 – 1.35	↓
2018	Syrah	0.90 – 1.05	↓	2018	Merlot	0.95 – 1.05	↓
2018	Carmenere	0.95 – 1.20	↓	2018	Malbec (Basic)	1.10 – 1.25	↔
2018	Pinot Noir	1.15 – 1.25	↔	2018	Malbec (Varietal Plus)	1.50 – 2.00	↔

See next page for more on Chile.

Chilean Export Figures

Wine Export Figures	January 2016 - June 2017			January 2017 - June 2018			Volume
	Million Liters	Million US\$ FOB	Average Price	Million Liters	Million US\$ FOB	Average Price	Variance %
Bottled	235,60	715,75	3,04	234,35	749,90	3,20	-0,53
Bulk	199,88	160,14	0,80	162,38	163,63	1,01	-18,76
Sparkling Wines	2,07	8,46	4,09	1,61	7,19	4,46	-22,10
Packed Wines	13,50	23,10	1,71	11,74	22,11	1,88	-13,05
Total	451,05	907,46	2,41	410,09	942,83	2,64	-9,08

France

Time on target



HARVEST WATCH: *Pre-heatwave estimate: +7% on five-year average*

As across Europe, the second half of July and early August brought intense heat to France. July was one of the hottest months in the country since the notorious 2003 heatwave. Languedoc, Côte du Rhône and Provence experienced temperatures from 32°C to 35°C, with peaks of 40°C inland away from the coastal influence; eastern regions also experienced above-average temperatures. The heat has ensured the vineyards have caught up in their growing cycle and are now 2-3 weeks ahead of where they would normally be; 2018 could be one of the earliest vintages.

Drought is not an issue as the abundant winter rainfalls fully replenished groundwater stocks; as of 1 July, reserves were above the thirty-year average. The hot, dry conditions brought mildew back under control in most regions, especially in eastern areas such as Burgundy, Champagne and Alsace, and to a lesser extent in the previously worst-affected areas – the Loire Valley, Bordeaux, Languedoc, Côte du Rhône and Provence. Mildew's impact on the crop is potentially significant in some areas but varies widely from plot to

plot. The high temperatures bring with them a risk of hail or thunderstorms, and they have been in evidence in some areas, including the Limoux area of the Languedoc.

On 13 July Agreste published its latest estimate for the coming 2018 harvest: 46-48 million hectolitres, up 27% on 2017's short crop and up 7% versus the five-year average. Although it cautioned that mildew pressure had been "extremely strong since spring, causing losses" it added that the situation in the major part of vineyards remains favourable with "plenty of big grapes". Blooming and initial berry formation went smoothly, though there was some fall of flowers or young berries in the southwest, southeast and Corsica.

It should be noted that the Agreste report pre-dates the intense, protracted heatwave that Europe suffered in the second half of July into early August. The report is thus indicative only, with the subsequent heat raising some doubts as to the level of its accuracy now.

Diving deeper into Languedoc-Roussillon, Agreste found mildew had been an issue until the drier climate from June onward, with the extent of damage to

See next page for more on France.

clusters varying widely from plot to plot. Hail caused losses in western Aude. The soil is well-supplied with water, in contrast to 2017, and it is expected the region's harvest will return to average levels after a tough 2017. That said, it is now expected that the heatwave will have had a deleterious effect on Languedoc's initial crop expectation. Over in Charentes, spring hail caused an estimated 7% loss in production, Agreste said, but mildew was well contained, water reserves are good and final production – as of 13 July – was expected to come in above the five-year average, thanks in part to new plantings coming on line. Again, it's a case of seeing what effect the subsequent heatwave has had.

With Europe on its summer vacations and expectations continuing of a good-sized 2018 harvest in France, the country's bulk market is currently slow. Wines receiving particular interest include generic Vin de France dry whites and reds, prices on which prices are softening slightly and open to negotiation. IGP Cabernet is also of interest. As inventory and demand are both low, pricing is largely stable across France's offer.

Key Takeaways

The European heatwave of late July and early August may have suppressed some of the volumes estimated by Agreste on 13 July, listed below. Until then at least, the hot and dry conditions had helped retard mildew and there was confidence of a good-sized 2018 crop across France. This confidence meant a slow market as France moved into its traditional summer lull. Prices are softening slightly on generic Vin de France dry whites and reds.

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2018 French Harvest Estimate by Acre (AGRESTE, 13 JULY 2018, UNIT : 1,000 HECTOLITRES)

Please note: these figures pre-date the late July / early August heatwave in Europe

REGION	5-YEAR AVERAGE	2017	2018	2018/17	2018/AVERAGE
Champagne	2,511	2,238	3,497	56%	39%
Bourgogne-Beaujolais	2,221	2,204	2,451	11%	10%
Alsace	1,038	919	1,172	28%	13%
Savoie	107	97	121	24%	13%
Jura	71	46	117	154%	-66%
Val de Loire	2,507	2,214	2,821	27%	13%
Charentes	8,162	6,877	9,074	32%	11%
Sud-Ouest	3,325	3,001	3,696	23%	11%
Bordelais	5,134	3,691	5,506	49%	7%
Languedoc-Rousillon	12,548	10,440	12,400	19%	-1%
Corse	334	288	322	12%	-3%
Sud-Est	5,292	4,268	4,934	16%	-7%

See next page for pricing.

France: Current Market Pricing (EUR per liter; Ex-Winery)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2017	Generic White	0.65 – 0.80	↓	NV	Generic Red	0.60 – 0.75	↓
2017	Chardonnay IGP	1.00 – 1.20	↔	2017	Generic Red	0.65 – 0.80	↓
2017	Chardonnay VDF	0.95– 1.05	↔	2017	Cabernet Sauvignon IGP	0.95 – 1.30	↔
2017	Sauvignon Blanc IGP	0.95 – 1.05	↔	NV	Cabernet Sauvignon VDF	0.80 – 0.85	↔
2017	Sauvignon Blanc VDF	0.90 – 1.00	↔	2017	Merlot IGP	0.90 – 1.20	↔
2017	Generic Rosé IGP	1.00 – 1.30	↑	NV	Merlot VDF	0.80 – 0.85	↔
2017	Generic Rosé VDF	0.90 – 1.00	↑	2017	Syrah / Grenache IGP	0.90 – 1.20	↔
2017	Varietal Rosé IGP	1.00 – 1.30	↑				

Spain

Time on target

HARVEST WATCH: *Estimated at 40-42 million hectolitres*

Spain received the Europe-wide very hot, dry conditions through July. Good groundwater stocks mean drought is not an issue; however, the Tomelloso and Socuéllamos regions of La Mancha received hailstorms as June turned to July, slightly impacting crop potential there. The growth cycle of La Mancha's vineyards is still running a little behind schedule, perhaps by up to 15 days in some areas. The non-irrigated plots have seen incidences of small berries and low cluster numbers following 2017's traumatic growing conditions; the irrigated plots have very good potential, though mildew has been a concern.

The combination of these two circumstances should mean a good, average-sized 2018 crop (should no adverse weather intervene, of course): between 40 and 42 million hectolitres, perhaps more. The suffering of La Mancha's wines in 2017's frosts and drought will keep this year's

harvest from being huge. That said, the overall health status of the vineyards this time augers well for a good harvest quality-wise.

With Europe on its summer holidays and expectations of a good-sized 2018 harvest, Spain's bulk market is slow. Prices on all wines have been slightly – but steadily – trending downward, particularly on the domestic market. The price for the most basic reds has now dipped under the EUR50/hectolitre mark, and under EUR45/hectolitre for the same quality whites if the buyer can offer attractive payment/loading terms. There is a slight downward price trend, versus 2017 overall, for international varietal wines on a pre-harvest contract basis, with good volumes on offer: EUR70/hectolitre for Sauvignon Blanc, EUR75/hl for Syrah, EUR78/hl for Cabernet, and EUR80/hl for Merlot.

Moving forward, as well as the expected bounce-back in Spain's vineyards this year, Argentina and Chile's good-sized 2018 harvests are another drag factor on Spanish prices. Prices in Spain have eased since May when these healthy South American harvests were confirmed, and

See next page for more on Spain.

because opportunistic buyers such as the Chinese have been sourcing less generic wine than normal from Spain during the vintage 2017 buying campaign. Prices on generic whites have eased in particular, due to good-sized inventory.

Spain's **grape juice concentrate** market is active with French buyers covering their usual needs. The price is stable. It remains unclear if renewed Italian demand for rectified concentrated must will transpire before the 2018 harvests start.

Key Takeaways

As last month, the good-sized South American harvests and the prospect of a good-sized Spanish harvest are helping open up competitively-priced opportunities on remaining 2017 generics and softening price expectations on 2018 wines. The coming buying campaign is looking far less complex than its predecessor.

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Spain: Current Market Pricing (EUR per liter; Ex-Winery)

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.50	-	0.65	↓	2017	Moscatel	0.70	-	0.80	↔
2017	White Blends (Higher Quality)	0.65	-	0.75	↓	2017	Generic Red	0.55	-	0.75	↓
2017	Sauvignon Blanc	0.90	-	1.00	↑	2017	Generic Red (Higher Quality)	0.75	-	0.90	↓
2017	Chardonnay	0.90	-	1.00	↑	2017	Cabernet Sauvignon	0.85	-	1.00	↑
2017	Generic Rosé	0.55	-	0.65	↓	2017	Merlot	0.85	-	1.00	↑
2017	Varietal Rosé	0.75	-	0.85	↓	2017	Syrah	0.80	-	1.00	↓

Italy

Time on target



HARVEST WATCH: Battling heat and fungus

One of the most intense heatwaves in the past hundred years – bringing with it not just heat but almost daily strong rains and hailstorms – is making forecasting Italy's 2018 crush highly difficult. Despite the unconducive conditions, it is still expected that the crop will come in larger than 2017's short one, but how much larger depends on the conditions through August and the first two weeks of September.

The heat, with intermittent rains and hailstorms, has created the perfect climate for fungus and mildew. Grape quantity throughout the Italian peninsula looks good, however, helping with confidence that this year's crop will bounce back somewhat from last year's short harvest (which was estimated by the OIV at 39.3 million hectolitres), at least from a quantity point of view. All forecasts remain tentative at this stage; the official 2018 crop estimate will not be released until September.

The market has changed little since last month's update. Activity remains calm while companies wait

See next page for more on Italy.

to better understand price levels on the 2018 vintage before making buying decisions. The expectation is of cheaper prices both on entry-level generic wine and international varietal wine but neither buyers nor sellers are making the first move.

Italy will be on its summer holidays in mid-August, so there will be little change until at least September. In short, with climatic conditions somewhat unpredictable and the industry on the beach, things are in a holding pattern until next month.

Key Takeaways

Italy's vineyards are battling tough climate and fungus conditions but there remains an expectation that this year's crop will come in larger than last year's. The market is paused – and holidaying – while it waits for the harvest picture to become clearer. Again, there remains an expectation that prices both on generics and international varietals will be lower on the coming campaign than they were on the preceding one.

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Italy: Current Market Pricing (EUR per liter; Ex-Winery)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2017	Generic White	0.50 – 0.60	↓	2017	Generic Red	0.50 – 0.60	↓
2017	Chardonnay	0.75 – 1.10	↓	2017	Cabernet Sauvignon	0.70 – 0.80	↓
2017	DOC Pinot Grigio	1.00 – 1.10	↔	2017	Merlot	0.70 – 0.80	↓
2017	DOC Prosecco (Bulk)	1.90 – 2.10	↔	2017	Primitivo / Zinfandel	1.20 – 1.40	↔
2017	DOC Montepulciano	0.75 – 0.80	↔	2017	Chianti	2.00 – 2.25*	↑

**Bottled Price*

South Africa

Time on target

HARVEST WATCH: 1.2 million tonnes, down 15% on 2017

The second half of July was dry in the Western Cape, with dam water levels at 56.9% of capacity as of 6 August, up by just 3% from 53.3% a month earlier. The aggregate level is still twice as high as this time last year and – with the rest of traditionally wet August and the start of September still to come – there remains hope of further replenishment.

With the Northern Hemisphere on its summer holidays and the new harvests there roving into view, interest from international buyers is muted. Movement on the domestic market continues apace, however, with buyers – who did not or could not cover their needs earlier in the buying campaign – seeking to fulfil labels for the domestic retail market or bottle wines for export. These domestic players are willing to accept pricing on a level with what international buyers paid. Domestic sales of still wine have remained robust: in the June 2017 to

See next page for more on South Africa.

May 2018 period they were in-line with the prior year at 402.8 million litres. Only now, however, are the higher-priced, 2018 vintage wines finding their way onto shelves, so it will be a case of seeing how consumers react.

Small pockets of wine intermittently become available on the bulk market, quickly seized on by domestic buyers. All wines are in strong demand, with dry white, dry red, Chardonnay and Cabernet leading the pack. Rand pricing continues unchanged. The Rand itself is experiencing its typical fluctuations.

South Africa’s bulk and packaged wine exports have remained in-line. According to SAWIS data, in the July 2017 to June 2018 period, South Africa’s total wine exports came in at 444.8 million litres, just 1% down on the prior year. Packaged exports reached 172.5 million litres while bulk exports totalled 272.2 million litres, both down 1% on the prior year.

Diving deeper into the bulk wine statistics for July 2017 to June 2018, Germany – with 75.8 million litres – overtook the UK as the leading export destination, thanks to a 190% rise in its rosé take (to 15.6 million litres). Germany also received 15% more red (to 27.4 million litres) and 8% more white (to 32.8 million litres). South Africa’s total bulk exports to the UK did increase

– by 5% to 69.4 million litres – but not by enough to keep up with those to Germany. France also upped its take by 3% to 27.3 million litres (+12% to 12.8 million litres on rosé).

Significantly less bulk was exported to Russia (-24% to 18.8 million litres), Canada (-21% to 15.2 million litres) and China (-28% to 6.4 million litres). Exports of bulk reds and whites to China actually increased, but were offset by a slump in rosé exports. The drop in bulk exports to these countries was offset by the aforementioned increases to Germany, the UK and France, as well as – off small bases – to Belgium and Switzerland. In addition, exports to Spain and Italy both grew from negligible levels to 1.8 million litres and 934,000 litres respectively.

Key Takeaways

The Western Cape’s bulk wine is in significant demand domestically; international interest, meanwhile, has been muted due to summer holidays and the imminence of the Northern Hemisphere crop. Some small pockets of availability arise intermittently. Rand pricing remains steady. South Africa’s bulk and packaged wine exports have continued in-line with the prior year, while domestic consumption has also been very steady.

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South Africa: Current Market Pricing (SA Rand per liter, FOB Cape Town)							
Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2018	Dry White	6.90 – 7.20	↑	2018	Generic Red	8.50 – 9.00	↑
2018	Chardonnay	9.50 – 10.50	↑	2018	Cabernet Sauvignon	10.00 – 12.50	↔
2018	Sauvignon Blanc	9.50 – 12.00	↔	2018	Ruby Cabernet	8.50 – 9.25	↑
2018	Chenin Blanc	7.25 – 7.50	↑	2018	Merlot	9.50 – 11.50	↔
2018	Colombard	7.10 – 7.30	↑	2018	Pinotage	9.00 – 9.50	↑
2018	Muscat	7.50 – 8.50	↔	2018	Shiraz	9.50 – 10.50	↑
2018	Generic Rosé	6.90 – 7.30	↑	2018	Cinsaut Rose	8.40 – 8.80	↑
2018	Cultivar Rosé	8.50 – 9.00	↔				

NB: pricing is directly related to remaining available stock and - due to the current short situation - can change without notice

Australia & New Zealand

Time on target



HARVEST WATCH: *Dry Au winter persists; NZ's 2018 crop +6% on prior year*

The market in Australia continues to be active with many buyers still seeking entry-level wines – demand for reds continues to be strong. Mid-range and higher quality material is also high on buyers' lists as they struggle to source material from lower levels, pushing new labels at higher price points to their end customers.

Lack of rainfall continues to cause concern for grape growers and farmers across Australia. The outlook is bleak for inland farmers who are now struggling to buy feed for their livestock, while broadacre farmers (practising large-scale crop operations) are also expected to see heavily reduced crops. If the dry weather continues, it will lead to a high frost risk for the vineyards during spring. Lack of water, especially in the sub-levels of soil, will mean grape growers will need to pay for additional water.

Rising electricity costs continue to plague Australia's wine industry: many producers have been hit hard by increasingly expensive power bills. Of the 2,400 wineries in Australia, the larger-scale operations may have the capital to invest in such items as solar panels and batteries but many smaller operations lack the financial cash flow to invest.

Wine Australia's recent 'Wine Export Approval Report' confirmed a 20% increase in the value of Australian wine

exports in the year to 30 June 2018, to AUD2.76 billion (USD2.05 billion), the highest growth rate seen in 15 years. Volume also increased, growing by 10% to 852 million litres. These positive trends can be attributed to continued demand from China and the short supply of material in Europe.

During the 12 months in question, Australia's exports of bottled product increased by 19% in value to account for AUD2.2 billion; bulk increased by 22% to AUD504 million. Volume-wise, packaged goods increased by 8% to 376 million litres, while bulk grew by 11% to 467 million litres. The average price of bulk wine grew 10% to AUD1.08/litre; the average per litre price of packaged wine increased by 10% to AUD5.94/litre. Breaking this down by price segment, the AUD20.00-29.99 category displayed the most growth with an increase of 87% to AUD167 million. The AUD50.00-99.69 category followed closely behind, surging 86% to AUD222 million. The AUD2.50-4.99 segment remains the most favoured price level, bringing in AUD837 million.

The value of exports to mainland China alone increased by 66%, totalling AUD1 billion; volume grew 50% to 176 million litres. Packaged wines accounts for two-thirds of this volume (119 million litres) while bulk makes up the final third with 57 million litres. Shipments of wine to the UK remain the largest by volume at 246 million litres – over 80% of this figure is shipped as bulk. The US has been the only leading market country that has seen a decline in volume and value for Australia, slipping 8% in value and 11% in volume.

Australia's top five markets by value	Australia's top five markets by volume
Year to 30 June 2018	
China (inc. Hong Kong & Macau) 40%	UK 29%
US 15%	China (inc. Hong Kong & Macau) 22%
UK 14%	US 19%
Canada 7%	Canada 8%
New Zealand 3%	Germany 5%

Source: Wine Australia's 'Wine Export Approval Report', June 2018

The 6% increase in this year's **New Zealand** crop over last year's, by 23,000 tonnes to 419,000 tonnes, will support export volumes going forward. Waipara Valley bounced back from last year's difficulties: its harvest was up by more than 33%. The Central Otago Winegrowers Association said the tonnage for its district was up by about 15%; the harvests in Hawke's Bay and Wairarapa increased by more than 20%. Although Gisborne's harvest was down by 20%, powerhouse Marlborough's crop increased slightly, by 4%.

Kiwifruit exports, valued at NZD1.86 billion, remain New Zealand's most valuable horticulture export, but this is closely followed by wine exports, at NZD1.72 billion. Wine overtook apples and pears, then vegetables, in the mid-2000s to become New Zealand's second-largest horticultural export category, and has been pulling away ever since.

Three New Zealand wines have scooped top prizes at the acclaimed International Wine Challenge (IWC). Wanaka's Akitu Vineyard came home with the Sustainability Trophy, part of the competition's Planet Earth Awards,

for the second time in three years. The International Sauvignon Blanc Trophy was won by The McElhinney Wine Group, of Marlborough. Hawke's Bay's Yealands Wine Group won the International Syrah Trophy.

Key Takeaways

Australia's bulk market continues to be active, particularly for entry-level wines and red wines. A struggle to source these is pushing buyers up into mid-range and higher quality categories in search of material. Lack of winter rainfall and rising energy bills are a concern in the growing areas. New Zealand's 2018 tonnage came in 6% up on 2017's, with Marlborough producing 4% more. Wine is on course to challenge kiwifruit as New Zealand's most important horticultural export in value terms.

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Australia: Current Market Pricing (AUD/litre unless otherwise stated)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
NV	Dry White	0.85 – 0.95	↔	NV	Dry Red	1.10 – 1.25	↑
2018	Chardonnay	1.05 – 1.15	↑	2018	Cabernet Sauvignon	1.45 – 1.65	↑
2018	Sauvignon Blanc	1.10 – 1.20	↔	2018	Merlot	1.45 – 1.65	↑
2018	NZ Marlborough SB	NZD 3.65 – 4.00	↔	2018	Shiraz	1.45 – 1.65	↑
2018	Pinot Gris	1.30 – 1.50	↔	2018	Muscat	0.85 – 0.95	↔

Price stated are indicative only; all offers subject to prior sale and subject to volume, drawdown and terms





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Export Pricing: USD per liter

Currency Conversion Rates as of August 13, 2018

Argentina (Pricing in bulk; FCA)											
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2018	Generic White (Criolla)	0.35	-	0.37	↓	2018	Generic Red	0.50	-	0.55	↓
2018	Generic White Standard	0.38	-	0.42	↓	2018	Cabernet Sauvignon	0.80	-	0.90	↓
2018	Muscat	0.45	-	0.50	↓	2018	Merlot	0.75	-	0.85	↓
2018	Torrontes	0.55	-	0.60	↓	2018	Syrah	0.70	-	0.80	↓
2018	Sauvignon Blanc	0.70	-	0.80	↓	2018	Malbec Standard	1.05	-	1.15	↓
2018	Chardonnay	0.80	-	0.90	↓	2018	Malbec Premium	1.20	-	1.50	↓
2018	Bonarda	0.60	-	0.70	↓	2018	Malbec High End	1.70	-	2.20	↓
2018	Tempranillo	0.60	-	0.70	↓						

Australia & New Zealand (Pricing in bulk; FCA)						AUD Rate: 0.727216 / NZD Rate: 0.658509					
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Dry White	0.62	-	0.69	↔	NV	Dry Red	0.80	-	0.91	↑
2018	Chardonnay	0.76	-	0.84	↑	2018	Cabernet Sauvignon	1.05	-	1.20	↑
2018	Sauvignon Blanc	0.80	-	0.87	↔	2018	Merlot	1.05	-	1.20	↑
2018	NZ Marlborough SB	2.40	-	2.63	↔	2018	Shiraz	1.05	-	1.20	↑
2018	Pinot Gris	0.95	-	1.09	↔	2018	Muscat	0.62	-	0.69	↔

California (Pricing in bulk; FCA)											
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.85	-	0.99	↔	2017	Generic Red	0.85	-	1.05	↔
2017	Chardonnay	1.32	-	1.98	↑	2016/2017	Cabernet Sauvignon	1.32	-	1.85	↓
2017	Pinot Grigio	1.19	-	1.72	↔	2017	Merlot	1.18	-	1.58	↔
2017	Muscat	1.12	-	1.45	↔	2017	Pinot Noir	1.59	-	2.11	↓
2017	White Zinfandel	0.83	-	0.99	↔	2017	Syrah	1.10	-	1.58	↔
2017	Colombard	0.86	-	1.12	↔	2017	Ruby Cabernet	0.95	-	1.05	↔
						2016/2017	Zinfandel	1.18	-	1.85	↔

Chile (Pricing in bulk; FOB Chilean Port)											
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Generic White	0.60	-	0.65	↓	NV	Generic Red	0.65	-	0.80	↓
2018	Chardonnay	0.95	-	1.05	↓	2018	Cabernet Sauvignon (Basic)	0.90	-	1.05	↓
2018	Sauvignon Blanc	0.98	-	1.10	↓	2018	Cabernet Sauvignon (Varietal Plus)	1.20	-	1.35	↓
2018	Syrah	0.90	-	1.05	↓	2018	Merlot	0.95	-	1.05	↓
2018	Carmenere	0.95	-	1.20	↓	2018	Malbec (Basic)	1.10	-	1.25	↔
2018	Pinot Noir	1.15	-	1.25	↔	2018	Malbec (Varietal Plus)	1.50	-	2.00	↔

France (Pricing in bulk; Ex-Winery)										Rate: 1.140030	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.74	-	0.91	↓	NV	Generic Red	0.68	-	0.86	↓
2017	Chardonnay IGP	1.14	-	1.37	↔	2017	Generic Red	0.74	-	0.91	↓
2017	Chardonnay VDF	1.08	-	1.20	↔	2017	Cabernet Sauvignon IGP	1.08	-	1.48	↔
2017	Sauvignon Blanc IGP	1.08	-	1.20	↔	NV	Cabernet Sauvignon VDF	0.91	-	0.97	↔
2017	Sauvignon Blanc VDF	1.03	-	1.14	↔	2017	Merlot IGP	1.03	-	1.37	↔
2017	Generic Rosé IGP	1.14	-	1.48	↑	NV	Merlot VDF	0.91	-	0.97	↔
2017	Generic Rosé VDF	1.03	-	1.14	↑	2017	Red Syrah / Grenache IGP	1.03	-	1.37	↔
2017	Varietal Rosé IGP	1.14	-	1.48	↑						

Italy (Pricing in bulk; Ex-Winery)										Rate: 1.140030	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.57	-	0.68	↓	2017	Generic Red	0.57	-	0.68	↓
2017	Chardonnay	0.86	-	1.25	↓	2017	Cabernet Sauvignon	0.80	-	0.91	↓
2017	DOC Pinot Grigio	1.14	-	1.25	↔	2017	Merlot	0.80	-	0.91	↓
2017	DOC Prosecco (Bulk)	2.17	-	2.39	↔	2017	Primitivo / Zinfandel	1.37	-	1.60	↔
2017	DOC Montepulciano	0.86	-	0.91	↔	2017	Chianti*	2.28	-	2.85	↑
<i>*Bottled Price</i>											

South Africa (Pricing in bulk; FOB Cape Town)										Rate: 0.0696566	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2018	Generic White	0.48	-	0.50	↑	2018	Generic Red	0.59	-	0.63	↑
2018	Chardonnay	0.66	-	0.73	↑	2018	Cabernet Sauvignon	0.70	-	0.87	↔
2018	Sauvignon Blanc	0.66	-	0.84	↔	2018	Ruby Cabernet	0.59	-	0.64	↑
2018	Chenin Blanc	0.51	-	0.52	↑	2018	Merlot	0.66	-	0.80	↔
2018	Colombard	0.49	-	0.51	↑	2018	Pinotage	0.63	-	0.66	↑
2018	Muscat	0.52	-	0.59	↔	2018	Shiraz	0.66	-	0.73	↑
2018	Generic Rosé	0.48	-	0.51	↑	2018	Cinsaut	0.59	-	0.61	↑
2018	Cultivar Rosé	0.59	-	0.63	↔						

Spain (Pricing in bulk; Ex-Winery)										Rate: 1.140030	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.57	-	0.74	↓	2017	Generic Red	0.63	-	0.86	↓
2017	White Blends (Higher Quality)	0.74	-	0.86	↓	2017	Generic Red (Higher Quality)	0.86	-	1.03	↓
2017	Sauvignon Blanc	1.03	-	1.14	↑	2017	Cabernet Sauvignon	0.97	-	1.14	↑
2017	Chardonnay	1.03	-	1.14	↑	2017	Merlot	0.97	-	1.14	↑
2017	Generic Rosé	0.63	-	0.74	↓	2017	Syrah	0.91	-	1.14	↓
2017	Varietal Rosé	0.86	-	0.97	↓						
2017	Moscatel	0.80	-	0.91	↔						

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