



# *Global Market Report*

**January 2019**  
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**Ciatti Global Wine  
& Grape Brokers**

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## January 2019

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**As 2019 begins, Ciatti wishes all of its friends, clients and business associates a very happy and prosperous year ahead. Thank you for your continued support!**

2019 is the final year of the 2010s decade and – as designated by the United Nations – the International Year of the Periodic Table of Chemical Elements, given that it coincides with the 150th anniversary of its creation by Dmitri Mendeleev. What are the key elements of the global bulk wine market as the new year gets underway? This month’s report attempts to identify them, country by country: of course, the common theme that unites them is a realisation that global bulk wine supply increased markedly the final quarter of 2018, the consequence of what the OIV has called “very high” world wine production through the year: Argentina and Chile returned more normal-sized crops, France, Spain and Italy’s harvests all exceeded their respective five-year averages, and California’s was a state record.

Although the final headline results were healthy, it was not a straightforward year viticulturally, so that the rise in yields of the better-quality wines was not commensurate with the overall harvest increase in some producer regions, most noticeably those of Chile and France. A greater heterogeneity in the offer has until now helped keep average market prices slightly firmer than they might otherwise have been, as prices on the best quality wines have held up, sometimes in-line with the previous year when the global conversation was one of shortage. Overall, though, prices are trending downward and markets are quiet as buyers hold off to see how far they go, or cover only their short-term needs.

Despite a big inventory even before its record 2018 crop, California’s average pricing is unlikely to soften quickly due to the high percentage of wine grapes and bulk wine locked into multi-year contracts. It is hoped the state’s suppliers are sensitive to the fact that, with plenty of inventory at home and abroad and market activity sluggish, power now resides with the buyer, and that they consider their offer prices in the light of this new reality. The same goes for the Western Cape’s suppliers, especially if early expectations of a good-sized 2019 crop in the Cape prove well-founded. The vineyards, rested after a cold, wet winter, looked green in spring and fruit set ran smoothly.

Will the Southern Hemisphere’s upcoming 2019 harvests serve to soften prices further? As mentioned above, the Western Cape’s vineyards are in good shape, while Argentina, Chile, Australia and New Zealand all – tentatively – report vineyards on course for crops average in size, give it or take, with the usual caveats about Mother Nature.

Ciatti is with you every step of the way to help you navigate whatever the market throws up in 2019. Don’t be a stranger; give us a call. Happy New Year!

*Robert Selby*

# California

## *Time on target*



## 2018: The Year That Was

**After two successive winegrape harvests of 4 million tons in 2016 and 2017, and with signs of a sales slowdown domestically, California came into 2018 with an ample supply of bulk wine for export. The weaker dollar dovetailed with price rises around the world to make some Californian wines potentially more tempting in price to European and Asian buyers.**

The 2017 harvest in the south Central Valley came in slightly larger than anticipated. Modesto volumes were down on 2016 (-5% to 354,248 tons), but volumes were solidly up in Fresno (+3.5% to 1,311,960 tons) and Bakersfield (+11.1% to 312,399 tons). Grape pricing was marginally up in Modesto (+1.5% to USD476/ton), almost flat in Fresno (+0.3% to USD307/ton), and down in Bakersfield (-3.3% to USD275/ton).

Historic high prices on some grapes and bulk wines in the Coast – despite the sales slowdown – was increasingly pressurizing domestic buyers into switching from a Coastal to a ‘California’ appellation in order to have the scope to source from the more amenably-priced Lodi and northern Valley. This further dampened demand on grapes and bulk wines in the Coast, raising some prospect of a price softening and – in turn – the potential for new opportunities for international buyers with an eye for starting premium credential Californian wine lines. This included Napa Valley Cabernet and long-term Cabernet commitments in the Coast and across the state in general, following a record Cabernet grape crop of 599,833 tons in 2017 which exceeded the record 2016 crop by 5.9% (with more plantings still going in). There were also opportunities on Zinfandel across the state.

By April there were signs the weaker dollar (worth around EUR0.80 and GBP0.71 in the first four months of 2018) was helping garner increased interest from Europe and Asia – including the UK, Germany and Japan – for California’s generic reds and Zinfandels in particular. Generic red wine prices were moving towards some semblance of international competitiveness, California’s red grape juice concentrate even more so. Chinese interest in California’s generic reds was still being headed-off by Australia’s competitive pricing. There were initial concerns that the US-China ‘trade war’, which led China to impose significantly increased import tariffs on US wines, would hurt export sales to that market. The Californian wine industry’s business with China is highly limited, however, and mainly in the already high-priced, super-premium sector likely unfazed by such tax hikes. This was borne out by figures showing that California’s wine exports to China actually rose by 14% in the first half of 2018, to total USD38.4 million. (Possibly of greater damage was the US withdrawal, in January 2017, from the Trans-Pacific Partnership, which had a deleterious effect on California’s small but growing business with Asia.) California’s generic white wine and white GJC prices, meanwhile, were prohibitive from an international standpoint, with good domestic demand for generic whites for use in extending tight white varietal wines such as Chardonnay and Sauvignon Blanc.

Gomberg-Fredrikson data showed a 13% fall in California’s wine exports in the six months ending June, likely mainly due to the – now longstanding – pound’s weakness against the dollar squeezing UK demand. The pound weakened from USD1.40/pound to USD1.20/pound following the Brexit vote in June 2016, and it has been in that band for much of the time since (see Currency Update).

By June another good-sized Californian harvest was in prospect and there remained significant inventory of bulk wine still to shift. This raised the possibility of some wineries seeking to alleviate tank pressure ahead of the crush and/or generate cashflow by offering more attractive prices to the international buyer – again, particularly on reds

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and especially for Cabernet. California's export Cabernet price was competitive with Chile's for a time mid-year; this soon changed when the global supply moved firmly into a long position following the big Northern Hemisphere harvests and price cutting broke out around the world.

While California's overall 2018 crop sized-up through an elongated picking period which may result in a record 4.3+ million tons, the Central Valley's yield was not a record-breaker due to vine removals and the trend towards premium Coastal areas in recent years. This, plus the big harvests in Europe (on top of Argentina and Chile's big crops earlier in the year), plus a US dollar strengthening again (to EURO.88 and GBP0.78 by November), dampened the prospect of exports growing from their depressed state. That said, there was plenty of international interest in Californian wines at November's World Bulk Wine Exhibition in Amsterdam, with renewed interest from China – due to California's improved competitiveness with Australia at the higher end of the market – and the UK.

## 2019: Looking Ahead

It is hoped the disconnect in California between the prices that suppliers offer and the realities of the marketplace reduces in 2019 so that the state's wine industry can innovate its way out of sluggish retail sales and sell its way out of a big inventory. There are already signs nimble, opportunistic domestic buyers are increasingly reconnoitring the market seeking to start and build new, innovative lines.

Now could be a good time for international buyers to similarly secure some long-term contracts on excellent quality wines at amenable prices. One of Californian wine's chief selling points, its reputation for high quality, has been reinforced by an excellent 2018 vintage and could be enhanced further by greater percentages of premium Coastal wine going into 'California' blends.

With all this in mind, Ciatti has installed an impressive tasting area at its new US offices in Novato, California, in which potential buyers – domestic and international – can sample bulk and bottled wine. Ciatti sees the percentage of the Californian marketplace taken up by long-term, multi-year contracts gradually declining, with the spot market rejuvenating in size and dynamism. **Please note our new office address: 201 Alameda Del Prado, Suite 101, Novato, CA 94949.**

### Key Takeaways

International buyers seeking new opportunities on Californian wines – appellation or 'California' – will find the 2018 vintage offers great choice, quality and some attractive pricing. Californian and Washington state reds offer opportunities – this includes Coastal appellation Cabernets and Pinot Noirs that carry a real cache. As pricing in some of these appellations has become more flexible, the 'California' blends could benefit from a greater percentage of premium Coastal wines going into them. California's red GJC continues to be priced competitively from an international perspective.

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# Argentina

## *Time on target*



## 2018: The Year That Was

**Coming into 2018, prices on Argentina's wine market were robust following three successive short harvests domestically and Europe's short 2017 harvests. The price of standard Malbec had continued to rise (USD1-1.10/litre in 2015, USD1.40-1.50/litre in 2016, USD2/litre in 2017) and the election in 2016 and further electoral success in 2017 of Mauricio Macri – trusted by international markets to make the tough but necessary reforms to Argentina's economy – kept the peso relatively strong, further dampening the attractiveness of the country's wine prices to international buyers.**

International interest in Argentina's wine was thus muted as 2017 turned into 2018, and, in addition, the country's struggling economy was suppressing domestic demand. "In 2018 [the Argentinian government] will need to find a middle way between balancing sound economics and boosting the country's export competitiveness," we reported. Unfortunately, a potentially export-boosting peso devaluation did come in 2018 but only as a symptom of Argentina's deepening economic troubles: the green shoots of economic recovery perceptible at the back end of 2017 were eclipsed by mid-2018, with the government struggling to keep inflation and interest rates under control and stagflation hurting domestic wine consumption for the second year running. Local consumption has already dropped to 19.5 litres per capita.

The peso slumped from 22/dollar in May to 28/dollar in July, when it stabilised following Argentina's securing of a USD50 billion loan from the International Monetary Fund (IMF). By the end of September, however, it had fallen further, to 40/dollar. This slump was caused by low confidence on the financial markets that Argentina could repay its mainly US dollar-denominated debts, and compounded by the weakening effect many emerging market currencies were feeling against the dollar because of ongoing 'trade wars' between the US and various countries.

The Argentinian wine industry would find it very difficult to harness this weakening peso to boost its exports, however. Conducive weather during Argentina's growing season and excellent sanitary conditions in the vineyards meant the 2018 harvest came in significantly larger than in the previous three years at a surprise 2.55 million metric tons - 10% up on forecasted and in-line with the long-term average (with ripeness, maturity, fruit attributes, sugar and alcohol levels all excellent). Thus, in May the new Malbec was priced at USD1.30/litre - significantly down from the USD1.80/litre for 2017 Malbec at the start of the year - and softening quickly. The prices of generic white and red had also softened - to around USD0.40-0.45/litre and USD0.60-0.65/litre respectively - and were trending downward.

But with wine consumption in Argentina flat or falling, domestic demand was slow, and while initial international interest in Argentina's 2018 wine was strong, it dissipated to a slow but steady pace as the consensus began to solidify that Europe's 2018 harvest volumes would bounce back significantly from the short yields of 2017. Accordingly, Argentina's suppliers reduced their prices throughout the rest of 2018 to encourage interest: by December standard quality Malbec had dropped to USD0.85-0.95/litre, while standard generic white and generic red were at USD0.28-0.32/litre and USD0.45-0.50/litre respectively – before freight costs and duties the world's most aggressively priced.

Such price cutting has had only limited success in attracting buyers: Spain and Italy's 2018 yields exceeded their five-year averages, reducing European and Canadian interest in Argentinian wine. Price-cutting in Spain in particular

*See next page for more on Argentina.*

encouraged Chile – possessing the free trade agreements that Argentina lacks – to drop its prices, drawing Chinese customers away from Argentina. So, just when Argentina could finally offer good volumes of bulk wine at low prices, global supply moved into a long position.

## 2019: Looking Ahead

With domestic and international sales slow, Argentina's growers have been struggling with cashflow and there have been concerns about their ability to fund picking of the 2019 crop. With interest rates in Argentina at around 70%, borrowing money is not an option. It is likely a big discussion will start from late January onwards regarding the growers and wineries requiring financial assistance from the government. With large carryover stock going into the 2019 harvest, there could also be grower worries regarding finding wineries able or willing to accept grapes from the new vintage; storage capacity could be an issue.

The 2019 crop is forecast to be around 2.5-2.6 million metric tons. The growing season is proceeding smoothly with normal conditions in the vineyards and any impact from drought – present in some areas – unlikely to be felt this coming vintage.

Argentina is confident about the quality of its offer: there are good volumes of good quality 2018 wines available at attractive prices open to negotiation. The peso has held steady for the past month at around the 37-38/dollar mark. The IMF has predicted that Argentina's economy contracted by 2.6% in 2018 and will contract by 1.6% in 2019.

### *Key Takeaways*

Argentina is able to supply attractively-priced, good quality wines (11-12.5%+ alcohol, reds of good colour) in big volumes. The offer is wide: everything from dry reds and whites to varietal wines such as Malbec. The peso is currently steady at 37-38/dollar, twice as weak as the 18/ dollar level it was at this time a year ago. Prices are open to negotiation; give Ciatti a call to get the latest. The coming 2019 crop looks like coming in at 2.5-2.6 million metric tons, with the usual caveats about Mother Nature.

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# Chile

## *Time on target*



## 2018: The Year That Was

Chile's bulk wine market coming into 2018 was experiencing big domestic and international demand pressure following two successive short crops at home and then Europe's short crops in the final quarter of 2017. Prices had been firm-to-rising – but reasonable – for several months and some of Chile's varietal wines such as Pinot Noir, Malbec, Carmenere, Sauvignon Blanc and Chardonnay were sold out or close to being so. By the start of 2018 international buyers were struggling to compete with domestic buyers prepared to pay whatever it took to secure supply, and also – due to high copper prices – the Chilean peso at its strongest against the US dollar since May 2015.

The tightness of bulk wine supply both in Chile and around the world fed into the country's 2018 grape market, with supply sold out by March. The price for a kilogram of varietal grapes was CLP330-350 (USD0.50/kg) – depending on the varietal – the highest many industry veterans had ever seen. This put wine buyers on alert that Chile's 2018 wines would commence higher in price than the 2017 wines had. Activity on remaining 2017 wines was thus very active and, by April, availability was highly limited, with suppliers finding even small requests hard to fulfil. Chile's January to November bulk wine export figures were thus down almost 20% on the equivalent period of 2017 (see table below).

More pre-harvest deals were made in Chile by European buyers than ever before, with Sauvignon Blanc the most in-demand varietal followed by Merlot and Cabernet. Interest from US and Canadian buyers was more muted, perhaps reflecting good opportunities in California. Consistent with other fruit harvests in the country, Chile's 2018 wine grape harvest commenced about 10 days later than normal due to cooler than average weather. March brought unhelpful rains and dewy mornings, congesting the picking and crushing time, so that the harvest was completed by early May, 2-3 weeks ahead of normal (the low carryover inventory meant storage space was not an issue). Some wineries had shipped all their Tintorera by June!

The final crush figure was 1.28 billion litres, 35.9% up on 2017 (Cabernet +28.7%; Sauvignon Blanc +13.9%; Merlot +12.6% Chardonnay +9.6%). A consequence of the cooler growing season was that suppliers had to boost alcohol levels with concentrated must, further firming-up the final wine price. Prices continued steady: USD1.10-1.20/litre for basic 2018 Cabernet, USD0.70-0.85/litre for generic reds and whites. In general, the troublesome late growing and harvesting period had given rise to a wide spectrum of quality options, so that the increase in volumes of good quality wine over the year before did not match the overall harvest increase: wines with designation came in at 1.05 billion litres (+30.8% on 2017). Buyers seeking the best quality wines were thus urged to move quickly, while all buyers were urged to taste and compare. There was immediate activity from Chinese and other Asian buyers (South Korea, Taiwan and Japan), as well as European buyers securing their needs on the spot market incrementally with one eye on the coming harvests at home. North American interest continued to be muted.

By July, with the picture on the coming Northern Hemisphere harvests clearer, international interest in Chilean wine was quietening down and suppliers – encouraged by the weakening of the Chilean peso against the dollar (652/dollar in July from 600/dollar in April) due to a drop in the copper price – began softening their prices slightly, most noticeably on the lower quality, non-designation wines. This, in turn, caused more buyers to hold off. Chileans suppliers hoped the price softening might be only a temporary necessity, but by September it was clear Italy and Spain's harvests were bouncing back to exceed their five-year averages, and California was harvesting a state record crop.

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Buying activity on Chile's better-quality moved forward steadily, with European buyers attempting to negotiate the prices downward with the threat of moving to Spain or Argentina. By October, Chile's basic quality 2018 Cabernet was down at USD0.77-0.94/litre, with generic white at USD0.50-0.55/litre and generic red at USD0.57-0.65/litre. The peso was doing its best to keep Chile competitive, averaging 680.91/dollar in September, a level it approximately stayed at for the remainder of the year.

By the end of 2018 it was clear that the big Northern Hemisphere harvests had essentially paused the market, with buyers content to hold off knowing the world has inventory. Chilean suppliers found buyer interest subdued at November's World Bulk Wine Exhibition in Amsterdam; Chile's market subsequently saw a downward price adjustment, with basic Cabernet at USD0.75-0.88/litre, generic white at USD0.50-0.58/litre and generic red at USD0.57-0.60/litre.

## 2019: Looking Ahead

As 2019 gets underway, there is concern among wineries regarding storage capacity for the coming harvest, with some 2018 wines still left unshipped – a reversal of the situation in the past two years when wine was shipped as soon as possible.

Another consequence of the slow market is that 2019 grape prices are still to be set. They are expected to be lower than on the 2018 grapes, with the premium qualities holding up more in price than the standard qualities. The talk is of 2019 grape prices around CLP150-180/kg depending on varietal, a decrease of 40-50% on the 2018 prices. Carmenere grape prices could be around the CLP180+/kg mark, holding up more than on other varietals such as Cabernet due to low stocks and good demand, but still around 40% lower than its 2018 price.

The weather in Chile's growing regions continues to vary markedly from one week to the next, its unpredictability due to the El Niño effect. Spring was cool with some rains and hail, but there was little if any deleterious impact on the vines. The start of summer in December was very hot. There is an early, tentative expectation that the 2019 crush will come in lower than 2018's 1.28 billion litres – but it is not expected to be short. The volume of generics is likely to see the biggest drop. With harvest not commencing for another few weeks, Mother Nature could still change things.

There were tentative signs in early January that the market was beginning to wake up, with Sauvignon Blanc interest particularly noticeable (including from the UK). Buyers in the main are waiting to see where the prices drop to, but having already dropped significantly in the second half of 2018 prices are currently stable.

### *Key Takeaways*

Prices in Chile have moved downward, most markedly on the entry-level qualities. The country has good volumes of good quality wines available, at competitive pricing. Pricing on 2019 grapes will not be set until the picture on the 2018 wine market is clearer, but it is sure to be lower than it was on the 2018 grapes, perhaps by up to 40-50%

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*See next page for more on Chile.*



## Chilean Export Figures

Wine Export Figures	January 2016 - November 2017			January 2017 - November 2018			Volume
	Million Liters	Million US\$ FOB	Average Price	Million Liters	Million US\$ FOB	Average Price	Variance %
Bottled	475,26	1.480,78	3,12	460,42	1.479,42	3,21	-3,12
Bulk	365,51	307,94	0,84	294,15	303,48	1,03	-19,52
Sparkling Wines	4,99	19,94	3,99	4,20	17,65	4,20	-15,93
Packed Wines	23,95	41,60	1,74	21,42	39,44	1,84	-10,56
<b>Total</b>	<b>869,71</b>	<b>1.850,25</b>	<b>2,42</b>	<b>706,58</b>	<b>1.663,01</b>	<b>2,57</b>	<b>-10,29</b>

# France

## *Time on target*



## 2018: The Year That Was

France came into 2018 off the back of two successive shorter crops in 2016 (43.5 million hectolitres, the smallest harvest since 2013) and 2017 (37.2 million hectolitres, France's smallest wine grape crop on record). The feeling was that the Languedoc's 2017 yield had seen an even bigger shortfall than the overall headline figure, perhaps 20% down on the five-year average, and this – combined with Spain and Italy also experiencing short harvests – meant the market in the south of France was very active.

Particularly in demand were entry-level reds: the harvest shortfall had seen French producers maximising output of Vin de Pays, IGP and – to a lesser extent – Vin de France red varietal wines at the expense of generics. By February the purchasing and shipping of reds was proceeding at full pace – especially generics, Merlot and Cabernet – and some co-ops were already claiming they were 90% sold out. Pricing did not rise significantly but big volumes had quickly become scarcer. The campaign on the whites was moving slightly slower, but still active: buyers were purchasing a third of their needs then waiting to see what the market would bring later in 2018. Vintage 2017 Chardonnay and Sauvignon Blanc were selling strongly, and even varietals such as Viognier – usually available year-round – were becoming hard to come by. Inventory of 2016 carryover Vin de France white was diminishing quickly, while 2017 Vin de France white – most of it from Gers and South West – began gradually appreciating in price as buyers started switching to that.

The rosé market, meanwhile, was already depleted of its big volumes: Provence rosé was already out, while the price of the next alternative – IGP Mediterranean rosé – was up 40-50% on the previous year. Cinsaut rosé buyers sought alternatives in South Africa, which itself was amid crushing its smallest crop since 2010. French organic wines were even scarcer than rosés, with intense pressure on the market from the Scandinavian monopolies and the other buyers switching to Spain; this market was essentially sold out by April.

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By mid-year, Vin de France buyers seeking big volumes in southern France mainly had to make do with non-vintage wines, often patched together from multiple locations across the country in order to reach the requisite volume. Despite this shortage, French suppliers were reluctant to significantly increase their prices: they were wary of losing market share to competitor countries such as Spain, something they had seen occurring consistently in recent years. Pricing was thus stable on Vin de France and IGP wines – appreciating on any remaining AOP wines – which meant that, with prices in Spain rising, France remained relatively competitive. With French pricing not expected to soften for the foreseeable either, the market continued to be active.

A much-needed wet winter, which replenished water reserves and rested the vines after a drought-hit 2017, followed by a warm and pleasant spring without frosts, raised the prospect of a good-sized 2018 harvest in France. The market thus paused, with purchases proceeding only in short-term increments. Similar weather in Spain softened the price of generics there and in France. A very wet May which flooded Paris and brought damaging hailstorms to many growing regions in France – including South West, Provence and Languedoc – failed to move the market, nor a breakout of fungal disease in Languedoc following humid conditions in June and early July. Buyers throughout the summer months remained confident that prices would not rise when the buying campaign for 2018 wines got underway; they were content to buy in small increments and seemingly able to secure the odd truckload of wine if willing to offer attractive loading terms. Vin de France generic red and Vin de France varietal Merlot and Cabernet bulk wine remained in stock, with some price softening ahead of the new vintage. Pinot Noir, Shiraz, and Grenache were increasingly hard to come by, so too 2017 Vin de France varietal Sauvignon Blanc and Chardonnay. Non-vintage varietal and generic whites remained available in good quantities, however.

The second half of July brought intense heat to Europe, with Languedoc, Côtes du Rhône and Provence seeing temperatures of 32-35°C, peaking at 40°C. This heatwave ensured the vines caught up in their growing cycles and brought fungal disease under control. Agreste estimated a 2018 harvest at 46.1 million hectolitres, up 27% on 2017's crop and 7% up on the five-year average, with the Languedoc estimated to produce 12.4 million hectolitres. Dissenting voices suggested the estimate was prematurely confident, but by October Agreste was convinced enough to revise up its forecast for France to 46.7 million hectolitres and reaffirm its Languedoc outlook at 12.3 million hectolitres (very close to the 12.5 million five-year average).

That said, Mildew was problematic enough to require multiple spraying – placing a potential upward pressure on prices – and significantly reduce the Languedoc's organic wine volumes, so that buyers without pre-harvest deals would fail to secure organic wines. In addition, the midsummer heatwave took its toll on ripening in Languedoc and other areas such as South West, with alcohol levels, acidity and aroma not always consistent: the 2018 vintage was thus highly heterogenous, with every quality available. As such, although 2018's volume had risen significantly on 2017's, the volume increase in the best qualities was not commensurate with the overall increase; buyers seeking qualities consistent with prior years were encouraged to move onto the market sooner rather than later.

With 2017 rosé inventory negligible, the campaign for 2018 roses kicked-off rapidly at the start of October as buyers sought to replenish their supply pipelines. Varietal rosé prices started in-line with the prior year at EUR0.90-0.95/litre; entry range qualities started at EUR0.85/litre. For the rest of the bulk wine market, there was a EUR0.05/litre downward price correction from the previous year's prices, with the market for reds probably slowest – there remained plenty of 2017 reds still on retail shelves. Pricing on the higher quality, AOP and IGP reds remained in-line with the prior year.

## 2019: Looking Ahead

Moving into 2019, the bulk wine market in France has been experiencing normal activity levels, with bulk wine négociants starting to cover their needs until springtime, generally at prices that reflect the EUR0.05/litre downward adjustment. With Spain and Italy both highly aggressive on price, non-European interest in France's bulk wines remains limited.

*See next page for more on France.*

The increase in France's overall wine production in 2018 outstripped the increase in the supply of its higher qualities. As such, buyers seeking the higher-quality wines should not wait to move onto the market: the best qualities could be sold out, we believe, by the end of the winter season.

Because of the small volumes of organic wines available and the shortage lasting, potentially, at least another 3-5 years, more and more buyers are showing interest in HVE (High Environmental Value) wines. This could lead in the near future to an increase in production of such wines as a 'green alternative' to organic wines.

## Key Takeaways

Buyers seeking France's higher quality AOP and IGP wines in big volumes should make their moves soon as the increase in production of these in 2018 was not commensurate with the overall volume rise: they could be sold out by the end of the winter season. For this reason, although pricing in France has seen a downward adjustment by EUR0.05/litre on average, on the best qualities it has remained in-line with last year. The organic wine shortage is expected to continue for the foreseeable future, leading to increasing interest in HVE wines as an alternative.

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# Spain

## Time on target

### 2018: The Year That Was

Spring hailstorms and an intense, Europe-wide summer heatwave ensured there was the expectation that Spain's 2017 harvest would come in significantly short. As a result, more contracts based on sample approval were made in Spain than perhaps ever before. International varieties such as Cabernet and Chardonnay – the least adapted to Castilla-La Mancha's terroir – suffered the most from the drought and their percentage share of the total harvest was reduced. All of this meant that, by Christmas 2017, all international varieties in Spain were 90% sold out, as well as being the same price as, or more expensive than, those in France.

Spain's generic wine production was also significantly down, albeit from a huge base. The price of Spanish generic red grew by approximately EUR0.05-0.10/hectograde every two weeks from October 2017 through to February 2018; the Spanish generic white market was less active than the red and rosé markets, with pricing stable. Spanish rosé ended 2017 high in price and low on inventory, as buyers from across Europe moved in early when they saw Europe's harvests, and namely France's, coming in short. Spain also registered a considerable increase in organic wine sales because of France's acute organic wine shortage. In February, Spain's Ministry of Agriculture estimated the 2017 Spanish crush at 37 million hectolitres, with La Mancha's down at 19.5 million hectolitres from 24-25 million hectolitres in 2016.

The Spanish market was very active in the first quarter of 2018, with shipping proceeding at full pace. Given the short supply situation globally, with tight inventory and high prices in alternative countries such as Chile and South

*See next page for more on Spain.*

Africa, Spanish suppliers had room to increase their generic wine prices significantly: Spanish reds, for example, were EUR0.30/litre dearer than the year before. International varietal wines in Spain were already sold out; some entry-level, 11% alcohol rosé remained available but the best price-quality ratios were being snapped-up fast.

A wet March – which replenished La Mancha’s drought-hit water reserves – and a frostless early spring raised confidence of a good-sized 2018 crop, halting further price rises on the remaining 2017 reds and rosés and softening the price of the whites. News was also filtering through of Argentina’s good-sized 2018 crop, much of it not pre-contracted. Chile, too, had returned good volumes. Buyers of generics in Spain thus reverted to covering their short to mid-term needs on a spot basis, and the bulk market entered its traditional summer lull, with the main activity short-term purchases of generics, pre-harvest deals for international varietals (at prices slightly down on 2017), and acquisitions – particularly by French buyers – of grape juice concentrate for fermentation/winemaking purposes ahead of the coming 2018 vintage.

By August prices on Spain’s 2017 generic wines were slowly but steadily falling, with the price of the most basic reds dipping under the EUR50/hectolitre mark for the first time, and under EUR45/hectolitre on whites of the same quality. Pre-harvest deals for varietal wines were being closed in August and September at prices below where they were in 2017. The market’s softening and quietness was in stark contrast to a year earlier, when an expected short crop saw buyers jockeying at the buying campaign’s start line.

Despite a midsummer heatwave and some hailstorms and fungus pressure through late summer and autumn, Castilla-La Mancha’s 2018 crush yielded approximately 25 million hectolitres of wine, a 25-30% increase on 2017. The overall Spanish crush was estimated to have come in big at 48 million hectolitres, returning Spain’s offering – significant volumes in a wide spectrum of qualities, open to price negotiation – to normality after the short 2017 harvest. France and Italy’s harvests, too, bounced back strongly, with Italy’s aggressive price cutting inevitably exerting downward pressure on Spain’s prices. Pricing on Spain’s generic reds, white and rosés starting falling concertedly from September onward to compete with Italy, and – by November – were 50% lower in price than a year before. The country’s rectified GJC market also saw a softening. Buyers of Spain’s international varietal wines, however, were urged not to wait as availability was limited (though pricing on these, too, eventually began to soften), while organic international varietal wines remained firm in price due to the continuing lack of French supply.

## 2019: Looking Ahead

With supply of generic wines plentiful, the buying campaign for these got off to a slow start. However, the downward price trend plateaued in December at EUR0.32-0.35/litre for standard quality generic white and rosé, and EUR0.40-0.45/litre for standard generic red – any further fall would remove margin for the supplier. Ciatti therefore does not envision prices on Spain’s generics falling much further in early 2019, if at all. The pale rosé market is at EUR0.35/litre, an attractive price for buyers struggling to source ‘Provence-style’ rosés.

Buying of international varietal white wines has been far more rapid, so that the availability of big volumes was going down quickly by the beginning of this year. The international varietal reds were picked late due to climatic issues, so the market for these is only getting fully underway now. International varietal organic wines have already become very hard to find, Chardonnay and Sauvignon Blanc in particular.

### *Key Takeaways*

Prices on Spanish generic wines softened aggressively in the final quarter of 2018 and are now some of the cheapest in the world. Prices on the country’s international varietal wines have also softened and the market for these is very active: those seeking big volumes should move sooner rather than later (with the big volumes of Sauvignon Blanc and Chardonnay already sold out). Spain also has supply of pale-coloured rosés, organic table wines (selling at a fast pace), and rectified GJC.

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# Italy

## *Time on target*



## 2018: The Year That Was

**Italy came into 2018 seemingly having suffered the biggest harvest shortfall of the major European producer countries in 2017; the OIV estimated its crush at 42.5 million hectolitres, down 8% on 2016's 50.9 million hectolitres. This drop, combined with the tightening supply situation globally, ensured the Italian market was very active, with demand pressure from domestic and international buyers and prices rising steadily.**

Towards the end of 2017 on Italy's market it was clear that buyers were not covered through to the next harvest, so there was little prospect of prices softening as 2017 turned to 2018. By this point IGT Pinot Grigio was under big pressure (with UK retailers continuing to seek 2016 IGT Pinot Grigio from northern Italy and IGT Pinot Grigio from the south, seemingly perturbed by the commencement of the new Pinot Grigio DOC delle Venezie). International varietals Cabernet and Moscato were close to being sold out, while Merlot, Syrah, Chardonnay and Sauvignon Blanc were under intense pressure as well. Prosecco – stably priced at the top end – and good quality sparkling base wines were in strong demand. Generic wines with good alcohol levels, meanwhile, had stabilised in price at EUR60+/hectolitre, up from EUR35-38/hectolitre in mid-2017, with inventory declining quickly.

Market activity calmed from February onward as the big domestic and international buyers, having already covered most of their needs, switched to purchasing on a month-by-month basis while they waited for the 2018 harvest picture in Europe to become clearer. A wet February and early March brought much-needed replenishment to depleted water reserves in Italy's growing areas, while low temperatures delayed the vegetative process of the vines, reducing their exposure to a cold and snowy March.

With a similar picture in the vineyards of France and Spain, prices in Italy continued to be stable into the middle of 2018, despite stock levels being well down on the average – particularly on international varietal wines and generic reds. Generics were steady at EUR60-65/hectolitre on whites, EUR65-75 on reds. The DOC Prosecco market softened a little despite an increase in bottling activity compared to the prior year; the April price was at approximately EUR240-250/hectolitre. Pinot Grigio was at EUR120-135/hectolitre.

Italy's vineyards looked in great shape through early summer. As such, between May and June the country's bulk wine prices fell by an average of 10%. There were good deals to be had by buyers able to load quickly, and pockets of availability were opening up on wines previously considered already sold to European buyers. Prosecco and Pinot Grigio sales to the UK looked to have declined. Non-European interest in Italian wines continued strongly, however, with growing demand from the US for Prosecco and Pinot Grigio and from China for Italian red wines.

One of the most intense heatwaves in a hundred years struck Italy in late July into early August; the heat returned in September – though not to the same extreme – boosting quality levels and recovering the sugar levels in the late season red varietals. Harvesting lasted three weeks longer than in 2017, with many reds not ready for sampling until the second half of November, just in time for the World Bulk Wine Exhibition in Amsterdam.

Northeast Italy yielded very big volumes, with Prosecco and Pinot Grigio quotas easily met and generic whites volumes surpassing expectations. Low alcohol levels –10% lower on average than in the previous vintage – were potentially an issue, but conducive for sparkling base wines. Wines containing higher alcohol levels were in strong demand and trading at a 20% premium. The early market picture was complicated by storage problems due to huge

*See next page for more on Italy.*

levels of fresh must being sent to concentration facilities to produce RCM (rectified concentrated must) for boosting alcohol levels in the high-quality wines such as Prosecco, Pinot Grigio and the international varietals. Central and southern Italy, meanwhile, experienced harvest normal or slightly below normal. Quality in these regions was excellent, with very good natural sugar and acidity levels on the whites and the quality of the reds surpassing expectations.

Due to the elongation of the harvest, and the return to a normal yield – in France and Spain as well – the 2018 vintage buying campaign kicked off far slower than the 2017 campaign did a year earlier. There was, however, a feeling that prices had already reached their bottom on many varietals and appellations; Ciatti recommended that this was a good time for buyers to cover the bulk of their future. Only the organic wine market was feverish due to continuing low output in France and Spain: Italy's organic wines were priced at a 30% premium over traditional wines.

## 2019: Looking Ahead

By the end of 2018 wine sales volumes in Italy were running below average and confirmations were dragging on. The biggest requests were for the international varietal reds and whites, with a wide price range between the entry level and high qualities. The red wine market has been more active in general than the white, with good demand for international varietal reds, generic reds, Rossisimo, and Primitivo (and other Puglian varietals such as Salice Salentino, Negroamaro, and Castel de Monte).

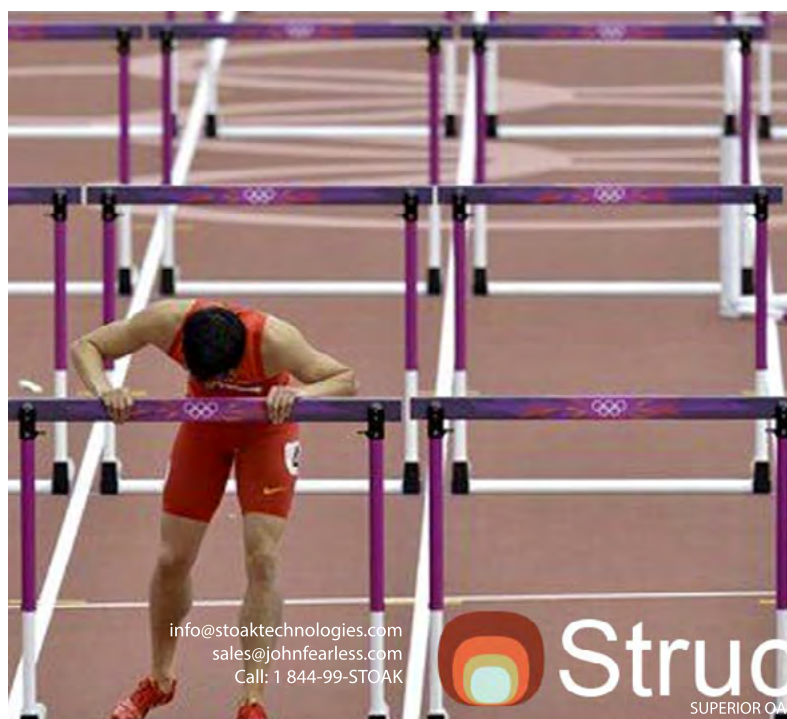
Demand has been there for high quality, high alcohol white wines. Prosecco has remained in demand: it is expected to remain stably-priced through 2019. DOC Pinot Grigio was also moving quite well. Organic wines of all types are much sought-after.

### Key Takeaways

As across Europe following its big 2018 harvests, purchasing of 2018 wines in Italy took a little while to get into its stride but activity is now proceeding steadily. Italy faces stiff competition on price, especially from Spain, but it can offer good value for money on a wide range of products. It has organic wines, international varietals wines, Prosecco and Pinot Grigio available, as well as volumes of low alcohol entry level wines at very competitive pricing.

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# South Africa

## *Time on target*



## 2018: The Year That Was

**Coming into 2018, the Western Cape's bulk wine inventory was under intense pressure due to South America and Europe's short 2017 harvests. The strong demand ensured the Cape's prices rose week-on-week – on top of a pre-existing average price increase of 7-8%, rolled out at the start of the Cape's 2017 selling campaign to boost industry sustainability. But buyers remained prepared to pay, such was the tight global supply situation.**

Stockholding was not significant and it had become very difficult to source wines in the volumes demanded. As a result, Ciatti was receiving requests regarding South Africa's 2018 wines from early October 2017, with some pre-harvest negotiations underway much earlier than normal. Another driver for this prompt market was the import duty quota system applied to South African wines by the European Union since 1 November 2016, which – we have seen – encourages European purchasers of South African bulk wine to ship as soon as possible before the quota is maxed out.

Another not inconsiderable market driver was concern for the size of the Western Cape's coming 2018 harvest in light of the province's ongoing, very severe drought. Cape Town's catchment dams were at 25% of capacity in the first week of February 2018; in March, South Africa's Bureau for Food & Agricultural Policy stated that, on average, the province's agricultural sector had had to cut its water use by 60%, reducing the sector's production by 20% (worth ZAR5.9 billion) and in turn exports by an estimated 13-20% for 2018. There was thus a drive by bulk wine buyers to contract their core volumes earlier than normal, with business underway in January and February that usually would not be getting started until after ProWein in March.

On 14 February, Jacob Zuma, long dogged by corruption allegations, finally resigned as president of South Africa. He was succeeded by his deputy, Cyril Ramaphosa, whose subsequent cabinet reshuffle, and his track-record as a successful businessman, boosted investment confidence in South Africa. This strengthened the Rand to ZAR11.55/US dollar by the end of February, in from ZAR14.00/US dollar back in December. Suppliers with any remaining 2017 inventory had to consider if they had scope to increase their offer prices further on top of a strengthened Rand, though by March suppliers still holding 2017 wines were few and far between. Requests from international buyers were coming in for 2018 wines but, due to the strong early demand, many suppliers were already fully contracted and – with a crop shortfall expected – waiting to see whether or not they would harvest enough to cover those contracts.

The Western Cape's 2018 crop came in at 1,220,920 tonnes, down 15% on 2017's. The final crush produced 957.6 million litres of wine, down 14% on 2017's 1.118 billion litres. It was the smallest crush since 2010's 984.8 million litres, but all-in-all not as short as feared. Bredekloof's tonnages actually exceeded those of 2017 (thanks to good conditions and new Colombard and Pinotage plantings), though it was not enough to offset a significant shortfall in the most drought-affected area, Olifants River. The dry conditions ensured good sanitation in the vineyards and wine quality was very good.

Buyers with contracts were requesting samples as soon as possible so they could start shipping. Whites and rosés were already shipping by the start of May. With a lot of wine contracted or at least being offered to perennial overseas buyers or domestic wholesalers first, there was far less supply for speculative buying in the early months of the campaign than in previous years. Some buyers – particularly European buyers of Cinsaut rosé, for example,

*See next page for more on South Africa.*

which had come in short in France's 2017 harvest – grew frustrated waiting to receive offers from suppliers. International demand was high on all wines, both varietal and generic. Buyers looking to source from South Africa had to be very active on the market and – as deals got wrapped-up swiftly – very reactive when something became available.

Demand from South Africa's domestic buyers – fulfilling local lines or bottling for export – remained strong and they were willing to secure generic reds at prices higher than the general international market price (which encouraged the maximisation of generic red production at the expense of rosé). Domestic retail sales of still wine reached 401.5 million litres in the August 2017 to July 2018 period, according to SAWIS data, up half a percentage point on 399.9 million litres in the prior 12 months, though it remained to be seen how sales would perform once the higher-priced, 2018 vintage wines hit the shelves. Sales to domestic buyers continued strongly throughout the year, however. With it appearing that all remaining 2018 wines were already contracted, and with the Northern Hemisphere harvests imminent, international interest tailed-off from mid-year.

Rand prices for the second half of the year remained stable: 2018 dry white at ZAR6.90-7.20/litre, 2018 generic red at ZAR8.50-9.00/litre; 2018 Chardonnay and Cabernet at ZAR9.50-10.50/litre and ZAR10.00-12.50/litre respectively. The Rand itself continued its typical fluctuations against the US dollar, weakening again through the middle of the year to reach ZAR15.00/US dollar in mid-August, due mainly to the announcement by South Africa's government that appropriation of land without compensation was to become formal policy. and also due to the international 'trade wars' that were also affecting many other emerging market currencies. The Rand entered 2019 in the ZAR14.00/dollar band.

By October it was clear that the harvests in France, Spain and Italy had exceeded their five-year averages, while California was crushing a state record crop. Spain and Italy subsequently competed aggressively on price, Argentina in turn slashed the price of its 2018 wines, forcing Chile to respond to an extent, so that in quick time the global bulk wine supply had switched from a short to a long position. South Africa, however, ended the year with little if any wine to sell: SAWIS estimated that – as of 31 December 2018 – total wine stocks in the Cape's private and producer cellars would be at their lowest level in ten years.

## 2019: Looking Ahead

The Western Cape's vineyards started receiving rain two weeks after the 2018 harvest was finished. By October Cape Town's catchment dams were at 75%+ of capacity and the Olifants/Doorn River dam was almost completely full. The vineyards, rested after a cold, wet winter, looked green in spring and fruit set ran smoothly, giving confidence of a good 2019 crop.

The global bulk wine supply situation has moved from short to long after what the OIV called a "very high" global wine production globally in 2018; adverse growing conditions in Europe, meanwhile, resulted in an increased supply of generics – traditionally one of the most demanded products out of South Africa. The Western Cape's suppliers will need to be sensitive to these new realities when pricing their 2019 wines, especially after the 30% average price increases seen on the 2018 vintage wines.

The Rand was at ZAR13.83 against the US dollar on 10 January. Looking ahead, May's general election in South Africa is likely to add more than normal volatility to the Rand.

### *Key Takeaways*

When setting their 2019 prices, the Western Cape's bulk wine suppliers need to be sensitive to the new global reality: significantly increased bulk wine availability and falling prices. The Cape's bulk wine market is quiet due to a lack of availability; most wine that became available had been picked up by the large domestic brand owners. International buyers are sitting back and assessing the global situation as we move further into 2019.

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# Australia & New Zealand

## *Time on target*



## 2018: The Year That Was

Australia's 2018 wine grape crush came in at 1.79 million tonnes, just above the long-term average of 1.76 million tonnes. The decline in tonnes compared with 2017 was greatest in percentage terms in the cool/temperate regions, which were down by 20% overall, while the warm irrigated regions – Riverina, Murray Darling–Swan Hill and Riverland – were less affected by the drier spring and summer, with yields down just 5%.

Production of red grape varieties decreased by 15% on 2017 figures. However, it must be remembered that the above-average 2017 vintage had seen tonnages increase by 12%, meaning that the 2018 vintage was effectively a return to long-term averages. The decline in the white variety crush compared to 2017 was only 4%, leading to a reduction in the red's share of the crush from 55% to 52%, in line with the three-year average. Of the major varieties, Shiraz tonnes decreased by 1%, Cabernet Sauvignon by 14%, and Merlot by 19%.

The calculated average purchase price of AUD609/tonne was up by 8% on the price of AUD565/tonne calculated in 2017. This figure is the highest since 2008 and above the average price across the past ten years of AUD508/tonne. It is the fourth consecutive vintage where the average purchase price for wine grapes has increased. Since hitting a low in 2011, the overall average grape price has increased by a compound annual rate of 6% over the past seven years. The overall average purchase price of red grapes increased by 11% from AUD692 to AUD768/tonne, while the average price of white grapes increased by 5% from AUD421 to AUD444/tonne.

Each of the top ten red varieties showed increases, with Shiraz up by 8% (on top of a 12% increase in 2017), Cabernet Sauvignon up by 14% and Merlot up by 18%. Among the whites, Chardonnay increased by 5% despite a significant increase in tonnes produced, Sauvignon Blanc increased by 4% and Muscat Gordo Blanco increased by 3%. The only white variety to decline in overall average price was Pinot Gris/Grigio (down 1%).

Australia's wine exports have continued to experience strong growth in both value and volume, with an increase of 11% in value to AUD2.71 billion and 5% in volume to 842 million litres (or 94 million 9-litre case equivalents) in the year ended 30 September 2018. Exports continued to grow to all but one of the major destination regions. The standout growth of 24% was experienced in Northeast Asia, where exports grew to be worth AUD1.14 billion in value. In North America, a AUD16 million increase in exports to Canada only partially offset a AUD38 million decline in exports to the US.

**New Zealand's** 2018 harvest, meanwhile, was marked by an early start and came in at 419,000 tonnes, up 6% on the 2017 tonnage but lower than what was initially expected. The majority of the increase on the previous year was seen in red varieties: production of both Pinot Noir and Merlot rose more than 20%.

## 2019: Looking Ahead

Demand for Australian red wines has been strong and we do not anticipate any change in this leading into 2019. Domestic buyers for 2019 fruit have been very active in the market and looking to lock in fruit early in the season. Heavy demand from China (with tariffs now reduced to zero thanks to the China-Australia FTA) is expected to

*See next page for more on Australia & New Zealand.*

continue for Shiraz, Cabernet, and Merlot from both irrigated and cool climate regions. White varieties such as Sauvignon Blanc are expected to remain in high demand with most fruit accounted for prior to harvest.

Early estimates predict an average-sized Australian harvest but many are wary of the recent dry spring and any potential rain events during the harvest period could affect the overall outcome. Grape prices are going to continue increasing, with early indications of a significant jump in price again in 2019 especially for irrigated reds.

Australian Wine Exports : Regions in growth		
Region	Percentage Value Increase	Total Value
Northeast Asia	24%	AUD1.14 billion
Europe	5%	AUD604 million
Southeast Asia	5%	AUD170 million
Oceania	21%	AUD105 million
Middle East	41%	AUD30 million

Source: Wine Australia WEAR report; year ended 30 September 2018

In **New Zealand**, the demand for Marlborough Sauvignon Blanc is expected to stay consistent in 2019, with good sales to both the US and Australia continuing.

The country's 2018/19 growing season started with high water tables due to above-average rainfall in September and October. A further 50mm-odd of rain around Christmastime means water tables in most areas are at good levels. Fruit set in Marlborough was average to light across most varieties, especially Pinot Noir, Pinot Gris and Chardonnay, so expect lighter tonnages. Sauvignon Blanc was about average with not a lot of spare fruit to go around; most major companies will be looking for more fruit and bulk wine to supply current market growth in Canada, the US and elsewhere.

NZ Harvest: Grape varieties by tonnes		
Variety	2017	2018
Sauvignon Blanc	285,862	296,573
Pinot Noir	28,760	35,095
Chardonnay	26,843	26,371
Pinot Gris	20,755	22,824
Merlot	7,714	10,623
<b>Total Tonnes Crushed</b>	<b>396,000</b>	<b>419,000</b>

NZ Harvest: Tonnes by region		
Region	2017	2018
Marlborough	302,396	313,038
Hawkes Bay	33,679	41,061
Gisborne	16,337	13,000
Central Otago	8,324	11,358
Canterbury / Waipara	8,240	11,157

## Key Takeaways

With Chinese tariffs on Australian wine imports reduced to zero from 1 January 2019, heavy demand from China for Australia's reds is expected to continue this year. Australia's white wines are also in strong demand. Early indications are that the country's 2019 harvest will be average in size. Fruit set in the Marlborough region of NZ, meanwhile, has been average to light across most varieties, with Sauvignon Blanc about average. The usual caveats about Mother Nature still having time to intervene applies to both countries' harvests. Demand for Marlborough Sauvignon Blanc is expected to stay consistent in 2019, with good sales continuing.

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# Currency Review

Source: XE Currency Converter



Rand against the euro



Rand against pound sterling

The Rand (with its typical fluctuations) trended weaker against the euro as 2018 progressed, moving out to ZAR17.90/euro in September – its weakest since May 2016 – before recovering through October and November. In general, the past two years have seen the Rand trend weaker against the euro since peaking in strength at ZAR13.40/euro at the end of March 2017, when the euro was hit by the UK’s invocation of Article 50, the formal mechanism by which it will leave the European Union. When the UK triggered Article 50 the pound slumped and the Rand reached ZAR15.60/pound; in the 21 months since, the Rand has (with its typical fluctuations) fallen back, ending 2018 at ZAR18.30/pound. The UK is scheduled to leave the EU on 29 March this year. A general election will take place in South Africa in May.



Chinese yuan against the Australian dollar



Australian dollar against pound sterling

The Australian wine industry’s exports to China have benefited from a helpful Australian dollar/Chinese yuan exchange in recent years: the Aussie dollar has been below CNY6.00 since the middle of 2013 and below CNY5.50 since September 2014. The above chart shows a strengthening of the dollar in mid-2017 but since then it has been around the CNY5.00 mark and in some cases comfortably under. Australia’s wine exports to China (including Hong Kong and Macau) reached AUD1.06 billion in the year to 30 September 2018, a 24% increase in value on the year before. Pound sterling has been worth less than AUD2.00 since the Brexit vote in June 2016, when it tumbled. Australia’s wine exports to the UK subsequently fell 3% in value terms to AUD349 million. However, since then the pound has steadily – with fluctuations – strengthened against the Aussie dollar (though at its strongest is still only at around AUD1.80) and the value of Australia’s wine exports to the UK have bounced back by 9% to reach AUD380 million in the year to 30 September 2018.



Chilean peso against the US dollar



Argentinian peso against the US dollar

The US dollar weakened to CLP590 on 25 February 2018, its weakest against the Chilean peso since 2015, due to the commencement of a so-called US-China ‘trade war’, with both sides deploying tit-for-tat import tariffs on each other’s goods. The dollar rallied steadily against the Chilean peso throughout the rest of the year and was almost touching CLP700 by the start of 2019. The Argentinian peso, meanwhile, weakened massively against the US dollar in 2018 due to the Argentinian economy’s stagflation and weak market confidence that it will be solved any time soon. The Argentinian peso started the year at ARS18.60/dollar, breached the ARS40/dollar mark in September, before finishing the year at ARS37.65/dollar. The weakness of the Argentinian peso has made Argentina’s already highly competitive wine prices even more attractive – though before freight and taxes are taken into account.



Australian dollar against US dollar



US dollar against pound sterling

The US dollar has strengthened against its Australian counterpart since February’s plunge due to the US-China ‘trade war’. The final quarter of 2018 saw it strengthen against the Aussie dollar to levels not seen since February 2016 – AUD1.41/US dollar on 31 December against AUD1.27/US dollar on 31 December 2017. In the year to 30 September 2018 the value of Australia’s wine exports to the US fell back 8% to AUD423 million, off the back of lower volumes, from an increase of 3% to AUD461 million in the prior year. The weakness of pound sterling against the US dollar leading up to, and following, the Brexit referendum on 23 June 2016 subdued wine demand from the UK, one of California’s most important export markets. The graph shows the pound/dollar exchange for the past five years: the pound slumped dramatically after the vote, weakening almost overnight from USD1.40/pound to USD1.32/pound. In September/October 2016 it took a further lurch into the USD1.20s, where it has often been since.



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