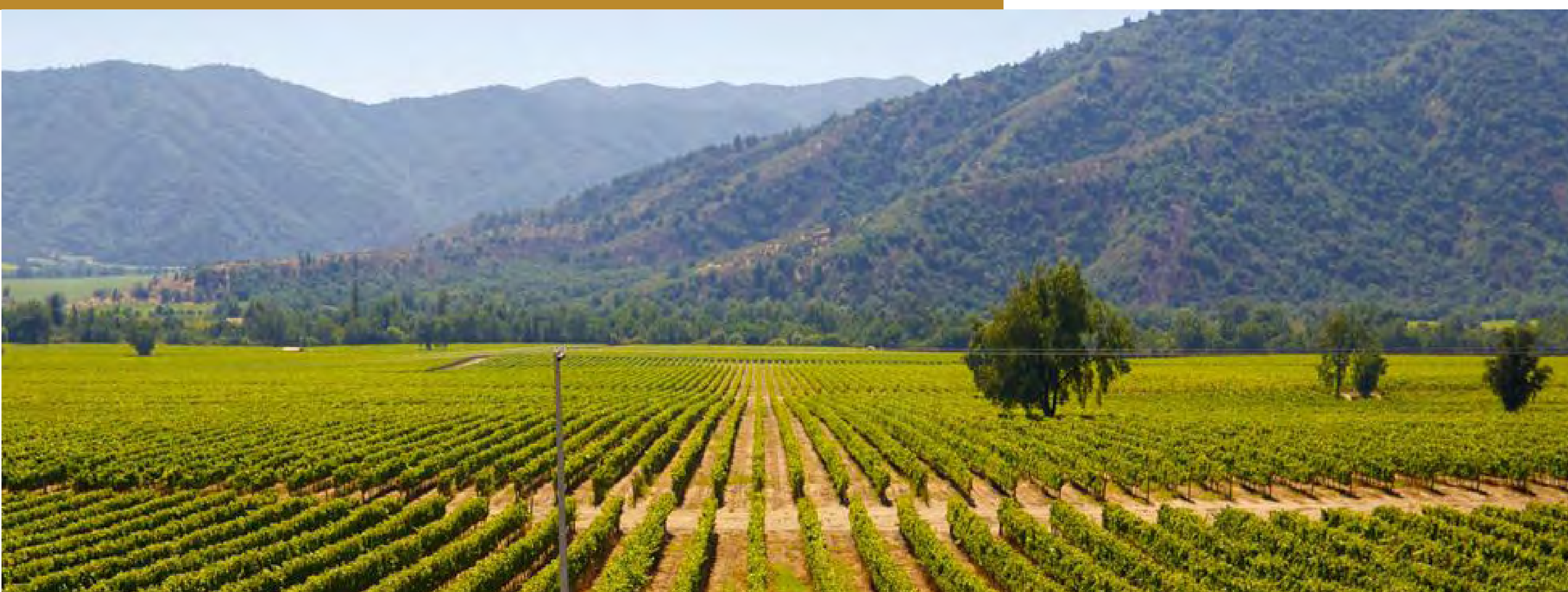
CIATTI
GLOBAL WINE & GRAPE BROKERS

Global Market Report

January 2021
Volume 12, Issue No. 1

Ciatti Global Wine & Grape Brokers

201 Alameda Del Prado #101
Novato, CA 94949
Phone (415) 458-5150



CIATTI
GLOBAL WINE & GRAPE BROKERS

January 2021

Volume 12, Issue No. 1

Reading online? Use the links above to jump through this document.

As a new year begins, we at Ciatti wish all of our friends, clients and business associates a very happy, healthy and prosperous 12 months ahead. We thank you for your continued support and have our fingers crossed that 2021 will be a more straightforward year for the world than its predecessor was.

As every January, this month's report looks back at the year just passed and ahead to the new one. It's always risky in this business to feel confident in forecasting how the next 12 months will go, but this year – given the unprecedented times we are living through – it is even riskier, so apologies in advance if the respective 'Looking Ahead' sections from each office seem a little reticent.

What do we know for sure? COVID-19 bifurcated the bulk wine market in the last nine months of 2020 and this is likely to continue in the first half of 2021. In the off-trade – which has largely stayed open as normal – and online, wine sales have been robust or even outperformed past years as consumers stock up. On-trade and tasting room demand, meanwhile, has in recent months often been reduced to negligible levels by government-imposed restrictions and by some consumer hesitancy as to the health risks. Off-trade/online demand may have recouped some of the lost on-trade sales volume-wise, but the deficit in value was and is far harder to offset. Caution pervades the bulk wine market: purchasing proceeds in small increments.

Industry and individuals have had to adjust to living in a world in which governments have been forced to tell people how to live their lives. Some of the changes the wine industry has had to confront – such as doing business remotely online – were already there in the background and have simply been driven to the fore by circumstances. Others – the lack of conferences at which to gain a global picture, sampling by post – have taken more getting used to, even if they have potentially had positive economizing side-effects time and money-wise.

COVID-19 vaccines are now rolling out across the world, raising hope that life can return to some normality by mid-2021. Is there huge pent-up demand for the way we lived before – socialising at bars/restaurants, holidaying abroad – or is the shift to quieter living a more permanent one, especially as COVID-19 will have scarred consumer confidence and high streets alike? The busyness of Europe's HoReCa sector last summer, when restrictions were temporarily eased, suggests the former, but the economic hangover from COVID-19 is likely to be considerable and felt more keenly by consumers in 2021 and beyond.

This month's report includes mixed news for free trade. A Brexit Update details how the new EU-UK Trade & Corporation Agreement, in force from 1 January, provides for free trade in goods including wine. A US Tariff Update, however, details the latest escalation in the ongoing tit-for-tat tariff battle between the US and the EU which, although a dispute about civil aircraft subsidies, has (as ever, it seems) ended up affecting the wine trade. With the US also in a tariff battle with China, and China having recently slapped 107%+ import duties on Australian wine, tariff wars are probably here to stay in 2021.

Wine is often caught up in these disputes because it is an iconic and sometimes emotive product. Sharing a bottle with a group of friends – at home or in a bustling restaurant – is what many picture in their mind's eye when they look to the year ahead with hope for better things. Ciatti is there to help you every step of the way in 2021, whatever it may bring – just give us a call. Happy New Year, and stay safe.

Robert Selby

Brexit Update

The UK and European Union finally agreed a trade deal on 24 December, seven days before the UK exited the EU's Customs Union and Single Market on 31 December. The 'EU-UK Trade & Corporation Agreement' provides for free trade in goods as of 1 January 2021: no tariffs or quotas will be levied. Although the UK is now outside the EU Customs Union, so that some customs formalities are required, there has been a waiving in some instances.

Importing EU wine into the UK

UK VI-1 certificates are not required for EU wine imported into Great Britain (England, Scotland and Wales) until at least 30 June 2021. There is no change to the pre-existing EU accompanying document arrangements for importing wine from the EU into Northern Ireland. There is no requirement to provide a VI-1 certificate to move wine from Northern Ireland into Great Britain.

The paperwork required to import EU wine into Great Britain is a "simplified import certificate" that requires a set list of basic information, including the country of origin, name of the producer, region of origin and other associated geographic indicators and alcoholic strength (laboratory verification is not required).

Exporting wine from the UK into the EU

Consignments of wine exported from Great Britain to the EU are now subject to EU third country requirements for wine, including having an EU VI-1 form for third country of origin wine exports. There are some situations in which EU VI-1 forms are not necessary and they are listed **here: https://www.gov.uk/guidance/importing-and-exporting-wine#exemptions**. Essentially, the exemption extends to wine produced in Britain (i.e., English wine or Welsh wine) and some limited-sized consignments. Meanwhile, there is no requirement to provide an EU VI-1 certificate to export wine from Northern Ireland to the EU.

Moving wine from Great Britain to Northern Ireland now requires meeting EU marketing standards, including having an EU VI-1 form for third country of origin exports. "There's a three-month grace period from certification for pre-registered authorised traders such as supermarkets and their trusted suppliers," the UK government stated. "This grace period is from 1 January 2021 to 1 April 2021."

The UK's Department for the Environment, Food & Rural Affairs (Defra) will be required to certify that the wine being exported from Great Britain to the EU complies with EU regulations and has been produced using winemaking practices which are recommended and published by the International Organisation of Vine and Wine (OIV) or authorised by the EU. Defra has launched a digital guide to help businesses identify what they need to do: **https://www.food.gov.uk/business-guidance/importing-and-exporting-wine**. England and Wales's Food Standards Agency (FSA) and Food Standards Scotland (FSS) are responsible for the inspection and registration of wine exporters. Exporters will need to have registered with the FSA's Wine Standards Team or with the FSS before they apply to Defra for a VI-1 form.

Labelling

The name and address of an importer based in the EU, Great Britain or Northern Ireland can be used on the label of wine marketed in Great Britain until 30 September 2022. For bulk wine imports, it is possible to use the name and address of a bottler based in the EU, Great Britain or Northern Ireland until 30 September 2022. From 1 October 2022, wine marketed in Great Britain must be labelled with the name and address of an importer or bottler located within the UK.

On wine marketed in Northern Ireland, the name and address of an importer (or bottler in the case of bulk wine imports) based in the EU or Northern Ireland must appear on the label. The UK government said: "In line with previous rule changes for labelling, there's a proportionate and risk-based enforcement approach for these new labelling requirements in Northern Ireland. The new approach recognises that businesses need time to adapt to the new rules. This approach is being implemented in a way which supports businesses as they adapt to the requirements over time."

Industry reaction

Miles Beale, Chief Executive of the UK's Wine & Spirit Trade Association, welcomed the EU-UK Trade

See next page for more.

& Corporation Agreement: "Tucked away in the annexes to the agreement, there is good news for the wine sector [...] The deal means that wine produced in either the UK or EU will not require the much feared, costly VI-1 certificate. Instead, there will be a simplified import certificate with the eminently sensible prospect of the information being made available electronically in future."

However: "While not having to complete VI-1 certificates for EU wine coming into the UK and English and Welsh wines being sent to the EU is a welcome relief, the UK wine trade will still have to complete VI-1 forms when sending third-country wines to Northern Ireland and [...] the EU."

US Tariff Update

Effective 12 January 2021, the US has expanded its 25% import duty increase on European wines to include French and German still wines over 14% alcohol in both bottled and bulk form, scuppering moves by suppliers to circumvent the increase by bottling in the US or importing higher-alcohol wines.

The tariff hikes on these products are an expansion of the original tranche, effective since 18 October 2019, on French, Spanish, German and UK wines "not over 14% alcohol, in containers not over 2 liters", levied as part of the long-running US-EU aircraft subsidies dispute.

In late 2020 the EU retaliated to those US tariff hikes by imposing its own 25% import duty increases on – among other items – US rum, brandy, vodka and vermouth. The Office of the US Trade Representative (USTR) has since claimed this response was disproportionate as the EU based it on "trade data from a period in which trade volumes had been drastically reduced due to the horrific effects on the global economy from the COVID-19 virus". As such, the USTR has now levied these new tariffs on French and German wines "to keep the two actions proportionate to each other".

The following French and German wines and wine/grape-based products are part of this action (HTS subheading in brackets):

- "Effervescent grape wine, in containers holding 2 liters or less" (2204.21.20)
- "Tokay wine (not carbonated) not over 14% alcohol, in containers not over 2 liters" (2204.21.30)
- "Marsala" wine, over 14% vol. alcohol, in containers holding 2 liters or less (2204.21.60)
- "Grape wine, other than 'Marsala', not sparkling or effervescent, over 14% vol. alcohol, in containers holding 2 liters or less" (2204.21.80)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume <=14% in containers holding over 2 liters but not over 4 liters" (2204.22.20)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume >14% in containers holding over 2 liters but not over 4 liters" (2204.22.40)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume <=14% in containers holding over 4 liters but not over 10 liters" (2204.22.60)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume >14% in containers holding over 4 liters but not over 10 liters" (2204.22.80)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume <=14% in containers holding >10 liters" (2204.29.61)
- "Wine of fresh grapes, other than sparkling wine, of an alcoholic strength by volume >14% in containers holding >10 liters" (2204.29.81)
- "Grape must, nesoi, in fermentation or with fermentation arrested otherwise than by addition of alcohol" (2204.30.00)
- "Spirits obtained by distilling grape wine or grape marc (grape brandy), other than Pisco and Singani, in containers each holding not over 4 liters, valued over $38 per proof liter" (2208.20.40: "only a portion of HS8 digit is to be covered")

California
Time on target

2020: The Year That Was

California came into 2020 in a position of oversupply after a record-breaking 2018 yield of 4.28 million tons and another good-sized crush in 2019 (though the final figure was lower than expected, at 3.92 million tons, in large part due to uncontracted grapes going unpicked). The bulk market had for a couple of years been lethargic due to the plentiful supply situation combining with flat consumer demand at US retail, and prices had softened significantly from 2018 highs. International buyers seeking to start or supply California wine lines could find all manner of opportunities – on Coastal appellations as well as 'California' – to capture long-term contracts on a very good price-quality ratio if they so wished.

The import side had been rendered more complex from October 2019: the US hiked duties on Spanish, German, French and UK wines "not over 14% alcohol, in containers not over 2 liters" by 25%, in retaliation for EU subsidies to aircraft manufacturer Airbus. French wine exports to the US market duly declined by 18% in the final quarter of 2019 and French suppliers began looking into importing Provencal rosé into the US by bulk and bottling there.

In February we reported that "pricing is stable and inventory remains significant". Ciatti estimated Cabernet stocks were close to approximately 34 million litres as of January, with Chardonnay stocks exceeding 15 million litres and Pinot Noir approaching 11.3 million litres: "The main challenge continues to be working through this inventory while domestic wineries remain reticent to cover anything more than their short-term needs." By March bulk wine activity in the Central Valley was "still sluggish". No one could have foreseen the change that was about to take place, firstly due to a virus, secondly due to Mother Nature.

That month the spread of COVID-19 became a global pandemic and the Shelter in Place orders imposed to slow it in the US caused consumer stockpiling at grocery stores. Wine sales in the US off-premise channels were up 28% by value in the week to 14 March versus the equivalent week of 2019; the following week they were up by a massive 66% (plus up 224% online), and although that remained the high watermark Nielsen estimated wine's off-premise dollar sales were up 26.6% from the start of March to 25 July.

The speed and size of the upswing on California's bulk market was probably accentuated by its prior sluggishness, but the gear change – driven particularly by the larger players supplying the off-premise channels with mid-market and value-end 'California' appellation wines – was significant. That said, only short-term needs were being covered as longer-term visibility in terms of COVID-19 and its impact on consumer behaviour was highly limited. With the on-premise shuttered in many parts of the country, the bulk market bifurcated – California appellation wines at retail prices selling well (and seeing some price firming as inventory began to fall), while activity on Coastal wines remained limited. The suppliers of well-placed off-trade brands further reduced the state's inventory by taking any bulk wine they had for sale off the bulk market to use internally themselves. On the flip-side, with their on-trade and tasting room sales greatly inhibited, Coastal wineries were adjusting down their sales forecasts and placing wines onto the bulk market.

See next page for more on California.

By mid-year there was some grape activity in the Central Valley, though this was likely due to large wineries carrying out long-scheduled supply replenishing rather than reacting to the off-premise demand. Any extra activity was usually at prices below seller expectations, as buyers were aware they could move into the Coast – where the grape market was quiet – to find alternatives. By July the bulk and grape activity in the Valley had somewhat firmed-up the bottom prices on specific bulk wines. The third week of the month saw the commencement of the Valley's 2020 harvest amid excellent vineyard conditions; early signs were that things were picking a little lighter than average – after successive large harvests – and there was the expectation of a lighter than average crop overall.

Then came Mother Nature. Thunderstorms brought a record number of lightning strikes to California in mid-August, setting alight to bone-dry areas officially in moderate or extreme drought. Further wildfires subsequently ignited up and down the US West Coast amid heatwaves combined with windy conditions. The Californian areas with the biggest smoke exposure concerns were in the Coast and northern Interior: the bulk market there became frenzied – probably the most active it had been in at least three years – and prices rose quickly, ushering in the return of the Coastal/California price separation after a two-year absence. The southern Central Valley, spared the worst of the wildfires and more distant from the smoke, did not see the same run on inventory; export prices, for instance, held in the vast majority of cases.

The presence of smoke layers in the atmosphere did stall Brix rises and slowed picking towards the end of the Valley's harvest, ensuring it did not finish as far ahead of normal as it might have done (around 15 October). The area's yield was estimated to have come in 10-20% lighter than the average and rejections of grapes because of smoke exposure concerns were few if any, particularly on the white varietals which were mostly picked before the wildfires sparked. Southern Central Valley export pricing remained stable. The state's total crop is estimated to have reached approximately 3.4 million tons which, if accurate, would make it the smallest crop since 2011's 3.34 million tons.

With California's bulk market having been shifted – by COVID-19 and then the record-breaking wildfires – from an oversupply to a more 'normal' position, and with the majority of deals struck on 2020 grapes lasting only one year, it was no surprise to see some early discussions on the Valley's 2021 grape supply in the autumn. Some grape suppliers were hesitant to commit to a contract at such a stage, considering the lighter 2020 crop and the reduction in bulk inventory.

Despite these new realities, growers were encouraged not to assume their fortunes had turned a corner after a couple of tough years, as the more 'normal' market position had been brought about by unprecedented – hopefully one-off – events rather than genuine growth in US consumer demand for wine. We ended the year warning: "COVID-related caution is likely to pervade brand strategizing and buying activity moving forward."

Nielsen off-premise data for November showed an 8% increase in domestic wine sales value – down on the levels of increase seen through the year (including October's +17%) but off a far higher base due to Thanksgiving. Overall, according to bw166, in the 12 months ended November, US domestic wine sales fell 6% in value to USD47.7 billion, as a 13% increase in the off-premise failed to fully offset a 39% decline in the on-premise.

2021: Looking Ahead

With COVID-19 still a clear and pressing issue – albeit with vaccines against it now being rolled out across the US and beyond – the total value of US domestic wine sales is likely to continue in negative territory for at least the first half of 2021 until such time as the on-premise can safely and permanently re-open.

As fears over the impact smoke may have had on the 2020 vintage diminished towards the end of the year, California's bulk wine activity levels fell back and prices plateaued. Inventory – rapidly reduced between May and October – began to rebuild as the 2020 vintage became available. The state's supply of 2019 wines is greatly

See next page for more on California.

diminished and high in price, while some Central Valley suppliers already claim to be sold out of their 2020 whites such as Sauvignon Blanc, Pinot Grigio and Muscat, forcing some buyers to look overseas. The Valley's Cabernet and Pinot Noir are also already proving hard to find.

There have been some limited preliminary discussions about 2021 Valley grapes, also planting contracts for Merlot and – in the southern valley – Chenin Blanc and Colombard. According to the long-range weather forecast dated 6 January from Linfield University's Dr Gregory Jones, La Niña dominates the outlook for the second half of winter: California is expected to be warm and dry at least though to March and some areas are on drought watch.

As of 12 January, the US has expanded its aforementioned 25% import duty hike on European wines to include French and German still wines over 14% alcohol and in either bottled or bulk (they had previously only applied to bottled wines at or under 14%), scuppering moves by suppliers to circumvent the increase by bottling in the US or importing higher-alcohol wines. Anecdotally, French wine imports into the US were seemingly holding up well in the face of the tariff hikes in 2020, thanks to an increase in demand from US online wine clubs (attributable to the Stay in Place orders). However, imports of the EU wines affected by the tariff increases have reportedly fallen by half since their original imposition in October 2019 and Italian wines – so far free of the hikes – have consolidated their position as the leading import.

Key Takeaways

California's bulk market has been active but less active than it was in late summer/autumn and prices have – in the main – plateaued. Some Central Valley suppliers are reporting that they already are out of their 2020 wines – particularly Sauvignon Blanc, Pinot Grigio and Muscat, forcing some buyers to source these overseas. Some discussion is occurring around the Valley's 2021 grapes. International demand is muted: European buyers are assessing the 2020 crops closer to home and all buyers are watching how OND sales, and sales in early 2021, performed.

Ciatti Contacts

Import/Export

CEO – Greg Livengood
Steve Dorfman
Jed Lucey
T. +415 458-5150
E. greg@ciatti.com
E. steve@ciatti.com
E: jed@ciatti.com

Domestic

T. +415 458-5150
Glenn Proctor – glenn@ciatti.com
John White – johnw@ciatti.com
Chris Welch – chris@ciatti.com
Todd Azevedo– todd@ciatti.com
Johnny Leonardo – johnny@ciatti.com

Argentina

Time on target

2020: The Year That Was

Argentina came into 2020 having experienced improved wine sales volumes in 2019 versus the prior year (+18% in bulk and +3.7% in bottled for the January-October period) but still holding – following an excellent-quality 2019 vintage totalling 2.5 million metric tons – significant inventory of quality wines at low and negotiable pricing.

Heavy rain in the first week of February brought relief to Mendoza's drought-hit growing areas but caused some bursting of grapes on the early varieties, leading to forecasts of a 11-20% shortfall in the final yield. This fed into a pre-existing price uptick on Criolla and other whites due to very strong grape juice concentrate demand; however, the fact the later, non-Tintorera reds were seen as less harmed by the rain, combined with their significant inventory, meant red prices mainly remained stable.

March brought another price-stabilising factor: COVID-19's spread around the world injected great uncertainty into all markets and effectively paused purchasing for a time. Argentina went into lockdown on 20 March but the grape harvest was permitted to continue, albeit facing complications due to the shutdown (a reduction in the availability of cash to pay workers due to bank branch closures) and Argentina's ongoing economic struggles (with many growers struggling with cashflow due to 40-45% inflation). A hot March and early April sped-up picking so that the harvest was complete by the start of May and estimated at 2.042 million metric tons, down approximately 20% from the long-term average.

This below-average tonnage did not move the needle on the market, with supply still abundant and pricing remaining highly attractive from an international standpoint, especially with the Argentinian peso's continuing weakness – at ARS70/dollar by June, from ARS60/dollar in January, the steady slide coming despite the currency controls imposed by former president Mauricio Macri and continued by his successor Alberto Fernández. The main problem for Argentina's suppliers was that, although the official exchange rate was being artificially held in place, the 'blue market' peso – the true street value of the peso – had surpassed ARS120/dollar by May. Thus, Argentina's suppliers were caught in a trap: to export wines at the official peso rate significantly below the internal rate, or seek domestic demand which – due to COVID-19 and economic woes – was (assumed to be) highly muted.

Samples of the 2020 vintage were being requested from around the world by mid-year and wine shipments were proceeding, though there were delays obtaining the necessary customs paperwork as the national shutdown affected government agencies. By July restrictions across Argentina – except in Buenos Aires – were being eased, with bars and restaurants re-opening under social distancing guidelines. Domestic wine demand duly picked up (Argentina's national institute of viticulture, INV, reported a 21.7% increase in year on-year wine shipments to the domestic market in July 2020 – the highest increase in seven years), complementing an uptick in international demand, with potential buyers from Australia, China, Canada, the US, UK and Scandinavia prospecting the marketplace. Argentina could offer a very competitive price-quality ratio – probably unbeatable from a global standpoint before freight etc – and probably its lowest prices for 15 years or more. Quality after the very good 2020 vintage was further boosted by high-end wines that would otherwise be sold as case goods to the on-trade being diverted instead into bulk.

Grape juice concentrate, meanwhile, had been in strong demand for some months and – by mid-year – buyers were being warned prices were likely to rise and availability to become tight by 2021. Such demand was having a knock-on effect on generic white availability, while supply of varietal whites such as Chardonnay, already far less plentiful than the reds, was being quickly drawn down.

See next page for more on Argentina.

Mendoza experienced the sort of low temperatures and high snowfall levels that Argentinian winters traditionally used to exhibit – its first 'normal' winter in around 15 years. This was welcome in order to replenish water reserves and rest the vines. However, when spring got underway, the first weekend of October brought a significant frost widely believed to have impacted the final 2021 harvest volume.

Domestic and export sales were proceeding with good momentum through October and November, with a price firming continuing on the white wines and broadening out to also encompass standard-quality Malbec and generic reds. The domestic market saw a 30% rise in prices between August and November due to good sales. International demand leading up to Christmas was quieter as European markets reacted to the second wave of COVID-19 and assessed their OND sales, while some Argentinian suppliers chose to hold onto their wines until the impact of October's frost becomes known – likely sometime in February.

2021: Looking Ahead

Argentina's 2020 inventory has been significantly reduced due to both domestic and international demand. The better-quality Malbecs are becoming harder to find in big volumes – though, as 2020 was such an excellent vintage quality-wise, all price levels have exhibited increased quality. White varietals, white generics and red generics are becoming depleted also, leading to a firming-up of pricing in some instances. The 2021 vintage is thus needed, and all eyes are on what the first indications of its size – due in February – show, especially considering October's frost.

Hanging over Argentina throughout 2020 was the likelihood of a major peso devaluation triggered by the government, but it never came. As an overnight devaluation is widely considered an inevitability, speculation has switched to when in 2021 it will occur. The Fernandez government remains opposed, with Finance Minister Martin Guzman stating in December that "the idea is to maintain a stable real exchange rate". In reality, devaluation is already happening steadily, with the official peso starting 2020 at ARS60/dollar and finishing it at ARS89/dollar.

The Argentinian government is also in talks with the International Monetary Fund over a new programme to replace a failed USD57 billion debt facility from 2018. A deal is expected to be reached around March or April. In the meantime, Argentina continues to offer some eye-catching price-quality opportunities on its remaining 2020 inventory and buyers seeking deals on specific volumes at the right price are recommended to move sooner rather than later.

Key Takeaways

Despite COVID-19's headwinds, the year just passed was a robust one for Argentinian wines in terms of international and domestic sales. Argentina's high-quality, competitively-priced bulk offer attracted steady international demand, particularly in the second half of the year. Consequently, availability on some 2020 wines – such as standard-quality Malbec – has diminished and pricing has firmed-up in some instances. The market now has one eye on the 2021 crop, the size of which is believed to have been affected by spring frost, with some suppliers speculating that prices may consequently rise. There is also speculation on a major peso devaluation – widely perceived to be inevitable, but the Argentinian government remains obdurate in its opposition to one.

Ciatti Contact

Eduardo Conill
T. +54 261 420 3434
E. eduardo@ciatti.com.ar

Chile

Time on target

2020: The Year That Was

Chile entered 2020 having experienced its driest year on record and concerns regarding this, combined with a 13.4% rise in its bulk wine export volumes in 2019 (with jumps in US and UK demand offsetting a fall in shipments to China), set its 2020 grape prices at around 15% higher than they were the year before.

The ongoing drought brought forward picking of the 2020 crop by 10-12 days and things only accelerated amid high temperatures, so that by March the timetable was running 2-4 weeks ahead of normal. It was clear yields were coming in lighter and significant, late spot activity on grapes by domestic and then international wineries further pushed up pricing on any remaining uncontracted grapes. However, the Chilean peso's weakness (CLP800/dollar), partly caused by domestic civil unrest in late 2019 and the first effects of COVID-19 on China (Chile's most important export market for goods), at least partially offset the upward movement of bulk wine prices.

The peso weakened further (CLP830/dollar at the start of March, then averaging CLP853/dollar through April) as COVID-19 became a global pandemic: Chile implemented some lockdown measures from mid-March but harvesting of the 2020 crop was permitted to continue and was completed by the end of April, a month earlier than normal. The crush totalled 1.033 billion litres, down 13.4% from 2019's 1.193 billion litres (itself down 7.4% from 2018's large 1.289 billion litres).

Consumer stockpiling in North America, the UK and some European markets due to lockdowns boosted off-trade/retailer demand for Chilean bulk wine but – thanks to the peso's weakness – the dollar price to international buyers remained stable. Chile's total bulk export volumes were understandably down by 8% in the January to June period, but this was mainly due to a 65% fall in Chinese demand. Exports to the US (+27%), the UK (+18%), Germany (+34%), Canada (+22%) and Sweden (+32%) all saw significant increases as Chilean wine's 'entry to the premium' positioning in supermarkets proved a demand sweet spot.

By June, Chile's 2020 Sauvignon Blanc and Pinot Noir were almost sold out, Chardonnay and Merlot were in hot demand; the other reds, such as Cabernet, were in less demand and some price softening occurred. There were also opportunities to be had on high-quality premium wines that would normally get sold as case goods into Chile's domestic HoReCa channel – which, as across the world, was shut – or China, still muted by COVID-19. Bulk activity in Chile continued strongly through July and August, powered both by international buyers and by domestic buyers requiring volumes for domestic/international demand.

Such high activity levels continued to push up bulk wine prices and made it clear that – on the white varietals and Pinot Noir at least – there would be a gap between the 2020 vintage becoming sold out and the 2021 wines becoming available. Thus, by September, buyers were already attempting to contract 2021 grapes. Growers, however, were hesitant to close deals considering 2020 bulk wines and 2021 grapes were experiencing ongoing upward price pressure and the frost season still had to be navigated. By October most buyer discussion was around potential 2021 bulk wine prices and volumes – particularly on Sauvignon Blanc, Chardonnay, Dry White and Pinot Noir as the 2020 vintage of these varieties was sold out, or close to. Cabernet and Merlot from the 2020 vintage remained available, but increasing in price; their 2021 grape prices remained in line with their 2020 prices.

The growing areas, meanwhile, experienced a very wet June – a welcome boost to water reserves amid the drought – but July and August were unseasonably dry; then, during the first weekend of October, a severe spring frost afflicted some areas of Casablanca and the Central Valley. Nonetheless, by the end of the year there was confidence – due to the shorter 2020 crop, abundant water supplies thanks to the wet June, and lush vineyard conditions – that the 2021 crop would be larger, though vine pulls-outs (as growers switch to alternative cops) would inhibit the increase.

International demand eased in the final two months of the year: many buyers were already covered, the second wave of COVID-19 in Europe had injected further hesitancy, and all eyes were on Chile's 2021 crop. Domestic buyers remained

See next page for more on Chile.

active, pre-contracting 2021 grapes and wines (whites and reds). This was a reflection of Chile's loosening of COVID-19 restrictions, freeing up the country's on-premise sector, but also the performance of Chile's bottled exports in January through November: growth of 1.75% on 2019 – outstanding, considering the headwinds faced. During the same period, continued bulk demand from key markets such as North America, the UK and Scandinavia ensured Chile's bulk exports were down only 3.56%.

The 25 October referendum on Chile's new constitution passed off smoothly and had no discernible softening effect on the peso, which trended stronger towards the end of the year (averaging CLP788/dollar in October and CLP762/dollar in November) due to the price of copper – Chile's leading export – hitting a seven-year high.

2021: Looking Ahead

By the end of 2020 it was clear that the increase in 2021 grape and wine prices over preceding months had meant current market prices were higher than on some pre-harvest contracts. Sauvignon Blanc, Chardonnay and Pinot Noir in particular were commanding prices steeper than anyone could have expected. Chile's 2020 reds (except Pinot Noir) remain more plentiful – and flatter in price – and could prove attractive to Chinese buyers considering ongoing China-Australia trade tensions. Consequently, potential buyers eyeing Chilean reds are recommended to consider carefully whether or not to hold off, as prices may rise as the market comes under pressure.

Chile's total wine export volumes in the January to November 2020 period were in line with 2019, as weak Chinese demand was offset by the aforementioned increases in demand from the likes of the US, UK, Germany, Canada and Sweden. With close to 800 million litres exported in the first 11 months of 2020 plus further shipments in December, in addition to significant volumes demanded by the domestic market, Chile's inventory will not be large going into 2021, putting pressure on prices. Much will depend on the 2021 crop size, but pricing will start strongly.

What are the expectations regarding Chile's 2021 crop? With adequate water supplies and good cluster levels apparent, there is confidence that the crop will be large. There are concerns that COVID-19 restrictions – reimposed as a consequence of increasing infection rates – could impede movement, labour supply and working practices during harvest.

Confidence surrounding the harvest size has helped pause the 2021 grape market, with domestic and bulk wineries expecting grape prices to be lower later on. Sauvignon Blanc, Chardonnay, Pinot Noir and Carmenere grapes are rising in price due to demand – China's likely renewed interest should place some pressure on Carmenere. The grape market's overall quietness, however, combined with the calmer pace of wine buying activity, has served to stabilise wine prices.

The peso continued to strengthen in December (averaging CLP734/dollar, its strongest monthly average since October 2019) into the early days of January (CLP709/dollar), thanks to the strong copper price, signs that Chile's economy grew in November, and the perception that the country has secured more COVID-19 vaccines than its emerging market peers.

Key Takeaways

COVID-19 hesitancy around the world, and the fact many buyers are already covered, has slowed activity on Chile's bulk wine market. China's new tariffs on some Australian wine imports could boost Chinese demand for Chilean reds, supply of which (except Pinot Noir) remains good and at more competitive pricing than on the whites. Buyers eyeing Chilean reds are thus recommended to consider moving sooner rather than later. Conditions in Chile's vineyards are excellent, water reserves are sufficient, and cluster levels look good. The peso has strengthened against the dollar in recent months thanks to strong copper prices and Chile's securing of a large amount of COVID-19 vaccines.

Ciatti Contact

Marco Adam
T. +56 2 32511 691 – or –
T. +56 2 32511 692
E. madam@ciattichile.cl

See next page for more on Chile.

Chilean Export Figures

Wine Export Figures	January 2019 - November 2019			January 2020 - November 2020			Volume
	Million Liters	Million US$ FOB	Average Price	Million Liters	Million US$ FOB	Average Price	Variance %
Bottled	439,08	1.396,49	3,18	446,75	1.371,55	3,07	1,75
Bulk	334,62	314,48	0,94	322,70	266,09	0,82	-3,56
Sparkling Wines	4,28	17,19	4,02	3,23	13,75	4,25	-24,42
Packed Wines	18,99	33,89	1,78	23,96	42,32	1,77	26,16
Total	**796,97**	**1.762,04**	**2,48**	**796,64**	**1.693,71**	**2,48**	**-0,04**

France

Time on target

2020: The Year That Was

France came into 2020 having crushed 42.1 million hectolitres of vintage 2019 – down 15% from the bumper 2018 yield of 49.2 million hectolitres and 7% down on the five-year average – ensuring good activity levels on the standard and standard-plus quality IGP white wines and roses (and organic whites and rosés) at pricing stable with the previous vintage. The red market, however, was slowed down by significant carryover stock: only the high-quality, high-alcohol reds were receiving robust interest.

By February southern French 2019 white wines were selling strongly and Chardonnay – the varietal most affected by 2019's drought and difficult growing conditions – was already becoming difficult to source on the spot market. The Sauvignon Blanc picture was similar. Pricing, however, remained stable. Some 80% of rosé stock was already sold as – early in the autumn of 2019 – France overstocked the US market in anticipation of the 25% tariff hike that the US imposed on some EU wines from 18 October. Southern French organic whites and rosés were close to being sold out and prices on these were firm to rising. The red wine market (standard and organic), however, was proceeding sluggishly: trepidation regarding US tariffs, the slowdown in Chinese demand (due to the economic slowdown there, a reorganisation of its wine importers and then the outbreak of COVID-19), as well as Brexit's impact on UK sales, compounded the carryover-induced lethargy.

France entered its first national lockdown on 17 March and – as across the world – southern French bulk market activity bifurcated between that supplying the off-premise (supermarkets and other retailers remained open in France) and that supplying the on-trade and tourism (shuttered). That said, France failed to see the spike in supermarket wine sales other markets – such as the US and UK – enjoyed; French supermarkets continued to work steadily through their normal volumes. In general, wine continued to be loaded and shipped – just at a slower rate – and bottlers and negociants continued to sample wines and make some purchases, particularly those who export.

See next page for more on France.

Demand from the US defied the tariffs thanks to a boom in sales via online wine clubs, Scandinavian demand remained good and Chinese buyers were returning to the market.

The sluggish rate of activity overall, however, led to a price softening. This, in turn, was paused by May's announcement of a EUR155 million Emergency Distillation Plan encompassing 2 million hectolitres. This Plan, implemented to free-up tank space ahead of the 2020 harvest, would pay approximately EUR0.58/litre for table wine and EUR0.78/litre for IGP/AOP wine (including transport). This paused selling activity on table wines and IGP reds as the distillation prices were higher than real market prices. And, although it was below what AOP reds would normally fetch, the market was slow enough for AOP sellers to consider taking the price in order to survive the year. Consequently, it was possible for buyers to get some very attractive price-quality ratio deals on high-quality AOP reds. Bordeaux reds in particular were suffering from a long supply position as demand from two key markets – the US and China – was muted in the preceding 12 months.

The competitive distillation price combined with significant red carryover to ensure the Distillation Plan was oversubscribed by some 1.23 million hectoliters. It was subsequently extended to encompass this extra volume and the added time it would need to distil it all. The Plan kept the bulk market paused into harvest time which – due to some high summer temperatures – got underway a week or so ahead of normal in southern France. One inadvertent consequence of the Distillation Plan's expansion was that it led to leftover rosé and white wines going to distillation (as their buying campaigns were over) at the expense of reds (viewed as able to last longer) that were labouring under a persistent and substantial carryover. Similarly, IGP reds were being submitted for distillation due to the competitive EUR0.78/litre price when AOP reds required the alleviation most.

By September, with the 2020 harvest still ongoing, the market for 2020 organic whites was apparently already over due to the level of pre-harvest deals, with organic Chardonnay and Sauvignon Blanc largely contracted. The organic rosé market was closer to supply-demand balance; the organic red market was as quiet as the wider red wine market due to carryover and significant amounts of new organic red production coming on line.

The Languedoc's harvest was complete by the start of October after a smooth picking period and estimated to have come in average-plus in size at close to 13 million hectolitres; the total French crop was estimated at 44.9 million hectolitres, up 6-7% on 2019 and in line with the five-year average. Similar to 2019, Chardonnay felt in supply-demand balance (even more so after a disappointing year for the varietal in terms of yield) and its buying campaign would be the first to commence – much of the standard and organic Chardonnay had already been pre-contracted. Sample requests on all other wines was moving forward unhurriedly in light of ongoing COVID-19 uncertainty at home and abroad.

Elsewhere across France, South West's drought-hit crop came in 1% up on 2019 but down 4% on the five-year average; spring frosts ensured Provence's crop was 6% down on the five-year average, while Bordeaux's was in line. There was an awareness that how Bordeaux chose to divide up its reds into AOP and Vin de France – in light of the significant slowdown in Chinese demand for its AOP reds – would have ramifications for the Vin de France table red market across southern France.

Most activity by November was on whites and rosés for domestic and European off-trade/online retailers. The bifurcation of the market – with off-trade demand falling away – had by now returned to the fore following the autumn reimposition of national and regional COVID-19 restrictions across Europe as a second wave of the virus hit. Buying for the rest of the year was carried out only in small increments, covering business that was definitely secured: most activity was on Chardonnay, Pinot Noir (due to Burgundy's small 2020 crop) and rosé. Surprisingly, perhaps symptomatic of COVID uncertainty and an uptick in organic production, there remained available volumes of organic rosés and whites (such as Chardonnay and Sauvignon Blanc) through December – and for the first time in five years, with a significant price drop.

See next page for more on France.

2021: Looking Ahead

France has – at the time of writing – so far resisted returning to a national lockdown in January, proceeding with limited and localised restrictions. Bars and restaurants were long scheduled to re-open on 20 January but this has now been pushed back to mid-February "at the earliest". France's national vaccination rollout commenced on 27 December and it is hoped this will enable life to return to some level of normality by mid-year.

The first week of January brought negative trade news with the imposition, as of the 12th of the month, of a 25% hike in US import tariffs on bulk and bottled French wine exceeding 14% alcohol. These tariffs come as an expansion to the pre-existing US tariffs (levied since October 2019 as part of the longstanding US-EU civil aviation dispute) on French wine at or under 14%. French wine-based spirits have also been under threat of tariffs, though the new measures only apply to spirits packed in containers smaller than 4.0 litres and at a declared value at custom clearance over USD22.80 per 75cl bottle (of 40% alcohol product).

The 2020 vintage buying campaign started quietly due to the COVID-19 situation, though there have been good activity levels on southern French Chardonnay, Pinot Noir and rosé. Activity on all other items, including organic wines, has been muted, with business proceeding in small increments. In general, pricing is stable on the whites and rosés and trending softer on the reds; there continues to be significant opportunities on good-quality southern French reds particularly.

France's Emergency Distillation Plan is continuing in the background, with 20 March the deadline for wineries to send their remaining registered wines to distillers.

Key Takeaways

The 2020 vintage buying campaign started quietly in France due to the COVID-19 situation across Europe. There have been good activity levels on southern French Chardonnay (the varietal is in supply-demand balance and experienced a disappointing 2020 crush) and Pinot Noir (due to a shortage in Burgundy). Buyers of southern French Pinot Noir have been urged to move onto the market sooner rather than later. Rosé has experienced good activity levels. Activity on all other items, including organic wines, has been muted, with business proceeding in small increments.

Ciatti Contact

Florian Ceschi
T. +33 4 67 913532
E. Florian@ciatti.fr

Spain
Time on target

2020: The Year That Was

Spain came into the new year off the back of a drought-hit 2019 harvest of 33.7 million hectolitres, down 10% in size from the five-year average. Despite this, market activity was proceeding steadily and pricing on generic reds, whites and rosés remained unbeatable from a European – if not a global – standpoint, and softening. The international white varietals were in the most supply-demand balance – particularly Chardonnay and Sauvignon Blanc – but pricing remained stable due to highly competitive South American pricing.

As well as facing increased competition from Argentina and Chile for non-European custom, Spanish wine also had to come to terms with a 25% hike in US import tariffs due to the ongoing US-EU aircraft manufacture dispute. The US is the biggest export market for one in four Spanish winemakers and a survey at the start of the year showed that around 90% of exporters of Spanish wine to the US believed they would be seriously impacted by the duty hike.

These factors contributed to a softening price trend on the Spanish bulk market which essentially paused buying activity, as there was a belief prices would fall further and remain negotiable. Activity grew even more incremental once COVID-19 reached Europe: Spain entered a nationwide lockdown on 14 March. Pricing was softening fastest on the generic whites and Spain's 12% alcohol Airén/generic white was becoming globally competitive.

As on other bulk wine markets, through late spring activity in Spain grew bifurcated between that serving the supermarkets (permitted to remain open) and that serving the on-trade/tourism (forced to close). Domestic, French and German suppliers to retailers were relatively active, negotiating prices, covering immediate needs, and shipping.

June brought news that the Spanish government would roll out a EUR90 million Emergency Distillation Plan – of which EUR65.5 million would be for crisis distillation – in recognition of the inventory situation. Some 34.6 million hectolitres of inventory remained in Spanish cellars as of 31 July, down from the level on the same date of 2019 but still 6.8% up on the five-year average. The bulk market was paused while suppliers waited to see what pricing the Plan would offer. In the end, the volumes eligible for distillation were limited and there remained good availability on the bulk market – again, particularly on whites. The red wine and rosé markets were more balanced, the former assisted by Chinese demand for European red blends.

Spain's bars and restaurants were permitted to re-open – at 50% of capacity – from 10 June and the country's state of emergency ended on the 21st. Domestic demand for bulk wine subsequently experienced an uptick. International demand remained muted throughout the summer, with purchases occurring in small increments and buyers mainly focused on loading what they had already contracted – often many months previously. Figures from the Spanish wine market observatory – OEMV – showed Spain's export volumes for the August 2019 to July 2020 period were down 2.2% versus the previous 12 months at 25.7 million hectolitres (with the value of exports down 6% and the average per litre price down 3.9%).

Finishing the 2019/20 buying campaign so slowly, with such significant carryover and the prospect of a good-sized 2020 harvest (due to a wet winter/spring replenishing water reserves), the expectation was that the 2020/21 buying campaign would start late and very competitive pricing would be available. Only the grape juice concentrate market in Spain felt robust and active.

See next page for more on Spain.

Castilla-La Mancha's 2020 harvest got underway in the second week of August amid perfect picking conditions and adequate groundwater supplies. Spain's final crop size remains uncertain, with OIV forecasting 37.5 million hectolitres, up 11% on 2019, while other parts of the industry believe it easily exceeded 40 million hectolitres. Castilla-La Mancha's crop is understood to have been average-sized at 24-26 million hectolitres and – highlighting the muted demand for bulk wine and buyer confidence of sufficient availability – the early published grape prices were down 23-30% from the year before.

By the autumn demand for Spanish wine from international buyers fulfilling off-trade/online retailers had grown steady, though only for incremental volumes, reflecting uncertainty as COVID-19's second wave spread across Europe. Prices continued to soften to the end of the year as suppliers attempted to attract more international interest, sometimes offering prices that allowed for only minimal profit margin. But with so much uncertainty pervading the market due to COVID-19, and the widespread knowledge that Spain is sitting on good volumes, softer prices failed to attract much extra business.

2021: Looking Ahead

Spanish prices softened throughout 2020 due to significant inventory and slow sales, so that, entering the new year, it could claim to have the world's cheapest wine offer – at least until the Southern Hemisphere's 2021 vintage becomes available. There has been extensive sampling – which has shown Spain's 2020 vintage to be of excellent quality – and this, combined with the very competitive pricing, means Spain can offer a very attractive-price quality ratio.

There has been some limited activity from international buyers unable to source large-enough volumes out of Chile and Argentina, but their new vintages are now on the horizon. Spain's grape juice concentrate market has been more active than bulk for many months, and potentially attractive to buyers unable to source what they need from Argentina – again, until the Southern Hemisphere's 2021 crush is available. It is hoped that, with a change in the US administration as of 20 January, the US tariff hike on Spanish – and other EU – wine imports will be reduced or ended altogether at some stage.

The year 2020 was a torrid one for suppliers to the Spanish on-trade: sales were effectively suspended by the country's initial lockdown, then regionalised restrictions dampened important summer season sales and tourist footfall – vitally important to Spain's economy – was greatly reduced. The vaccine rollout commenced in Spain on 27 December and it is hoped that, by mid-2021, life will be able to return to some level of normality.

Key Takeaways

Spain has availability on all wines – including international varietal whites and rosés – and, having softened throughout 2020, its pricing is likely the world's most attractive, at least until the Southern Hemisphere's 2021 vintages become available. Spain can also supply large volumes of competitively-priced grape juice concentrate.

Ciatti Contact

Nicolas Pacouil
T. +33 4 67 913531
E. nicolas@ciatti.fr

Italy

Time on target

2020: The Year That Was

Italy came into 2020 off the back of a good-sized crop – 47.5 million hectolitres, down 13% from 2018's bumper 54.8 million hectolitres and regarded as superior in terms of quality. Initially activity levels were robust – particularly on the high-quality reds, international varietals, Primitivo, organic wines and sparkling bases – but the outbreak of COVID-19 in China, concerns that US import duty hikes would be widened to encompass Italian wines, and Brexit complications in the UK market, combined to effectively pause much of Italy's bulk market by March.

By then, of course, Italy had become the European epicentre of what was quickly becoming a global pandemic. The industry did its best to continue business as usual amid the fear and the government-imposed restrictions on movement: on 9 March a strict national lockdown was imposed. It soon became clear that COVID-19 was bifurcating Italy's wine market – demand from buyers supplying the supermarkets (permitted to remain open and seeing lengthy queues) remained stable or had risen, while those supplying the HoReCa sector (tightly restricted or shut completely) saw as much as a 90% fall in demand.

By April supermarket sales of wine in Italy were up 11% versus the year before and export demand remained robust – Prosecco DOC bottlings, for example, were up 14.8% in March and up 0.4% for the January to April period. The Prosecco price fell slightly, as those companies that sell into the HoReCa channels required cashflow. Primitivo and all Puglian wines were in good demand. Exports to Scandinavian and European supermarkets of organic/vegan wines were performing particularly well. Shipments to the US were holding up. Pinot Grigio, meanwhile, had seen a 0.3% increase in bottling and a 9% increase in certifications in the January to April period; prices were stable.

Consequently, we were able to say that "it can be said the situation until the end of April can be considered quite positive" given the circumstances. This was illustrated by May's domestic/export consumption figure for Italian wine: approximately 3.3 million hectolitres, down from 4 million hectolitres in May 2019 – but not by as much as feared. Indeed, Italy's total remaining inventory as of 1 July was 2% smaller than on the same date of 2019.

We cautioned, however, that buying activity on Italy's bulk market was proceeding in small increments, on a day-bay day basis for immediate loadings only. This was borne out by export figures for the first half of 2020 – down 4%, the first decrease in ten years – but, again, perhaps not as bad as it could have been. The not altogether bleak picture was further brightened by the news on 12 August that Italian wines would not be included in the expansion of US tariffs against EU wines after all.

August bottling of Pinot Grigio DOC was up 40% versus the same month of 2019 thanks to its presence in most of the largest European and US retailers. The coming 2020 vintage was in strong demand and price quotations were increasing given the expectation that the 2019 vintage would be sold out by November and the 2020 crop would be short of a normal year. Italy's 2020 harvest drew to a close in October and was estimated at 47.2 million hectolitres, down only 1% from 2019 and down from the five-year average of 49.6 million hectolitres. The Italian authorities made available EUR100 million for some green harvesting to be carried out, in an attempt to keep inventory levels in check, but the success or otherwise of this programme remains unclear. Only some 400,000 hectolitres of wine

See next page for more on Italy.

went into the country's Emergency Distillation Plan, less than envisaged, because the prices offered were below market prices.

Thanks to hot days and cool nights throughout the summer months and the lack of any extreme meteorological events, 2020 vintage quality was considered very high, especially on the later varietals. Output performance varied from region to region (yields in Sicily, Puglia, Tuscany and eastern Veneto appeared to be down) and by varietal (Primitivo and Negroamaro saw the biggest volume reduction in Puglia).

The Prosecco DOC Consortium announced that bottling of 2020 DOC Prosecco would be brought forward from January 2021 to November 2020 to ensure companies would not run out of stock before the important Christmas season. In addition, bottling of the newly-approved Prosecco DOC Rosé commenced in October, boosting that month's Prosecco bottlings by 13%. Prosecco's market price was stable – with supply and demand in equilibrium – and Italy's pricing was stable in general. As well as Prosecco and Pinot Grigio, Primitivo, entry-level whites and reds, organic wines, high-level reds, Rossissimo and all Appassimento-style wines were receiving good demand.

Autumn in Europe brought the reimposition of COVID-19 restrictions in response to a second wave of the virus. Italy moved through various phases of regional and then national restrictions. The majority of bottlers were buying only the wines they were sure to use, proceeding in monthly increments, as uncertainty once against pervaded the marketplace. With the on-trade restricted once more, wine sales in Italy's supermarkets were up 11% in November and all the main online wine retailers saw double-digit sales growth. This trend was mirrored in export markets, with Prosecco DOC sales growing 12.7%, aided by Prosecco Rosé. By the end of November, meanwhile, Pinot Grigio DOC sales had matched the total for full-year 2019. With its 2020 production estimated to have come in 10% shorter than 2019's, the Pinot Grigio DOC market was under pressure.

For full year 2020, total bottling of Pinot Grigio DOC was up 4% versus 2019. Bottling of Prosecco DOC, meanwhile, reached a landmark total of 500 million bottles (483.6 million bottles of Prosecco DOC and 16.3 million of Prosecco Rosé), an overall increase on 2019 of 2.8%.

2021: Looking Ahead

January brought the reimposition of a lockdown in many regions of Italy, including the closure of, or strict restrictions on, bars and restaurants. The wine industry has been conducting a huge sampling effort by post. Buyers are proceeding carefully, treading the line between fear for the immediate future (with infection rates increasing and restrictions in place) and hope for the future (spring may bring a reduction in infection rates and – most importantly – the vaccination rollout commenced in Italy on 27 December).

As shown by the success of Prosecco DOC, Pinot Grigio DOC and other exports through 2020, Italian wines are well placed to benefit from the continuing strength of supermarket sales across the world. Supermarket sales strength is something likely to continue until such time as vaccines have been administered to the requisite percentage of the population that enables some level of normality to return, including the full and permanent reopening of the on-trade.

Key Takeaways

Despite COVID-19 headwinds, Italy's domestic and international sales were relatively strong in 2020: Prosecco DOC and Pinot DOC bottlings and exports performed impressively (helped by the introduction of Prosecco Rosé in the former's case). The second wave of COVID-19 in Europe has muted the market once more, as buyers try to get a handle on the 2021 demand picture – on the one hand lockdowns are being reimposed across the world but, on the other, vaccine rollouts are now underway. A massive sampling operation – by post – is being conducted, purchasing is proceeding carefully, and prices are mainly stable.

Ciatti Contact

Florian Ceschi
T. +33 4 67 913532
E. Florian@ciatti.fr

South Africa

Time on target

2020: The Year That Was

The Western Cape came into 2020 somewhat removed from the global bulk wine supply conversation due to pricing that was more competitive with where world prices had been in 2018 (when the global supply had been short) than where they were in 2019/20 (when supply had grown longer). This was mainly a symptom of a second successive short harvest in the Cape in 2019 (1.21 million tonnes) and a reputation for tight supply and high prices, which took a heavy toll on the Cape's 2019 export performance – bulk wine exports totalled 170 million litres in the 12 months to February 2020, down 52 million litres from the year before and down 100 million litres from the year before that.

By the turn of 2020 Cape suppliers were making wines available that they had previously held back (in the mistaken belief that prices would rise) and were more ready to negotiate on price, though Rand pricing overall was stable (the Rand was at ZAR16.00/euro and ZAR14.50/dollar in January). However, buying activity remained muted into harvest 2020, which ran smoothly following excellent growing conditions: the crop was estimated to have come in at 1.31 million tonnes – up 5% in size on 2019's crop and just below the long-term average of 1.4 million tonnes – with quality very good, the best for many years. The 2020 crop's contribution to an already significant carryover stock combined with a weakening Rand – ZAR20/euro and ZAR19/dollar by May – to soften Cape pricing further. South African bulk wine had become globally competitive once more.

Unfortunately, in the meantime, COVID-19 had become a global pandemic, muting international demand, injecting uncertainty into the bulk market, and leading to a nine-week prohibition on alcohol sales in South Africa. Bottling for export continued to be permitted, though ports were initially closed, then saw staff absences due to the virus, disrupting shipments. By the time South Africa's alcohol sales prohibition ended on 1 June and Europe was emerging from its lockdowns, the Cape's bulk prices had softened – particularly on dry white, Chenin Blanc and generic rosé – to the extent that it was arguably the world's most price-competitive supplier on some wines. This was especially the case should buyers be able to commit to large volumes and quick loading. On 12 July the alcohol sales prohibition on the domestic market was reimposed, further boosting bulk availability for export markets. Domestic sales activity returned in late August/September when the prohibition was again lifted – there was no surge in consumer demand at retail, but a robustness assisted by sales promotions.

International buyers proceeded conservatively due to COVID-19 uncertainty, but by September the Cape's wines were receiving steady interest levels – the international varietals in particular offered an excellent price-quality ratio, including Sauvignon Blanc (by now hard to come by in competitor countries such as Chile and New Zealand), Chardonnay, Cabernet and Shiraz. The attractive pricing was aided by the continuing weakness of the Rand (ZAR19-20/euro, ZAR16-17/dollar), something widely expected to continue through 2021 due to the continuing parlous state of South Africa's economy.

2021: Looking Ahead

By November it was becoming clear that, despite the COVID-19 headwinds, the Western Cape's 2020 export performance was approximately in-line with 2019's. However, it ought to be remembered that 2019's export performance was hugely down on the five-year average (as described above). The industry must bear this in mind moving forward: two successive disappointing years for exports means it cannot afford to become uncompetitive – or be perceived to be uncompetitive – again.

See next page for more on South Africa.

This is particularly so considering another good-sized crop is likely in 2021. The Cape's vineyards moved into spring lush and green following a winter wet enough for dams to reach capacity; some areas are struggling with mildew, which might have an impact on the crop size of some varietals. A third prohibition on domestic alcohol sales – imposed on 28 December and set to last until at least mid-February 2021 – makes export business even more important.

This message has seemingly sunken in: prices at the start of 2021 are highly competitive and negotiable, especially if a buyer can load by the end of February when the focus switches to bringing in and vinifying the new vintage. With the 2020 vintage having been of such high quality and the whites keeping well, the price-quality ratio on the Cape's international varietals is hard to beat.

As is traditional, the Rand strengthened against the dollar and euro through December and is softening again in the new year, this time compounded by the reimposition of COVID-19 restrictions across South Africa and the announcement on 11 January that they would be extended until at least mid-February.

Key Takeaways

The Western Cape can offer good availability on its excellent-quality 2020 vintage; pricing is negotiable, especially if a commitment can be made to load before the end of February. Domestic sales from August to December were good – assisted by promotions – but the reimposition of the alcohol sales ban on 28 December will free up more supply for export and place a further downward pressure on the Cape's export prices. Vineyard conditions in the Cape continue to be conducive for a good 2021 crop.

Ciatti Contacts

Petré Morkel
T. +27 82 33 88 123
E. petre@ciatti.co.za

Australia & New Zealand

Time on target

2020: The Year That Was

Australia's 2020 crush came in at 1.52 million tonnes, down 12% from 2019's 1.73 million tonne and 13% down on the ten-year long-term average of 1.75 million tonnes. This smaller figure was not a surprise as many expected a reduced tonnage due to drought conditions, high water costs and smoke-affected fruit from bushfires.

Over the course of 2020, Australian wine exports continued to increase in value, reaching AUD2.998 billion, whereas volumes continued to decrease, totalling 771 million litres. Bulk wine exports made up AUD576 million and 427 million litres of these values. The increase in overall value was attributed to greater sales of bottled wine sold at the medium to high-end, notably to China, along with slowing sales of bulk wine at the lower level.

The average overall purchase price of 2020 grapes was up 5% versus 2019 grapes, to AUD694/tonne, but the overall crop value was down by 9% due to the reduced intake. Australia's three main producing areas (Riverland in South Australia, Sunraysia in Victoria and Riverina in New South Wales) were only down 4% in volume but the staple red varieties (Shiraz, Cabernet and Merlot) all saw an increase in their per tonne pricing – up between 5-15% in the irrigated areas. Pinot Noir was in very high demand as were many white varieties – Chardonnay in particular, which was close to being sold out by early in the final quarter of the year.

See next page for more on Australia & New Zealand.

Bushfires were a major issue for many of Australia's wine regions. Multiple wine areas within South Australia, New South Wales and Victoria were affected by large-scale fires and an estimated 40,000 tonnes of wine grapes were lost, rejected or downgraded due to smoke taint. Earlier in 2020, water was in short supply and high in cost. Temporary water being priced at AUD600-750/megalitre in turn pushed grape prices upward.

As across the world, the arrival of COVID-19 caused a slowdown for Australia's on-trade earlier in the year and certain states went into lockdowns that included cellar doors. But it was China's imposition of heavy tariffs on Australian wine imports that will be the major issue of 2020 for many wineries. At the last count, Australia exports 122.9 million litres of wine (11% of its total wine output) to China each year, worth AUD1.172 billion (39% of the total value of its wine exports). The anti-dumping tariffs now in place range from 107.1 to 212.1% and are expected to be reviewed in March 2021. Bulk wine is still a grey area as many understand that if Australian bulk is cleared into China and then bottled as Australian wine, a tariff will be applied. We understand that, should the wine be blended and labelled as Chinese wine, no tariff will be applicable.

Off the back of this tariff scenario, red wine pricing has softened across all quality levels. Many would expect to see up to a 20% drop in pricing. White wines continue to be popular and in high demand from the UK and Europe.

The 2020 crush in **New Zealand,** meanwhile, came in at 457,000 tonnes, an increase of 11% over 2019. Marlborough (+22%), Gisborne (+17%) and Hawke's Bay (+16%) saw solid growth from the prior year, whilst Central Otago (-28%) saw a decline. Demand for Marlborough Sauvignon Blanc has increased and pricing has risen from NZD3.80-4.20/litre to NZD4.20-4.50/litre. Sales into the US continue to grow as the total value of New Zealand's wine exports surpassed NZD2 billion, a record. US buyers increased their bulk purchases by 8% in volume and 20% in value in the first six months of 2020.

2021: Looking Ahead

A slower market in Australia is expected this year as suppliers reduce their intake of 2021 red varietal grapes and seek to find new buyers to purchase their existing stock that was originally destined for China. Some are hopeful the provisional tariffs will end in August 2021 – when the Chinese authorities are scheduled to complete their investigations into alleged dumping – but many cannot wait with uncertainty for that long. We expect red wine varietals to soften in price and white wine to stay consistent or increase further in pricing and demand. International interest from other countries beyond China is expected pending the price level Australia's market comes down to.

Water is now in good supply in Australia's growing areas due to late rains – some are sceptical of the possibility of a wet and humid harvest due to La Niña. In comparison with other countries, Australia is largely untouched by COVID-19.

Meanwhile, firm prices are expected to continue on **New Zealand**'s Marlborough Sauvignon Blanc through 2021, with positive sales ongoing in international markets, notably the US and UK. Early indications are that there will be a higher grape price this year with high demand for any surplus bulk wine. Minimal levels of spare fruit will be available as many will seek to process and retain for their own use. It is expected that pricing could reach as high as NZD5.00/litre.

Key Takeaways

China's imposition of heavy tariffs on Australian wine imports was for many Australian wineries the defining issue of 2020. Bulk wine remains a grey area in terms of tariff eligibility but export business with China – at the last count representing 39% of the total value of Australia's wine exports – is projected to be more muted. Consequently, red wine pricing is expected to soften and suppliers are seeking alternative buyers. White wine pricing is expected to remain stable or increase due to good demand levels, particularly form the UK and Europe. Late rains have ensured good water supplies in Australia's growing areas. The popularity of New Zealand's Sauvignon Blanc continued in 2020, helping the country's wine exports reach a record value. A higher Sauvignon Blanc grape price is expected this year and final wine could reach as high as NZD5.00/litre.

Ciatti Contacts

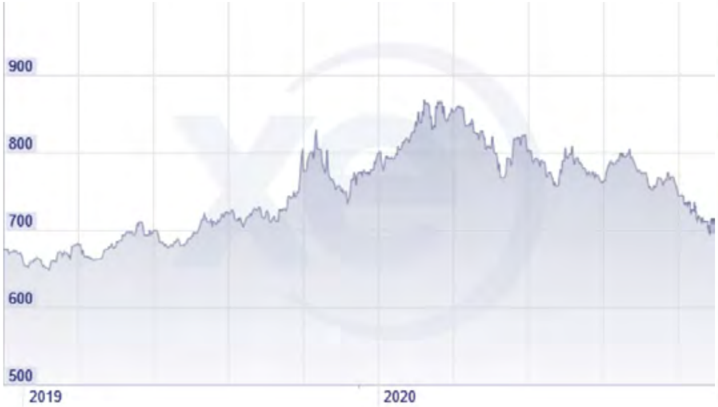
Matt Tydeman
T. +61 8 8361 9600
E. matt@ciatti.com.au

Simone George
T. +61 8 8361 9600
E. simone@ciatti.com.au

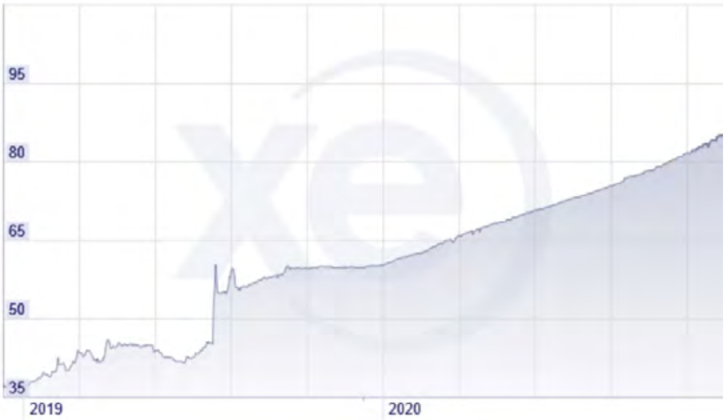
官方微信公众号

Currency Review

Source: XE Currency Converter

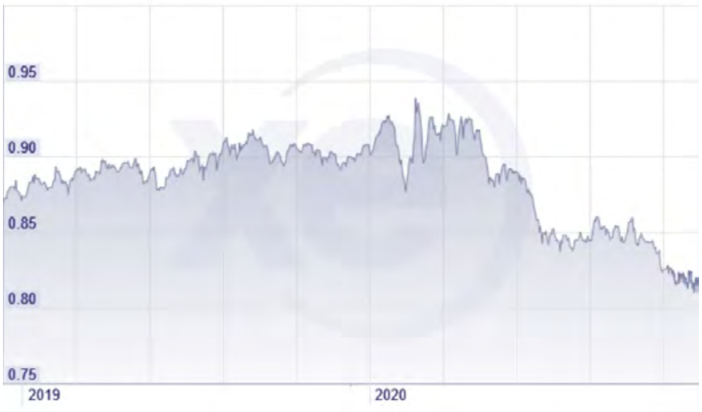


Chilean peso against the US dollar

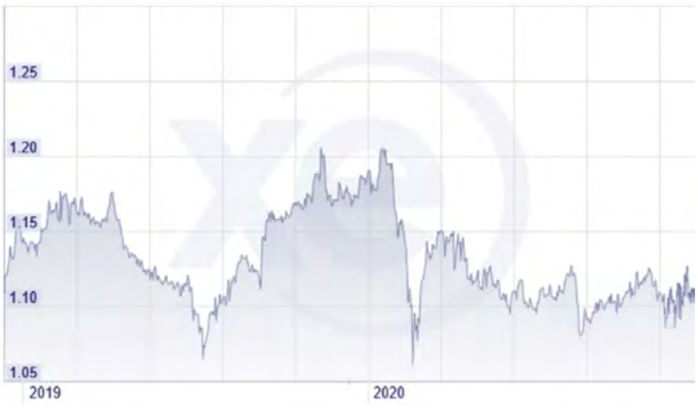


Argentinian peso against the US dollar

COVID-19's impact on all emerging market currencies in Q1 2020 compounded a pre-existing softening trend in the Chilean peso versus the dollar (brought about by domestic civil unrest in 2019 and the US-China trade war) so that, by the end of March, it had reached CLP868/dollar, a record high. The exchange rate fluctuated for the rest of 2020 but the overall trend was a peso strengthening, assisted by the country's 25 October referendum on a new constitution passing off smoothly and record-high copper prices. The Argentinian peso, meanwhile, has been concertedly weakening versus the dollar since mid-2018 due to Argentina's longstanding economic problems. The new government of Alberto Fernández has continued with its predecessor's currency controls and remains opposed to the official devaluation many believe is necessary: nonetheless, the peso started the year at ARS60/dollar and ended it at ARS89/dollar. A decade ago, in January 2011, the Argentinian peso was worth ARS4.0/dollar.

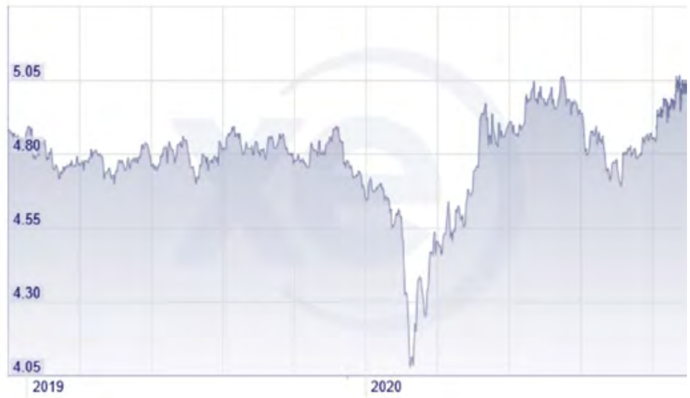


Euro against the US dollar

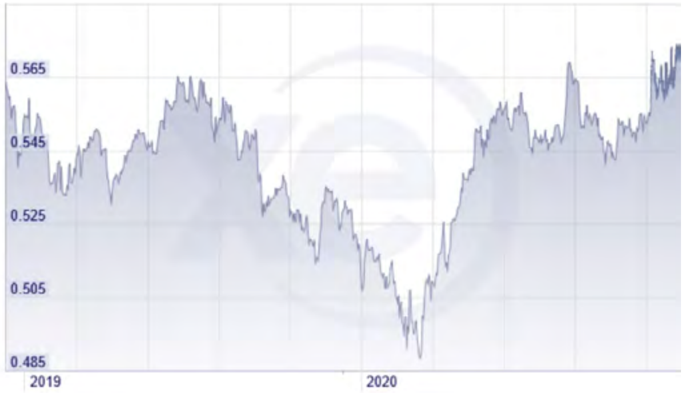


Euro against pound sterling

The dollar had steadily strengthened against the euro from April 2018 (EUR0.80/dollar) into March 2020 (EUR0.92/dollar) off the back of Brexit uncertainty in the EU and robust economic performance domestically. However, the euro strengthened versus the dollar from March as COVID-19 hit the US economy while the EU's own economic data mid-year – when restrictions were eased – was relatively robust. The dollar-euro exchange rate ended the year back where it was in April 2018. The euro has continued to strengthen in the early days of 2021 following the agreement of a free trade deal with the UK. Pound sterling devaluated from EUR1.25/pound to EUR1.10/pound in the wake of June 2016's Brexit referendum and has remained in a fluctuating EUR1.05-1.15/pound band ever since. In March 2020, as lockdowns spread across Europe in the wake of COVID-19, the exchange rate fell to EUR1.05/pound but finished the year back at EUR1.10/pound.

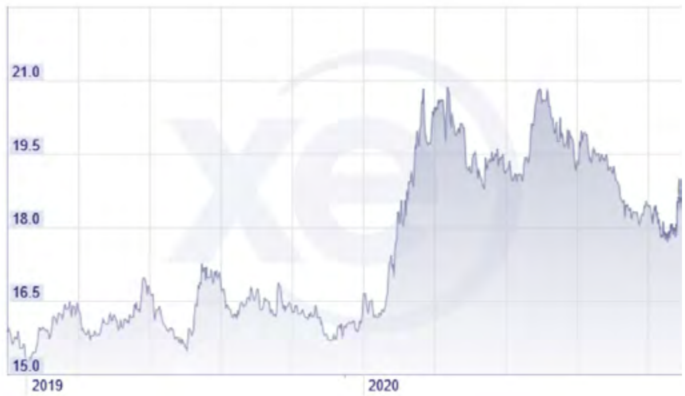


Chinese yuan against the Australian dollar

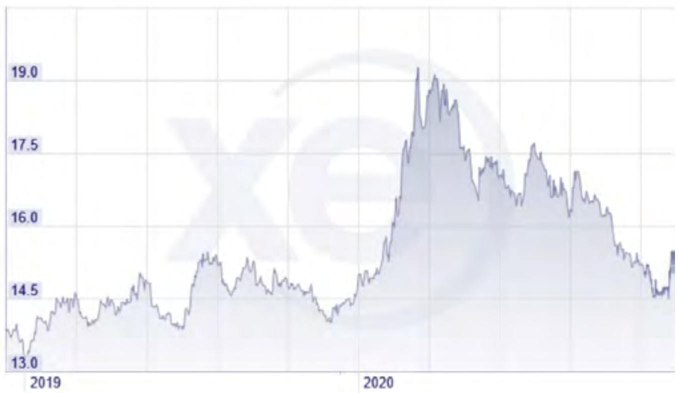


Pound sterling against the Australian dollar

The Chinese yuan came into 2020 having been very stable against the Australian dollar throughout 2019 (in the CNY4.75-4.85/dollar band) but strengthened to CNY4.10/dollar in March 2020 as it became clear to the world that COVID-19 would not be a China-only affliction. By August the yuan had weakened back out to CNY5.00/dollar, its weakest since the end of 2018, and ended the year there (albeit with another brief strengthening at the end of October into the start of November). Chinese import tariffs of 200%+ on Australian wines, levied since 28 November, will compound any effects of the yuan's slightly weaker position versus the Australian dollar. The pound has trended stronger against the Australian dollar since October 2016 when it was at GBP0.60/dollar following the Brexit referendum, reaching GBP0.48/dollar in April 2020. Much of these gains were sharply reversed mid-year as the pound fell back to GBP0.56/ dollar by September; this was its weakest versus the Australian dollar since Q4 2018 and it ended the year there.



Rand against the euro



Rand against the US dollar

The Rand had been fluctuating against the euro (ZAR15-17/euro) and dollar (ZAR13.50-15.50/dollar) within a relatively stable band for a year or so until the last few days of February 2020 when the global spread of COVID-19 began significantly weakening all emerging market currencies. South Africa announced its first confirmed COVID-19 case on 5 March when the Rand was at ZAR17/euro and 15.30/dollar; by the end of the month, it had softened to ZAR19.80/euro and 17.90/dollar. South Africa went into lockdown on 23 March and by the first week of April the Rand had hit a high for the year of ZAR20.80/euro and ZAR19.20/dollar. For the rest of the year the Rand – with its characteristic fluctuations – steadily strengthened again, particularly (as is traditional) in December, when it reached ZAR18/euro and ZAR14.60/dollar, its strongest position since January.

Structan
A Smoke Taint Solution

As many winemakers in California are currently only too aware, after wildfires blazed across the state following August's freak lightning storms, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterized by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

The three main factors that determine if smoke-exposed grapes become smoke-tainted are: the growth stage of the grapevine, the variety of the grapes and the length of their smoke exposure. Grapes close to picking readiness, grapes being of the typically most susceptible varietals (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure, increase the taint risk. All three factors currently apply in California: the smoke has settled in vineyards mid-harvest, the most sensitive varietals are the state's leading cultivars by acreage, and smoke has been lying in some areas for many days.

The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option.
Results from chemical analysis and sensory evaluation against a control, carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines.

While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics (and any positive impact does not last). Structan, however, successfully masks the volatile phenols through increasing the wine's overall complexity, thus preserving the wine's best flavor, aroma and color attributes, for up to five years.

In fact, one of the Western Cape's premier wineries, which sells its wines into the European market, used Structan to make a highly successful red wine. That was after a wildfire similar to those seen in California, when thick smoke lingered in the vineyards for three weeks.

In summary, Structan is your smoke taint solution. And its stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavors and aromas. Give us a call.

Fearless Contacts

CEO
Rob Bolch
T. + 1 800/288 5056
E. Rob@johnfearless.com

Sales Manager, Customer & Operations Support
Geoff Eiter
T. + 1 800/288 5056
E. Geoff@johnfearless.com

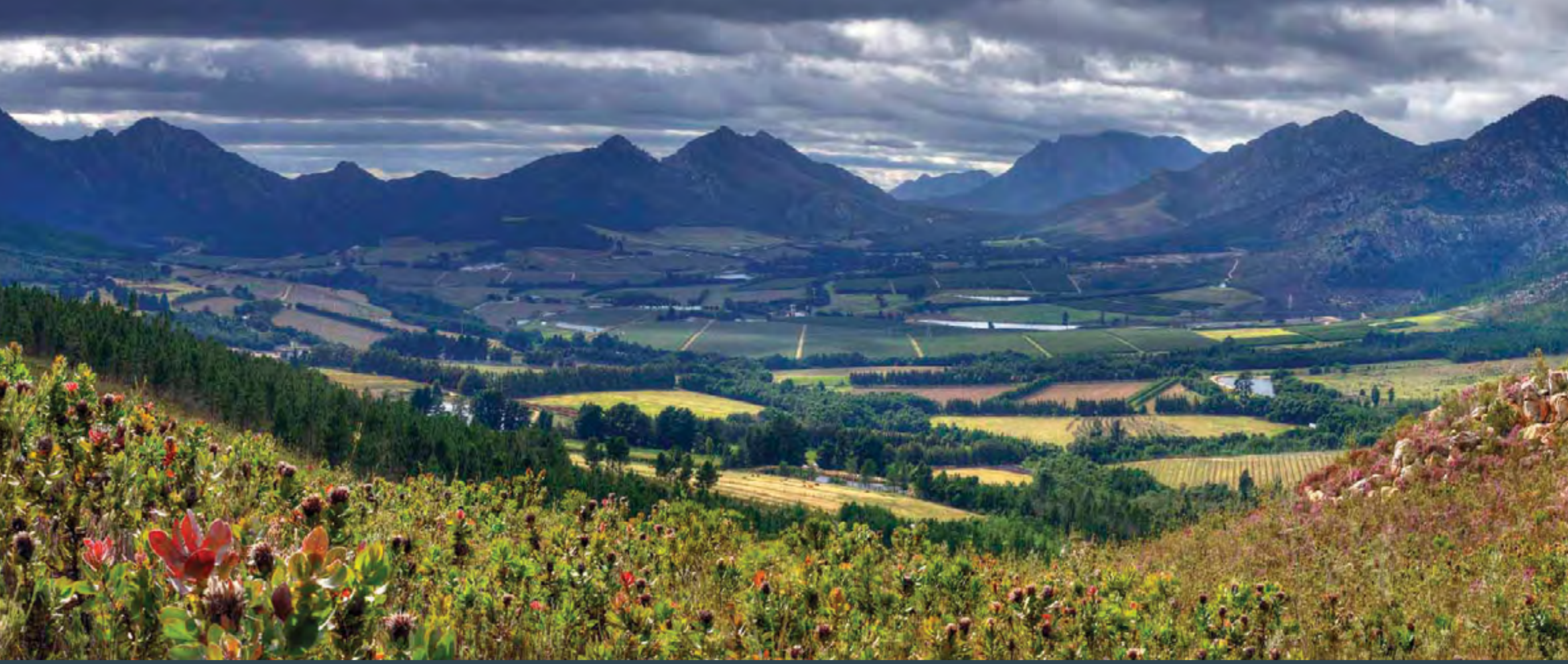
Purveyor of Quality Used Oak Barrels
Thomas Gilbert
E. Thomas@johnfearless.com

Andrew Planting
T. + 707/699-5117
E. Andrew.planting@stoaktechnologies.com

Manager, Brewing Technical Support and Key Accounts
Matt Johnson
E. Matt@johnfearless.com

www.johnfearless.com

www.stoaktechnologies.com



The hop fields along the famed Garden Route of the Western Cape, near George, South Africa

Contact Us :

Argentina

Eduardo Conill
T. +54 261 420 3434
E. eduardo@ciatti.com.ar

Australia / New Zealand

Matt Tydeman
Simone George
T. +61 8 8361 9600
E. matt@ciatti.com.au
E. simone@ciatti.com.au

California – Import / Export

CEO – Greg Livengood
Steve Dorfman
T. +415 458-5150
E. greg@ciatti.com
E. steve@ciatti.com
E: jed@ciatti.com

California – Domestic

T. +415 458-5150
Glenn Proctor – glenn@ciatti.com
John White – johnw@ciatti.com
Chris Welch – chris@ciatti.com
Todd Azevedo– todd@ciatti.com
Johnny Leonardo – johnny@ciatti.com

Concentrate

Jed Lucey
T. +415 458-5150
E. jed@ciatti.com

Canada & US clients outside of California

Dennis Schrapp
T. +905 688-1340
E. dennis@ciatticanada.com

Chile

Marco Adam
T. +56 2 32511 691 or
T. +56 2 32511 692
E. madam@ciattichile.cl

China / Asia Pacific

Simone George
T. +61 8 8361 9600
E. simone@ciatti.com.au
T. +86 13761583085
E. china@ciatti.com.au

France / Italy

Florian Ceschi
T. +33 4 67 913532
E. Florian@ciatti.fr

Germany

Christian Jungbluth
T. +49 6531 9734 555
E. christian@ciatti.biz

Spain

Nicolas Pacouil
T. +33 4 67 913531
E. nicolas@ciatti.fr

UK / Scandinavia / Holland

Catherine Mendoza
T. +33 4 67 913533
E. catherine@ciatti.fr

South Africa

Vic Gentis
T. +27 21 880 2515
E: vic@ciatti.fr

-or-

Petré Morkel
T. +27 82 33 88 123
E. petre@ciatti.co.za

To sign up to receive the monthly Global Market Report, please email info@ciatti.com

DISCLAIMER

Whilst we have tried to ensure the accuracy and completeness of the contents of the Global Market Report, Ciatti cannot offer any undertaking, warranty or guarantee, either expressly or implicitly, including liability towards third parties, regarding how correct, complete or up to date the contents of the Global Market Report is. We reserve the right to supplement or to change or delete any information contained or views expressed in the Global Market Report.

Where we have provided links to third party websites for further information, you should be aware that we are not responsible for the accuracy, availability or functionality of these sites, and thus cannot be held liable, directly or indirectly, for any loss however caused by your use of these linked sites.

Ciatti accepts no liability for any loss or damage howsoever arising out of the use of, or reliance on, the content of the Global Market Report.