



Global Market Report

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**Ciatti Global Wine
& Grape Brokers**

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The global bulk wine market has moved into its traditional mid-year lull, with Europe about to head on its summer holidays and buyers waiting to see what the Northern Hemisphere harvests bring come the autumn. France, Spain and Italy have all experienced difficulties with adverse weather in recent months but confidence persists that Europe's harvests will bounce back from last year's big shortfalls.

It seems that many buyers are already covered enough, or at least able to hold off from moving for a little while longer. With the market thus muted, and a new harvest nearing, prices in France, Italy and especially Spain are softening on some remaining 2017 wines. A similar situation exists on the Californian market, where Ciatti is receiving enquiries from suppliers seeking to clear tank space before harvest.

Argentina's market, too, is quieter than one might have expected, considering prices there have been significantly discounted by a combination of a good-sized 2018 harvest and a peso devaluation. The price softening in Argentina is placing some downward pressure on prices in neighboring Chile, where demand isn't feverish either. In short, it does not seem like a market battling to cope with a so-called 'global wine shortage'. The imminence of the Northern Hemisphere harvests has also slowed the **grape juice concentrate** markets in Argentina and Spain; both will likely see a downward price adjustment when Europe's crush comes.

It seems only the Australian market is especially busy with activity: some suppliers there have been able to put forward stock under tender-style conditions because of the level of demand. China continues to be of growing importance to Australia and Chile, as reported in this month's China Update, thanks to their respective free-trade agreements with the world's most populous nation. Chilean suppliers are planting extra hectares with which to supply it; imports into China of Australian wine, meanwhile, have increased by 51% in the past year. Chinese consumers are not just upping their imported wine intake: consumption of domestic craft beer is growing significantly, too. John Fearless can supply Chinese craft brewers – and craft brewers across Asia – with the innovative hop varieties and used oak barrels they require.

Winters in the Southern Hemisphere are proving mixed. Argentina is experiencing normal conditions, so too Chile – though the year there is continuing drier than normal. Australia is having a drier than average winter, with many crop-based farmers anxious for more rain. South Africa's Western Cape, however, is having a wetter winter than normal, with dam water levels significantly boosted even before the typically wettest part of winter is underway. There is still time for Mother Nature to intervene in Europe and California, but for now they are moving towards completing a picture of more 'normal' climatic conditions in 2018 than in 2017, with a global bulk wine market to match.

Robert Selby

California

Time on target



HARVEST WATCH: *On track for average-sized in the southern interior*

California's southern Central Valley experienced a cooler than normal late spring and early summer but things have since warmed up, with expectations now of an average-sized harvest. San Joaquin Valley bunch counts suggest a crop there "solid average or better", according to the Summer Update from Allied Grape Growers. Allied noted that, in general across the San Joaquin Valley, bunch counts on whites and generic reds seemed up on last year, and down on varietal reds.

Allied also provided an initial estimate of the state-wide 2018 crop: 4.25 million tons, which would be an all-time record. Ciatti's feeling is that, given the number of new acres in the ground, and should climatic conditions remain conducive, 4.25 million tons would not come as a surprise.

California continues to have wines available potentially for the international market, but interest is limited and waning as buyers ship wines from their Southern Hemisphere sources and wait to see how the coming harvest in Europe fares. The lower end of California's offering has been hurt in the domestic market by a consistent rise in bulk wine imports, this coupled with new plantings in the state, has created some oversupply. Bulk imports could potentially slow as California now possesses plenty of domestic stock, but many suppliers remain unwilling to move on price.

California's bulk wine market remains slow in general. Contracts are being worked through, and the spot market is quiet. Ciatti is receiving inquiries from suppliers who would like to move wine in order to clear tank space for the coming harvest, and there are opportunities on bulk wine for international buyers who can load and move product quickly, but in general – despite the increased inventory – asking prices remain too high to induce international interest. However, with 3-4-year contracts the norm in California, there is an opportunity for international buyers seeking secure and quality supply for long-term programs.

Key Takeaways

A coming harvest expected to be at least average in size, combined with significant inventory, could see pockets of opportunity open up on Californian bulk wines for exports. California can offer probably an unmatched level of stability in terms of price, availability and quality.

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See next page for more on pricing.

California: Current Export Market Pricing (USD per liter)

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

Argentina

Time on target

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

Argentina's growing areas have been receiving the very low temperatures of a typical Argentine winter. There have been light snows and heavy morning frosts; even the East Valley – some distance from the Andes – has received a thin layer of snow. The snowpack should be in good shape when the next growing season comes around; the vines are currently getting a good rest.

Argentina's economy is in stagflation: a recession with steeping inflation and interest rates. Inflation is expected by the Argentina Central Bank to be at 30% by the end of the year (double the government's target), with interest rates at 43% (perhaps closer to 50% in private bank accounts). In June the Argentine government, which has taken a hit to its credibility, secured a USD50 billion loan from the International Monetary Fund in return for a pledge to reduce the country's fiscal deficit.

The peso is devaluating quickly: it was up to as much as 28 pesos to the dollar as of 5 July, from 22 pesos in April and 16 pesos in 2017. This is potentially good news for Argentina's export business, but the domestic economy is flat-lining. With the petroleum price rising

even before it gets converted into a devaluated peso, Argentinians are holding onto their money, buying in dollars and waiting to see how things pan out. Domestic wine consumption was down 3% in the first quarter of 2018.

The domestic market for Argentine wine is thus quiet. The export market is more active, with some international buyers starting to take positions on particular wines, others closer to taking positions than they were before. There are volumes available on all wines; quality is excellent. Prices have been slowly softening, with quoted prices potentially open to negotiation. Activity from international buyers was not frenetic in the first half of 2018 but is expected to pick up in the second half, particularly once Europe's harvest situation is clearer. Spain has managed to re-attract buyers by softening prices for its remaining 2017 wines so to that they are competitive with Argentina's 2018 prices (see Spain page).

Argentina's **grape juice concentrate** market, meanwhile, has been quieter than expected. There have been some purchases but in small increments, with one eye trained on the coming Northern Hemisphere harvest. The GJC price is now at USD1,100/MT, down from USD1,300/MT in June and USD1,400/MT in May.

See next page for more on Argentina.

Key Takeaways

Argentina can offer good volumes of excellent quality wines at competitive prices. This includes generics, Malbec, Cabernet, Merlot, Syrah, Chardonnay and Sauvignon Blanc. Argentina's GJC is softening in price and now stands at USD1,100/MT.

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

Chile

Time on target



HARVEST WATCH: *approx. 1.15-1.2 billion litres*

Recent conditions in Chile's growing areas have been largely typical for winter, though the year continues to be drier than normal: Santiago in the Maipo Valley (-45%), Curicó in the heart of the Valle Central (-34%) and Chillán in the Itata Valley (-42%) have received significantly less rainfall so far in 2018 than in a normal year.

The market continues steadily, with some buying activity from Chinese, European and domestic players.

Interest from North America is muted, with past purchases by US buyers shipping now. Some suppliers are softening their offer prices slightly due to the less than feverish demand and the weakening of the Chilean peso against the dollar.

As of 12 July the Chilean peso was averaging 652 pesos to the dollar for the month, from 636 pesos in June, 626 in May, and 600 in April – a weakening due to global economic factors and a drop in the price of copper. Potential buyers have noticed this trend, with some holding off to watch its impact on Chile's offer prices. Others are waiting to see how the coming Northern Hemisphere harvests shape-up.

See next page for more on Chile.

Prices are softening fastest on the lower quality wines, particularly on Cabernet and Sauvignon Blanc; Merlot, Chardonnay and Carmenere, meanwhile, remain more stable. Argentina is affecting the Chilean market: its good-sized harvest this year means it is not a buyer of Chilean wines, and the discounting of its own product (aided by the devaluation of the Argentine peso) is placing downward pressure on its neighbor's wines as well.

June brought two fresh indicators of the Chilean wine industry's direction and international ambitions. Concha y Toro, through its Fetzer Vineyards subsidiary, acquired 100% of its US importer, Excelsior Wine Company, in order to better promote its Chilean and Argentinian wines in the US market. And undoubtedly not the only Chilean enterprise to be considering such a step, Viña Requingua announced it would grow some 500 new hectares as part of plans to boost bottled wine exports to China, including of its Toro de Piedra

brand. Chile is the third-biggest wine supplier to the burgeoning Chinese market (after France and Australia), aided by the China-Chile Free Trade Agreement which has meant that – since 2015 – Chilean wines enter China tariff-free.

Key Takeaways

Prices are softening slightly on some Chilean varieties due to calm demand, the Chilean peso's continuing weakening against the dollar, and the discounting of prices in neighbouring Argentina. Those requiring the higher quality 2018 wines should move soon as availability will only reduce; prices are softening quickest on the lower quality wines.

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

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
NV	Generic White	0.70 – 0.85	↑	NV	Generic Red	0.70 – 0.85	↔
2018	Chardonnay	1.15 – 1.25	↔	2018	Cabernet Sauvignon (Basic)	1.10 – 1.20	↔
2018	Sauvignon Blanc	1.15 – 1.20	↔	2018	Cabernet Sauvignon (Varietal Plus)	1.25 – 1.35	↔
2018	Syrah	1.10 – 1.20	↔	2018	Merlot	1.15 – 1.25	↔
2018	Carmenere	1.30 – 1.45	↔	2018	Malbec (Basic)	1.25 – 1.40	↔
2018	Pinot Noir	1.25 – 1.40	↔	2018	Malbec (Varietal Plus)	1.60 – 2.00	↔

Chilean Export Figures

Wine Export Figures	January 2016 - May 2017			January 2017 - April 2018			Volume
	Million Liters	Million US\$ FOB	Average Price	Million Liters	Million US\$ FOB	Average Price	Variance %
Bottled	195,83	595,45	3,04	193,05	621,87	3,22	-1,42
Bulk	173,85	138,07	0,79	141,22	141,69	1,00	-18,77
Sparkling Wines	1,78	7,31	4,11	1,32	6,05	4,57	-25,52
Packed Wines	11,13	18,90	1,70	9,93	18,73	1,89	-10,78
Total	382,59	759,73	2,41	345,52	788,35	2,67	-9,69

With Chinese demand for bulk wine continuing to grow, Ciatti's lead Chinese Market broker Simone George takes a fresh look at the fundamentals:

A recent joint IWSR/Vinexpo report estimated that, over the next five years, China will become the world's second-largest wine market after the US. In that time the value of its consumption is expected to rise by over a third, to US\$23 billion, reaching a volume of 192 million cases. Volumes leapt by 8 million cases in 2016 alone, pushing the value of the Chinese market to USD15.24 billion.

Supplier Countries

France remains China's leading supplier of imported wine, accounting for a 15% share of the total market in China. Australia – in second place with an 8% market share – currently exports over AUD1 billion-worth (USD740 million) of wine to China, an increase of 51% in the past 12 months. Awareness in China of Australia as a wine-producing country continues to grow, with Wine Intelligence's 'China Landscapes 2018' report stating that '53% of urban upper middle class imported wine drinkers in China [are] aware of Australia as a wine-producing country whilst 36% have drunk wine from Australia in the past six months'.

The China-Australia Free Trade Agreement, which entered into force in December 2015, has assisted the Australian wine industry in achieving this big increase in trade. Chinese tariffs for wine ex Australia have been steadily reduced, currently stand at 2.8%, and will be zero as of 1 January 2019. Certain diplomatic tensions have recently caused delays in some

Australian bottled wines being cleared through Chinese customs: containers are being processed but the time for approval appears to have become protracted. However, there have been no issues with clearance of bulk wine containers.

Chile, Spain and Italy round-out the top five importers of wine into China. Imports now account for 39% of the wine market; five years ago domestic wines held a 75% market share. Imported wines are still considered a luxury good, with Château Lafite, Yellow Tail and Penfolds possessing the highest brand power scores.

Demand Trends

Dealing with China, one observes that hot temperatures in the country slow down the rate of wine imports. Many on the Chinese side will wait until after summer (June to August) to ship, in the lead-up to the Mid-Autumn Festival. A moveable feast, the festival falls on a day from mid-September to early October, depending on the year.

Whilst red wines command 95% of the Chinese market, white wines are slowing becoming more popular as consumers become more aware of alternative varieties. Wineries are looking to market the health benefits of white wines to help push sales. We are also seeing more rosé and Champagne products being rolled-out into the market.

The internet continues to be a very popular method for purchasing wine in China – especially for first-time wine purchasers – while actual bricks and mortar stores are less evident. Some 48% of Chinese consumers choose to purchase their wine online. Platforms such as JD.com, Walmart's Chinese

website, and Alibaba's Tmall.com are all suggesting solid sales. This sales method has been synonymous with lower-priced, entry level wines with high levels of competition – these platforms are now leaning towards premium wine sales to push for higher profit margins.

Bulk Wine Traders

There appears to be more traders of bulk wine evident in China. Australian, Spanish and Chilean bulk wines get purchased and transported into the country where they are re-sold to wineries. Such traders have large-scale storage facilities to maintain incoming wine: we are seeing high quality new tank farms becoming operational. The majority of these traders re-sell the wine as bulk but some offer the wine as OEM (private label) bottled product. Pricing remains key for many of these buyers who are looking to maximise profits. Some are looking for premium material, however, and are willing to spend to obtain high quality wine. Many are blending material with Chinese-grown wine that they either own themselves or purchase from local growers. Chinese buyers expect favourable, competitive CIF terms.

The ongoing US-China 'trade war' obviously complicates the business of exporting US wine to China. But China's 15% hike in tariffs on US wine imports is having little impact at this stage: buyers are either importing Californian wines priced at a price point at which import tariffs – although high – have little deterrent, or simply looking elsewhere. US exports to China were already a long way behind the likes of France and Australia before the tariff tit-for-tat – worth USD79 million at the last count.

Simone George



France

Time on target



HARVEST WATCH: *Fungus pressure a concern across all areas*

Late June and early July brought successive days of 30°C+ heat to the Languedoc. These temperatures combined with moist southerly/easterly winds from off the Mediterranean to create humid conditions in the vineyards. In addition, the Limoux area in north-western Languedoc suffered from a significant hailstorm on 3 July, with 1,000-1,500 hectares affected. Gers and South West were also visited by a serious hailstorm. More thunderstorms and hailstorms cannot be ruled out.

Fungal disease/mildew has broken out in the Languedoc's humid conditions and growers are busy managing the issue with systemic treatments. Some have sprayed multiple times already. Almost all varieties have been affected by fungus, to varying extents. Expectations for the 2018 harvest size are growing more pessimistic among the growers because of this.

Again, as last month, reports of adverse conditions in the vineyards have not quickened a French market in which most are seemingly content to buy in small increments. May was traditionally quiet activity-wise, and little changed in June, with buyers beginning to focus on the coming 2018 crop – suggesting they do not see higher prices coming with it. The quiet market will continue through July's summer holiday season.

Price-wise the market has been stable for a number of months now, except on rosé which was in demand following low French and Southern Hemisphere production in the past 12 months. The odd truckload of rosé can still be sourced in France. For those needing it now, prices are high; for those that can wait past the summer-drinking season, prices should fall on expectations of a bigger rosé output this coming vintage.

Prices should soften on 2017 wines ahead of the next vintage: they are already doing so on some Vin de France generic wines. There are especially opportunities to be had on Vin de France reds – both generic and varietal. Of the varieties, this is especially true of Cabernet and then Merlot; Shiraz is becoming more difficult to source. Vin de France generic white prices are softening as well because of a price drop in Spain. There remains plenty of 2017 or non-vintage Vin de France white; what's left of Chardonnay and Sauvignon Blanc is non-vintage, and only in small quantities.

France's National Institute of Origin & Quality (INAO) announced on 21 June that producers of red and white wines in France will now be able to keep in reserve up to 20% of their annual wine output (up from 10% previously), to a total of 50% over three years. This move is seen as needed to help maintain stable output and thus pricing in some growing areas, particularly in France's western growing regions such as Charente or Cognac. Languedoc, which never meets its maximum yield anyway, will be unaffected.

Key Takeaways

The market is currently slow: there is no expectation that the 2018 harvest will bring with it higher prices, even when adverse weather is taken into account. With the next harvest now roving into view, prices are softening on 2017 and non-vintage Vin de France generic and varietal wines, both reds and whites. Some 2017 rosé remains available, in small quantities and at high prices.

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See next page for pricing.

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

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

2017 French Harvest Estimate by Acre (AGRESTE, 1 OCTOBER 2017, UNIT : 1,000 HECTOLITRES)

REGION	5-YEAR AVERAGE	2016	2017	2017/16	2017/AVERAGE
Champagne	2,463	2,077	1,946	-6%	-21%
Bourgogne-Beaujolais	2,150	2,066	2,150	4%	0%
Alsace	1,088	1,230	861	-30%	-21%
Savoie	110	119	109	-9%	-1%
Jura	77	94	37	-61%	-52%
Val de Loire	2,455	2,113	2,288	8%	-7%
Charentes	8,321	7,830	6,917	-12%	-17%
Sud-Ouest	3,409	4,064	3,261	-20%	-4%
Bordelais	5,519	6,078	3,721	-45%	-33%
Languedoc-Rousillon	12,900	12,362	10,350	-16%	-20%
Corse	338	350	270	-23%	-20%
Sud-Est	5,448	5,799	4,507	-22%	-17%

Spain

Time on target



HARVEST WATCH: *Expected to be good-sized; fungus pressure a concern*

June and the start of July brought high temperatures to Castilla-La Mancha which, combined with May's heavy rainfall, is making fungal disease an issue in the vineyards. However, this year's Spanish harvest is still expected to come in comfortably larger than last year's: as a result, many pre-harvest deals on international varietal wines have already been closed and prices on remaining 2017 generics are softening.

There are thus good opportunities to be had on generics in Spain right now and buyers are active, covering short to mid-term needs. Some of Spain's offers are aggressively competitive, at least partly in response to the good-sized 2018 crops in Argentina and Chile, but also in view of the coming Spanish harvest, which is expected to be more than large enough to soften-up prices. The standard prices of lower-end generic red (EUR50-55/hectolitre) and white (EUR50/hectolitre) remain in-line with last month, but are negotiable if the buyer can buy in big volumes and offer attractive payment and loading terms.

Pricing on Spain's international varietal wines is expected to soften once the new harvest comes on-line, and this is reflected in the pre-harvest deals that have been made. However, as this category only makes up 5-10% of Spain's total crop, its prices are not expected to soften as much as on the generics. Due to expected high demand, pre-

harvest deals are recommended for buyers needing international varietal Merlot, Cabernet, Shiraz and Sauvignon Blanc in particular: buyers of these should look at their needs now and begin committing.

Spain's **grape juice concentrate** inventory is stably-priced and steadily reducing, with interest from France, Italy and elsewhere in Spain's rectified concentrate must. There is the potential for Italy to come onto the Spanish GJC market in a big way, potentially lifting the price. Buyers requiring Spanish GJC in the short term are thus advised to make their move now; otherwise, they can hold off knowing a larger Spanish grape harvest this year will soften the GJC price. Argentina is currently offering very competitive prices on GJC, which might take some juice/food industry business away from Spain, but EU winemakers are restricted to using European GJC.

Key Takeaways

The prospect of a good-sized 2018 harvest in Spain is helping open up competitively-priced opportunities on remaining 2017 generics. Buyers needing international varietal wines from the coming harvest should move to make pre-harvest deals now. GJC availability remains but pricing could rise if Italian buyers move onto the market ahead of the 2018 harvest; prices are then expected to fall off the back of a larger Spanish harvest this time.

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

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

Italy

Time on target



HARVEST WATCH: *Some disease pressure in central/southern Italy*

Plenty of heat and rain has led to some disease pressure in Italy's central and southern growing areas; the northern areas are looking good. The sugar level of the grapes will likely be lower this year than last, especially in the north. There is still enough time to go until harvest to make predictions risky, but for sure it will be less difficult this coming vintage for buyers to make reservations and fulfil programs than it was last time. The industry is a lot less stressed than it was last summer.

The market in Italy remains calm. A decline in sales to some European markets has meant some pockets of availability opening up, including of wine that was previously thought already sold. Big producers are pushing to sell their last lots because expectations are of a harvest larger than last year's and, in turn, lower prices.

Pinto Grigio and Prosecco are suffering more than other wines because of decreased sales to the UK market: next month's sales figures will be very important in understanding the next 'equilibrium' price for the coming vintage. The good-quality generic white sparkling base wines are almost sold out and deliveries are running on time. Primitivo is still in strong demand and near to being sold out. It's the same for Rossissimo and good quality wine in general – varietal Cabernet and Merlot are almost sold out, likewise Chardonnay.

Key Takeaways

With mainly good conditions in Italy's vineyards and expectations of a crop bouncing back in size after last year's shortfall, the likelihood is that prices on the 2018 vintage will start lower than they did on the 2017. There are good deals to be had on remaining 2017 wines but inventory is quickly moving: many wine types are close to being sold out.

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

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

***Bottled Price**



South Africa

Time on target



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

The Western Cape has been experiencing a wetter winter than normal, easing the two-year drought. Cape Town's catchment dam water levels had risen to 53.3% of capacity as of 9 July, 5% higher than the week before and over twice as high as on the same date in 2017. This comes, too, before the second half of July and August, when the Cape traditionally experiences its rainiest weather. The municipality has announced that water restrictions will be lifted if the dam levels reach 85%.

The vineyards have been sustained by receiving rain from scarcely two weeks after harvest onward, and are now resting in wet and cold conditions while the water reserves get replenished: this all bodes well for the 2019 crop, provided normal winter conditions continue. To illustrate the good level of precipitation: some areas of Olifants River, the wine region most affected by the drought, have been flooded where the river has burst its banks, as normally happens every second or third year.

The bulk market in South Africa remains unchanged from last month. There is continued international demand but nearly all 2018 wines appear to be already contracted, with the odd small pocket of availability opening up here or there that is then contracted quickly. Buyers need to be very active on the market and react swiftly when something becomes available, offering attractive loading terms. Shipments of contracted wines are proceeding consistently, mainly whites and rosés so far, with some of the reds starting to move now.

By the end of July into August, many wineries will take stock of their volumes, their current contracts and the removal on those compared to their contractual removal terms, and the world stock level situation. Ciatti will be heavily involved in discussions and negotiations during this period, helping wineries if wines become available.

Rand pricing is unchanged. The Rand itself continues its typical fluctuation, though a weakening trend is identifiable from February, from around the ZAR11.50 to the dollar mark then, to ZAR13.50 on 11 July. The Rand-euro exchange shows the same trend in a narrower band, from ZAR14.20 in February to ZAR15.75 on 11 July.

Key Takeaways

The market situation in South Africa is unchanged from last month. Nearly all wines appear to be contracted and buyers must be switched on and ready to react if pockets of wine do become available. Some pockets may open up from late July onward. Contracted wine is shipping steadily. Rand pricing remains unchanged; the Rand has steadily weakened against the dollar and euro since February.

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See next page for pricing.

South Africa: Current Market Pricing (SA Rand per liter, FOB Cape Town)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2018	Dry White	6.90 – 7.20	↑	2018	Generic Red	8.50 – 9.00	↑
2018	Chardonnay	9.50 – 10.50	↑	2018	Cabernet Sauvignon	10.00 – 12.50	↔
2018	Sauvignon Blanc	9.50 – 12.00	↔	2018	Ruby Cabernet	8.50 – 9.25	↑
2018	Chenin Blanc	7.25 – 7.50	↑	2018	Merlot	9.50 – 11.50	↔
2018	Colombard	7.10 – 7.30	↑	2018	Pinotage	9.00 – 9.50	↑
2018	Muscat	7.50 – 8.50	↔	2018	Shiraz	9.50 – 10.50	↑
2018	Generic Rosé	6.90 – 7.30	↑	2018	Cinsaut Rose	8.40 – 8.80	↑
2018	Cultivar Rosé	8.50 – 9.00	↔				

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

Australia & New Zealand

Time on target



HARVEST WATCH: *dry winter in Au so far; 419,000 tonnes in NZ*

It is winter in Australia but dry weather conditions persist for many parts of the country, with June bringing below-average rainfall levels (see weather map). In addition, the July to September period is forecasted to be drier than average. Most of the country is expected to see warmer than usual days during this period – Tasmania, central and eastern Victoria, eastern New South Wales and southeast Queensland in particular will feel the effects of this weather pattern. Many crop-based farmers are desperate for heavy winter rains.

On the wine market, demand for 2018 reds continues as buyers search for supply of entry level wines. Buyers are still actively seeking additional stock but many suppliers are refraining from releasing large volumes. Those that can offer are putting forward stock under

tender-style conditions – i.e., looking for buyers who can submit the best package offer (multiple parcels, favourable payment terms and quick collection).

Older vintage commercial reds are still in demand if any availability can be found. Premium wines from Barossa Valley or McLaren Vale are still sought-after for smaller-sized parcels. Moderate demand remains for entry level white wines. Additional volumes of 2018 wines are expected to become available in the coming months but the question remains: how much and at what price?

Wine Australia has released its plans for year four of its five-year 'Strategic Plan 2015-2020'. According to the body, the first three years of this plan saw Australian wine's total free-on-board export value increase by 39% from AUD1.9 billion to AUD2.65 billion (USD1.95 billion). There was value growth in all price segments and a 22% increase in the national average wine grape purchase price from AUD463/tonne to AUD565/tonne.

See next page for more on Australia & New Zealand.

Wine Australia will now invest AUD67.8 million during the 2018-19 year, with the support of the Australian government's AUD50 million 'Export & Regional Wine Support Package'. This includes significant investment in promotional campaigns in the US market and amplification of existing campaigns, including for Australian wine tourism.

The organisation said it had processed a record 56,912 export approvals during the 12 months to May 2018. In 2018-19, it will introduce a new digital export approval system that will help reduce the time approval takes.

Meanwhile, Penfolds is set to sell a fortified Shiraz blended with baijiu, a popular Chinese spirit. The new product will retail at AUD150 for a 7000ml bottle both in Australia and China. Baijiu is a clear and high alcohol spirit, generally distilled from fermented grain (sorghum). In addition, Penfolds has also confirmed it will soon release a French Champagne and a Napa Valley Cabernet Sauvignon.

*

The 2018 vintage in **New Zealand** came in at 419,000 tonnes, up 6% on the 2017 tonnage but lower than expected due to a wet growing season and disease pressure, with an early start to harvesting. The majority of the 6% increase came from red varieties, with production of Pinot Noir and Merlot both up more than 20% on 2017. New Zealand wine exports are currently valued at NZD1.71 billion (USD1.16 billion), up 3% in the past year.

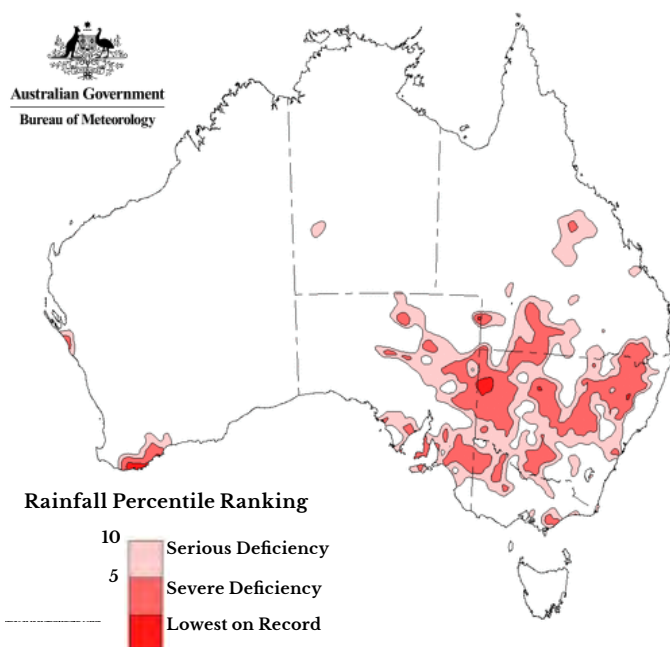
High profile winemaker Peter Yealands has parted ways with the company he founded in 2002, Yealands Wine Group. He has stepped down as director and sold his remaining shares to electricity network company Marlborough Lines, which now takes full ownership. Yealands Wine Group had a turnover of NZD100 million in 2017.

Key Takeaways

Demand for Australia's 2018 reds continues but many suppliers are refraining from releasing large volumes, or they are seeking buyers who can submit the best package offer (just like in a tender system). Additional volumes of 2018 wines are expected to become available in the coming months but exactly how much, and at what price, is unclear. The ongoing dryness of Australia's winter is causing concern. New Zealand's harvest came in 6% larger than 2017's, with red varieties performing particularly well.

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Rainfall Percentile Ranking



Rainfall Deficiencies: 6 months
1 January to 30 June 2018
Distribution Based on Gridded data
Australian Bureau of Meteorology

Source: Commonwealth of Australia 2018, Australian Bureau of Meteorology

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

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
NV	Dry White	0.85 – 0.95	↔	NV	Dry Red	1.10 – 1.25	↑
2018	Chardonnay	1.05 – 1.15	↑	2018	Cabernet Sauvignon	1.40 – 1.60	↑
2018	Sauvignon Blanc	1.10 – 1.20	↔	2018	Merlot	1.40 – 1.60	↑
2018	NZ Marlborough SB	NZD 3.65 – 4.00	↔	2018	Shiraz	1.40 – 1.60	↑
2018	Pinot Gris	1.30 – 1.50	↔	2018	Muscat	0.85 – 0.95	↔

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



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BEVERAGE TRADE NETWORK

John Fearless Update

JOHN FEARLESS
PROVIDER OF CRAFT HOPS AND PROVISIONS



Asia-Pacific will be the world's fastest growing craft beer market between 2017 and 2023, according to Market Research Future, with a compound annual growth rate of 7.4%, ahead of North America's 6.8%. John Fearless is receiving growing interest in its range of hops and used oak barrels from Asian markets, including China – which will dominate Asia-Pacific's growth rate – but also Taiwan, South Korea and Vietnam.

The growth potential for business with China brought about by the rapid proliferation in the country's urban middle class is well-documented, but China is also seeing a similar 'millennial' trend as western markets, with younger consumers seeking innovative, high-quality craft products with a local provenance. Exports to China of US craft beer have been rising but the country still commands only 2.5% of US craft beer exports: China has its own, growing,

craft beer offering, much of which offers a sweet or fruity flavour to attract drinkers away from mass-produced beers.

This is where John Fearless can help: it can deliver high-quality US, South African or New Zealand aroma hops in pelletized format to Asian markets. Azacca from the US, for example ('big in citrus and tropical fruit tones'), or Southern Passion from South Africa ('fruity, passion fruit, and slightly spicy'), or Taiheke from New Zealand ('grapefruit/lime characters') – just some of Fearless's innovative range to please the palate. In addition to a wide range of aroma hops, Fearless can offer bittering and dual-purpose varieties, as well as experimental hops to give brews a really unique selling point.

Something else that imparts unique flavours is barrel-aging, and Fearless has already sold quality used oak barrels into South Korea where the craft beer market is currently experiencing

explosive growth: in ten years' time it is expected to be worth a hundred times the USD20 million it is worth today, thanks to favourable regulatory changes and millennial demand for hoppy, flavourful beers.

Fearless can offer Asian craft brewers quality oak barrels previously used in bourbon and whiskey production. Fearless sources these from the distillery both in good condition and super fresh, as 'wet barrels' sometimes still containing traces of the distilled spirit: they are thus highly aromatic. Fearless is able to leverage Ciatti's global network to get innovative hops and oaks barrels to where they need to be.

Key Takeaways

John Fearless can provide a five-strong range of Humuflor hop essences; all-natural liquid oak extracts for wine making (Structan finishing tannins and Wine Shield preservative from Stoak Technologies); used wine, bourbon, whiskey and rum barrels; used foeders; base and specialty malt; aroma and bittering hops; and fruit concentrates, purees, juices, and powders.

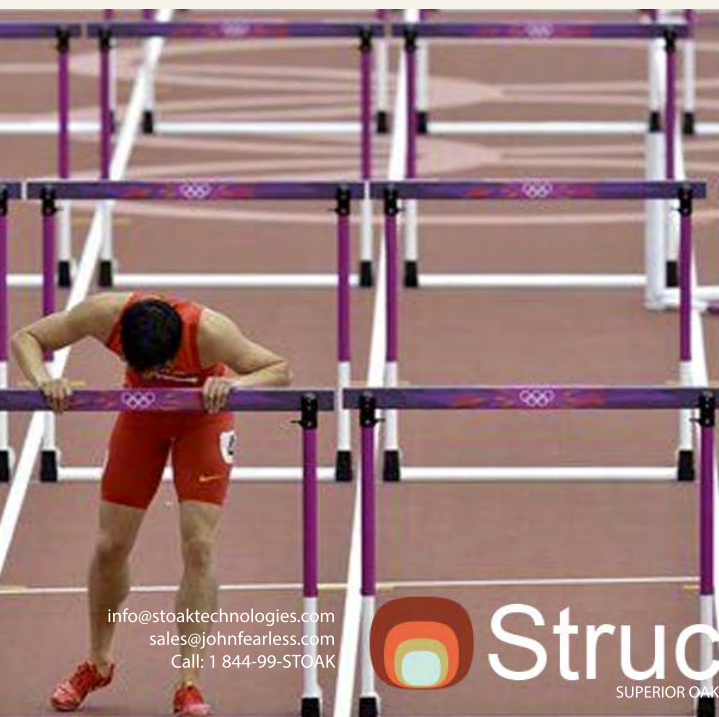
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Export Pricing: USD per liter

Currency Conversion Rates as of July 19, 2018

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

Australia & New Zealand (Pricing in bulk; FCA)						AUD Rate: 0.733088 / NZD Rate: 0.671796					
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Dry White	0.62	-	0.70	↔	NV	Dry Red	0.81	-	0.92	↑
2018	Chardonnay	0.77	-	0.84	↑	2018	Cabernet Sauvignon	1.03	-	1.17	↑
2018	Sauvignon Blanc	0.81	-	0.88	↔	2018	Merlot	1.03	-	1.17	↑
2018	NZ Marlborough SB	2.45	-	2.69	↔	2018	Shiraz	1.03	-	1.17	↑
2018	Pinot Gris	0.95	-	1.10	↔	2018	Muscat	0.62	-	0.70	↔

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

Chile (Pricing in bulk; FOB Chilean Port)											
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Generic White	0.70	-	0.85	↑	NV	Generic Red	0.70	-	0.85	↔
2018	Chardonnay	1.15	-	1.25	↔	2018	Cabernet Sauvignon (Basic)	1.10	-	1.20	↔
2018	Sauvignon Blanc	1.15	-	1.20	↔	2018	Cabernet Sauvignon (Varietal Plus)	1.25	-	1.35	↔
2018	Syrah	1.10	-	1.20	↔	2018	Merlot	1.15	-	1.25	↔
2018	Carmenere	1.30	-	1.45	↔	2018	Malbec (Basic)	1.25	-	1.40	↔
2018	Pinot Noir	1.25	-	1.40	↔	2018	Malbec (Varietal Plus)	1.60	-	2.00	↔

France (Pricing in bulk; Ex-Winery)										Rate: 1.160700	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.75	-	0.93	↓	NV	Generic Red	0.70	-	0.87	↓
2017	Chardonnay IGP	1.16	-	1.39	↔	2017	Generic Red	0.75	-	0.93	↓
2017	Chardonnay VDF	1.10	-	1.22	↔	2017	Cabernet Sauvignon IGP	1.10	-	1.51	↔
2017	Sauvignon Blanc IGP	1.10	-	1.22	↔	NV	Cabernet Sauvignon VDF	0.93	-	0.99	↔
2017	Sauvignon Blanc VDF	1.04	-	1.16	↔	2017	Merlot IGP	1.04	-	1.39	↔
2017	Generic Rosé IGP	1.16	-	1.51	↑	NV	Merlot VDF	0.93	-	0.99	↔
2017	Generic Rosé VDF	1.04	-	1.16	↑	2017	Red Syrah / Grenache IGP	1.04	-	1.39	↔
2017	Varietal Rosé IGP	1.16	-	1.51	↑						

Italy (Pricing in bulk; Ex-Winery)										Rate: 1.160700	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.58	-	0.70	↓	2017	Generic Red	0.58	-	0.70	↓
2017	Chardonnay	0.87	-	1.28	↓	2017	Cabernet Sauvignon	0.81	-	0.93	↓
2017	DOC Pinot Grigio	1.16	-	1.28	↔	2017	Merlot	0.81	-	0.93	↓
2017	DOC Prosecco (Bulk)	2.21	-	2.44	↔	2017	Primitivo / Zinfandel	1.39	-	1.62	↔
2017	DOC Montepulciano	0.87	-	0.93	↔	2017	Chianti*	2.32	-	2.90	↑
<i>*Bottled Price</i>											

South Africa (Pricing in bulk; FOB Cape Town)										Rate: 0.073716	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2018	Generic White	0.51	-	0.53	↑	2018	Generic Red	0.63	-	0.66	↑
2018	Chardonnay	0.70	-	0.77	↑	2018	Cabernet Sauvignon	0.74	-	0.92	↔
2018	Sauvignon Blanc	0.70	-	0.88	↔	2018	Ruby Cabernet	0.63	-	0.68	↑
2018	Chenin Blanc	0.53	-	0.55	↑	2018	Merlot	0.70	-	0.85	↔
2018	Colombard	0.52	-	0.54	↑	2018	Pinotage	0.66	-	0.70	↑
2018	Muscat	0.55	-	0.63	↔	2018	Shiraz	0.70	-	0.77	↑
2018	Generic Rosé	0.51	-	0.54	↑	2018	Cinsaut	0.62	-	0.65	↑
2018	Cultivar Rosé	0.63	-	0.64	↔						

Spain (Pricing in bulk; Ex-Winery)										Rate: 1.160700	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.58	-	0.75	↓	2017	Generic Red	0.64	-	0.87	↓
2017	White Blends (Higher Quality)	0.75	-	0.87	↓	2017	Generic Red (Higher Quality)	0.87	-	1.04	↓
2017	Sauvignon Blanc	1.04	-	1.16	↑	2017	Cabernet Sauvignon	0.99	-	1.16	↑
2017	Chardonnay	1.04	-	1.16	↑	2017	Merlot	0.99	-	1.16	↑
2017	Generic Rosé	0.64	-	0.75	↓	2017	Syrah	0.93	-	1.16	↓
2017	Varietal Rosé	0.87	-	0.99	↓						
2017	Moscatel	0.81	-	0.93	↔						

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