

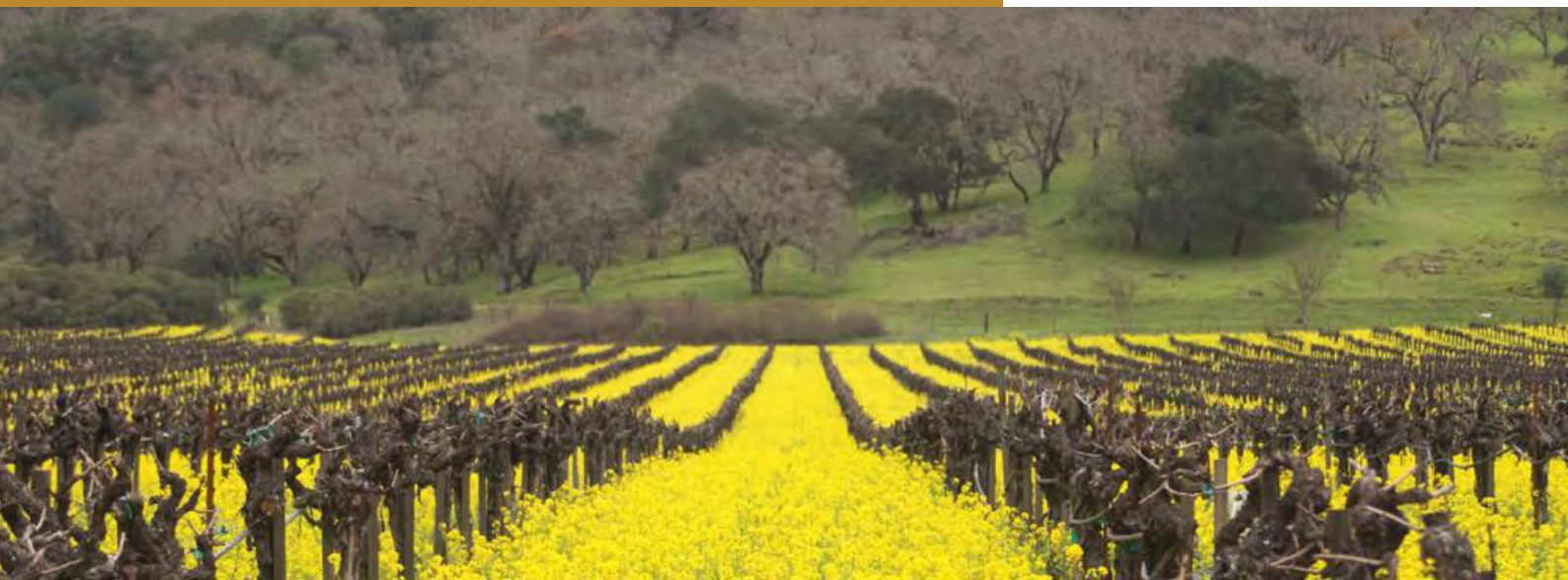


Global Market Report

September 2018
Volume 9, Issue No. 9

**Ciatti Global Wine
& Grape Brokers**

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September 2018

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The Northern Hemisphere harvests are ongoing. After intense heatwaves, the latter half of August brought cooler temperatures to France, Spain, Italy and California, prolonging hang time and helping quality and sizing, and – arguably – normalising harvest kick-off times after a couple of years where they’ve been early or late. There remains the risk of late-summer heat spikes or hailstorms, but at the time of writing all Northern Hemisphere harvests are on course to be average to average-plus in volume.

With prices softening by varying degrees in Argentina, Chile and Spain – and emerging market currencies such as the Argentine peso, Chilean peso and South African Rand all weakening against the major international currencies to varying extents – the second semester of 2018 has halted the international upward price trend on bulk wine prices. There of course remains particular varieties in particular markets that still command an increasing price, but what we see in many markets now is buyers happy to hold-off and wait, give firm counter offers, and be choosy on quality.

Buyers’ growing discernment on quality is being enabled by there seemingly being enough wine to go around, and encouraged because the market at the retail end seems to require it. Generally speaking, generic wines continue to fall out of favour, ensuring Spain – which produces big quantities – keeps its offer prices low where it can. A return to a normal-sized Spanish harvest this year (42 million hectolitres or more) comes just as northern Italy looks set for a big harvest, so that Prosecco and Pinot Grigio quotas will be easily met, freeing up overage as generic volumes that might tempt Italy’s northern bottlers from sourcing generics from the south, which in turn may struggle to find a home. In this case, then, it is not so much the volume of the offer but the make-up of the offer that does not quite match demand.

The South American markets were becalmed in August as buyers await the Northern Hemisphere harvests (while South Africa has been quiet because it has little if any wine to sell). Chile has been experiencing an unusually dry winter, with a premature shift to spring-like daytime temperatures, causing some concern regarding the risk of frosts affecting early-waking vines. Argentina’s winter weather has been more normal. The country’s economic woes have deepened: inflation is rampant and the peso is devaluating significantly, from 22 pesos to the dollar to 38 in just four months. All wine prices in Argentina are open to negotiation.

The harvest picture in the Northern Hemisphere will be much clearer by next report, in October. For more on the crop situation in California in particular, check out Ciatti’s monthly *California Report*.

Robert Selby

California

Time on target



HARVEST WATCH: *Quality looks good in the south Central Valley*

Harvesting is underway in California's south Central Valley. The last two weeks of August were cooler than normal, slowing down sugars and giving grapes more hang time before picking. It's hard to gauge if this year's timetable is running slightly behind 'normal', or simply returning to normal after a couple of early years. Either way, it will be good for quality and could potentially size-up the harvest a little, though it's still too early to tell.

The slower start has caused concern that, should a heat spike occur, everything will become ready to pick at the same time. For California's growers a compacted harvest would not be something new, but it would still cause a logistical headache in terms of storage space and transport availability.

Very early harvest indications from the south Central Valley suggest that White Zinfandel's performance has been mixed, and is perhaps coming in slightly lighter. Even more tentative an insight, Chardonnay might be a little lighter. Pinot Grigio and Sauvignon Blanc look to be coming in above average. Colombard's performance seems mixed. It's too early for the red varieties.

The bulk wine market in California remains unchanged from last month. There continues to be opportunities for international buyers on red wines, primarily Cabernet from Washington State and California, including from California's coastal areas.

In terms of domestic demand, the hottest market in the south Central Valley at the moment feels like generic white, much of it likely intended for **grape juice concentrate**. Recent production of generic whites has not quite been at a level to quench demand for it, and it can be argued that more acres of generic whites are needed in the Valley long-term. There have been some

plantings going into the south Valley in recent years but these are mainly controlled by the big wine companies. As a result, south Valley white GCJ is expensive from an international perspective, and the market for it is tight. Red GJC is more plentiful and – internationally-speaking – more competitively priced.

It's too early to get much of a sense of how this harvest will impact the GJC picture. Rubired is yet to be crushed; Thompson seedless seems a little lighter, just going on bunch counts.

The latest Gomberg-Fredrikson report shows that, in January to April 2018 inclusive, total shipments of Californian and imported wines to the US market were flat. Total shipments of Californian bottled wine – to the US market and abroad – were down 2%; most of this decline was accounted for by a 9% fall in exports. There was a 4% increase in bottled wine imports into the US, reflecting the continuing popularity of international wines such as New Zealand Sauvignon Blanc (*see New Zealand page*). Bulk wine imports were down 10%, perhaps symptomatic of increased bulk prices around the world in the latter half of 2017 into 2018.

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

Key Takeaways

Harvesting is ongoing in the south Central Valley and quality looks good; crop size by variety will be clearer by next report. California can offer good quality wines on long-term contracts. In particular, there are opportunities for international buyers on Californian and Washington State reds, mainly on Cabernet (including from California's coastal areas). In addition, California's red GJC is available at a competitive price from an international standpoint.

See next page for more on California.

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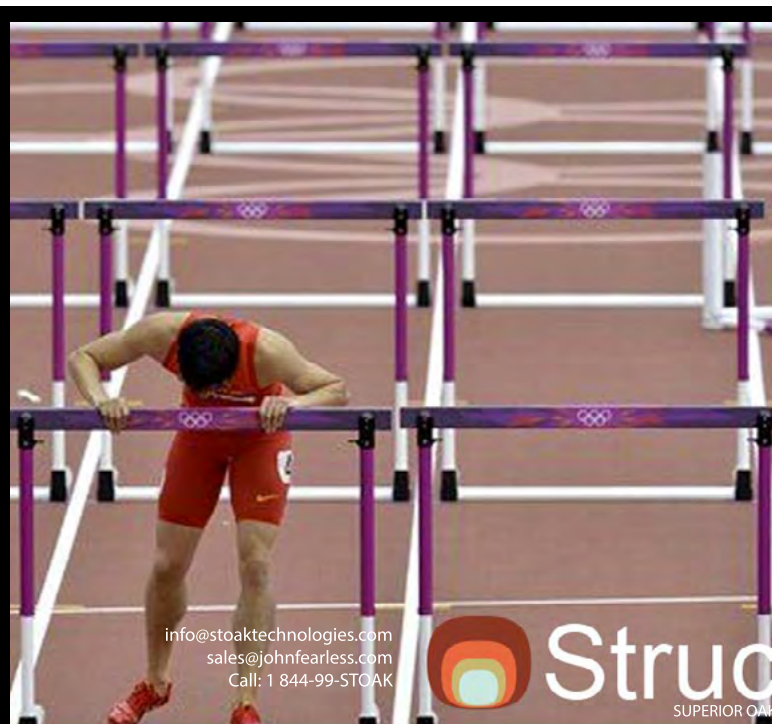


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California: Current Export Market Pricing (USD per liter)

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



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Argentina

Time on target

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

Argentina's growing areas experienced normal late winter conditions through August, with temperatures rising above average towards the end of the month because of warming created by 'Sonda' winds blowing in from the Andes. In turn, September started wet due to 'Santa Rosa' storms.

These almost annual storms are so-called because they often take place during the Santa Rosa feast day of 30 August, and mark the shift from winter to spring: they are created by spring's warm front clashing with winter's cold front. Spring will win out, and the frost risk season will commence as the vines begin to wake. A not huge, but decent, snowpack has been laid down in the mountains this winter.

As per last month's report, the domestic bulk wine market in Argentina is quiet, while international business is more active, with steady demand particularly for generic white wines. Buyers seem to be moving towards taking a position, while keeping one eye on how the Northern Hemisphere harvests fare.

As of 3 September, the peso had fallen to approximately 38 pesos to the dollar, down from 28 dollars just a month before and 17 pesos a year ago. This plunge has been brought about by low confidence on the financial markets that Argentina can repay its mainly US dollar-denominated debts, and is now being compounded by the weakening effect many emerging market currencies are currently feeling against the dollar – essentially,

ripple effects from ongoing 'trade wars' between the US and various countries. (*Chile's peso has weakened against the dollar in the past 4-5 months, so too more recently South Africa's Rand: see their respective pages.*)

On 3 September Argentina's president, Mauricio Macri, announced in a televised address that – among other emergency austerity measures – his government would be imposing a 4 pesos per dollar levy on the export of primary products, and a 3 pesos per dollar levy on the export of finished products. The export tax is designed to help reduce uncertainty surrounding the government's financing capability.

It is too soon to know what the impact will be on Argentina's bulk wine export prices of this most recent slide in the peso and the subsequent imposition of new export taxes, but it will likely mean even better opportunities for the buyer to negotiate deals that are attractive from their point of view.

Key Takeaways

It is too early to know what effect newly-imposed export taxes will have on the country's bulk wine market, but the peso devaluation is helping make Argentina's bulk wine and grape juice concentrate offer even more attractively-priced. Argentina can offer attractively-priced wines of excellent quality – dry reds and whites, and varietals – in good volumes.

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See next page for pricing.

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

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

Chile

Time on target



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

Chile's winter is drawing to a close: though the nights remained cold through August, daytime temperatures were already spring-like, much warmer than normal for the time of year. This has raised some concerns regarding the impact of any potential frost and late rains on early waking vines, and a small number of suppliers are speculating on this and holding wines back to see if market prices increase.

The unusual dryness of Chile's winter continued: by the end of August, aggregate rainfall in 2018 was 58% below normal in Santiago (in the Maipo Valley) and 47% below in Curicó (in the Valle Central) and Chillán (in the Itata Valley). Santiago has received just 120.6 millimetres of rain so far this year, down from 201mm at the same point of 2017 and down from 284.8mm in a normal year.

With Europe on its holidays and much of Chile's good quality 2018 bulk wine already contracted, activity on Chile's market was muted through August. The good quality wines – representing perhaps 80% of Chile's total 2018 crush – are gradually being bought up, with buyers choosy about quality-price ratio: they may buy at a price close to what the supplier offers, but insist on taking the best quality categories possible. It seems as if the lower quality wines – the other 20% of the 2018 crush – are not shifting. As a result, prices on these are softening fastest. Those buyers who contracted early will avoid the hassle, receiving the best qualities in the quantities they need, in the time slot they need.

The price for the 2018 grapes has been fixed at CLP300-350/kg, depending on varietal. The prices for 2019 grapes remain unfixed, though some expect them to be below the prices for this year's grapes.

See next page for more on Chile.

The Chilean peso, like other emerging market currencies around the world such as South Africa's Rand (*see South Africa page*), continues to trend weaker against the US dollar. It averaged 656.25 against the dollar in August, its weakest monthly performance since July 2017 (658.17) and out from 652.41 in July this year, 636.15 in June, and 626.12 in May.

Key Takeaways

With Europe on its summer holidays, August, as in most years, has been quiet in Chile. Its good quality 2018 bulk wines continue to be in demand and are being steadily bought where not already contracted. The Chilean peso continues to trend weaker against the dollar and other major currencies, making its competitive bulk wine pricing look even more attractive on the world stage.

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

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



France

Time on target

HARVEST WATCH: *Returning to normal size in Languedoc; mildew concerns*

Temperatures in France cooled off in the second half of August: the Languedoc was still experiencing high daytime temperatures (31-31°C max), but night temperatures fell to 11-12°C from the 25°C+ they were at before. Rainstorms have occurred intermittently, but hailstorms have not so far been an issue.

After being early last year, the wine grape harvest kick-off in 2018 has moved back closer to where it would be in a 'normal' year. As usual, the harvest first started in South West, by the Pyrenees: harvesting of early varieties there, such as Muscat, commenced in the second week of August. The Languedoc began harvesting some Muscat and Sauvignon Blanc in the final week of August.

The latest Agreste report, dated 20 August, estimates France's 2018 wine production at 46.1 million hectolitres, 25% up on last year's short crop and 5% above the five-year average. Between July and August Agreste revised down its estimate for the Languedoc harvest, from 12.4 million hectolitres to 12 million, down 4% on the five-year average and more in line with what others have forecasted. The co-op syndicate representing some 80% of the Languedoc's total production has forecast 11.8 million hectolitres; FranceAgriMer, attached to France's Ministry of Agriculture & Fisheries, forecasts a Languedoc harvest at 11.9 million hectolitres.

Mildew has been problematic in the Languedoc this year. Many growers have had to spray multiple times to control it, inflating input costs. In the many vineyards where the grower has been diligent, mildew has been kept under control and is not an issue. Mildew will significantly impact yield in the vineyards where it has

been allowed to take hold. As a result, organic wine volumes will be down considerably: organic growers will do their best to fulfil pre-existing contracts, but new buyers have little if any chance of finding organic wines on the market this year.

The increase in input costs brought about by multiple spraying will most likely place an upward pressure on wine prices for the 2018 vintage. Growers will explain that to produce more volumes of wine this year than last, it has cost twice as much (or more). In addition, if as expected colour and alcohol content is not optimal this year, the winemaking will also cost more. As a result, it is likely wine prices in the Languedoc will start the coming campaign where they ended up last campaign, despite the bigger harvest.

After a very short crop in 2017, Bordeaux should return to an average-sized crop this time and be in a position to offer bulk wine: there will be opportunities here in terms of volumes, though prices are unlikely to soften dramatically. Volumes in Provence are expected to be up on last year, with a question mark over quality – rain may have brought some rot to susceptible varieties such as Grenache and Cinsaut. Demand for Provencal rosé remains huge: as a result, prices are likely to increase.

It should be noted that, until the harvest across France is complete in October, pricing for 2018 wines remains uncertain and the above is indicative only.

As usual, the bulk wine market in France was quiet through August. There was little if any remaining 2017 rosé left to buy, and rosé producers are already feeling the pressure from bottlers to get their 2018 wines ready, such is the demand situation. White wines from 2017 were also low in inventory; there remains some reds on the market but its quality is not optimal. In short, all the qualities that are interesting the buyers have gone and everyone is now waiting for the new vintage.

See next page for more on France.

Key Takeaways

The French bulk wine market was quiet in August, with inventory on the quality wines almost sold out and buyers waiting for the new vintage. The Languedoc grape crop looks like returning to a more normal size after a short 2017, but the fight against mildew will have increased input costs for growers, and quality will need to be upped in the winemaking. Prices are thus likely to start off higher than buyers would like once the 2018 vintage buying campaign gets underway.

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2018 French Harvest Estimate by Acre (AGRESTE, 20 August 2018, UNIT : 1,000 HECTOLITRES)

REGION	5-YEAR AVERAGE	2017	2018	2018/17	2018/AVERAGE
Champagne	2,511	2,238	3,497	56%	39%
Bourgogne-Beaujolais	2,221	2,204	2,457	11%	11%
Alsace	1,038	919	1,172	28%	13%
Savoie	107	97	120	23%	12%
Jura	71	46	79	70%	11%
Val de Loire	2,507	2,214	2,818	27%	12%
Charentes	8,162	6,877	8,762	27%	7%
Sud-Ouest	3,325	3,001	3,651	22%	10%
Bordelais	5,134	3,691	5,731	55%	12%
Languedoc-Rousillon	12,548	10,440	12,030	15%	-4%
Corse	334	288	324	13%	-3%
Sud-Est	5,292	4,268	4,722	11%	-11%

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	0.55 – 0.75	↓
2017	Chardonnay IGP	1.00 – 1.20	↔	2017	Generic Red	0.60 – 0.80	↓
2017	Chardonnay VDF	0.95– 1.05	↔	2017	Cabernet Sauvignon IGP	0.92 – 1.30	↔
2017	Sauvignon Blanc IGP	0.95 – 1.05	↔	NV	Cabernet Sauvignon VDF	0.80 – 0.85	↔
2017	Sauvignon Blanc VDF	0.90 – 1.00	↔	2017	Merlot IGP	0.90 – 1.20	↔
2017	Generic Rosé IGP	1.00 – 1.30	↔	NV	Merlot VDF	0.80 – 0.85	↔
2017	Generic Rosé VDF	0.90 – 1.00	↑	2017	Syrah / Grenache IGP	0.90 – 1.20	↔
2017	Varietal Rosé IGP	1.00 – 1.30	↔				



Spain

Time on target



HARVEST WATCH: *Estimated at a minimum of 42 million hectolitres*

The heatwave across Europe passed in early August and by the end of the month conditions in Spain were cool and fresh. As a result, ripening occurred slowly but steadily and the harvest kick-off was pushed back to where it would be in a 'normal' year. The harvest season will start during the first weeks of September with the early ripening international varieties (Sauvignon, Chardonnay, Muscat, Merlot), followed by the native red varieties (Tempranillo, Garnacha) during the second half of the month, ending as usual with Airen.

As in France, mildew has been a problem in areas of northern Spain. The overall harvest is certain to come in larger than last year's short crop, however, to somewhere in the region of 42 million hectolitres or more.

Because of this confident harvest estimate, which has been in place since the end of June, some pre-harvest deals – mainly on varietal bulk wines – have been closed already and at prices below where they were last year. So it can be presumed that, moving forward, the market in Spain will soften. Indeed, prices on all wines have been slightly – but steadily – trending downward in Spain.

August was, as in most years, a quiet month activity-wise on Spain's bulk wine market, with many buyers waiting for the 2018 vintage buying campaign to get underway. However, buyers needing to cover themselves until the vintage change can find some good opportunities with immediate loadings, even though the 2017 red and rosé inventory is getting low. All in all, it's a big contrast with last year's situation, when damaging frosts, intense heat and drought considerably shortened Spain's harvest and buyers were jockeying at the buying campaign's start line.

Due to the potential lack of 2018 organic wines in France (see France page), the Spanish market for such wines is expected to be very dynamic, offering buyers good volumes and value for money. Buyer should consider contracting early, especially for international varietal wines.

Key Takeaways

The coming buying campaign in Spain continues to look far less complex than its predecessor, with the country's harvest output expected to return to a normal size. In general, Spain's prices are trending downward and they will as ever be highly competitive on the world stage. The main part of the 2018 harvest will come in in the last two weeks of September.

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

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.40	-	0.55	↓	2017	Moscatel	0.70	-	0.80	↔
2017	White Blends (Higher Quality)	0.55	-	0.75	↓	2017	Generic Red	0.50	-	0.70	↓
2017	Sauvignon Blanc	0.90	-	1.00	↑	2017	Generic Red (Higher Quality)	0.70	-	0.90	↓
2017	Chardonnay	0.90	-	1.00	↑	2017	Cabernet Sauvignon	0.85	-	1.00	↑
2017	Generic Rosé	0.50	-	0.60	↓	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: *Returning to a normal size after a short 2017*

As in France and Spain, this year's harvest in Italy looks like returning to a more normal size after a short 2017 crop. Italy's Osservatorio Del Vino forecasts, with guidance from ISMEA and the Unione Italiana Vini, that the country's wine production will reach 49 million hectolitres this year, up 15% from 42.5 million in 2017. The estimate is the average of a range believed to be reliable: a minimum of 48 million hectolitres and a maximum of 50 million.

The situation across Italy is not unified. The harvest in the north of the country is forecasted to bounce back from last year by as much as 17% (to 26.6 million hectolitres), in the central regions by 21% (to 7.3 million hectolitres), and in the south by 10% (to 26.6 million hectolitres). The north-east of Italy will produce very good volumes, easily meeting the quotas for Pinot Grigio and Prosecco.

Because of this substantial uptick in production in the Veneto area, the traditional demand from northern bottlers for generic whites from the south could potentially reduce – even if, until now, the potential alcohol degree in northern wines seems to be lower than average, pushing up demand for concentrate rectified must and in general high-degree products from other regions.

The next few days will be extremely important in determining the situation both in the north and the

south: the danger of rain is making a lot of producers wary regarding the final health of the grapes.

If southern producers of generic white wines do lose some traditional northern custom, they will likely make themselves highly competitive on price. This could attract the interest of buyers from across Europe, though Spain will be producing big volumes of generics again this year. Buyers outside Europe could be interested in southern Italian generic white, but transport and duty costs would need to work. The production of red varieties as a whole will not be above average, and strong demand will probably keep prices on red generics higher than on the whites, as in Spain.

Demand around the world for entry-level wines is not as strong as it once was; thus the problem with supply is not that there will be too much bulk wine, but that there will be too much bulk wine that is not appropriate to the needs of today's marketplace.

Key Takeaways

Pinot Grigio and Prosecco quotas look like being easily fulfilled this year, and in general there is a good quantity of varieties in the Veneto (though with a lower average alcohol level). This may dent demand from the north for southern generic whites, which in turn could lead to some very competitive pricing in the south.

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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*

August brought more welcome snow and rainfall to the Western Cape: water levels in Cape Town's catchment dams stood at 62% as of 27 August, nearly twice as much as 34.1% on the same day last year. In one of the areas that was worst-hit by drought, the Olifants River, the Olifants/Doorn River catchment dam is now 98.6% full, up from 32.7% at this point in 2017. Further rainfall would be very helpful but water supplies are already looking the healthiest they've been since 2016.

Availability of South African wine remains highly limited, with only small amounts intermittently available on the spot market. Demand from the domestic market – either to fulfil labels for the domestic retail market or to bottle for potential export – continued strongly in August. International demand was muted due to the holiday season in Europe and the imminence of the Northern Hemisphere harvests.

Another reason for the lack of activity from European buyers is that many secured their needs from the 2018 vintage early, due to low carryover stock levels in South Africa through 2017 into 2018, and also due to the import duty quota system now applied on South African wines by the EU.

This system, in force since 1 November 2016, limits the amount of South African wine allowed to enter the EU duty-free. (Bulk and bottled wines each have their own separate quotas. The bottled wine quota is significantly larger than the quota for bulk wines, and unlike its bulk counterpart has not yet ever been maxed-out. One quota is non-transferable to the other.) Once the bulk quota is reached, shipments of South African bulk wine into the EU are charged import duty. Thus, in the past

two years, EU buyers have secured and shipped bulk wine quicker than before, in order to be included in the quota. As of August, the available 2018 bulk wine quota was close to zero already.

Rand pricing remains stable, but since mid-August the Rand itself has – along with a number of other emerging market currencies – significantly weakened against the major international currencies due to the economic problems in Turkey (brought about by its domestic politics and its 'trade war' with the US). The Rand's weakness against the dollar and euro spiked at approximately 15.02/dollar and 17.10/euro on 13 August; it has since rallied a little to 14.16/dollar and 16.53/euro as of 27 August. To highlight its present weakness: six months before, on 27 February, the Rand was at 11.57/dollar and 14.25/euro respectively. The Rand is currently at its weakest against the major currencies since September 2016, when the weakness led to significant volumes of wine being shipped out of South Africa. The same will not happen this time due to the lack of availability.

Key Takeaways

International demand for South African wines is quiet; domestic demand continues strongly. Rand pricing is stable, but in recent weeks the Rand – along with other emerging market currencies – has weakened against the US dollar and euro due to Turkey's economic problems. However, this will have little impact on the amount of international deals being struck in South Africa as there remains little if any wines available to buy.

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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	7.00 – 7.50	↑	2018	Generic Red	8.50 – 9.50	↑
2018	Chardonnay	10.00 – 11.50	↑	2018	Cabernet Sauvignon	10.50 – 13.00	↔
2018	Sauvignon Blanc	9.50 – 12.00	↔	2018	Ruby Cabernet	9.00 – 9.50	↑
2018	Chenin Blanc	7.25 – 7.50	↑	2018	Merlot	10.50 – 12.50	↔
2018	Colombard	7.10 – 7.30	↑	2018	Pinotage	9.50 – 10.50	↑
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: 1.79 million tonnes in Au; 419,000 tonnes in NZ

The figures for Australia's 2018 grape crush have been released and show a harvest of 1.79 million tonnes, just above the long-term average of 1.76 million tonnes. The decline from the previous year was greatest in the cool/temperate regions, where the harvest was down 20% overall; the warm irrigated regions (Riverina, Murray Darling–Swan Hill, and Riverland) were less affected by the drier spring and summer, with yields down just 5%.

Production in 2018 of red grapes was down 15% on the previous year, but it should be remembered that the above-average 2017 vintage had seen tonnages increase by 12%, meaning that the 2018 vintage was effectively a return to the long-term averages. The decline in the white grape crush was only 4% compared with 2017, leading to a reduction in the red share from 55% to 52%

of the crush, in line with the three-year average. Of the major varieties, Shiraz tonnes decreased by 1%, Cabernet by 14%, and Merlot by 19%.

The calculated average purchase price of AUD609 per tonne was up by 8% on the price of AUD565/tonne in 2017. This figure is the highest since 2008 and above the average price across the past ten years of AUD508/tonne. It is the fourth consecutive vintage where the average purchase price for wine grapes has increased. Since hitting a low in 2011, the overall average grape price has increased by a compound annual rate of 6% over the past seven years. However, the average is still roughly two-thirds of its peak in 2001. The overall average purchase price of red grapes increased by 11% from AUD692 to AUD768/tonne, while for white grapes the average price increased by 5% from AUD421 to AUD444/tonne.

Each of the top ten red varieties showed price increases, with Shiraz up by 8% (on top of a 12% increase in 2017), Cabernet up by 14% and Merlot up by 18%. Among the

whites, Chardonnay increased by 5% despite a significant increase in tonnes produced, Sauvignon Blanc increased by 4% and Muscat Gordo Blanco increased by 3%. The only white variety to decline in overall average price was Pinot Gris/Grigio (down 1%).

*

New Zealand wine has recorded its 23rd consecutive year of export growth, according to New Zealand Winegrowers' annual report, published in August. The headline figures include the value of the country's wine exports rising in the year to June 2018 by 2.5% to reach NZD1.7 billion. Export volume, meanwhile, reached 255.1 million litres, up slightly from 253 million litres in the prior year.

The US continued to be the largest market by value, taking NZD521.7 million of New Zealand wine, ahead of the UK (NZD386.7 million) and Australia (NZD366.9 million). NZW added that the overall 2.5% increase in export value came despite "muted" export growth during the period "due to supply constraints", something it expects to continue for the next year.

John Clarke, NZW's chairman, said: "In the coming year we predict export growth will continue to be muted given that the 2018 vintage was smaller than we had hoped. The final outcome will also be affected heavily by the exchange rate, which is currently looking more favourable."

New Zealand's 2018 harvest yielded some 419,000 tonnes of grapes, producing 301.7 million litres of wine. This tonnage was ahead of the prior, 2017 harvest (396,000

tonnes) but behind 2014's (445,000 tonnes) and 2016's (436,000 tonnes). NZW lists New Zealand's current wine grape producing area at 37,969 hectares, an increase of approximately 1,000 hectares over 2017. Some 23,102 hectares of this is Sauvignon Blanc.

Clarke noted Brexit with concern: "The UK is the second biggest export market for New Zealand wine, and wineries will be watching closely over the next nine months to gauge the possible effects of Brexit on international trade." The UK is set to leave the European Union on 29 March 2019, though a 20-month 'transition period' will follow to give businesses time to prepare for when post-Brexit rules begin on 1 January 2021.

Key Takeaways

The calculated average purchase price of wine grapes from Australia's 2018 harvest was AUD609 per tonne, up 8% on the 2017 price and the highest since 2008. It is the fourth consecutive Australian vintage where the average purchase price for wine grapes has increased. Each of the top ten red varieties increased in price on the previous year. New Zealand's wine exports continue to grow (with the US strengthening its spot as the leading destination by value) despite supply constraints that will continue for another year off the back of a smaller 2018 harvest than hoped.

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

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

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



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Export Pricing: USD per liter

Currency Conversion Rates as of September 5, 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: 0.719114 / NZD Rate: 0.658365

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Dry White	0.61	-	0.68	↔	NV	Dry Red	0.79	-	0.90	↑
2018	Chardonnay	0.76	-	0.83	↑	2018	Cabernet Sauvignon	1.04	-	1.19	↑
2018	Sauvignon Blanc	0.79	-	0.86	↔	2018	Merlot	1.04	-	1.19	↑
2018	NZ Marlborough SB	2.40	-	2.63	↔	2018	Shiraz	1.04	-	1.19	↑
2018	Pinot Gris	0.93	-	1.08	↔	2018	Muscat	0.61	-	0.68	↔

California (Pricing in bulk; FCA)

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

Chile (Pricing in bulk; FOB Chilean Port)

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

France (Pricing in bulk; Ex-Winery)										Rate: 1.162550	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.76	-	0.93	↔	NV	Generic Red	0.64	-	0.87	↓
2017	Chardonnay IGP	1.16	-	1.40	↔	2017	Generic Red	0.70	-	0.93	↓
2017	Chardonnay VDF	1.10	-	1.22	↔	2017	Cabernet Sauvignon IGP	1.08	-	1.48	↔
2017	Sauvignon Blanc IGP	1.10	-	1.22	↔	NV	Cabernet Sauvignon VDF	0.93	-	0.99	↔
2017	Sauvignon Blanc VDF	1.05	-	1.16	↔	2017	Merlot IGP	1.05	-	1.40	↔
2017	Generic Rosé IGP	1.16	-	1.51	↔	NV	Merlot VDF	0.93	-	0.99	↔
2017	Generic Rosé VDF	1.05	-	1.16	↑	2017	Red Syrah / Grenache IGP	1.05	-	1.40	↔
2017	Varietal Rosé IGP	1.16	-	1.51	↔						

Italy (Pricing in bulk; Ex-Winery)										Rate: 1.162550	
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	1.40	-	1.63	↔
2017	DOC Montepulciano	0.87	-	0.93	↔	2017	Chianti*	2.33	-	2.91	↑
<i>*Bottled Price</i>											

South Africa (Pricing in bulk; FOB Cape Town)										Rate: 0.064687	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2018	Generic White	0.45	-	0.49	↑	2018	Generic Red	0.55	-	0.61	↑
2018	Chardonnay	0.65	-	0.74	↑	2018	Cabernet Sauvignon	0.68	-	0.84	↔
2018	Sauvignon Blanc	0.61	-	0.78	↔	2018	Ruby Cabernet	0.58	-	0.61	↑
2018	Chenin Blanc	0.47	-	0.49	↑	2018	Merlot	0.68	-	0.81	↔
2018	Colombard	0.50	-	0.47	↑	2018	Pinotage	0.61	-	0.68	↑
2018	Muscat	0.49	-	0.55	↔	2018	Shiraz	0.61	-	0.68	↑
2018	Generic Rosé	0.45	-	0.47	↑	2018	Cinsaut	0.54	-	0.57	↑
2018	Cultivar Rosé	0.55	-	0.58	↔						

Spain (Pricing in bulk; Ex-Winery)										Rate: 1.162550	
Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2017	Generic White	0.47	-	0.64	↓	2017	Generic Red	0.58	-	0.81	↓
2017	White Blends (Higher Quality)	0.64	-	0.87	↓	2017	Generic Red (Higher Quality)	0.81	-	1.05	↓
2017	Sauvignon Blanc	1.05	-	1.16	↑	2017	Cabernet Sauvignon	0.99	-	1.16	↑
2017	Chardonnay	1.05	-	1.16	↑	2017	Merlot	0.99	-	1.16	↑
2017	Generic Rosé	0.58	-	0.70	↓	2017	Syrah	0.93	-	1.16	↓
2017	Varietal Rosé	0.87	-	0.99	↔						
2017	Moscatel	0.81	-	0.93	↔						

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