CIATTI
GLOBAL WINE & GRAPE BROKERS

Global Market Report

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Ciatti Global Wine & Grape Brokers

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

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As a new year begins, we at Ciatti wish all of our friends, clients and business associates a very happy and prosperous 12 months ahead. Many thanks for your continued support.

A new word was officially added to the UK's Collins Dictionary in 2022: "Permacrisis". Its definition is as follows: "An extended period of instability and insecurity, especially one resulting from a series of catastrophic events." Although the word's salience in British English at least partly reflects UK-specific woes (including, in 2022, three prime ministers in three months), "instability" continues to characterise a world still suffering the economic consequences of the COVID-19 pandemic and, since February, the Russia-Ukraine conflict.

The release of pent-up demand in the second half of 2021 into 2022 as the world reopened – China, the last holdout, doing so last month – ostensibly led to a return to normal for business, but normality was quickly offset by supply chain problems and overtaken by inflation that peaked in the US at 9.1% in June and 10.6% in the Eurozone in October. Because of inflation – exacerbated in Europe by the Russia-Ukraine conflict's impact on energy resources and prices – and interest rate levels, the World Bank revised down its forecast for global economic growth in 2023 from 3% to 1.7%. This is versus 5.3% in 2021 and 2.5% in 2022, and the lowest growth since 1991 with the exception of the 2009 and 2020 recessions.

This is why the expression "quasi-recessionary" has appeared in the media recently: economies feel like they are in an indeterminate phase, no longer in the pandemic's clutches but not "business as usual" either, with consumer patterns hard to discern. This applies to the bulk wine industry just as much as any other, and this month's *Global Report* does its best to summarise the landscape that lies before it at the start of 2023. Here are some positives:

- Drewry's World Container Index shows composite shipping costs as of 12th January are 78% below January 2022 and 79% below their September 2021 peak. Further small week-on-week reductions are expected.
- China has finally ended its zero-COVID policy and reopened to the world in January: this could lead to a boost in demand for bulk wine imports – especially welcome considering the slow market for reds globally – though it may also work against container price falls.
- Inflation trended downward in North America and the Eurozone towards the end of 2022 and there was a commensurate uptick in consumer confidence (admittedly from low levels).

In addition to the above glimmers of good news is our now monthly reiteration that – despite, and sometimes because of, what may be going on at the macro level economically – there continue to be excellent opportunities to be harnessed on the grape and bulk wine markets. Read on for more details, and don't hesitate to get in touch: Ciatti can draw on decades of experience to help you navigate 2023 and beyond. Happy New Year!

Robert Selby

California

Time on target

2022: The Year That Was

With the pandemic-induced wine sales boom at US retail beginning to unwind, the Central Valley's bulk market came into 2022 experiencing a return to a more normal pace. SipSource data showed a pull-back in sales volumes of table wine in the under USD8/bottle (-9.7%) and USD8.00-10.99/bottle (-10.9%) categories in the December 2021 to February 2022 period versus the equivalent three months of 2020/21. Sales remained up versus the pre-pandemic year of 2019, but diminishingly so. Accordingly, by March, some of the larger wineries were putting significant volumes of bulk wine – of every main variety – back onto the market as they downwardly adjusted sales projections for 2022.

Consequently, the Valley's bulk wine pricing – coming into 2022 relatively high, encouraged by the pandemic sales spike, inflationary pressure and high pricing on the Coast – became more negotiable from March onward. This in turn stimulated a rise in buying activity, albeit still on more limited volumes than in 2021.

By April, following strong early demand, much of the Valley's 2022 grape supply was contracted. Availability was tightest on Chardonnay (due to shorter crops in 2020 and 2021), Zinfandel (vine pull-outs and ageing vines), white blenders and Muscat. Interest in the white blenders and Muscat was the result of a shorter 2021 crop for these and a long-term decline in acreage; this also contributed to high pricing on, and a shortness of, Californian white grape juice concentrate and a growth in imports of white generics, South Africa being the leading offshore source in 2021/22. In terms of bulk wine imports into the US in general, Chile, Australia and South Africa – enjoying zero duty – continued to dominate.

Most of the Valley's 2022 grape prices remained in line with 2021 pricing. Some suppliers held their grapes back on speculation that prices might rise, following a drier-than-average winter – Sierra Nevada snowpack was just 38% of the average as of 1st April – and a frost on 12th April that threatened white varietals and Pinot Noir in the northern Central Valley and the Lodi/Delta area in particular. The frost triggered an uptick in activity as some programmes using northern Central Valley grapes or bulk wine sought replacement supply. Was California on course for its third successive short crop after 2020's 3.4 million tons and 2021's 3.6 million?

By May, with annual inflation in the US at a 40-year high, grape prices firm and water curtailments already coming into force, some Californian export pricing increased moderately. It was a difficult balancing act for exporters, considering the strength of the dollar (viewed by investors as the safe-haven currency amid a troubled global economic picture), shipping prices only a little off their eye-watering autumn 2021 peak, and the West Coast ports of Los Angeles and Oakland proving to be global hotspots for shipping delays.

See next page for more on California.

On the eve of harvest, Cabernet grapes remained the most readily available in the Central Valley and extra lots were still popping up. We suggested that a "wave of new, high-yielding Cabernet vineyards in recent years (with more due to come on-line over the next three vintage or so) has perhaps been sufficient to satisfy the market". Demand for bulk Cabernet across the state – outside Coastal sub-appellations – had been proceeding slowly, perhaps indicative of over-buying during the retail boom. Large volumes of 2021 bulk Cabernet inventory were still available, and in the Coast some 2020 Cabernet as well. Pricing did not soften to stimulate interest ahead of the 2022 vintage, however, with sellers often as bullish as buyers – indicative of an indeterminate market situation giving conflicting readouts.

Uncertainty regarding the coming crop, as well as the sales picture, slowed bulk wine and grape activity in California mid-year. NielsenIQ data showed that wine's sales volumes in the US off-trade were down 9.5% by volume and 5.7% by value in January-May versus the equivalent five months of 2021, the smaller decline in value versus volume illustrating the outperformance of the premium categories ($15/bottle+). With consumers facing high inflation (peaking for the year at 9.1% in June), it remained to be seen how resilient this premiumisation trend would be. Suppliers were also feeling the inflationary pressure, and with retailers often requiring they hold shelf price, a number began switching their sourcing from the Coast to the Interior.

Early September was emblematic of the erratic conditions that characterised the 2022 growing season: a week of record heat that rapidly boosted sugar levels to picking readiness was immediately followed by 3-4 days of rain that risked reversing those levels and prolonged the back end of harvest. Despite such challenges, we did not hear of any large rejections of fruit. The September rain appeared to have sized-up the later-season grapes and helped prevent the state-wide tonnage figure from falling below the bottom end of our estimate, 3.5-3.6 million tons. Broadly speaking, Lodi and the Central Valley's tonnages felt closer to the average than in the Coastal areas and overages did occur. These were acquired quickly, sometimes at full price. The third-successive short crop served to keep Central Valley grape pricing firm which, coupled with the strong dollar and the improving shipping situation, led to some enquiries into imports, particularly for whites such as Australian Chardonnay or Pinot Grigio.

In the final quarter of the year, bulk activity in the Central Valley was focussed on the remaining 2021 whites and the new, 2022 Chardonnay, Sauvignon Blanc and Pinot Grigio. Much of this interest came from high-end California brands finding the Coastal wines they usually supplement their quality with too high in price or unavailable altogether. The Valley's bulk pricing ended 2022 at roughly the same level as it did the previous year – attractive enough for those who normally source in the Coast but, among those California brand sensitive to margin in an inflationary environment, high enough to trigger import enquiries.

California's wine industry ended 2022 struggling to discern where it stood: talk of the US being in a "quasi-recessionary environment" was coupled with headline inflation falling for six successive months from a peak of 9.1% in June to 6.5% in December; concerns for December sales ("42% of consumers plan to drink less alcohol this holiday season") were tempered by the knowledge that this would be the first "normal" holiday period since pre-pandemic; consumer belt tightening ("72% intend to seek less expensive alternatives at retail") could be seen as an opportunity for the sub $15/bottle categories that had been in decline amid the premiumisation trend, but the proliferation of rival products such as hard seltzers and canned RTD spirit drinks means plenty of competition at the lower end of the market; the robustness of sales in premium categories ensured wine's total sales value remained in growth, but for how long would this last? And the strong dollar made easier the importing of wines from competitor countries while potentially stunting California's share of export markets.

2023: Looking Ahead

Demand for the Central Valley's 2022 white whites and sparkling base wines has been good and – due to perceptions of lower domestic availability this vintage – we expect to see a rise in Pinot Grigio imports in 2023. On the other hand, Muscat yields were good, defying the drought and likely sufficient enough to end the need to import.

Regarding other imports, we expect to see an increase in red wines from Australia (currently offering the world's most competitive red wine export prices), perhaps in package deals with whites and likely at the expense of Chile.

See next page for more.

Four successive sub-4-million-ton wine-grape crops have constrained California's grape juice concentrate supplies and, combined with significant input cost rises, GJC prices have risen; current international shipping costs and lead times remain prohibitive to GJC importing, however.

In common with the rest of the world, the bulk red wine market in California – mainly in the Coast but also in the Central Valley – is slower than the white market. Although the 2022 reds are only now becoming ready to sample, the lack of interest in 2021 carryover is a concern, especially with retail sales returning to pre-pandemic levels. In 2023 we may see some buyers pull back from acquiring reds and even become sellers themselves.

Shanken's Impact Databank reported a decline in wine's sales volumes at retail in 2022 versus 2021, and a decline in per capita wine consumption for the tenth year in the past eleven. With the pandemic-induced sales boom moving further into the past, and the inflationary environment a threat to consumer spending, we expect to see another year of slight volume contraction in 2023. Sales value performance will depend on whether or not the $15+/bottle categories, which have been outperforming the wider market, remain resilient if consumers start reining-in their alcohol spend.

Programmes seeking to preserve margin, already reluctant to move up in retail price due to the ultra-competitiveness of the wine category, are receiving pushback from consumers if they attempt it now, during what remains an inflationary environment on groceries especially. Adjusting sourcing is seen as a safer bet. In 2023 we are therefore likely to see a shift from Coastal appellations and sub-appellations to the California appellation – i.e., akin to what we were seeing in the pre-pandemic years. While 2023 is almost certain to see a decline in wine's overall sales volume, only time will tell how dollar sales perform.

Looking ahead to vintage 2023, there have been a good number of early enquiries into Central Valley grapes, and some planting contracts have been discussed. Areas of California received considerable precipitation through December into early January, with some flooding. Despite this, all of California entered 2023 in drought. Viticulture climatologist Gregory V. Jones expects California "to remain in some level of drought through the winter and into spring", with southern areas of the state forecast to receive below-average rainfall in January-March and northern areas an equal chance of receiving slightly above or below average rainfall. The same storms that caused heavy December and early January rain also brought intense snowfall to the Sierra Nevada mountains, the snowpack there measuring 174% of the average by the turn of the year.

Key Takeaways

The Central Valley's 2022 crop size potentially came in closer to the average than other areas of California. Demand levels for the Valley's 2022 white wines and sparkling bases have been good, with lower Pinot Grigio availability this year leading to import enquiries. Muscat output defied the drought and should be sufficient enough to cover domestic demand. The Valley's bulk pricing comes into 2023 roughly in line with where it started 2022. Domestic white GJC prices are high, which could lead to interest in importing. A rise in Australian red wine imports – due to highly attractive pricing – is likely, potentially at the expense of Chilean wines. In common with the global picture, domestic activity on the Valley's 2021 red wine carryover, and new 2022 reds, is generally slower than on the whites.

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

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

2022: The Year That Was

Strong domestic and export sales for Argentinian bulk wine through 2020 amid the pandemic-triggered off-trade boom, as well as frost and unusual weather patterns at the start of the 2021 vintage growing season, stimulated a doubling of 2021 grape prices that, when translated to the final 2021 bulk wine, made Argentina's pricing uncompetitive.

As it turned out, although the 2021 crop came in below the 2.4-2.5 million metric ton average it was still good-sized at 2.25 million metric tons. When coupled with the unwinding of the retail sales boom globally (Argentina's bulk wine exports were 40% smaller in 2021 versus 2020), and acute economic problems locally (domestic demand fell 11.2%), this left Argentina possessing significant red wine inventory coming into 2022.

By the start of the year, Argentinian wineries were suffering from the inflationary headwinds buffeting the rest of the world in addition to those already stemming from the country's pre-existing economic troubles. Growers were seeking a 40-50% increase in grape prices, in line with Argentina's annual inflation rate: this applied to Malbec and other reds despite a red wine carryover stock at Argentinian wineries estimated at 675 million litres going into the 2022 vintage buying campaign on 1st June, and with buying activity limited.

This disinclination to soften prices was compounded by a challenging 2021/22 growing season: there were perceptions that the vine damage caused by the October 2020 frosts was still making itself felt, January and February were wetter than normal, and two large hail storms hit the East Valley in February. Grape prices consequently rose in March and, in turn, bulk wine prices increased by an average of USD0.20/litre. Prices grew most on the limited supplies of Sauvignon Blanc, Chardonnay and generic white – deemed most affected by these weather events – but Malbec, too, was rising in price by April, by 50% across the board and by as much as 70-80% in some premium-quality areas of the East Valley.

Argentina's 2022 harvest came to an end in April at 1.90 million metric tons, short of the 2.25 million tons of 2021 and the long-term average. Standard-quality Malbec pricing reached USD1.10-1.30/litre, up from USD0.95-1.05/litre. The ongoing, steady devaluation of the official peso helped to keep dollar prices from rising still further: by mid-July the peso had reached ARS135/dollar, out from ARS108 in January.

This high bulk pricing, combined with cautious buyer activity globally amid the fragile economic environment, resulted in a slow bulk market in Argentina by mid-year. In addition, loading and shipping delays at the end of 2021 into early 2022 meant many buyers were still taking receipt of – and working through – those wines they had acquired in 2021. Bulk export shipments were thus down a considerable 40% in January-June 2022 versus the first six months of 2021. Domestic demand was muted but ongoing, even at USD1.10-1.20/litre for Malbec and USD0.70-0.75/litre for generic red. The generic red, like generic white, was consequently becoming short by the final quarter of the year. Some small pockets of high-quality Chardonnay and Pinot Grigio also popped back onto the market intermittently, as wineries downwardly adjusted their case-good needs.

By October, Malbec dollar pricing was softening – from approximately USD1.10-1.30/litre for standard quality to USD0.95-1.05/litre – as suppliers sought to generate cashflow and free-up tank space, aided by the peso's continuing

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devaluation: ARS157/dollar by mid-month. Argentina's bulk wine exports were down 40% in January-October 2022 versus the first ten months of 2021, with shipments in the month of October tracking the longer-term decline, falling by 41.8%.

Like its bulk wine prices, Argentina's white grape juice concentrate prices have been uncompetitive at USD1,700-1,800/metric ton (FCA Plant), more expensive than Spain and Italy; consequently, Argentina exported 67,700 metric tons of GJC in January-October 2022, 20% down versus the first ten months of 2021. To the US market specifically, another impediment to trade is the imposition by US authorities of extra duty on Argentinian GJC imports while an investigation into alleged dumping is ongoing.

Frost episodes struck Argentina's growing areas in October, pushing up Malbec pricing once more and stimulating an uptick in activity. Offers were soon withdrawn from the market, however, as suppliers sought first to assess the extent of the damage in the vineyards: consequently, prices ceased being quoted and the market, at year's end, was paused. Early assessments suggested the southern growing areas and Patagonia were the most frost-affected; losses in the East Valley could potentially have been up to 30-40%; the Uco Valley and the high-end growing areas were believed to have been significantly affected as well, through to a lesser extent.

2023: Looking Ahead

Argentina comes into the new year much as it started the previous one, with significant volumes of good-quality Malbec and other red wine carryover, at pricing too high to generate a great deal of international buyer interest, especially in light of Australia's ultra-competitive export pricing on reds. Offers have been temporarily withdrawn from the market: please get in touch with Eduardo using the details below for the most up-to-the-minute pricing.

Continuity with early 2022 is also evident in Argentina's economic state: eye-watering annual inflation (estimated at close to 100% for calendar 2022) and interest rates (75%) as well as a steady peso devaluation (the "creeping peg") persist. The official dollar-peso exchange stood at ARS185/dollar in the first week of 2023, out from ARS108/dollar in January 2022 and ARS90/dollar in January 2021. The unofficial "blue dollar", widely believed to better reflect the peso's true value, stood at ARS353/peso – the large disparity highlighting how the government is pegging the peso artificially low.

A quicker devaluation of the peso, to better reflect its value, would allow extra scope for Argentina's bulk wine dollar prices to soften further, rendering them more competitive. However, expectations of an imminent devaluation have been ongoing for at least two years; the current government remains opposed. A general election – to elect Argentina's president, members of the national congress and the governors of most provinces – is scheduled to take place on 29th October.

Key Takeaways

Following 12 months of slow sales – amid global caution and a worsening domestic economy – Argentina can provide large volumes of high-quality bulk red wines, mainly Malbec. Although the size of the upcoming ctop might have been reduced by spring frosts, red wine carryover will be significant and dollar pricing could potentially soften in 2023, assisted by the continuing devaluation of the peso, which at the start of January stood at ARS185/dollar, out from ARS108 a year before.

Ciatti Contact

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

Chile
Time on target

2022: The Year That Was

The shortness of the Northern Hemisphere's 2021 crops, robust domestic and international demand for Chile's bulk wine through 2021, and expectations that the country's longstanding drought would restrict the size of its 2022 crop, ensured strong early demand for Chile's 2022 grapes, particularly white varietals. By January 2022, 90% of grapes were sold and the remaining unsold fruit was high in price.

However, the global supply chain crisis – caused by container shortages, shipping delays, spiralling costs and (particular to the Pacific seaboard) unusually large ocean swells – was also starting to significantly drag back bulk wine demand from international buyers by the turn of the year. We noted: "Buying grapes on spec is now seen as a risk by wineries and indeed some wine buyers have been downwardly revising their 2022 needs from Chile."

The high level of bulk wine stock at Chilean wineries – estimated at 1.28 billion litres at the start of 2022, up 7.2% from a year before – was perhaps indicative of the delayed removal of large amounts of contracted wine. This caused a shortage of cellar space for some wineries as the 2022 harvest rove into view.

As well as the logistical headaches, inflationary pressure in North America and Europe – attributable to the post-pandemic reopening and then the Ukraine-Russia conflict – raised a question mark over retail demand for the year ahead in key markets. In Chile itself, the general consumption boom driven by government-mandated early pension withdrawals was unwinding, inflation and interest rates were rising, and dry-goods (including corks, glass bottles and cardboard) were expensive and hard to source. Consequently, by April we could say that "the pricing on the 2022 grapes that were sold now looks high"; the remaining grapes were eventually sold at a lower price.

A solid January-March export performance – total wine exports were up 1.74% versus the first three months of 2021, with bulk exports up 4.58% – reflected the healthy contracting levels of 2021 and the shipping lag, and not the new reality of what had become a quieter bulk market, in Chile and around the world.

Chile's 2022 crush came in at 1.24 billion litres, down 7.4% from 2021's bumper 1.34 billion litres due to drought – Chile's 2021 winter was its fourth driest on record – and several frost incidents. Quality was very good. The pre-contracted 2022 Chardonnays and Sauvignon Blancs, specially from the cool-climate areas, were already being sampled and approved by the start May, with a few weeks of the harvest still to run – a sign of the short supply of, and high demand for, 2021 varietal whites globally, and an awareness of the need to ship as soon possible due to the extended lead times.

However, reflecting the new caution on the bulk market globally, and the shipping lag that delayed 2021 wines appearing on retails shelves, new deals for the uncontracted 2022 whites came in steadily rather than rapidly. Some limited volumes of 2021 whites still remained, and activity on both 2021 and 2022 reds was limited. The slowness of red wine activity was also attributable to Australia's ultra-competitive export pricing in response to China's imposition of prohibitive import tariffs on Australian wine – prices that lured some North American interest away from Chile. In addition, partly a result of its strict COVID-19 measures which were proving a hindrance to trade, China's demand for Chilean wines had declined.

The international activity on the 2022 vintage, of whatever wine, was often characterised by reduced volume requirements, as buyers responded to the potential consumer slowdown in key markets. Meanwhile, domestic demand for generic white wine and white grape juice concentrate (for domestic or export use) remained robust.

By August, despite the slower market, Chile's premium 2022 Sauvignon Blanc was effectively sold out and stock of the other white varietals had grown limited; there were also some early enquiries into 2023 wines, but few translated

See next page for more on Chile.

into deals. The red wine market remained quieter, with good stock levels of 2022 reds, Pinot Noir inventory particularly plentiful. A peso exhibiting record weakness against the dollar – pushing past the CLP900/dollar mark in June and CLP1,000/peso for a time in July – provided some potential for Chilean bulk prices to soften, but on the whole they remained stable.

The peso's weakness was due to inflation's impact on global economic growth – the dollar being increasingly viewed by investors as the "safe-haven" currency – and domestic matters: Chile's new government, elected in December 2021, proposed increased taxes on copper companies, while a referendum on the country's proposed new constitution, widely perceived to be less market-friendly than the existing one, was scheduled for 4th September. In mandatory voting, Chileans decided – by 62% to 38% – to reject this new constitution. The peso strengthened consistently into the CLP800s through December and into the start of January, mainly due to the Chilean central bank's extension of its foreign exchange intervention programme and optimism regarding copper prices following the announcement of China's post-pandemic reopening.

Meanwhile, steadily-improving shipping reliability – and freight pricing gradually softening from its 2021 highs – enabled Chile to export 3.4% more wine in the first half of 2022 versus H1 2021, with bulk exports up 7.04%. Again, this reflected the good contracting levels that occurred in 2021 and the second half of 2022 Chile's bulk market was slow, leaving supply and pricing stable. As the market moved into the final quarter of 2022, it became clearer that 2023 grape prices – in terms of minimum guaranteed pricing – were likely to soften as some buyers signalled their intention to contract less volume than in the past. The price drops were likely to be largest on red grapes and more limited on the whites, with Sauvignon Blanc falling least.

The fact that grapes prices were expected to soften while the country's annual inflation rate was running at 13.7% – as of September – starkly illustrated the lack of activity on the bulk market and, increasingly so, on the bottled market as well. The final quarter of the year saw only incremental North American, UK and European demand, except for a brief flurry of interest in Malbec after October frosts in Argentina. By November, Chile's year-on-year export figures had dipped into negative territory (total exports down 0.57%; bulk exports down 4.89%), as 2022's slowdown in contracting versus 2021 could no longer be hidden by shipping lags. In addition, the gradual softening of freight prices incentivised the postponing of shipments until early 2023 when prices were expected to have fallen further.

2023: Looking Ahead

Chile comes into the new year with limited supplies of 2022 white varietals and good supply levels of 2022 reds at stable pricing. As some perennial North American buyers have signalled their intention to take less bulk wine from Chile's 2023 vintage than in previous years, and Australia remains ultra-competitively priced on reds – and able to include whites in package deals – Chile's minimum 2023 grape prices could soften. It remains to be seen if this leads to a bulk price softening.

There was enough better economic news in the final quarter of 2022 for there to be hope that a consumer spending slowdown in key markets in 2023, should it come, may not be as severe as first feared. The inflation rate in the US peaked at 9.1% in June before falling for five consecutive months, while Eurozone inflation – including in France and Germany – was lower than expected in December, ending the year at 9.2% from a peak of 10.6% in October. All major supermarket chains in the UK registered Christmas sales growth, the discount chains most of all. Fuel prices and – mainly due to government subsidies – energy bills have fallen in many markets, though grocery-price inflation remains at an elevated level in most. It is hoped the Chinese government's lifting of its COVID-19 measures from January will help rejuvenate China's demand for wine imports.

Chile's own annual inflation rate finished 2022 at 12.8%, its highest end-of-year level since 1991, though this marked a decline from November's 13.3%. The central bank forecasts a continued fall in inflation through 2023 before reaching the target of 2-4% in 2024. The peso strengthened through the first few days of the year, standing at CLP835/dollar as of 9th January, it strongest level since June. Though this will not help Chile's exporters, early signs of economic stabilisation at home and abroad may inject some greater conviction into bulk wine buying.

See next page for more on Chile.

Looking ahead to the coming 2023 crop, Chile's 2022 winter was the wettest for some years, with the country's longstanding precipitation deficit significantly eroded and some areas – mainly in the south – even moving into surplus by springtime. Snowpack levels were good. Parts of the Valle Central received hail in November and springtime was unseasonably cool, but there were no frost incidents. Consequently, a good-sized 2023 crop is currently expected.

Chilean Export Figures

Wine Export Figures	January 2021 - November 2021			January 2022 - November 2022			Volume
	Million Liters	Million US$ FOB	Average Price	Million Liters	Million US$ FOB	Average Price	Variance %
Bottled	436,67	1.440,34	3,30	445,84	1.445,79	3,24	2,10
Bulk	322,52	294,85	0,91	306,74	283,26	0,92	-4,89
Sparkling Wines	3,20	13,12	4,10	3,65	14,44	3,95	13,96
Packed Wines	18,76	34,04	1,81	20,46	34,62	1,69	9,07
Total	**781,16**	**1.782,36**	**2,28**	**776,69**	**1.778,10**	**2,29**	**-0,57**

Key Takeaways

Chile can provide limited volumes of 2022 varietal whites and good volumes of 2022 varietal reds, including Pinot Noir and Malbec, at stable pricing. With some buyers having signalled their intention to take less Chilean wine this year, and a good-sized 2023 crop expected, a grape price – and in, turn bulk price – softening could occur, though the inflationary environment in Chile and the peso's recent strengthening against the dollar could be impediments to lower Chilean bulk pricing.

Ciatti Contact

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

France

Time on target

2022: The Year That Was

Southern France came into 2022 with very limited supplies of varietal and generic white wines and any availability that appeared on the spot market was fetching prices up some 50% from the year before. A severe and prolonged frost wave back in April 2021 had burned the buds of early ripening varietals Chardonnay and Sauvignon Blanc and led to the smallest overall crop in France – estimated at 33.3 million hectolitre – on record. This exacerbated a pre-existing short supply of white varietals due to some disappointing yields in 2020 combined with the pandemic-induced retail spike of 2020-21.

While demand for specific high-colour, 14%+ alcohol reds and Pinot Noir was good, the mid-range varietal and generic red market was proceeding notably slower than the white market and pricing was largely stable. Buyer

See next page for more on France.

demand for these items had been slower than for the whites for some proceeding years and carryover was significant. Likewise, the high and mid-quality pale and aromatic 2021 Syrah, Grenache and Cinsaut rosés were receiving good demand and pricing had ticked up, while Vin de France rosé demand was limited.

With the in-demand 2021 whites already in tight supply, the first quarter of 2022 was quiet on the bulk market in southern France. The slowness of the rosé market was a particular problem as, by April, it had become too late for supplies to reach key Northern Hemisphere export markets – such as the US – in time for the all-important summer sales season.

Activity on standard-quality and AOP varietal reds remained slower than usual, with a large carryover – and suspicions of a price softening before vintage 2022 – disincentivising any urgency. Exacerbating this slowness was COVID-19's continuing impact on the domestic and European on-premise (fear of the Omicron variant lasted from December into springtime) which meant bottlers had less demand to fulfil, and also on Chinese bulk demand: the country's "zero-COVID" policy had essentially brought Shanghai, the main entry point into China for wine samples, to a standstill. France's total wine export shipments to China were down 14% in the August 2021-February 2022 period – a particular headache for Bordeaux and Côtes du Rhône.

Only an unusually dry winter in southern France, which raised concerns over water supplies for the upcoming growing season, and inflationary input costs (annual inflation in France lifted from 2.9% in January to 6.1% in July), kept standard-quality reds and rosés from depreciating in price. The situation on organic wines, meanwhile, reflected the wider market: the whites had sold steadily and were available in more limited volumes than the reds, availability of which was plentiful.

For the second consecutive year, April brought a significant frost wave to France's growing areas. Although less severe overall than in 2021 – as vine development was not as advanced and the Languedoc region was largely spared – the early-budding varietals in the important white-wine producing regions of South West/Gascony/Charentes–Cognac were significantly impacted. A succession of hailstorms in June and July also hit these areas hardest.

The early readout of the potential ramifications of these weather events was that they would place yet more pressure on the Languedoc's 2022 supply of varietal and generic whites. The bulk market was unmoved, as the red supply picture was not perceived to have been altered and the 2021 whites were already effectively sold out. Some batches of conventional or organic varietal whites would intermittently arise on the spot market, either due to slow loadings or slower retail sales: domestic sale volumes of still wines at French supermarkets were down 10% in January-March versus the first three months of 2021.

By mid-year it was apparent that while the white wine market had commenced quickly and at an elevated price, buying slowed down more than expected as the campaign progressed. Some buyers did not come onto the market to conduct their annual springtime top-ups, for example, as they were still working through what they had acquired at the start of the campaign, either due to delayed loadings or slower than expected retail sales. With the red wine market still muted and the 2022 crop on the horizon, prices began to soften on the Bordeaux, Côtes du Rhône and Languedoc 2021 AOP reds; some were declassified into the Vin de France market in a bid to attract buyers and free-up cellar space.

Forward visibility on the 2022-vintage pricing remained unclear going into harvest. The big buyers who set the market prices were expected to take some time assessing carryover stock levels and consumer behaviour in the face of inflation – annual inflation in the Eurozone reached a record 9.9% in August and was still rising. While the 2022-vintage pricing on reds and rosés was a little easier to predict – the downward pressure of market slowness would be offset by inflationary pressure on suppliers, keeping prices roughly in line – the white wine situation was harder to read. Good demand levels (at least relative to the reds), a shorter crop expected in South West/Gascony/Charentes-Cognac, and inflationary pressure on inputs, might suggest prices remaining firm, but the predicted return to a more normal crop size in the Languedoc, a discernible slowdown in white wine activity in the first

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half of the year, and a retailer squeeze on winery margins, suggested pricing continuing at 2021 levels would be unsustainable.

As across Europe, the 2022 summer brought a succession of severe heatwaves to France and all of the country's growing regions suffered from drought to varying extents. This ensured that, while the total harvest volume bounced back from 2021's short crop to reach 44 million hectolitres – in line with the five-year average – quality was heterogeneous. We therefore recommended buyers seeking specific high-quality wines – especially whites – to make their needs known as soon as possible.

While volumes in the Languedoc returned to normal at 13.4 million hectolitres, so that the full spectrum of wine types – including subsidiary whites such as Colombard, Viognier and Grenache Blanc – became available once more, the South West's crop was limited, with yields down as much as 50% in Gascony. This left a greatly reduced supply of Vin de France white leftover in South West after aromatic Colombard, Cognac/brandy and AOP white production had been maximised. Similarly, Bordeaux's shorter crop size meant Bordeaux-appellated whites would be produced at the expense of Vin de France. Consequently, the Languedoc's 2022 Vin de France came under demand pressure and prices rose.

Activity on southern France's 2022 Sauvignon Blanc and Chardonnay was also brisk in the first three months of the buying campaign, though closer to normal in comparison to the previous year's rush. Those bulk buyers with confidence in their sales moved in quickly to cover their short to medium-term needs. Demand was strongest on the high-quality 2022 Sauvignon Blancs and, by Christmas, activity slowed as it had become very difficult to find in large volumes, at least on the first-hand market; the focus of activity subsequently switched to the 2022 Chardonnay. This pressure on the Languedoc's 2022 white supply ensured its white wine pricing started the campaign down from where it stood in 2021 but up versus 2020.

Activity on southern French rosé was confined to high-quality, wholly 2022-vintage wines ready for immediate needs. With 2021 rosé carryover still available, pricing remained stable. Demand was slow on all organic wine types – there was some limited activity on whites – as the large expansion in availability in recent years, as a high number of vineyard conversions have come on-line, has resulted in excess supply and, in turn, a disparity in price expectations between buyer and seller.

Early demand on reds, meanwhile, was confined to 2022 Pinot Noir, at pricing slightly down from where it was on the 2021 vintage, reflecting the lack of demand pressure on red wines in general. By the end of the year there were attractive new price-quality opportunities opening up on the remaining 2021 wines, not only in southern France but in Bordeaux and Côtes du Rhône where China's retreat as a buyer, and the long-term fall in domestic red wine consumption, resulted in a surfeit of supply. A growers' protest march took place in the city of Bordeaux at the start of December to put pressure on the French government to subsidise distillation and/or uprooting programmes.

2023: Looking Ahead

Good early activity levels on southern France's standard and high-quality 2022 Sauvignon Blanc and Vin de France whites means only the basic qualities are likely to remain by springtime. The picture on Chardonnay is similar.

The market for reds has commenced slowly: this is not in itself abnormal, with many of the new wines only now becoming ready for sampling and vintage switchover not normally underway until the start of the new year, but the lack of interest in 2021 reds suggests activity on 2022 reds will – like last year – only be brisk on specific high-quality, high-alcohol offerings. Unless Mother Nature intervenes with a particularly dramatic growing season in 2023, the solutions to the red market's slowness – in France and in every other major producer country – are multi-year, involving an industry-wide acknowledgement of the long-term decline in red wine consumption in mature markets and the establishment of cohesive plans to combat this through innovation and positioning at the consumer end, and industry restructuring – including uprootings and grafting over to white grapes – at the supply end.

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As we said in July: "The southern French producing regions acknowledge the issue of overproduction of reds and are being proactive in striving to correct this. The wine industry in general is seeking ways to become more resilient against the economic, political and climatical headwinds of our time, and to better stabilise production and pricing between vintages."

In the meantime, however, grower syndicates are pushing for the French government to provide help by any means. A second – quiet – protest march took place in Bordeaux on 22nd December, but there could be more aggressive protests in the Languedoc in coming months if the government does not respond. The growers have three requests: a multi-million hectolitre distillation plan financed by the government (since the EU will not finance this in the short to medium term); storage subsidies; permission for temporary uprooting (in order not to lose planting rights on a medium-term basis).

China's re-opening from this January onward, after it abandoned its zero-COVID policy, could be a welcome development for red wine demand and may, as the year progresses, help free-up some cellar space in Bordeaux, Côtes du Rhône and southern France. In addition, inflation's downward trajectory in many markets – it looks like US, French, German and Eurozone inflation peaked in the autumn – as well as falling fuel prices and greater energy bill stability (largely thanks to diversification and government subsidies) provides a glimmer of hope that Q1 2023 sales will not be as disappointing as feared.

An improved picture on consumer confidence in the second half of 2023, including the Northern Hemisphere summer, might give a much-needed boost to southern France's standard-quality rosé market, perhaps too its organic market, which has been slow for over 12 months amid a disparity in buyer-seller price expectations. A significant increase in supply has called into question the organic price premium, especially at a time when suppliers are seeking to retain some margin in inflationary times when a hyper-competitive supermarket sector is pushing back against increased shelf prices.

Looking ahead to the 2023 vintage, there are concerns regarding the potential impact of recent and ongoing climate issues in southern France. Many areas have reached mid-January without receiving rainfall since autumn, water supplies are already low and a shortfall of snowpack laid down in the mountains raises a question mark over future irrigation in the valleys. In addition, higher-than-normal winter temperatures have meant the vines have lacked rest and pests have not been killed off. The high temperatures have led to some bud-break and leaves appearing extremely early, before the end of pruning – and with a cold April, potentially containing multiple frost episodes, in the forecast.

Key Takeaways

Southern France's 2022 Sauvignon Blanc, Chardonnay and Vin de France experienced good demand levels in the final quarter of 2022; supply is likely to be restricted to the lesser qualities by springtime. The market for all other 2022 items – led by Pinot Noir and high-quality rosé – have been slower and prices are stable at a lower level versus the prior campaign. The supply of AOP/standard-quality 2021 red wine from Bordeaux, Côtes du Rhône and southern France constitutes an excellent price-quality opportunity, given prices have softened to attract more interest. The organic wine market continues to mirror the conventional, though demand is slow even on whites; there are good opportunities to harness long-term contracts on organics as suppliers are seeking new sales avenues.

Ciatti Contact

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

Spain

Time on target

2022: The Year That Was

Spain's bulk wine prices came into 2022 stable at a modestly higher level than 12 months before, having first increased after the severe frosts of spring 2021 in France and Italy – which boosted demand for Spanish wine – then risen again after Spain's own crop came in shorter than the five-year average by an estimated 9-10%. Another motivation for upping prices in 2021 had been inflationary input costs, a problem that grew even more acute in the new year – especially on energy and fuel – after the outbreak of the Russia-Ukraine conflict in February..

Initially there was strong European demand for Spain's limited supply of 2021 standard and organic Sauvignon Blanc and Chardonnay and white wines in general (so that, by February 2022, approximately 60-70% of it had been contracted), as well as good European and Chinese demand for the high-quality 2021 varietal reds and high color, high alcohol Tintorera. White wine pricing ticked up slightly due to this demand; pricing on the reds receiving demand was stable; pricing on the rest of the reds – experiencing little demand as significant carryover stock delayed vintage switchover – began to soften. Spanish grape juice concentrate pricing was up 10% from the prior vintage due to lower supply, spiralling energy and fuel bills, and strong Italian demand.

By February the market had slowed, the focus shifting to shipping as efficiently as possible what had been contracted amid the supply chain crisis – spiralling costs and long delays – that had become a feature of the prior year. A strike by independent hauliers in March – protesting at petrol costs – reduced wine loadings to a fraction of normal. High transport costs and delay, shortages of dry goods such as bottles – dry-good prices had risen by approximately 20-25% in Spain over the prior 12 months – were a significant drag on shipping. In response, some buyers decided not to take all the wine they had contracted, and some contracts were not activated, increasing availability on the market – including of varietal and generic whites – so that the bulk price softened slightly; prices on generic reds were already softening concertedly.

Mid-March to mid-May brought above-average rainfall levels to La Mancha and the growing areas, alleviating drought fears for the growing season and applying further downward pressure on bulk prices, especially the reds. Downward pressure was also being exerted by measures taken by the Spanish government: effective from 1st April, it subsidised petrol prices by EUR0.20/litre, while the "Iberian exception" it and the Portuguese government negotiated with the EU capped wholesale gas prices and, in turn, significantly reduced energy bills for many businesses and individuals. Later, from 1st October, the government reduced VAT on gas from 21% to 5%.

By May, the 2021 international varietal whites were in very short supply, at stable pricing slightly softer than where it has started the calendar year; generic white supply was also highly limited, and stably-priced. Supply of premium and entry-level red wines were stable at globally competitive levels, negotiable depending on volume and loading timescale. GJC availability was limited and pricing stable at an elevated level versus prior vintage. Domestic and European buyers continued to constitute the great majority of demand, the domestic market especially bucking the long-term consumption trend of stagnation across Europe: "Beer has always dominated in Spain but wine education is improving: the industry's longstanding commitment to wine tourism and tastings is paying dividends with a discernible growth in the country's wine culture".

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By July, with the new vintage imminent and demand muted on all but GJC and specific premium wines, pricing had become negotiable across the board, especially if quick loading could be offered. Pricing firmed up a little from August, however, as intense heatwaves in the vineyards – regularly exceeding 40°C in many areas – raised doubts about yield. Some speculation took place, especially on whites, with suppliers removing wines from the marketplace while they waited for the harvest result. Crop uncertainty saw grape prices rise by an average of 10% versus 2021, but the expectation was that – with harvest sizes in France and Italy returning closer to the average after the short 2021 crops, question marks over retail demand amid Europe's inflationary environment, and above-average bulk wine carryover levels – Spanish bulk prices would start the 2022 buying campaign in line with 2021's.

Spain's crop was completed in mid-October at an estimated 36-37 million hectolitres of wine and grape must, down 10% from 2021. The acutely high temperatures of the 2022 summer inhibited maturation and acidity, resulting in a heterogeneous quality, so that higher-alcohol wines were in shorter supply than the overall crop figure suggested. In addition, with must possessing a lower alcohol degree on average, grape juice concentrate producers required more of it to provide the same quality of GJC. In combination with elevated energy bills, this increased Spanish GJC prices and, in turn, led some buyers to switch to Italy, whose GJC had returned to being highly price-competitive.

Spain's bulk market, meanwhile, ended the year quiet. The normal level of pre-Christmas bottling did not materialise: caution regarding what retail sales might look like in 2023, and expectations that Spanish pricing might soften in the new year, disincentivised transactions.

2023: Looking Ahead

We have received a large amount of sample requests post-harvest, and discussions have been taking place as potential buyers carefully evaluate the full spectrum of Spain's 2022 offer, price and quality-wise. Due to the news about inhibited maturation and acidity levels in the 2022 grapes, contracting of the better-quality wines has been taking place, usually at prices in line with the 2021-vintage campaign.

In general, however, buyers have waited until the new year before deciding what to do – potentially having assessed Q4 2022 sales. Wariness regarding retail performance, in Europe and across the world, is making buyers especially sensitive to volume and price, and although the expectation is that Spanish pricing will not soften significantly in the new year – perhaps by 10% on the whites, perhaps slightly more on the reds – it is enough for many buyers to hold off for now. Some of those buyers who have remained faithful to Spanish GJC supply have been contracting volume incrementally, enough to last until springtime when they will reassess the market picture – it is unlikely Spanish GJC will be outcompeted by Italian for long.

The annual inflation rate in Spain peaked in July, at 10.2%, before falling for five-consecutive month, ending the year down at 5.8%, the lowest level in 2022. Eurozone – including German and French – inflation also ended the year lower than expected, having peaked in October. All major supermarket chains in the UK registered Christmas sales growth, the discount chains most of all. Fuel prices have fallen in many markets, though grocery-price inflation remains at an elevated level in most.

The picture is therefore mixed, but there have been enough glimmers of better economic news in recent weeks for there to be hope that a consumer spending slowdown in 2023, should it come, may not be as severe as first feared: it is a case of wait and see. Domestically, wine consumption levels in Spain were positive in the third quarter and there is some expectation the fourth quarter will also have performed well, with consumers getting into the festive spirit. As across Europe, there is concern a hangover might subsequently be felt in the first quarter of 2023, traditionally a quieter time for sales anyway.

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Key Takeaways

Spain can offer good volumes of competitively-priced 2022 varietal red and generic wines, as well as varietal and generic whites. Prices started the buying campaign approximately in line with where they stood in 2021, but are expected to soften – perhaps by 10% on the whites, perhaps slightly more on the reds – in early 2023. Due to the acute heat of summer 2022, higher-alcohol wine supply is more limited. Similarly, as must contained a lower alcohol degree on average, Spain's GJC started the campaign less competitive on price than Italy's, but is expected to become more competitive through 2023.

Ciatti Contact

David Martin
T. +34 624 22 79 48
E. david@ciatti.es

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

Italy

Time on target

2022: The Year That Was

Italy's bulk wine prices came into 2022 having risen significantly in response to a number of factors: high demand levels stemming from the pandemic-induced retail spike and the consistent popularity of its flagship wine exports; a 2021 crop down 9% from the five-year average due to hailstorms in the north and drought in the south; and rising input costs. Inflationary pressure on inputs grew even more acute from February onward, when the outbreak of the Russia-Ukraine conflict led to surging energy prices across Europe.

Despite its bulk price having exceeded EUR2.80/litre by March, Prosecco DOC bottlings were up 15.6% in January, 27.7% in February and 25% in March versus the prior year. The high bulk price – together with rising dry-good and other input costs – pushed the final bottle price to its highest level yet: "Only time will tell," we said, "if the famously robust Prosecco demand stands up to such high pricing."

It was a more mixed first quarter of the year for Pinot Grigio delle Venezie DOC, experiencing a 4% bottling decline in February and a 23% drop in March. However, demand remained robust – the main cause of the bottling fall was a difficulty in obtaining and receiving supplies of the requisite clear bottles and Stelvin closures amid the global supply chain crisis.

Beyond Prosecco and Pinot Grigio, the struggle to source dry goods was a major drag on the bulk market as a whole by the second quarter of the year. There were also fears the market slowness was a symptom of the wider economic situation: "We can expect inflationary pressure to have severe consequences for consumer spending in the Eurozone and worldwide moving forward." Annual inflation reached 6.8% in Italy in May, and was trending upward; in key markets such as the US (8.6%), the UK (9%) and Germany (7.9%) it was even higher.

By mid-year Italy's red wine prices were starting to fall, with slow sales especially in the Puglia region and on Lambrusco – the latter's largest market traditionally Russia. White prices were more stable and availability was more limited than at the same stage of 2021. Prosecco DOC bottlings were proving especially resilient, growing 3.6% in April and 16.8% in May. Pinot Grigio delle Venezie DOC bottlings continued to suffer from the clear glass bottle shortage, falling 23% in April and 6% in May.

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By August, the inflationary ratchet had increased further (8.4% in Italy, 8.3% in the US – albeit trending down – 9.9% in the UK, and 7.9% in Germany). Prosecco and Pinot Grigio's summer bottlings were in negative territory, though this was versus very high figures in 2021 and sales were still considered good. Demand for whites and sparkling bases in general continued to remain resilient, with pricing stable. Mirroring the dynamic seen all around the world, the red wine market was proving less healthy – "red wines are not moving and stock levels carrying over into the new campaign will be higher than average" – and grape price quotations on many red varietals were returning to the five-year average after the elevated 2021 levels. Some varietals like 2021 Primitive IGT Puglia were being traded at large discounts versus the year before in order to help stimulate interest, though other appellations, such as Piemonte, Tuscany and Valpolicella, still commanded good demand levels.

As across Europe, July and early August brought very high summer temperatures to Italy, exacerbating the pre-existing drought in many regions, especially in the south. Rains arrived from mid-August onward, however, helping the vines recover somewhat so that the crop, when completed in October, was estimated at a good-sized 50 million hectolitres. The sampling and buying campaign for the new, 2022 wines commenced later and more hesitantly than normal as the large bottling companies struggled to secure glass bottles, cartons, labels and closures. Buyers were also wary of over-committing on volume during the difficult economic environment. Looking back now, we can see that Eurozone inflation – including in France, Germany and Italy – peaked in October, before falling back as fuel prices fell, energy prices (mainly thanks to diversification and government subsidies) stabilised in key markets, and freight costs continued a steady decline from their 2021 highs.

The bottling shortage continued to be a significant thorn in the Italian bulk market's side, however. Pinot Grigio DOC bottlings were up 1.45% in September and 11% in October, assisted by the adoption of green bottles for use, but when these, too, became difficult to source and high in price by November, bottlings fell back again, by 18%. The 2022 Pinot Grigio DOC price started the campaign stable, at EUR1.05-1.20/litre.

Prosecco bottlings, also, were suffering from the glass bottle shortage: "November bottlings were down 7% versus November 2021 but still totalled approximately 490,000 hectolitres, a very positive performance given the increased retail price". Prosecco's January-November bottlings were – despite 2022's headwinds – up 4%, adding to the perception that, despite the retail environment, sparkling wine was generally performing better than still wine. (The 2022 Prosecco DOC price started the new campaign at EUR2.20/litre.) Likewise, white sparkling bases continued to be in good demand, for export but especially for the domestic market, with pricing of EUR0.37-0.50/litre, competitive with Spain. The lower-degree good qualities were almost sold out by the end of the year, assisted by German buyers sourcing more in Italy than Spain this vintage.

Unsurprisingly, the 2022 vintage red wine buying campaign commenced slowly, even with price drops on many items. Only specific high-colour reds and appellations – again, such as Piemonte, Tuscany and Valpolicella – commanded interest. After a 2021 vintage in which they were less price-competitive than Spain's, Italy's rectified must and grape juice concentrate prices returned to being Europe's most competitive.

2023: Looking Ahead

With inflation levels having fallen in the final quarter of 2022 in key markets, energy prices having largely stabilised, freight costs falling from their 2021 highs and shipping delays – in general – shortening, there are some glimmers of hope that a consumer sales slowdown in 2023, should it come, may not be as severe as first feared: it is a case of wait and see.

An issue in many European markets, but particularly in Italy, is the glass bottle shortage; it can only be hoped supply will bounce back, and pricing fall, as 2023 progresses.

We expect the white/red wine sales split to continue in 2023, with varietal whites and sparkling wines – not least Prosecco – proving more resilient against a consumer slowdown than reds. The bulk market's most chronic

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problem, and not only in Italy, is the slowness of red wine sales. It is now clear that rising Chinese demand for imported reds through the 2010s concealed a decline in demand from mature markets; some suppliers – in Europe, Australia, in all major supplier countries in fact – unwittingly came to over-rely on China as a buyer of red supply. With the pull-back of China as a customer in the past two years, many red wines around the world have moved into a long position. In Europe, crisis distillation before harvest 2023 may be required, though China's post-COVID reopening – finally underway in January – could help boost red wine demand.

But for the longer term, there needs to be a better understanding of the direction of consumer behaviour in order to adapt global wine production for the next 10-20 years. Red wine is more exposed than white wine to the trend for lower alcohol consumption among younger demographics and the proliferation of alternative products and formats (namely canned RTDs). The wine business collectively needs to create a fresh image for – and innovate with – reds if it is to lower the average age of the wine drinker and, in turn, grow overall consumption.

Key Takeaways

Italy's 2022 white and sparkling wines are receiving good demand and prices are stable or ticking up slightly. Prosecco sales are proving robust, with only the supply chain – namely a shortage of the correct bottles and closures – proving a hindrance to bottling; it is a similar picture on Pinot Grigio. Mirroring elsewhere around the world, demand for the reds is slower except on specific appellations or types, with prices stable to softening. It is hoped that consumer consumption in Q1 2023 does not shrink too dramatically, now that inflation appears to have peaked in many markets.

Ciatti Contact

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

South Africa

Time on target

2022: The Year That Was

South Africa came into 2022 having experienced strong activity levels on its 2021 white varietal wines: supply of 2021 Sauvignon Blanc, Chardonnay and Pinot Grigio was all but sold out by the turn of the year. Prices, however, had remained largely stable, assisted by the good size of the total 2021 crop – at 1.46 million tonnes, close to the ten-year average – and then a wet winter that ensured Cape Town dams commenced the 2021/22 growing season at 100% capacity: for the third-successive year, drought would not be an issue.

With varietal whites short in South Africa as globally, the first quarter of 2022 brought early and extensive pre-harvest contracting of the 2022 whites. Pricing was up versus 2021, but modestly, by approximately 5-8%. The rise reflected the strong demand but also inflationary pressure on input costs, with the price of imported items – including fuel – spiralling. Dry Red, meanwhile, was selling steadily due to robust domestic demand, no further alcohol sales prohibitions having been imposed in South Africa since mid-2021, and COVID-19 restrictions having effectively ceased in October. Consequently, total wine sales domestically were up 23.8% in 2021 versus 2020.

However, high stock levels remained of other 2021 wines: Dry White, Chenin Blanc, Colombard, the red varietals, and Pinotage. This slowness on the reds varietals was symptomatic of a contraction in South Africa's share of the

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red wine market in Europe in recent years, but also the wider slowdown in red wine demand, globally, as the retreat in 2021 and 2022 of China as a buyer exposed the long-term decline in red wine demand – relative to white wine demand – in mature markets.

Shipping out of Cape Town port in the first half of 2022 proved problematic but more straightforward than at other ports around the world. Container shortages and intermittent loading backlogs – which sometimes led to vessels bypassing the port altogether – could not prevent a 20% rise in South Africa's total wine exports in the 12 months to the end of February 2022, to 395.7 million litres, albeit from the low base of 330 million litres in the prior 12 months. The container shortage temporarily grew more acute at Cape Town port mid-year as the fresh fruit industry received priority, then industrial action halted vessel loadings/unloading for two weeks in October, causing a significant backlog. Between these interruptions, however, shipping to Europe and North America performed relatively well.

South Africa's 2022 harvest drew to a close in early May after a picking period prolonged by an unseasonably cool growing season, then a wet April. The crop size was estimated at 1.4 million tonnes, 5% down from 2021 and in line with the ten-year average. The extended harvest delayed the start of the buying campaign but, once underway, sampling of the white varietals proceeded rapidly and we were working closely with buyers, sellers and the logistics operators to help ensure shipments moved as quickly as possible.

Supplies of 2022 Chardonnay, Pinot Grigio and premium Sauvignon Blanc had already grown highly limited by July, though volumes of Sauvignon Blanc were popping back onto the market as some buyers scaled back their requirements amid fears that high annual inflation levels in key markets (9% in the UK, 8.6% in the Eurozone) would rein-in consumer spending. Supplies remained of standard and high-quality Chenin Blanc – an attractive alternative to Sauvignon Blanc from a price-quality ratio perspective – as well as the red varietals, Pinotage, and new Cinsault and Shiraz rosé. With Rand pricing stubbornly stable despite the inflationary pressure, and the Rand weaker against major currencies, South Africa's offering represented an excellent opportunity.

While supplies of South Africa's Dry Red remained, the continuing buoyancy of domestic demand made its export pricing uncompetitive versus Spain's. The strength of local demand was highlighted by SAWIS data for the 12 months to the end of June 2022 which showed domestic wine sales achieving parity with exports, in from a 60/40% split in favor of exports in the 2015-2019 period: local sales were up 13% from 377 million litres to 427 million, matching export growth of 13%, from 375 million litres to 423 million.

International demand slowed through the final quarter of the year: supply of the in-demand white varietals had become tight, buyers were focussing on shipping what they had already secured, and uncertainty about the economic picture in Europe and North America grew. The ultra-competitiveness of Australia's export pricing – mainly on reds, but with whites included in package deals – as well as softening prices in Chile had also reduced South Africa's competitive edge somewhat.

2023: Looking Ahead

Hesitant international buyer activity in the second half of 2022 raises the prospect of an activity uptick early in 2023, as many buyers have been waiting to take positions. The extent of the interest will in large part depend on Q4 2022 sales – how did the important holiday season perform amid a troubled economic environment? The level of confidence when looking at the year ahead.

Hopefully a sign of an improving economic picture to come in 2023, Eurozone inflation was lower than expected in December, dropping to 9.2% from a peak of 10.6% in October. Inflation in Germany dropped from 10.4% in October to 8.6% in December; it fell in the Netherlands from 14.3% to 9.6%. US inflation finished the year at 6.5%, well down from its June peak of 9.1%. These reductions will have been assisted by falling fuel and freight prices. An important

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barometer will be the direction of food price inflation in South African wine's leading export market by volume, the UK: this stood at a daunting 13.3% in December. All of the UK's large supermarket chains recorded strong Christmas-period sales growth, assisted by the high inflation but perhaps also a sign that UK consumers held off from reining-in spending, at least until Q1 2023.

In the meantime, Rand pricing on South Africa's bulk wines remains stable, and the Rand itself came into 2023 stable at the historically weak position it fell to when COVID-19 first struck: ZAR17/dollar, ZAR18/euro and ZAR20/pound. Varietal whites are largely sold out; Chenin Blanc and Dry White supplies are average-sized for the time of year; red varietal and Pinotage stocks are long.

The Western Cape's 2022 winter was only half as wet as the prior one, though October and November brought some welcome late-spring rainfall and Cape Town dams were still 70% full by Christmas. With a few weeks to go before picking of the 2023 vintage gets underway, vineyards look in good shape.

Key Takeaways

South Africa's bulk pricing has mainly remained stable despite inflationary – and especially on the varietal whites – demand pressure, while the Rand continues at its weakened level against the major currencies. Consequently, South Africa's supplies of Chenin Blanc, Dry White, red varietals and Pinotage are attractively priced and represent an opportunity for buyers seeking reliable volumes of good-quality wines. The coming 2023 crop is expected to be good-sized, refilling the white varietal pipeline.

Ciatti Contacts

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

Australia & New Zealand

Time on target

2022: The Year That Was

Australia recorded a 2022 harvest of 1.73 million tonnes, down 2% from the long-term average and a drop of 13.5% from 2021's record 2.01 million tonnes. After such a large 2021 crush, a smaller yield was expected and this was further exacerbated by limited tank capacity which resulted in growers reducing their intake of grapes, notably of red varieties.

The 2021-2022 growing season was affected by La Niña weather patterns – for the second year in a row – bringing heavy spring and summer rainfall and cooler temperatures. November 2021 was Australia's wettest November since records began in 1900 and led to widespread flooding in towns along the Murray and Darling rivers.

Wine Australia statistics for the 12 months to 30th September 2022 confirmed a decline in the total value and volume of Australian wine exports: value declined 11% to AUD2.01 billion; volume declined 1% to 627 million litres. The continued fall is an ongoing consequence of China's tariffs on Australian wine imports coupled with international shipping constraints. It is also indicative of a long-term shift in consumer habits in many markets

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around the world – a growing preference for white wine over red. Australia's total bulk exports declined 8% in value to AUD494 million – with an average value of AUD1.25/litre FOB – whilst volume increased 2% to 397 million litres.

The surplus red material placed a downward pressure on red grape pricing, with the average price per tonne dropping 15% to AUD707/tonne just as the average white fruit price increased 2% to AUD548/tonne. The volume of red varieties crushed in 2022 dropped 17%; white varieties were down 9%. Shiraz and Chardonnay, whilst the largest varieties crushed, still saw a decrease in volume of 19% and 6% respectively. Some 73% of the overall volume was produced in the three main irrigated, inland regions – an increase of 2% from 2021. Cool-climate regions in South Australia and Victoria saw an overall decrease in their intake; New South Wales and Western Australia saw a slight increase.

Australia is now the most price-competitive red wine supplier in the world, with aggressive pricing on the staple red wines: Shiraz, Cabernet, Merlot, and Dry Red. International shipping constraints and the loss of China as a buyer have caused excess red wine to remain in tank. Its slow movement has led exporters to hunt for new markets. The white wine market has remained steady, with demand and pricing consistent for Chardonnay, Pinot Gris and Sauvignon Blanc.

New Zealand's 2022 harvest figure, meanwhile, was officially confirmed at 532,000 tonnes, 44% larger than a 2021 crop – 370,000 tonnes – heavily impacted by cool spring weather and late frosts. The large 2022 crush was welcomed by wineries and their main export markets as they sought to replenish stock levels that, growing depleted, had led to higher Sauvignon Blanc bulk pricing.

The main varieties are estimated to have experienced a production uptick versus 2021, led by Pinot Noir (+57% to 34,569 tonnes) and followed by Sauvignon Blanc (+47% to 393,956 tonnes), Pinot Gris (+45% to 30,465 tonnes) and Chardonnay (+27% to 29,762 tonnes). All major growing regions saw an increase in output except Hawkes Bay (-2% to 40,172 tonnes), with the largest region – Marlborough – experiencing a 54% uptick to 414,649 tonnes.

In the 12 months to the end of September 2022, New Zealand's wine exports experienced a 6% increase in value to reach NZD2.03 billion. Export volumes dropped 4% to 271 million litres in the same period – a reflection of ongoing shipping constraints and the smaller volume available from the 2021 crop.

2023: Looking Ahead

Australia expects another sluggish year for sales as suppliers continue to move slowly through large inventories of red wine. Restricted tank capacity and the lack of sales to China will lead to a larger volume of red grapes being left on the vine this year as wineries attempt to reduce their intake of material. A significant reduction in red wine grapes coming from the 2023 crop is required for the industry to 'reset' and move towards a balanced supply-demand ratio.

International freight capacity has the potential to open up if consumer purchasing – as is widely predicted – slows down in 2023. The benefit of this extra capacity might be offset by rising inflation, although inflation has potentially already peaked in Australia (according to the government and reserve bank) as well as in the US and Eurozone.

Disease pressure has been evident in all regions across Australia as winter and spring brought abnormally wet conditions and substantial rainfall due to the continued influence of La Niña. As river systems have flooded and are at peak levels, water has been in good supply during the 2022/23 growing season.

The further softening of prices for red material has not necessarily resulted in a sale of stock, as we see buyers/importers struggling with shipping constraints, gas and glassware shortages, and price hikes in general amid the inflationary pressure. In addition, globally speaking, red wine is readily available from all major wine-producing countries at this time. Australia's white wine pricing is expected to remain consistent in line with demand, although Sauvignon Blanc may see a slight softening in price due to new plantings and growers grafting over to this variety.

See next page for more.

Australia's sellers will continue to actively seek out new markets and a small percentage of wineries will benefit from the newly-ratified Australia-India Comprehensive Economic Cooperation Agreement. There is the potential for more bilateral dialogue with China and an eventual reopening of this important trade corridor; however, many expect China's tariffs to remain in place for some time yet. China's "zero–COVID" policy muted its demand for wine imports from around the world after the pandemic's arrival in 2020. Now that this policy has ended, as of January 2023, and Chinese society is opening back up, it has become even more important for Australia-China trade links to be restored.

New Zealand's 2023 vintage is currently expected to be a positive one, with the potential for another large-sized crop. Bottled Marlborough Sauvignon Blanc is expected to remain in demand from key export markets – the US, Canada and the UK in particular – although pricing could soften slightly if shipping constraints continue to dampen the ability to move the previous year's stock in time.

Key Takeaways

With China's import tariffs on Australian wines continuing, Australia's red wine suppliers are actively seeking new markets: Australia is currently the world's most price-competitive supplier of Shiraz, Cabernet, Merlot and Dry Red, and possesses good inventory levels ahead of the 2023 crop. Demand and pricing on Australia's white wine market has remained steady. Winter and spring of 2022 were abnormally wet due to La Niña, causing disease pressure but ensuring sufficient water supplies this growing season. New Zealand's new vintage has the potential to be good-sized and demand for Marlborough Sauvignon Blanc from key markets is expected to hold up in 2023, though pricing could soften slightly if shipping delays cause a lag in purchasing.

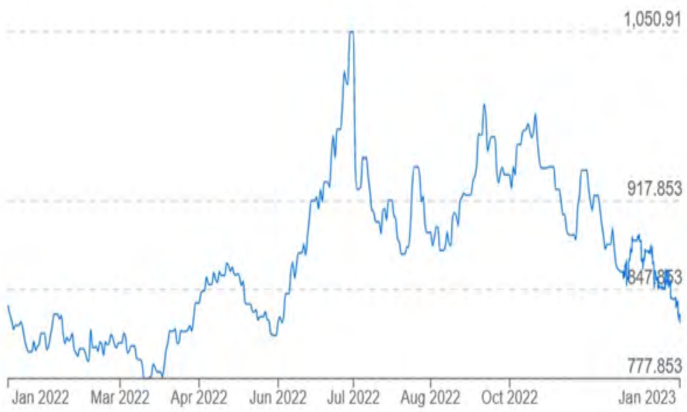
Ciatti Contacts

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

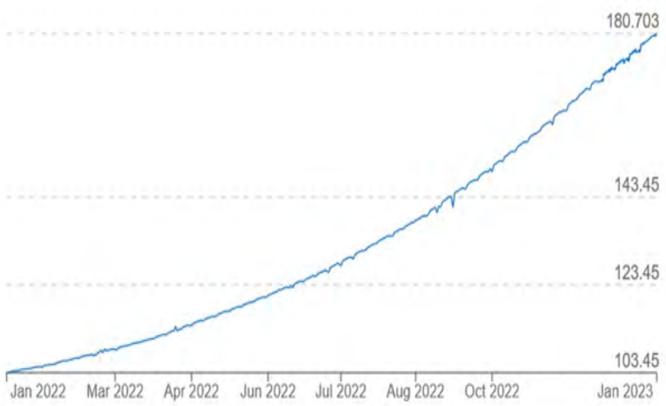
Simone George
T. +61 8 8361 9600
E. simone@ciatti.com.au

Currency Review

Source: XE Currency Converter

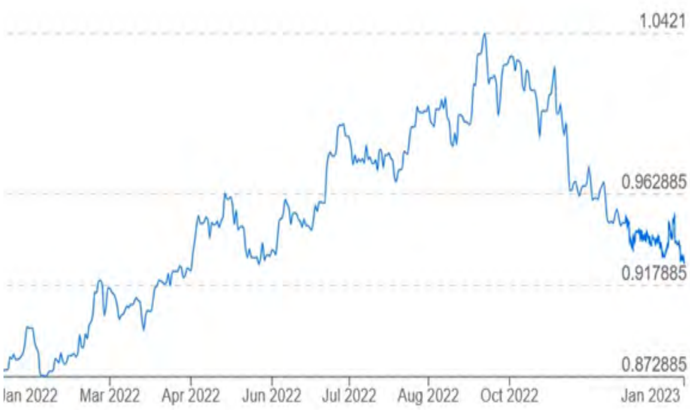


Chilean peso against the US dollar



Argentinian peso against the US dollar

The Chilean peso/dollar exchange was the most volatile for many years in 2022. The peso weakened past the CLP900/dollar mark in June – a record low – and kept going in July, at one stage touching CLP1,050/dollar. This was due to a perfect storm: lower copper prices, Chile's new government threatening increased taxes on the copper industry, a proposed new constitution (ultimately defeated in a September referendum) and investor flight to the dollar amid fears of a global economic slowdown. A USD25 billion intervention by Chile's central bank immediately strengthened the peso, but it remained volatile and weak in CLP875-950/dollar territory until a strengthening trend from October, coming into mid-January at CLP825/dollar. Argentina's peso, meanwhile, was far less volatile due to the government's continuing "creeping peg" policy of gradual devaluation: starting 2022 at ARS100/dollar, the peso ended the year at ARS180/dollar. Five years ago, in January 2018, the Argentinian peso was worth ARS18.60/dollar.



Euro against the US dollar

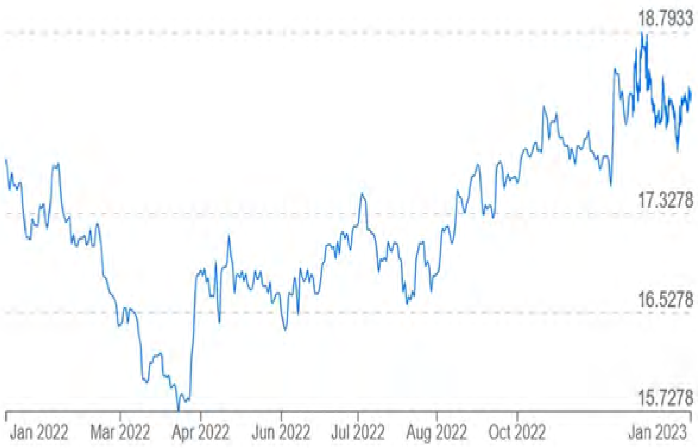
Euro against pound sterling

The euro has been steadily weakening against the US dollar since June 2021. Initially this trend was powered by unfavourable economic data in the Eurozone and a reluctance to increase interest rates; then, from February 2022, the Russia-Ukraine conflict's impact on energy supplies and prices. The euro touched parity with the dollar in September following the radical right's victory in Italy's snap general election, then strengthened in to EUR0.93/dollar by the turn of the year. Pound sterling strengthened against the euro through 2021 having committed to an irreversible emergence from COVID-19 measures but UK inflation levels – among the highest in Europe – weakened the pound again through H1 2022. Political instability followed: Boris Johnson's resignation as Prime Minister in July strengthened the pound, his replacement Liz Truss's radical tax-and-spend budget in September scared the markets and softened the pound out to GBP0.90/euro; the appointment of Truss's replacement, Rishi Sunak, strengthened the pound again before another weakening by the start of 2023 amid continued high inflation levels.

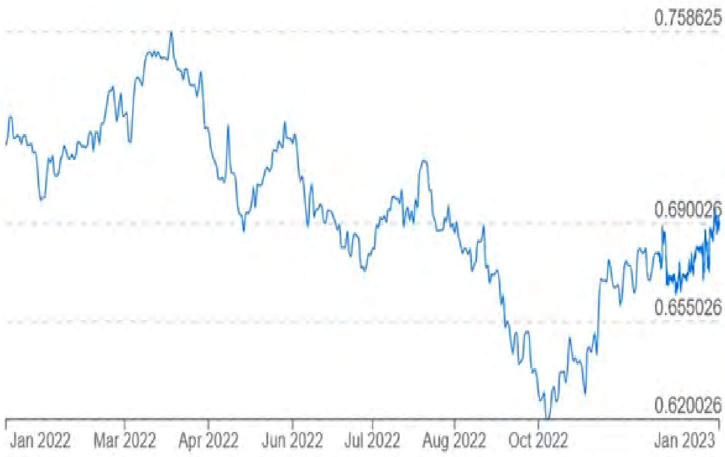
Chinese yuan against the euro

Pound sterling against the Australian dollar

Following a 2021 in which the Chinese yuan steadily strengthened against the euro – the Chinese economy grew robustly while the Eurozone remained mired in COVID lockdowns – the exchange rate was more volatile in 2022. A low of CNY6.75/euro was reached in July as Europe grappled with high inflation and the Russia-Ukraine conflict's impact on energy resources, but China's strict zero-COVID measures led to a flight of foreign capital in H2 2022, the yuan reaching CNY7.40/euro in December amid widespread – and ultimately successful – protests against the strict controls. Following a gradual weakening against pound sterling through 2021, the Aussie dollar rebounded strongly from February 2022 onward as the Australian economy reopened post-COVID. The pound reached GBP0.60/A.dollar in September – its weakest since its post-Brexit referendum fall in 2016 – amid more political chaos in the UK (see above), before strengthening in to GBP0.56/A.dollar by the start of 2023.



Rand against the euro



Australian dollar against the US dollar

The Rand strengthened against the euro considerably following the outbreak of the Russia-Ukraine conflict in March – reaching ZAR15.70/euro in mid-April, its strongest since December 2019 – amid concerns for the Eurozone's energy resources coupled with fears of higher metal prices due to sanctions on Russia's metal exports. The Rand then steadily weakened again for the rest of the year, coming into 2023 around the ZAR18/euro mark. The US dollar's strength through 2022 – thanks to its safe-haven status and rising US interest rates – steadily ate away at the Aussie dollar through 2022, so that from USD0.75/A.dollar in April it reached AUD0.62/A.dollar in October, its strongest since April 2020. The US dollar came into 2023 having weakened back a little, at AUD0.68/A.dollar, amid data suggesting US inflation is cooling.

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
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

David Martin
T. +34 624 22 79 48
E. david@ciatti.es
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

John Fearless CO. Craft Hops & Provisions

CEO - Rob Bolch
Sales - Thomas Gilbert
T. + 1 800 288 5056
E. rob@johnfearless.com
E. thomas@johnfearless.com
www.johnfearless.com

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