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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**With a new year underway, 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.**

If 2022 was characterised by rising annual inflation levels and a supply chain crisis, 2023 will be remembered for interest rates rises and sluggish buyer demand. Inflation levels, and the interest rates increased to curb them, reined-in consumer confidence and discretionary spending in most key markets through the year. In turn, this reduced distributor and retailer demand for wine – many were, in any case, still working through inventories they had accumulated during the 2020-21 pandemic-induced consumer demand spike, or supplies that had only recently arrived after 2021-22's shipping delays. Distributors and retailers also pushed back against bulk wine suppliers seeking to increase prices in order to maintain margin amid the inflationary environment. Consequently, bulk demand was slow and, when it did occur, transactions often took time, were price-sensitive, and only for incremental volumes.

Pushbacks against price always ultimately end up at the grape grower, and we saw vine pull-outs starting to occur in some producer countries as the industry begins to come to terms with the twenty-year decline in global wine consumption – a rightsizing that felt imminent during the similarly slow year of 2019, but which was put on hold by the pandemic. The second and third quarters of 2023 were especially slow: wine 'need' simply was not there. As this month's Australia-New Zealand page makes plain, "global wine production has been higher than consumption in recent years and 2023's output is expected to have exceeded demand by approximately 10%, even with output coming in below average for the fifth year in a row."

Activity levels rose a little in the final quarter, stimulated by Italy's short crop and some softening bulk prices elsewhere. What can we expect from 2024? The US, UK and Eurozone (including Germany and France) all come into the new year with consumer confidence at higher levels than for some time, as annual inflation steadily trends downward and interest rates – although still elevated – are subsequently expected to follow. On bulk wine as on many other products, the 'just-in-time' business approach, in which inventory-holding and speculative buying is kept to a minimum, has grown more common during the higher-cost environment of recent years, and is likelier to increase in 2024 than reduce.

If distributors and retailers are now moving clear of their pandemic inventories or have been proceeding with lean stocks over the past year or two, any uptick in consumer demand might fairly quickly translate into fresh bulk need. Further incentives for buying are the many attractively-priced opportunities on a range of quality wines that currently exist, together with a – in the main – return to pre-pandemic shipping prices and schedules. Therefore, the year 2024 arguably starts with more glimmers of hope than its predecessor.

The Ciatti team stands ready to draw on its many decades of experience to help buyers harness the opportunities, while assisting suppliers in finding good homes for their grapes and wines: don't hesitate to get in touch. In the meantime, read on for our review of 2023 by country, and some tentative projections of what 2024 might bring.

*Robert Selby*

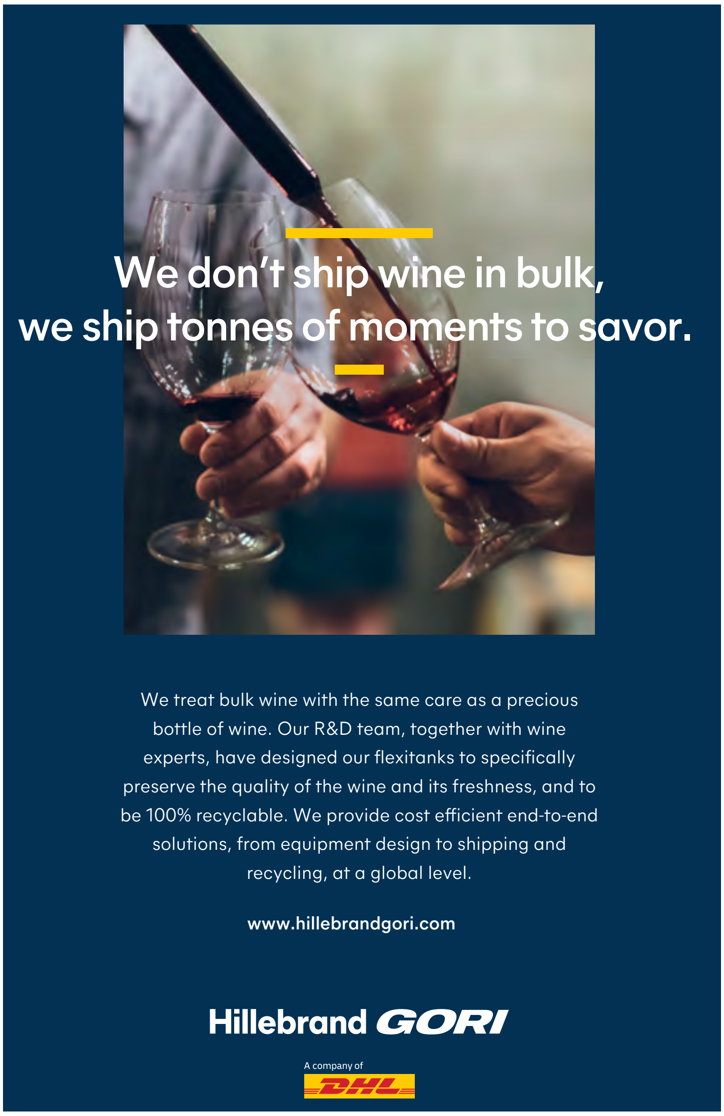
# California

*Time on target*

## 2023: The Year That Was

**The Central Valley's bulk market entered 2023 proceeding incrementally, with demand focussed on the remaining 2021 varietal white carryover and the 2022 Chardonnay, Sauvignon Blanc, Pinot Grigio and sparkling bases. Bulk prices remained in line with where they stood 12 months before, not long after the pandemic-induced spike in retail demand. Due to the reality that had since set in – wine sales volumes falling back to their pre-pandemic norms, consumers reining-in spending amid elevated inflation and interest rates – this pricing had a mixed reception. It proved relatively attractive to those high-end California and Coastal buyers seeking to claw back some margin by switching some sourcing from the Coast – where many prices were also firmly at elevated levels – but it was less attractive to regular California buyers. The latter often hesitated to move onto the market and, when they did so, secured only incremental volumes; some made inquiries into imports.**

Indeed, in February we reported that softening sales at US retail and the macroeconomic headwinds had "resulted in significant buyer hesitation on the Californian bulk market since the turn of the year". In another sign that need for supply was soft, "there are a growing number of wineries seeking to sell wines rather than buy them", and through the first few months of 2023 an increasing amount of 2021 inventory (mainly reds, namely Cabernet), in addition to the new 2022 wines, were placed on the market.




The California Department of Food & Agriculture's preliminary 2022 grape crush report, published 12th February, showed – at 3.349 million tons – the smallest crop since 2011, with all of California's Interior districts except Bakersfield reporting lighter tonnages than the prior year. The fact this shorter than expected supply picture failed to stimulate extra buying activity underlined the demand weakness. (The final crop figure was revised up to 3.376 million tons, still the smallest in 11 years.)

By March, demand on even the 2022 white varietals was being tempered by pricing levels. Even buyers seeking entry-level, non-vintage Chardonnay were encountering firm prices higher than they had expected, as a 16% shorter Chardonnay crop in 2022 versus the year before disincentivised price reductions. Suppliers in general were understandably reluctant to move down on price amid elevated business costs and following three consecutive crops below the 4-million-ton mark. For their part, buyers had to deal with those same business costs, plus less bulk demand from distributors and retailers that were taking longer than they had expected to work through the inventories accumulated during the pandemic, as well as retailer – and consumer – pushback against any price upticks on the shelf. Buyers were therefore reluctant to hold inventory and, when they did make inquiries, were highly price-sensitive.

*See next page for more on California.*

The result was a bulk market characterised by a price-expectation impasse. In May we reported that "weaker wine sales and economic concerns in general – including inflationary input costs and elevated interest rates – have led to some rightsizing of businesses across California's wine industry and understandably entrenched buyer hesitancy both on bulk wine and grapes."

In June, with the 2023 crop on the horizon, we noted that "bulk wine suppliers have become less bullish on price and eager to provide samples". Bulk inventory by this time was significant, led by Cabernet (we estimated its state-wide inventory in excess of 8.0 million gallons in the March-August period), Pinot Noir, and Zinfandel. Of these reds, some 2021 and 2020 wines remained available in addition to the 2022 vintage. Suppliers in the state was increasingly open-minded to international interest on these reds as well as White Zinfandel, Colombard, and low-alcohol whites, providing an attractive opportunity for enterprising export buyers seeking reliable, high-quality Californian wine supply. Unfortunately, the same demand weakness was evident in all major wine-producing countries, as the industry, globally, stumbled through mid-year – the second and third quarters felt particularly slow – carrying a surfeit of supply with very few buyers for it, even as it looked as though some Northern Hemisphere crops might be coming in shorter.

Despite the challenging nature of the 2023 growing season becoming increasingly apparent – a wetter than normal spring and early summer, then Hurricane Hilary in mid-August, bringing disease pressure – bulk activity in the Central Valley was limited to sporadic deals for small volumes, as the large wineries that dominate the region continued to focus on offloading wine rather than buying it. Retail sales volumes, meanwhile, remained in retreat: SipSource data showed wine distributor depletions in the US were down 6% in the 12 months to June 2023 and 7% down in the first half of the year.

The Central Valley's grape market through 2023 reflected the bulk and retail markets. With demand soft, the total number of grapes getting contracted was only going to be in line with, or below, previous years. Wineries were widely expected to strictly enforce quality standards set out in grape contracts, reject overages, and be reluctant to replace any grapes lost to the conditions. Therefore, the Valley's crush potential would necessarily be constrained. By mid-year we were seeing 2023 grapes being released from contracts as wineries downwardly adjusted their supply – either putting their own grapes up for sale or releasing their grape providers from commitments. Even small grower-wineries focused on tasting room sales were putting their grapes up for sale. Such moves mainly occurred on red grapes – given the particularly acute, now longstanding slowness of red wine sales – while 2023 white varietal grapes were essentially fully contracted in the Valley by the time picking got underway. The Valley's grape growers softened their prices, but a spot market never really developed. Some were left considering the option of crushing their grapes themselves – a not inconsiderable risk, given the bulk market's lethargy.

Cooler and wetter than normal conditions delayed the growing season by up to four weeks in some areas; the harvest in California's Interior finally concluded in the first half of November. The quality of the white and early red grapes benefitted from the prolonged hangtime, while sizing up through September likely enlarged the overall crop. However, thinning to avoid rot, rejections due to disease (these were most common in the southern Central Valley, growing fewer further northward), uncontracted grapes going unpicked, and a lack of buyer interest in overage fruit, will have taken a toll on the final harvest size. We estimate a state-wide crop of 3.5-3.6 million tons, although September's sizing could possibly have nudged it above that range.

## 2024: Looking Ahead

A seemingly very good 2023 vintage in terms of quality, plenty of availability, softer pricing in premium areas, and freight prices having returned to their pre-pandemic levels – all factors that make 2024 potentially the most opportune year in some time for international buyers to begin sourcing from California. The outperformance of

*See next page for more.*

California's wine exports by value versus volume suggests there is an appetite around the world for good-quality Californian wines, and there are now a number of attractive supply opportunities to harness. California is also able to offer lower-alcohol wines for international buyers seeking to meet the growing global demand – particularly among younger consumers – for such products.

US consumer confidence ended 2023 at a five-month high, according to the Conference Board, amid falling annual inflation and signs of a robust jobs market. As this month's Global Report makes clear, such improved consumer optimism is mirrored across Europe, including in the UK and Germany. Although the US Federal Reserve, Bank of England and European Central Bank's benchmark interest rates remain steady at elevated levels, they are expected to slowly decline through 2024. These trends – declining inflation; (hopefully) declining interest rates; signs of improving consumer confidence – do help endow January 2024 with brighter glimmers of hope than January 2023, and it is hoped such improved metrics translate to a faster sell-through of wine on retail shelves this year. Sales momentum may be injected by distributors and retailers if they are – as is widely perceived – nearing the end of the inventories they accumulated during the pandemic and require fresh volume.

The Central Valley's bulk market comes into 2024 as it did 2023 – hesitantly. The most recent crop's size is even more unclear than it usually is at this time of year, exacerbating market prevarication while final quarter 2023 sales are assessed and sales projections calculated. Bulk wine suppliers have come to understand the fragility of current demand and are being proactive in providing samples and pricing flexibly in order to help offload inventory and generate cashflow. The current lack of bulk wine transactions makes precise market pricing difficult to ascertain, but it is definitely weaker on most items than it was 12 months ago.

Given the soft nature of demand for grapes last year, and the ongoing slowness of the bulk market, demand for 2024 grapes will likely take some time to get going. Growers, like bulk wine suppliers, are adjusting their price expectations while carrying out business adjustments that will enable them to still make a margin – this may include, for example, mothballing or removing uncontracted vineyards, as has been occurring around the world.

Although El Niño was anticipated to make wetter than average conditions more probable in December through February, winter in California has so far been relatively dry and mild, with Sierra Nevada snowpack levels as of January 2nd at just 25% of the long-term average for that date, versus 185% on that date in 2023. That said, the snow season is not yet halfway through, and 2023 was more than wet enough to ensure most reservoirs remain at above-average levels. The law of averages suggests that, as 2023 was so wet, 2024 could be more average in terms of precipitation or tending drier, auguring well for less disease pressure than last year.

## *Key Takeaways*

**From an international perspective, softened bulk pricing (including in premium Coastal areas), a good-quality 2023 vintage, plenty of supply and a return to pre-pandemic freight prices makes 2024 the best year for some time in which to source Californian wines. There are also opportunities to be had on low-alcohol wines. There is a likelihood that, as the bulk market continues sluggishly, the 2024 grape market will also be slow, placing downward pressure on prices; this would mean a lower cost built into the 2024 vintage as well.**

**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*

## 2023: The Year That Was

**Argentina came into 2023 uncompetitive on price due to the country's 100%+ annual inflation rate, a 2022 crop – at 1.90 million metric tons – well short of the average, and severe frost episodes at the start of the 2023-vintage growing season. Malbec export prices in January 2023 were consequently 50% higher versus 12 months before, with entry-level Malbec at USD1.35-1.50/litre, putting Argentina at a strong disadvantage versus reds from the likes of Australia – long on inventory following China's imposition of severe import tariffs in 2021 – and neighbouring Chile.**

Prices on Argentina's 2023 grapes, meanwhile, came into 2023 over 100% more expensive than their 2022 equivalents, suggesting uncompetitive bulk wine and grape juice concentrate pricing would persist through the year. By March it was clear that bulk pricing had dissuaded international buyer interest – "some are holding off, some switching to alternative sources". The lack of export demand was felt acutely by an industry seeing its domestic consumers squeezed by Argentina's steepling inflation and interest rates.

Also by this time, it had become clear that the spring frosts, together with persistent hailstorms throughout the growing season and intense midsummer heatwaves, would reduce the 2023 crop to one of the country's smallest of the past 20 years. The final figure of 1.43 million metric tons was well down on the previous year's already short crop, let alone the 2.2-2.5-million-ton average. However, we projected that total wine supply in Argentina as of vintage switcher on 1st June would be at normal levels, as the harvest shortfall would be offset by the slump in domestic demand (-11.6% in January-April) as well as export shipments (bulk -46.2%, bottled -21.9%, and GJC -60.7%), and the prioritisation of wine production over must due to wine's high prices.

The introduction by the Argentinian government in April of an "agro dollar" – a preferential dollar-peso exchange rate of ARS300/dollar for agricultural exporters – failed to stimulate wine export transactions, as all concerned knew the official exchange rate would soon weaken to the agro dollar's level by the time payments on wine deals were due. The official rate duly reached the ARS300/dollar mark only four months later, in August, out from ARS180/dollar in January. It was then devalued to, and artificially held at, ARS350-365/dollar in the wake of Argentina's presidential primaries on the 13th August, when economist and anti-establishment outsider Javier Milei announced himself to the world by taking the highest vote share in what was described as a "political earthquake". Milei said the peso was essentially worthless as a currency, touted dollarisation – whereby the US dollar could be used for domestic transactions instead of the peso – and proposed shutting down the country's central bank in order to help reverse years of economic decay that had left Argentina indebted to the International Monetary Fund and 40% of Argentinians in poverty.

International interest remained sluggish through the second half of the year, with some demand from Europe, including the regular Scandinavian tenders and Germany, as well as the UK and Australia. This demand was usually Malbec-focused and for incremental volumes. Prices remained stable, despite a 29.3% fall in wine exports in the January-September period versus the first nine months of 2022, with bulk (-38.9%), bottled (-26%) and concentrated must shipments (-54.5%) all down significantly.

*See next page for more.*

The domestic market grew even more hesitant in the months leading up to the country's presidential election on 22nd October, with suppliers removing stock from sale rather than sell it for a denomination Milei was already encouraging Argentinians not to use. In any case, taxes levied by the existing government on imports – intended to limit the drain of dollars – led to a shortage of machinery, dry goods and other items necessary for getting wines to market in the first place. Milei was victorious in the presidential election run-off on 19th November, beating the incumbent economy minister, Sergio Massa, by 56% to 44% of the vote. In his inauguration speech on 10th December, Milei promised economic "shock treatment" and, three days later, his government's first package of measures included an immediate, major evaluation of the peso from ARS365/dollar to ARS800/dollar, bringing it closer to the unofficial rate of ARS1,000/dollar

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## 2024 Looking Ahead

Argentina comes into 2024 in line with how it started the prior year – possessing large volumes of good-quality wine, mainly reds and specifically Malbec across all quality tiers. Likewise, prices remain stable at an elevated level.

Any positive impact from the Milei government's economic plans is widely expected to take up to 18-24 months to make itself felt. Consequently, annual inflation (211% as of December) and interest rates (100%) are likely to remain very high for some time and, in turn, upward pressure on bulk export prices, although December's significant peso devaluation will not have hurt. After many years of economic failure wrought by the political establishment, Milei's outsider status should help his government enjoy a relatively extended honeymoon period among the electorate – although reforms will trigger, and have already triggered, protests.

Looking ahead to the 2024 harvest, some intense late-winter snowfall in the Andes boosted water reserves for the growing season, while – unlike last year – spring was free of serious frosts. Consequently, there is currently an expectation of a good-sized 2024 crop, closer to the 2.25-2.50-million-ton range than 2022 or 2023 output.

## *Key Takeaways*

**Argentina continues to possess good volumes of 2023 Malbec in all quality tiers at stable pricing. The country's new government significantly devaluated the peso in December, from ARS365/dollar to ARS800/dollar, but inflation and interest rates are expected to remain stubbornly high, in turn maintaining upward pressure on export prices. Mendoza and the growing areas appear on course for a good-sized harvest following decent late-winter snowpack and a frost-free spring.**

## *Ciatti Contact*

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

# Chile

*Time on target*

## 2023: The Year That Was

**Chile came into 2023 following a good-sized 2022 crush of 1.24 billion litres – albeit down 7.4% from 2021's bumper crush due to frost and drought – but a bulk market often characterised by reduced volume requirements, as buyers responded to the consumer slowdown in key markets amid high inflation and interest rate levels. By November 2022, Chile's year-on-year export figures had dipped into negative territory, as 2022's slowdown in contracting versus 2021 could no longer be hidden by shipping lags, and there the statistics would remain throughout 2023. Demand for white wines had been steady but not rapid like the year before, while red wine demand – as around the world – was lethargic, compounded by the ultra-competitiveness of Australia's reds.**

January 2023 brought more news of international buyers – including North American, UK and European – seeking to reduce their commitments from Chile through 2023 and possibly beyond, or to spread their volume needs across more than one vintage. The loading and shipping pace for many 2022 wines – even Sauvignon Blanc – was markedly slower than a year before, reflecting a slowdown in pull-through on retail shelves in key markets as consumer confidence dipped, especially in Europe where food price inflation was running hot (18% in the UK, 20% in Germany). Chile's export pricing on 2022 bulk wines remained stable, however, following high 2022 grape pricing, domestic inflation running in excess of 10%, and – on the whites – steady if unspectacular interest levels. The red wine market was the main concern: 2022 red wine inventory remained significant and contracting of 2023 red grapes was sluggish. These factors, plus the elevated cost of farming, raised the prospect that some red grapes from the coming 2023 crop would go unpicked.

However, following a wet winter, Chile's 2022/23 summer was dry and, at times, intensely hot, with temperature records broken and tinderbox conditions leading to some wildfires. By March, the growing season was running two to four weeks ahead of normal and bunches were coming in lighter than average; the overall crush was forecast to be at least 10% down in size versus the prior year. Consequently, all red grapes ended up being picked and contracted. The final 2023 crush figure was 1.103 billion litres, down 11.4% versus 2022.

The rapidity of the harvest allowed many whites to be sampled early, and by April there was already significant international demand for 2023 Chardonnay and – especially – Sauvignon Blanc. White varietal prices began ticking up from their 2022-vintage levels and some suppliers, having had most of their whites allocated already, sold out quickly. All the while, 2022-vintage loadings remained uncompleted in some instances, and volumes of 2022 whites were still unsold, as suggested by export figures for the first quarter of 2023 that showed Chile's total wine export volumes down 17% versus January-March 2022, with bottled (-17.45%) and bulk (-17.77%) shipments both registering declines.

Activity was mainly incremental on the significant volume of 2022 carryover reds and the new reds from the 2023 vintage. Although the crush size of some varietal reds was significantly down in 2023 versus the prior year – including Syrah (-18.8%), Merlot (-18.5%) and Cabernet (-17.6%) – the failure of the bulk market to react, and the ongoing inactivity on red wines throughout 2023, starkly illustrated the lack of need. The red volumes purchased were usually small, and at negotiable pricing. Pinot Noir felt in most supply-demand balance, and sold well. After a time, pricing on the 2022 and 2023 reds effectively merged as demand for either vintage was equally slow.

Red wine inventory remained a concern and, after the 2023 crop's completion, we started to see vine pull-outs occur as the industry in Chile, as around the world, finally starts to correct wine's longstanding global supply-demand imbalance (masked, briefly, by COVID-19's retail demand spike). "Amid the sales and margin squeeze, it is understandable the industry will gradually grow smaller," we said in September, noting that Cabernet led the vine

*See next page for more on Chile.*

pull-outs, followed by other reds such as Tintorera and Syrah. We guesstimated uprootings in Chile at 15% of area in 2023, i.e., approximately 21,000 hectares. Some uprooted vines are being replaced with new, high-efficiency plantings, but, where this is not taking place, “parcels of land are being sold for housing and other developments as struggling farmers seek quicker cash returns.”

Export statistics for the first half of 2023 showed a deepening decline in shipments since the first quarter, with total wine export volumes down 25.2% in January to June versus the first six months of 2022, led by bulk (-28.16%); bottled was down 23.61%. Later statistics for the first three quarters of the year, January to September, showed these trends holding steady. “With wineries experiencing slow sales around the world, demand for Chilean bulk wines and 2024 grapes remains quiet,” we said in October, adding that pricing was trending softer on all wines, led – as ever – by reds.

# 2024: Looking Ahead

Coming into the new year, international buyer activity in Chile continues to be incremental, but some buying – including from North America and China – has been stimulated by pricing that has softened to more attractive, competitive levels. These more tempting prices should continue, as 2024 grape prices have been reflecting the slow nature of bulk wine sales through 2023. In addition, there is a feeling this pricing is arriving just as many retailers and distributors – domestic and international – are emerging from long inventories accumulated during the pandemic’s retail demand spike.

Consequently, there is some cautious optimism that 2024 might prove a better year for sales than 2023. This is supported by recent export statistics showing – finally – an uptick in the month of October: bottled wine shipments rose in volume and value versus October 2022. The statistics also showed Brazil becoming the biggest buyer of Chilean case goods by volume after some years of being the leading destination by value, the excellent reputation both standard and premium Chilean wines enjoy in Brazil – a market of some 200 million people – another bright spot as the new year gets underway. And Chile’s red wine inventory might be somewhat alleviated in 2024 should – as is widely believed – China removes the severe import tariffs that it has applied on Australia’s wines since 2021. A rebound in Chinese demand for Australian reds may return Australia’s pricing to more normal levels, in turn improving the competitiveness of other supplier countries such as Chile.

Furthermore, could 2024 usher in an increase in discretionary spending by consumers in key markets? Interest rates remain stubbornly high, but annual inflation is on the decline – and positive consumer attitudes on the increase – in markets such as the US, the EU and the UK. Consumer confidence ended 2023 at a five-month high in the US, a 22-month high in the Eurozone, and (according to GfK research) at its joint-highest level in the UK since the start of 2022. Such trends have been reflected in Chile, where consumers are seeing a recovery in their purchasing power. It is hoped these improved metrics foretell a faster sell-through of wine in 2024.

Indicative of the slow bulk market through 2023, Chile comes into the new year still able to offer 2023 varietal whites – including Sauvignon Blanc which, in recent years, has been sold out by now. Just as increases in Australia’s red wine prices might positively affect demand in Chile, a concerted decrease in New Zealand’s Marlborough Sauvignon Blanc prices through 2023 – after consecutive larger harvests – could have a negative effect on demand for Chile’s Sauvignon Blanc, particularly its cool-climate offering.

Chile’s central areas experienced a wet winter and wet and cooler-than-normal spring, pushing Santiago, Curicó and Chillán into precipitation surpluses to varying extents after longstanding deficits. Unusually, spring-like foggy mornings and cool nights persisted into early summer. All of these factors suggest picking of the 2024 vintage may get underway late, as it has done on other fruit crops in Chile this time around.

With input costs high and cashflow limited, some growers opted not to spray preventatively in spring, raising the prospect of some disease pressure this vintage. This and the limiting of crop potential due to vine pull-outs could take a toll on the 2024 crop size. In addition, ongoing drought in Chile’s northern growing regions could reduce the

*See next page for more on Chile.*

supply of generic white grapes – leftover after Pisco production – for use in central areas as a cost-reducer in wine production, potentially placing upward pressure on Chile's generic white wine prices. In general, however, Chile's bulk prices are trending softer and it will take a markedly short crop to change this.

## Chilean Export Figures

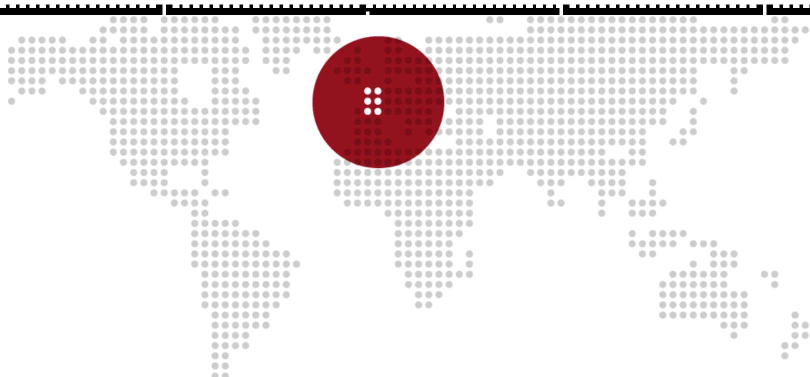
| Wine Export Figures | January 2022 - November 2022 | | | January 2023 - November 2023 | | | Volume |
|---|---|---|---|---|---|---|---|
| | Million Liters | Million US$ FOB | Average Price | Million Liters | Million US$ FOB | Average Price | Variance % |
| Bottled | 445,84 | 1.445,79 | 3,24 | 350,11 | 1.140,78 | 3,26 | -21,47 |
| Bulk | 306,74 | 283,26 | 0,92 | 256,04 | 225,97 | 0,88 | -16,53 |
| Sparkling Wines | 3,65 | 14,44 | 3,95 | 3,25 | 12,92 | 3,98 | -11,08 |
| Packed Wines | 20,46 | 34,62 | 1,69 | 20,08 | 32,17 | 1,60 | -1,88 |
| **Total** | **776,69** | **1.778,10** | **2,29** | **629,48** | **1.411,84** | **2,24** | **-18,95** |

## *Key Takeaways*

Chile possesses volumes of good-quality 2023 reds and whites at competitive, softening pricing. Such pricing has helped stimulate some extra international interest. Prices of 2024 grapes reflect the slow nature of sales this year, which should feed through to lower prices on the 2024 vintage. Given the wet, cool winter and spring and the continuation of spring-like cool nights and morning fog into the first weeks of summer, there is a possibility the 2024 harvest could occur late, as has happened on other fruit crops. Uprootings through 2023 into this year will help limit crop potential.

## *Ciatti Contact*

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



# France

## *Time on target*

## 2023: The Year That Was

**France came into 2023 off the back of a 2022 crush – at 44 million hectolitres – in line with the five-year average. However, drought and some intense heatwaves through the 2022 summer led to a heterogenous vintage quality, and some areas – namely Gascony and Bordeaux – had suffered from significantly lower yields. Once AOP and appellated white wine production was prioritised in these areas, Vin de France white wine output was limited, injecting upward pressure into the Languedoc's VDF white market, where prices increased. By spring 2023, only basic qualities of VDF white – as well as Sauvignon Blanc and Chardonnay – were available on the bulk market in southern France, and 80-90% of 2022 IGP varietal whites were sold out on the first-hand market.**

White wine demand levels contrasted sharply with demand for the 2022-vintage reds, which commenced very sluggishly. Significant volumes of 2021 red wine carryover remained available at wineries across southern France, Bordeaux and the Rhone valley, while 2021 reds were taking some time to sell through at retailers. This was symptomatic of the fact red wine wines have suffered most from the long-term decline in wine sales in domestic and

*See next page for more on France.*

export markets since the early 2000s, a trend to which the French wine industry has struggled to adapt. The more recent speed-up in the decline of red wine demand was due to China: a significant rise in Chinese demand through the 2010s had helped mask the declines elsewhere, but the country's economic slowdown in 2018 and 2019, then COVID-19 measures 2020-2023, took a significant toll. By May 2023 we reported: "It had been hoped that the lifting of strict COVID-19 restrictions in January would unleash pent-up Chinese demand for imports, but while exports have returned to growth and there has been solid domestic consumption of services, imports have stumbled along in and out of negative territory."

February brought news of a French/EU government-subsidised crisis distillation plan – the second in four years – that would distil over 3.0 million hectolitres of unsold wine, mainly reds from the Languedoc, Bordeaux, and the Rhone valley. (In addition, Bordeaux growers secured funding to uproot at least 9,500 hectares of vines.) The scheme was – predictably – oversubscribed, with applicants declaring some 4.4 million hectolitres of wine. Some months elapsed between the approval of the scheme and confirmation of its pricing, injecting further hesitation into a market that progressively slowed through the first half of 2023.

While headline inflation levels in Europe and North America had started to trend down from their post-pandemic highs through the first six months of the year, the interest rates deployed to contain them continued to rise; additionally, grocery prices and energy costs remained elevated. Consumer confidence and discretionary spending consequently retreated, limiting bulk wine activity to perennial buyers renewing longstanding commitments. FranceAgriMer statistics for the August 2022 to May 2023 period showed a 6% decline in wine export volumes versus the equivalent period of 2021/22, with leading markets Germany (-14%), the US (-8%) and the UK (-16%) all taking less. Meanwhile, domestic sales at supermarkets – including of imported wine – were down 6% by volume, with reds (-12.5%) leading the contraction ahead of rosés (-4.9%) and whites (-4.2%).

By May, red wine and rosé prices were softening, ditto pricing on organic wine which – with output larger every year, just as overall wine demand has fallen back – struggled to command a premium. The market for whites was also starting to show signs of lethargy, with supplies of 2022 varietal whites still popping up on the market in the second half of the year, some because they had failed to load.

The passing of the frost risk – without any major incidents – and confirmation of distillation pricing (in line with 2020's programme at EUR0.75/litre for AOPs, EUR0.65/litre for IGPs and EUR0.45/litre for VDFs) injected some much-needed clarity into the bulk market from May, stimulating a rise in enquiries, sample requests, approvals, and loadings, mainly of 2022 IGP/VDF varietal whites, varietal rosés, and generic rosés. The need for the removal of reds through distillation, however, remained apparent. "The red wine market," we reported in May, "remains becalmed, and some wineries that usually buy red wine have become sellers. It is likely that some red buyers will skip the 2022 vintage mostly or entirely, and start buying again from the 2023 vintage, so that the 2021 reds have more time to clear through sales channels."

By late summer, with the 2023 crop on the horizon, 2022 varietal whites were 90-95% sold out, some 2022 rosés remained at softened pricing for quick, last-minute loading to meet the peak summer season, and 2021 and 2022 red wine availability was plentiful and soft in price. The distillation scheme had effectively set the bottom pricing for the 2022-vintage red wine and rosé markets.

The 2023 crop did not move the demand needle, coming in at an estimated 46 million hectolitres, some 3% above the five-year average. Quality was heterogeneous due to a complicated growing season – including drought in the western Languedoc, persistent July rainfall in southwest France, and August heatwaves across the country – but volumes were ample enough not to panic the market. White wine pricing equilibrium was maintained when significant excess production in the Cognac-producing areas of Charente was diverted into a reserve for future distilling needs instead of hitting the bulk market, while a large Loire Valley crop was heterogeneous in quality, keeping pricing stable on the better-quality whites from central and southern France.

With 2023 white wine availability and pricing in line with 2022, and significant 2022 red-wine carryover adding to the good availability of 2023 reds, all the while bulk demand was less than in 2022, the new bulk campaign kicked off slower than in recent years, transactions-wise. This reflected, we said in December, "wine's retail sales performance

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globally, carryover stock levels at distributors, and extended negotiations with retailers who are seeking lower offer prices just as suppliers try to cover elevated input costs". Sampling of the whites was extensive, highlighting a general shift in buyer behaviour away from pre-harvest deals, given the amount of choice available on the market. Deals are often incremental, as buyers in France as around the world increasingly opt – in a high-cost, slow sales environment – to proceed on a just-in-time basis.

## 2024: Looking Ahead

Buying activity on the bulk market in southern France came into the new year dominated by those mid-sized wineries, negociants and bottlers enjoying stable sales, mainly seeking white and premium wines. Even these buyers, however, have been purchasing incrementally. A lack of urgency pervades the market, given slow retailer demand and the above-average overall size of the 2023 crop, which has enabled Loire Valley, Burgundy, Beaujolais and Gascony supply to return to the market alongside wines from the Languedoc, Bordeaux and the Rhone valley. Consequently, although difficult to summarise pricing given the limited number of transactions that have so far taken place, the tendency is for pricing to start in line with where it commenced the 2022-vintage campaign, with negotiation possible depending on loading terms.

One exception to the stable picture is some Languedoc white varietal pricing – up by approximately EUR0.05/litre versus 12 months ago – due to the region's smaller 2023 crop, estimated to be down 15% versus its five-year average. Suppliers, battling higher input costs, feel unable to maintain price if their volumes are lower. The price uptick has largely met with a positive response from buyers, who appreciate the excellent quality-for-value ratio the 2023 vintage provides.

Good-quality fresh, green, cool climate-style Sauvignon Blancs are currently the hardest items to find on the bulk market in southern France, given the challenging growing season and relatively good demand levels: prospective buyers of these are urged to make their needs known as soon as possible.

The Eurozone inflation rate ticked up from 2.4% to 2.9% in December after six consecutive months of falls, but still represents a significant decline from 8.6% in January 2023. This was mirrored by consumer price inflation in France, which rose from 3.5% to 3.7% in December, versus 6.0% in January 2023. The European Central Bank's benchmark interest rate, meanwhile, remains steady at 4.5% versus 2.5% in January 2023. Consumer confidence in France improved throughout the final quarter of 2023 and ended the year at its highest level since March 2022. Again, this was mirrored across the Eurozone, where consumer confidence ended 2023 at a 22-month high. These trends – declining inflation; relatively high but stable interest rates; signs of improving consumer confidence – have been seen in the UK and US as well. It is hoped these improved metrics foretell a faster sell-through of wine at home and abroad in 2024.

## *Key Takeaways*

**With volumes good, quality high and pricing stable or softer/negotiable, France currently offers some very attractive opportunities for international buyers seeking to harness any improving consumer confidence through 2024. In addition to the Languedoc, Bordeaux and the Rhone valley, there are volume and price opportunities to be had on a range of wines from Gascony, Loire Valley, Burgundy, and Beaujolais. Green, cool climate-style 2023 Sauvignon Blancs are probably in shortest supply; potential buyers of these should get in touch.**

## *Ciatti Contact*

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

# Spain

## *Time on target*

## 2023: The Year That Was

**Spain's bulk wine market came into 2023 quiet, despite the 2022 crush having come in short of the five-year average in terms of wine produced. The decline in European and North American consumer confidence and retail sales through the second half of 2022 amid still-elevated annual inflation levels and rising interest rates, and the resulting pessimism about 2023 sales, injected hesitancy and price-sensitivity into the bulk market. According to the OEMV, Spain's wine export volumes were down 9% – almost 213 million litres fewer – in 2022 versus 2021.**

With wines secured in 2021 and early 2022 taking longer than normal to work through retails shelves, the loading pace slowed. Most fresh activity on Spanish bulk wine in the early weeks of 2023 was for limited volumes definitely required, as an increasing number of buyers proceeded on a just-in-time basis; with input costs still high, storing inventory was something to be avoided. Generic whites, good-quality blush rosé and premium, full-bodied reds dominated demand in the first quarter. Spain's pricing remained stable and highly competitive, as well as negotiable depending on volume requirements/ package deals.

Fresh transactions on the 2022 wines continued to proceed slowly through the first quarter: food price inflation was running in excess of 13% across the UK, France, Germany, Italy and Spain, squeezing consumers' discretionary spending. With significant 2021 red wine carryover still remaining, the Spanish wine industry began lobbying the government to replicate the distillation scheme announced in France in February. By May, however, it had become clear that Spain had experienced a drier than normal winter and spring, with reservoirs well short of capacity in central and southern parts of the country. (A heatwave in April brought to southern Spain the highest April temperature – 38.8°C – ever recorded in Europe.) Calls for a distillation scheme consequently ended.

Talk of a drought-hit 2023 crop stimulated some extra interest from domestic and international price-sensitive buyers seeking to get out in front of any price upticks. Most prices firmed only slightly, by perhaps EUR0.02/litre on average, but – in the economic and sales context – this was enough to put off some prospective buyers. Buyer interest essentially evaporated when the second half of May and the start of June brought torrential rainfall and flooding to many areas, a winter's worth of precipitation – falling late and all at once – reinvigorating the vineyards at the flowering stage. Further heavy rainfall, as well as hailstorms, in the second half of June risked vine damage and mildew pressure, but the impact of hail was heavily localised and spraying was effective.

Mid-year, international bulk demand was still focused on white generics, good-quality rosé for last-minute summer needs, and premium reds. There was also an uptick in interest in generic reds, low-alcohol reds, and reds for mulled/ spiced wine. Throughout the first half of the year, demand for varietal wines – reds and even whites – was muted. Pricing was stable. "The loading pace is steady if not spectacular," we reported in July, "and most wineries will end the buying campaign having cleared enough space for the new vintage". This was reflected in January-April export figures, which showed that – unlike other supplier countries around the world – Spain's wine exports were holding up, growing 2% in volume versus the first four months of 2022. There being "little sense of a carryover crisis", unlike in France, a new distillation scheme in Spain covered only 91,694 hectolitres of wine from Extremadura and Catalonia, and did not apply to La Mancha at all. This exemplified the Spanish market in the first nine months of 2023: stability, few dramas.

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The lack of discussion around coming availability, even as the 2023 crop loomed on the horizon, illustrated the lack of demand pressure on bulk wine and grapes. "We believe Spain's overall stock levels are in line with the past five years," we said in August, "which – considering production [of wine] in each of 2021 and 2022 was well below the 40-million-hectolitre-mark – highlights the sales slowness." Red wine inventory was especially plentiful. Pricing remained stable and negotiable, and some end-of-season offers were available; these stimulated some extra domestic, Italian, German and French interest.

Through July and August, Spain's growing areas suffered a succession of intense heatwaves that the wet soils and water reserves of early summer could diminishingly protect against. Spanish vineyard are well-used to extreme heat levels – even repeated incursions into the 40°Cs – but the lack of cooler night-time temperatures, often only 5-8°C below daytime levels, stressed vines. This especially affected the international varietal grapes, which crossed the scales lighter, while some September rainfall helped alleviate the heat pressure on the later-season Airén.

Grape prices through the year had largely been in line with their 2022 prices, creating the expectation that 2023-vintage bulk pricing would commence in line with where the 2022 vintage had started 12 months before. However, with Spain's 2023 crop now expected to come in 10-20% down from 2022, and an uptick in European demand from September in the wake of Italy's significant harvest shortfall, prices on a range of Spanish wines in fact commenced the new buying campaign approximately 10-20% up versus the year before. The price rises mainly occurred on those wines in most demand: 2023 white generics for sparkling bases, ready-made sparkling bases, red generics at 11-11.5% alcohol, and red and white organic wines.

By mid-October, the upswing in bulk demand had eased as those buyers who had secured wines focused on loading. For those buyers coming in behind them, the increase in pricing acted as a disincentive. With retail sales slow, a wariness about holding excess inventory, and good bulk wine supply levels in Spain and around the world despite some shorter crops, these buyers were satisfied to wait and see if pricing softened in the early months of 2024.

Meanwhile, pricing on Spain's sulfated grape must and grape juice concentrate mirrored the trend on bulk wine, ticking up in response to heightened European demand in the autumn. With prices on Italy's must and GJC having risen markedly in response to the country's short crop, Spain was easily the most attractive source from a European and potentially global point of view.

## 2024: Looking Ahead

The Spanish bulk market comes into 2024 quiet, with many buyers and suppliers holding off on speculation. Just as buyers foresee a softening in bulk prices now the initial post-harvest rise in demand has retreated, suppliers are watching how the market reacts to greater clarity regarding Spain's 2023 harvest. The consensus is that it came in 10-20% down versus 2022's 41 million hectolitres (a figure including juices and musts), a not inconsiderable shortfall but one that many buyers are confident is at least partially offset by the level of 2022 carryover following 18 months of slower sales.

In the meantime, pricing on white wines remains at slightly elevated levels versus 12 months ago, due to the autumn demand uptick, although some suppliers are potentially open to negotiation if prospective buyers are happy to also contract red wines. Pricing on red wine is softening quicker following an initial uptick, which came in response to strong early European demand for generic reds. Decent 2022 carryover levels, as well as competitive pricing from the likes of Australia and Chile, makes holding price on red wines difficult, especially given the global trend for declining red wine consumption.

Loading of contracted wines is moving forward consistently if unspectacularly, illustrating how OEMV statistics could show a 5.8% fall in Spanish wine export volumes in the first nine months of 2023. The pace of retailer need has remained slow for 18 months. However, this might have led to lean inventories, so that the recent – and hopefully

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sustained – upswing in consumer confidence could lead to a ramping-up of retailer need in 2024, should greater confidence mean a loosening of discretionary spending.

The Eurozone inflation rate ticked up from 2.4% to 2.9% in December after six consecutive months of falls, but still represents a significant decline from 8.6% in January 2023. This positive trend was mirrored by consumer price inflation in Spain, which ended 2023 at 3.1% versus 5.9% at the start of the year. In addition, consumer confidence in Spain rallied in the final quarter of 2023 after slumping mid-year. Again, this was mirrored across the Eurozone, where consumer confidence ended 2023 at a 22-month high. Although the European Central Bank's benchmark interest rate remains steady at 4.5%, it is expected to decline slowly through 2024. It is hoped these improved metrics foretell a faster sell-through of wine in Europe and beyond this year.

## *Key Takeaways*

Spain is able to offer volumes on all wines at globally competitive and sometimes negotiable pricing. Pricing on whites currently represents an uptick versus 12 months ago but is negotiable, including if buyers are also able to take red wines in package deals. Inventory of 2023 red wines is supplemented by large 2022 carryover and pricing is softening. Spain's sulfated grape must and GJC prices tracked the autumn uptick in bulk prices but remain globally competitive. Loadings are proceeding slowly, emblematic of lack of retailer need, but consumer confidence is trending upward into 2024.

### *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*

## 2023: The Year That Was

**Italy entered 2023 having experienced a good-sized 2022 crop of approximately 50 million hectolitres. The buying campaign for 2023 wines commenced sluggishly, symptomatic of the retail sales slowdown through 2022 – amid high grocery price inflation across Europe and North America – as well as buyer wariness of holding excess inventory when input costs were at such elevated levels. A shortage of glass bottles, cartons, labels and closures also hindered wines moving through the supply chain – an issue particularly felt by Pinot Grigio DOC and Prosecco bottlings, which slowed markedly toward the end of 2022.**

The first quarter of 2023 was not as slow for wine sales in Italy as feared, with improving glass bottle supply releasing pent-up bottling: in January, Prosecco bottlings reached their highest monthly total for six years, Pinot Grigio DOC bottlings were relatively robust in January and then up 7% in February versus the same month of 2022. Both saw bottlings rise in March. By April, generic whites were experiencing strong demand and supply of low-alcohol sparkling bases was growing highly limited, leading to some enquiries in Spain. High-quality and premium appellated red wines were also preforming relatively well; for example, Valpolicella reds were selling robustly with quotations at their highest level in ten years.

*See next page for more on Italy.*

Market slowness really became marked through the second and third quarters of 2023 – in Italy as in all major wine-producing countries. Headline energy costs and annual inflation were trending downward but grocery price inflation remained elevated in the UK, Eurozone and North America, squeezing consumers' discretionary spending in retail aisles and dragging back wine sales. Interest rates were being increased to combat inflation: the European Central Bank raised borrowing costs to their highest level since 2008 – a shock for European consumers and businesses long-used to negligible rates. "The new reality of lower sales, reduced cashflow, and less credit, is likely to hurt those companies eking by on little to no profit," we said in July, "and such companies make up a large proportion of the wine industry." In these circumstances, there was little prospect of demand expansion and instead the likelihood of a continued contraction for the foreseeable.

Prosecco, Pinot Grigio DOC, premium reds, generic whites and sparkling bases continued to outperform the rest of Italy's wine market, on which inventory – particularly of red wines – was significantly higher than it had been 12 months before. Pricing was largely stable. An increase in the UK's alcohol duty on still wines, taking effect from 1st August, dramatically boosted Pinot Grigio DOC bottlings in the preceding months, "while IGT Pinot Grigio is almost sold out across the country", we observed in July. On the other side of the coin, Prosecco bottlings slowed in the months leading up to August, as the UK's new duty regime included a lowering of levies on sparkling wines.

Meanwhile, from May onwards, Italy's growing season became highly turbulent. Following an unusually dry winter, the country experienced its wettest May for ten years: a full winter's precipitation fell in the space of three weeks, causing damage and outbreaks of mildew in many growing regions. In the sodden conditions, growers struggled to get into the vineyards to spray. By July, downy mildew was being forecast to have dramatically reduced the crop sizes of Abruzzo, Molise, Marche, Basilicata, Puglia, Umbria, Lazio, and Sicily. July and August subsequently brought a number of extreme heatwaves, solidifying expectations that 2023 could see one of the shortest Italian crops for some decades, particularly in central and southern parts. "Quotations on Italian bulk wine pricing are rising," we said in August, "but this is more indicative of producers now wishing to keep hold of their wine rather than any increase in demand". This hemmed in wineries who, on the one hand, had to provide stable pricing or even special discount offers to retailers in order to sell them volumes, while, on the other hand, dealing with heightened producer price expectations.

As the harvest got underway in August and the extent of the crop shortfall became more apparent – potentially the shortest in 50 or 60 years – generic whites, sparkling bases, concentrates, rectified musts and – later – generic reds experienced a significant upswing in demand and prices consequently rose. The short supply of generic white especially forced many operators to source in Spain, experiencing its own crop shortfall but to a far lesser extent than Italy.

On other items, the harvest turbulence simply fed into the macroeconomic headwinds to inject even greater hesitancy into the market – "with every week that passes," we said in October. For Italy's main DOC and IGT wines, companies were closing deals at similar prices to the previous year, revealing that, behind the harvest panic, lay a continued softness in volume demands from distributors and retailers – or at least pushback against paying more – and, on reds, some good 2022 carryover levels. Price rises did occur on DOC wines that had experienced large 2023 shortfalls, such as Montepulciano D'Abruzzo and Chianti. Prosecco and Pinot Grigio DOC bottlings continued to proceed stably versus 2022 levels – as ever, seemingly well-insulated against market tribulations

# 2024: Looking Ahead

In November, the Unione Italiana Vini (UIV) Observatory, Ismea and Assoenologi jointly estimated an Italian harvest in the range of 38-40 million hectolitres, i.e., a shortfall of approximately 25% versus the prior year's crop. Unsurprisingly, prices on a range of Italian wines have risen.

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Italy comes into 2024 possessing a significant shortfall of generic white wines and sparkling bases, especially from central and southern regions which suffered most from the challenging growing season. There is also a nationwide lack of entry-level whites and entry-level reds in general; supplies of IGP Pinot Grigio and varietal whites are also limited. The short crop is also expected to have reduced 2023-vintage Prosecco and Pinot Grigio DOC supplies: if demand for these wines remains stable, there is the possibility of price upticks.

Higher pricing on some Italian wines has seen bottling companies struggle to close contracts with European and domestic supermarkets. "Asking for bulk wine price increases at a time of reduced sales and consumer purchasing power is highly difficult", we noted in November. Industry optimism is thus hard to come by, although the macroeconomic outlook at the start of 2024 potentially appears brighter than it did 12 months before.

Italy's domestic inflation rate experienced its eighth-consecutive monthly fall in December, coming in at just 0.59% versus 10% in January 2023. The UK inflation rate came into December under 4%, well below January's 10.1%. Germany's consumer price inflation ticked up from 3.2% to 3.7% in December after five consecutive months of falls, but this still represents a significant decline from 8.7% in January 2023. This tracked the Eurozone inflation rate, which rose from 2.4% to 2.9% in December, but was well down from 8.6% in January 2023.

Eurozone consumer confidence, meanwhile, ended 2023 at a 22-month high, Italy's at a six-month high and the US and Germany's at a five-month high. In the UK (according to GfK research), confidence was at its joint-highest level since the start of 2022. Although the US Federal Reserve, Bank of England and European Central Bank's benchmark interest rates remain steady at elevated levels, they are expected to decline slowly through 2024. Could these improved metrics signal a better year for sales? The wine industry in Italy, as around the world, will be keeping its fingers crossed.

## *Key Takeaways*

Generic whites and reds, and sparkling bases, are in particularly short supply on Italy's bulk market after a 2023 crop down potentially as much as 25% versus the prior year. Some bulk prices have consequently risen and wineries are struggling to pass these upticks on to retailers understandably pushing back against price increases in a time of low consumer confidence. DOC and IGT wines (except IGT Pinot Grigio), appellated wines and non-generic reds feel in better supply than generic wines and varietal whites, and seeing less upward price pressure. While there is pessimism about sales for the year ahead, some economic barometers are more positive at the start of this year than they were at the start of 2023.

## *Ciatti Contact*

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

# South Africa

## *Time on target*

## 2023: The Year That Was

**South Africa came into 2023 having experienced a 2022 crop slightly below the ten-year average at 1.37million tonnes. Consistent post-harvest international demand for the 2022 varietal whites meant supplies of these wines were running low by the turn of the year, while strong domestic demand for Dry Red had reduced its supply and increased its price to an uncompetitive level from an international perspective. Rand export pricing on all but Dry Red was stable and competitive.**

January and February saw good levels of international buyer activity on the bulk market as conservative buying on their part through the final months of 2022 – in response to a slowdown at European retail amid high grocery price inflation and rising interest rates – meant they required extra batches to cover the gap to the 2023 vintage. Greater hesitancy in buying was highlighted by SAWIS data showing that South Africa's total wine export volumes were down 10% in the 12 months to January 2023 versus the prior year.

Domestic demand remained strong throughout, however, driven by price competition between wineries and improved logistics that enhanced access to traditional beer-drinking areas. Domestic sales in the 12 months to January were in fact 60 million litres greater than they were the year before, and – totalling 450 million litres – easily exceeded export's 355 million litres, a reversal of the norm. Where domestic buyers could no longer source Dry Red, they switched to Pinotage; an uptick in domestic demand for Dry White meant, in turn, more requests for entry-level Chenin Blanc.

The move by domestic buyers to cover themselves with Dry White was partly stimulated by expectations of a shorter 2023 crop following a challenging growing season. Dryness during budding and then again at ripening led to uneven, sometimes lighter bunches that were then rained-on significantly in the final month of harvest, suffering some disease outbreaks. The upshot was a crop of 1.18 million tonnes, down 14.5% from the already below-average 2022 crop and one of the smallest of the past decade. Colombard and Chenin Blanc yields were particularly affected by the conditions, reducing supply of the resulting wines and, in turn, Dry White and generic rosé – all wines heavily pre-allocated. Another complication came after picking: South Africa's "load-shedding" programme of electricity-saving rolling blackouts sometimes interrupted wineries during crush, winemaking and bottling, requiring them to use generators powered by expensive imported petrol/diesel.

With grocery price inflation peaking in Europe – 17% in the UK and 20% in Germany as of April – and interest rates rising in a bid to dampen such inflation, reining in consumers' discretionary spending, European demand for South Africa's new vintage started more sluggishly than in previous years. The first quarter of the year – often peak time for contracting the new vintage – was unusually quiet. By mid-April there was some urgency on the market again, mainly – given slow retail sales and the cost of doing business – for incremental volumes for quick loading. This buy-late, ship-quick approach was assisted by greatly-improved shipping speeds and container availability versus the previous two years. As had become routine, Sauvignon Blanc and Chardonnay led export demand, while varietal rosé felt in supply-demand balance as speculative 2023-vintage production was limited following slow rosé sales in prior years. International demand for varietal reds was quiet; good 2022 carryover levels ensured supplies remained stable despite the shorter 2023 crop.

Rand export pricing ticked up between the 2022 and 2023 vintages by approximately 5-10%, reflecting firm domestic demand but, foremost, the significant increase in the cost of imported inputs in the prior 12 months due to the Rand's weakness against major currencies. Other than in the immediate wake of COVID-19's arrival in 2020, the

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Rand was at the weakest level it had been in 10 years, owing to global macroeconomic headwinds and souring business confidence in South Africa amid the load-shedding. Such weakness largely offset the Rand price rise to the international buyer, so that South Africa's export pricing on Sauvignon Blanc and Chardonnay were potentially the world's most competitive.

As retail sales slowed to a crawl in key markets, and inventory lingered at distributors and retailers, mid-2023 grew very quiet in terms of international buyer demand, both in South Africa and around the world. SAWIS data for the 12 months to June 2023 showed South Africa's wine export volumes down 20% from the year before, to 332 million litres. Shipments to leading markets such as the UK (-12%), Germany (-18%) and Canada (-22%) had significantly reduced. Domestic demand remained stable at an elevated level after the December-April surge, with Dry Red and Dry White commanding robust pricing and Dry White, Chenin Blanc and Colombard running short on the open market. SAWIS data showed domestic sales up 7% in the 12 months to July, driven by retail sales of entry-level bag-in-box wines.

"The domestic market's strength, the shorter 2023 crop and the [longstanding] greater production of white wine versus red," we said in September, "have helped insulate South Africa against some of the inventory and storage headaches seen in rival producer countries." Less storage space in South Africa than in other countries over the years had led to a more streamlined and efficient industry, traditionally possessing less excess inventory than its rivals – "a particularly welcome attribute at this time of global oversupply". Some 754-780 million litres of wine was produced from the 2023 harvest, "roughly equal to the combined domestic and international sales of the 12 months to June". This aided the stability of South Africa's export pricing – it did not soften, but nor did it rise despite numerous upward pressures, not least the steepling cost of inputs.

International demand through the second half of the year mainly consisted of longstanding European customers securing incremental volumes; SAWIS data showed a 27% decline in South Africa's wine export volumes in the 12 months to September. But demand did rise in the final quarter – particularly on the remaining 2023 white varietals – potentially due to the very short crop in Italy and its ramifications across Europe. By the end of the year, 2023 Chardonnay and Pinot Grigio were sold out, with Sauvignon Blanc only available in limited quantities.

# 2024: Looking Ahead

South Africa comes into 2024 likely possessing its lowest carryover stock level for many years, following the shorter 2022 and 2023 crops, strong domestic demand for generic reds and whites, and steady international buying of varietal whites. The 2023 varietal whites are close to being sold out, but some extra volumes might find their way onto the spot market in the early weeks of the year: prospective buyers should therefore get in touch with us directly.

The year 2023 will be remembered as one in which there was a stark reversal of South Africa's traditional domestic/export sales dynamic, with strong demand at home seeing domestic shipments exceed flagging exports by quite some margin. It remains to be seen how 2024 will compare, but the uptick in international buyer demand in the final quarter of 2023 and greater economic positivity in key European and North American markets heading into the new year suggest there could be some re-closing of this gap in domestic/export performance.

The UK inflation rate came into December below 4%, well below January's 10.1%, while Germany's consumer price inflation rate ticked up from 3.2% to 3.7% in December after five consecutive months of falls, but still represents a significant decline from 8.7% in January 2023. This tracked the Eurozone inflation rate, which rose from 2.4% to 2.9% in December, but was well down from 8.6% in January 2023. Eurozone consumer confidence ended 2023 at a 22-month high, the US and Germany's at a five-month high; in the UK (according to GfK research), confidence was at its joint-highest level since the start of 2022. Although interest rates remain steady at elevated levels, they are expected to decline slowly through 2024. It is hoped these improved metrics signal a faster sell-through of wine on retail shelves this year.

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The Western Cape's 2024 harvest will soon be underway. The 2023 winter was wet, while further heavy rainfall and flooding in September, at the start of spring, prevented many growers from getting into the vineyards to spray. (Frost pockets also occurred in September.) As well as filling Cape Town dams to 100% capacity, there was a feeling that the rainfall might delay the growing timetable. However, summer commenced dry and sunny, with daytime temperatures regularly exceeding 30°C. This helped return vineyards to a more normal schedule, with the possibility of it moving ahead if the heat continues. Fewer new plantings than planned in recent years – owing to inflationary input costs and the more muted export demand – is likely to drag back crop potential this year and in those to come, but there is currently confidence of a 2024 crop at least average in size.

Export pricing for the 2024 wines will only be determined once the crops at home and around the Southern Hemisphere have become clear, but there is a feeling among suppliers that a small upward adjustment is necessary to offset inflationary costs, just as occurred between the 2022 and 2023 vintages.

## *Key Takeaways*

South Africa's supplies of 2023 varietal whites have become limited but some wines may pop up on the spot market from mid-January: get in touch with us directly to harness any opportunities. Varietal reds remain in good supply and offer an attractive price-quality opportunity. Export pricing on the 2023 wines has remained stable, but pricing may tick up slightly between vintages – as last time – to offset inflationary input costs. Pricing will be determined once the 2024 Southern Hemisphere harvests are clearer: there is a hope the Western Cape's crop will be at least average-sized.

## *Ciatti Contacts*


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


# Australia & New Zealand

## *Time on target*

## 2023: The Year That Was

**Australia recorded a 2023 harvest of 1.32 million tonnes, down 26% from the long-term average of 1.78 million tonnes. This was the smallest crop produced since the year 2000, evidenced by a smaller intake from wineries as volumes of surplus red wine remained long. Industry experts were ideally hoping for an even smaller crop to offset the inventory levels – which, as of 30th June 2023, were estimated at 2.2 billion litres, a 15% increase on the 10-year average.**

The challenging 2022-2023 growing season experienced very wet La Niña conditions, the third consecutive growing season to do so. Heavy rains brought flooding to river systems in late 2022 along with widespread disease pressure. Limited areas of vineyards were under water for a period of time. Some varieties particularly felt the harsh effects of the La Niña weather conditions and disease pressure. The volume of Shiraz crushed, for example, saw a reduction of 20%, Chardonnay 29%. The overall average purchase price for grapes (red and white combined) increased by 2% to AUD642/tonne – this was reflective of the cool-climate material processed. Replanting and grafting to white varieties were seen to some degree.

*See next page for more.*

By contrast, the 2023-24 growing season started with Australia's driest September on record. Mid-month, the country's Bureau of Meteorology officially announced the end of La Niña and the start of El Niño. The weather phenomenon's characteristic dry conditions, welcomed by growers, has since been seen intermittently, together with higher rainfall events and some humidity.

Official figures from Wine Australia's Export Report for the 12 months to 30th September showed that the value of Australia's wine exports fell 11% to AUD1.79 billion, while volumes also dropped by 4% to 604 million litres. This decline is mainly attributable to a global reduction in wine consumption and the high cost-of-living pressure. Global wine production has been higher than consumption in recent years and 2023's output is expected to have exceeded demand by approximately 10%, even with output coming in below average for the fifth year in a row. Australia's total bulk wine exports declined 4% in value to AUD474 million, but volumes increased by 5% to reach 416 million litres.

Australia remains the most price-competitive red wine supplier in the world. White wines remain steady, with additional plantings of Sauvignon Blanc and Pinot Gris coming online in 2024.

The China-Australia relationship steadily thawed through 2023. Frequent talks were held between diplomats from the two countries and Australia's Prime Minister, Anthony Albanese, visited China in November – the first visit by an Australian leader since 2016. China's sanctions on coal, beef, timber and barley imports from Australia have been wound back, paving the way for wine to be next in line. Containers of Australian bulk wine that had been held by customs for many months at Chinese ports starting experiencing higher clearance rates.

In **New Zealand**, serious weather events connected to La Niña were experienced early in 2023, including heavy rainfall and then Cyclone Gabrielle in February. Disease pressure was evident, notably in Hawke's Bay and Gisborne which received the brunt of these wet conditions.

The country's 2023 harvest was officially recorded at 501,000 tonnes, down 6% from 2022's record 532,000 tonnes – but still large. This second consecutive crush in excess of 500,000 tonnes assisted wineries in holding plenty of stock after previous smaller vintages had strongly increased demand and pricing. With the increase in supply came downward pressure on Sauvignon Blanc pricing throughout 2023, and there remains good supply.

In the 12 months to September 2023, the value of New Zealand wine exports recorded a 13% increase, to NZD2.29 billion. Bottled wine export volumes increased 7% to 162.4 million litres, whilst bulk wine exports grew 13% to 132.3 million litres. The US remains New Zealand wine's most important market in terms of export value, accounting for 36% of the total, followed by the UK at 22%. A Free Trade Agreement between New Zealand and the UK, which entered into force in May, eliminated UK import tariffs on 97% of products from New Zealand, including wine.

A frost event occurred in late October in the areas of Nelson and Marlborough, two of the main Sauvignon Blanc grape-growing regions.

# 2024: Looking Ahead

**Australia**'s wine industry will experience another challenging year as suppliers continue to push sales of red wine in order to clear long inventories. Another vintage smaller than the average is expected as the industry sees downward pressure on red grape pricing and wineries reduce their red grape intake. Growers are looking towards producing more in-demand whites – Chardonnay, Sauvignon Blanc and Pinot Gris volumes are anticipated to be larger in size in 2024, potentially softening prices on these varieties.

El Niño is expected to bring drier conditions with a long, hot summer anticipated – a relief following the heavy disease pressure of 2023. Early January has so far brought intermittent rain and humid weather. Water supplies are high and dams are full.

*See next page for more.*

The Australian wine industry's trade corridors with China are expected to re-open in 2024, which should provide an uptick in red wine sales across all price points and regions. This could potentially be short-lived, however, considering the reductions in China's annual wine consumption in recent years – a decline running at 260 million fewer bottles each year – and the country's increased penchant for French and Chilean material in Australia's absence. Consequently, Australian wine shipments to China may spike quickly and then fall back.

Australian wineries remain positive that the Chinese market will re-open to them before November – the scheduled end date for the Chinese government's review of the tariffs – but are mindful that it may take some years for the peak export volumes seen in 2018 (178 million litres) to be realised again. Many are also keeping a watchful eye on the progress of the Australia-EU Free Trade Agreement: the two sides were unable to finalise a deal in October, but negotiations remain ongoing.

Some limited frost episodes in spring are likely to lead to a reduction in the 2024 crush figure in certain regions of **New Zealand**. The country's crush size is expected to be smaller than its two prior vintages, which were both in excess of 500,000 tonnes. The long availability of 2023 Marlborough Sauvignon Blanc will apply further downward pressure on pricing as vintage nears and suppliers seek to make tank space. Marlborough Sauvignon Blanc remains a key product for export to the US and UK; demand from these two markets is expected to continuing growing in 2024.

## *Key Takeaways*

**Australia comes into 2024 continuing to be the most price-competitive red wine supplier in the world; suppliers will remain pushing for red wine sales in order to clear long inventories. The white wine market is more stable. Growers are seeking to up their Chardonnay, Sauvignon Blanc and Pinot Gris volumes in 2024, and additional plantings of Sauvignon Blanc and Pinot Gris are coming online this vintage. Another harvest total short of the average is expected. Wine trade corridors with China are expected to re-open before the conclusion of the Chinese government's review into its tariff regime in November. Two consecutive large harvests in New Zealand applied downward pressure on Marlborough Sauvignon Blanc prices through 2023, and into 2024 as the new vintage approaches. New Zealand's 2024 crop is expected to be smaller versus the prior two years due to some spring frost episodes in certain regions.**

## *Ciatti Contacts*

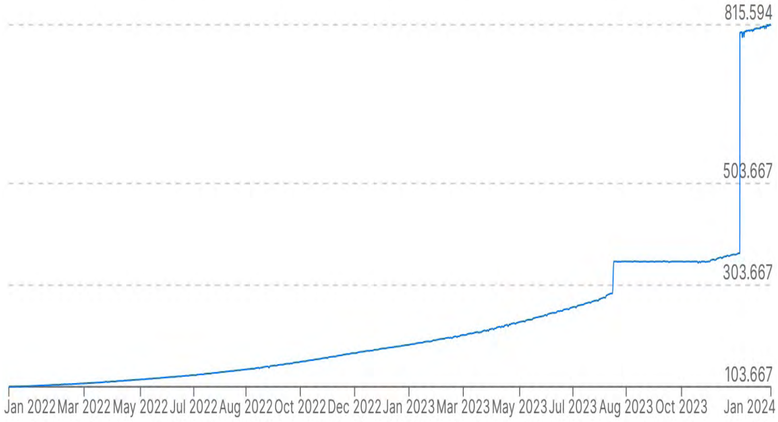

Matt Tydeman
T. +61 8 8361 9600
E. matt@ciatti.com.au

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


# Currency Review

**Source: XE Currency Converter**

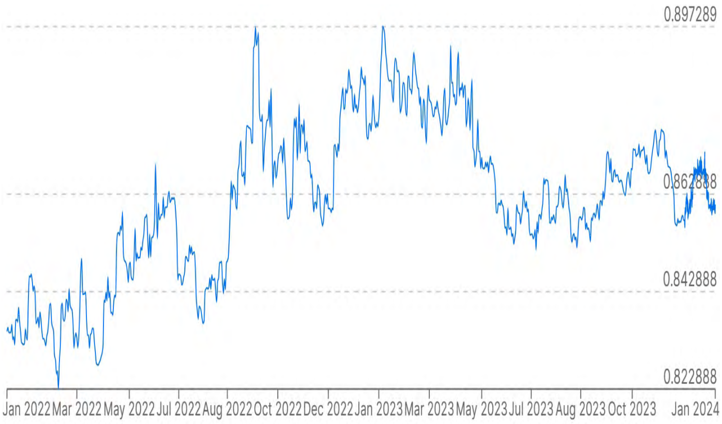

**Chilean peso against the US dollar**




**Argentinian peso against the US dollar**

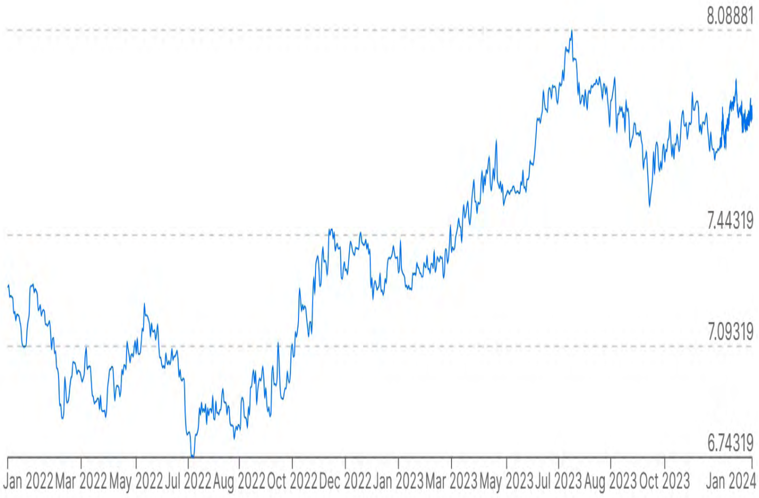
Through 2023 the Chilean peso remained stronger than its CLP1,000/dollar level of mid-2022, when there had been a perfect storm of lower copper prices, a new government threatening tax increases, and a referendum on a new constitution. Tough US economic data kept the peso under CLP800/dollar for the first eight months of 2023, before falling copper prices and a cut in interest rates at home, plus improved sentiment in the US, weakened the peso into the CCLP850-920/dollar range. The Argentinian peso was for a long time held in a "creeping peg" of controlled devaluation versus the dollar, steadily weakening from ARS100/dollar in January 2022 to ARS300 in August 2023. Following August's presidential primaries, the government devaluated the peso to ARS350-365/dollar where it was held until the new government – led by anti-establishment outsider Javier Milei – devaluated it to ARS800/dollar on 13th December, closer to the unofficial rate of ARS1,000/dollar. Five years ago, in January 2019, the Argentinian peso was worth ARS37/dollar.


**Euro against the US dollar**

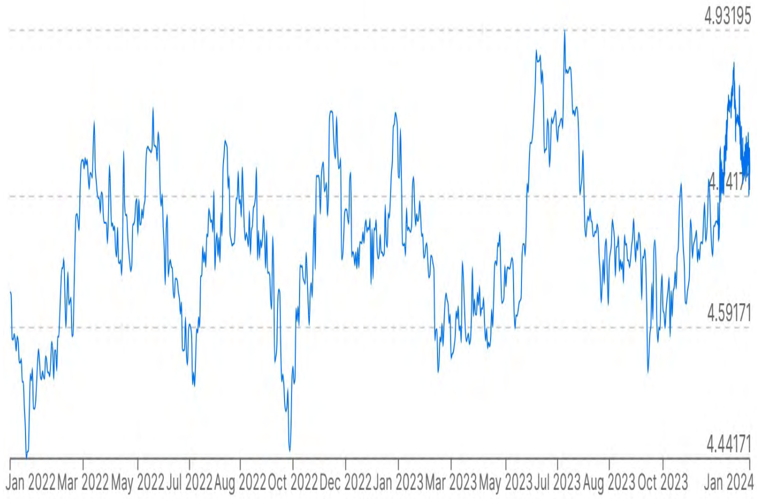



**Pound sterling against the euro**

The euro was more stable against the US dollar in 2023 than in 2022, when the Eurozone's relative slowness in combatting inflation with interest rate rises, and energy cost shocks across Europe following the outbreak of the Russia-Ukraine conflict, saw the euro weaken markedly versus the dollar. The euro regained some equilibrium in 2023, as US and Eurozone economic measures and performance tracked one another more closely; the euro settled back to its pre-pandemic normal of EUR0.87-0.95/dollar after a four-year absence. Pound sterling was generally more stable and stronger against the euro in 2023 than it was in 2022, owing to greater political stability at home and the Bank of England's concerted increases in interest rates to their highest level since 2008, outpacing the Eurozone's rises in a bid to get inflation – running at a 41-year high of 11.1% in November 2022 – under control.




**Chinese yuan against the euro**




**Chinese yuan against the Australian dollar**

The Chinese yuan's strengthening against the euro through 2021 and early 2022 – powered by economic growth at home while the Eurozone emerged slowly from the pandemic and then faced the Russia-Ukraine conflict – began to unwind in the second half of 2022 and through 2023. Chinese consumption slowed amid a strict zero-COVID policy – only ended in January 2023 – and a property downturn, while exports declined by 7.7% in 2023. The yuan consequently ended the year in its pre-pandemic normal range of CNY7.60-7.90/euro versus CNY6.80/euro in mid-2022. The yuan's exchange rate with the Australian dollar remained as volatile in 2023 as it was through 2022. The yuan was touching CNY5.00/A. dollar in July, its weakest level for two years, then concertedly rallied to CNY4.55/A.dollar by October, before ending the year somewhere in between, at CNY4.85/A.dollar – again, in a pre-pandemic normal range.


**Pound sterling against the Australian dollar**


**Rand against the euro**

Greater political stability in the UK through 2023, and a concerted rise in Bank of England interest rates, helped strengthen pound sterling to its strongest level – GBP0.50/A.dollar in August – versus the Australian dollar since the pandemic's arrival in March/April 2020 (itself the strongest since before 2016's Brexit referendum). A weaker UK economic outlook versus the US and Eurozone, and firm interest rates in Australia, helped soften pound sterling slightly versus the Australian dollar through the rest of the year, ending it at GBP0.53/A.dollar, still strong in the context of the past eight years. The Rand through 2023 continued its trend since early 2022 – a steady weakening against major currencies – as South Africa's energy crisis, namely a longstanding "load-shedding" programme of rolling power cuts to cope with ongoing electricity shortages, took its toll on investor and business confidence. The rand exceeded ZAR21/euro in June, its weakest level for at least nine years, before ending 2023 at ZAR20.20/euro.

# Vivid wines with Wine Shield

**Beyond wine flavor, aroma, and structural enhancements, oak barrels are also known preservers of wine quality. Oak tannins and other phenolic compounds interact with wine taste-, aroma-, and color compounds to further stability and ageing potential. Color stability is essential, because colour is likely the first characteristic perceptible to consumers. Through oak tannins and other phenolic compounds, Wine Shield liquid oak extract contributes to wine color stability while keeping wines in their prime. Color stability is a key function within the broader set of interactions between wine and Wine Shield, and this article will explore a few common color stabilising mechanisms.**

Known chemical reactions, sometimes fuelled by heat or light, render certain color compounds sensitive to degradation. As they degrade, the colours can shift towards less appetising hues. In white wine, phenolic compounds like flavonoids, including catechins and quercetin, can become oxidised. Similarly, stilbene and resveratrol oxidation can impact a white wine's overall stability and colour. The oxidised phenolic compounds impart objectionable brown hues to white wines. Wine Shield, containing potent antioxidants, serves to scavenge harmful oxidative species before they impact these molecules.

In red wines, anthocyanins may be the most widely known originators of red and purple hues. Like the flavonoids in white wines, these pigments degrade over time. The resulting brown and brick-orange hues, and loss of vibrant reds, are unappealing. Fortunately, hydrolysable tannins exhibit an affinity for anthocyanins. Oak tannins can stably combine with these pigments to shield them against oxidation and precipitation. Additionally, Wine Shield contains ellagitannins. Ellagitannins demonstrate antioxidant behavior to neutralise free radicals that could interact with anthocyanins. The antioxidative properties of Wine Shield can offer a first line of defence in protecting pigments from discolouration.

Antioxidants are not the only defence mechanism oak products offer. When oak tannins polymerise with wine polyphenols, larger and more stable molecular structures can deliver structure and stability, including colour stability. Wine Shield, with its diverse phenolic compounds, has the potential to contribute to red wine copigmentation complexes. Copigmentation involves interaction between anthocyanins and certain colourless phenolic compounds. Stable copigmentation complexes intensify red and purple hues to amplify the visual appeal of a red wine. Thus, this complements Wine Shield's antioxidant capacity. Color intensity is not the only benefit of copigmentation, because it can also inhibit anthocyanin precipitation. This means copigmentation can result in a more stable and uniform color profile over time, not to mention the improved ageing potential.

The common factor in both white and red wine color deterioration is oxidation, the very thing Wine Shield fights so effectively. Furthermore, ultraviolet light exposure can deteriorate both types of wine. To mitigate color deterioration, winemakers can minimise oxygen exposure, use antioxidants like Wine Shield, and selectively fine and filter wines. Temperature- and light-controlled storage conditions are also highly advisable, but none of these factors are absolute. Wine Shield can be a strong tool to further mitigate wine color instability. The best defence against discolouration combines chemistry with an ideal environment.

*Fearless Contact*


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

T. + 1 800/288-5056
E. Sales@johnfearless.com

www.johnfearless.com www.stoaktechnologies.com

# *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. +905 933-8855
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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