



# CIATTI

GLOBAL WINE & GRAPE BROKERS

## GLOBAL MARKET UPDATE – JANUARY 2015 VOLUME 6 ISSUE NO. 1

Good morning and welcome to the start of 2015, at least on a calendar basis. While we all tend to work harvest to harvest, the Ciatti World Report hopes to capture the ongoing fluctuations in the wine business from a supply side month to month around the globe!

As we did last year, we would like to offer you this first report of 2015 as a primer to what may be next for us in the global wine business. The year of 2014 had many bumps and grinds along the way, with larger or perhaps larger than expected harvests in some areas of the world, while in a select few markets the supply stream was down a bit. The great news is that the wine business continues to grow year over year, as people continue to savor our wines the world over. Regardless of the growth in the Craft Beer and Spirit categories, we continue to attract drinkers who see the value in the lifestyle that wine offers them on a daily basis. We have often stated that we may have a bit of oversupply today (country and varietal dependent of course), but we also have increased consumption, just not at the level that can keep up with the volumes created between 2012-2014. To that end, we need to drink our way through it collectively. Luckily, consumers of our wines are looking for us all to continue to produce quality wines for many years to come. We at Ciatti will continue to do our part in moving us towards a balanced position through brokering or drinking or both!!

Finally, remember, this January 2015 World Report offers a consolidated view from the year that was, with some predictions for the year that may be. So, sit back, enjoy an early cup of coffee and start the year off with us!

We hope you all had a very Merry Christmas and a Happy New Year, and we look forward to a fruitful 2015 (pun intended!)



1101 Fifth Avenue #170 San Rafael, CA 94901  
Phone (415) 458-5150  
Fax (415) 458-5160

## AUSTRALIA

### THE YEAR THAT WAS 2014

The beginning of the 2014 vintage was characterised by the typical Australian summer: the major growing regions experience extreme warm weather with five consecutive days over 42°C causing a loss of 5-20% in certain regions and sparking bush fires. Other climate factors including windy conditions and heavy downpours which caused a two week pause in the rise of Baume levels. The warm weather coupled with the heavy rain events cause a highly condensed intake of fruit in a short period of time.

The 2014 harvest was 1.70 million tonnes, down 136,000 tonnes (7% decrease) which was mainly attributed to lower yields in premium areas caused by cool weather during spring. Frost also caused some damage and loss in certain regions. The weather conditions did not have any severe impact on the quality of fruit produced with many producing high color, favourable parcels.

Since April 2013, the Australian Dollar has fallen from a high of 1.05 to currently 84.06 cents against the US dollar, where it sits now. The Australian Dollar has also softened against the UK Pound, now down to 0.53 cents from a high of 0.69 in March last year. Australia has been successful in signing a number of Free Trade Agreements with Asian countries, including Japan, South Korea and China. These agreements will all lead to a reduction of tariffs over a period of time for both bulk and bottled wine. There were also several winery acquisitions this year, along with the near sale of Treasury to US private equity firm.

### PROJECTIONS FOR 2015

High inventory levels of 2014 reds namely irrigated Shiraz and Cabernet along with good stocks of regional/premium 2013 and 2014 wines will cause concern for a number of suppliers and their future intakes of 2015 fruit. Next year's harvest is expected to be another reasonably good sized crush but many will reduce their intake to alleviate the pressure on tank space. Weather conditions have been overall good with small patches effected by hail and frost events. Demand for 2015 Pinot Gris and Barossa reds are expected to continue with prices softening on SEA Shiraz, Cabernet and Merlot.

## NEW ZEALAND

### THE YEAR THAT WAS 2014

The top New Zealand varietal, Sauvignon Blanc, received cooler temperatures in Marlborough, which caused a slower ripening period for vineyards. Wet weather followed, notably in April causing difficulty in accessing vineyards with heavy machinery. This rain period caused a defining line between grape quality with a large number of grapes being picked prior to the rain with pricing initially offered in the high NZD \$3 to low \$4 per liter range. Pricing has softened throughout the year, with many parcels now in the

high NZD \$2 to mid \$3 per liter range. The 2014 harvest produced 445,000 tonnes, with Marlborough making up 329,500 tonnes of this value. The main varietal Sauvignon Blanc represents 72% of varietals or the equivalent of 310,000 tonnes of the total crush which is an increase of 36%. Pinot Noir taken in stands at 36,500 tonnes, 8.5% of the total crush and up by 15%. Exports of continue to rise, with a 10% increase in volume, up by 190 million liters, providing a value of NZD \$1.33 billion.

### PROJECTIONS FOR 2015

We expect demand for Marlborough Sauvignon Blanc to continue as export volumes rise, notably to the UK as bulk material to be packaged in country. While demand is still high, abundant options are available for buyers to choose from, as many compete to move their material before next year's crush. The lack of rainfall will have impact on the 2015 crop with water beginning to be a concern and vine growth not as abundant, this could lead to problems in ripening if large crop loads are on the vine. Pinot Noir is harder to obtain and priced high accordingly but we are seeing more options becoming available throughout the year

## CALIFORNIA

### THE YEAR THAT WAS 2014

2014 brought a third large harvest to California vineyards, even with the current drought conditions. This shows how prolific the current plantings are and the farming ability of California growers. This was also seen in Washington and Oregon, too, and is expected to continue. Sales in the US market saw two different fronts emerge. Everyday/value wine brands have slowed. This encompasses the larger wineries, and their generic labels and larger format product lines. On a positive note, premium wine sales continue to rebound and show solid growth. This growth benefits both mid-sized and some smaller wineries, along with coastal growers of premium varietal grapes. Many new creative labels continue to hit the shelves, aside some of the older and tired brands of the past. The market remains very competitive.

### PROJECTIONS FOR 2015

Some of the same trends seen and discussed throughout 2014 should continue in 2015. Consumer trends for exploring new wine products, varieties, appellations and packages continue to breakdown traditional brand loyalty and the industry previously maintained for decades. More retailers and distributors will continue their search and sales of private and control labels, further eroding the branded concept. Innovation is the key to the future for many wine marketer successes as we move into 2015. Competition from other alcohol related products, along with alcohol free drinks, will vie for a share of the US market. More, continued and robust industry growth will be needed in order to utilize many of the new vineyards soon to be in production.

## CHILE

### THE YEAR THAT WAS 2014

The 2013 crop report was 989.6 million liters, down 22.8% from the previous year, due to a big frost that affected most parts of Chile. The port strikes during the first couple of months in 2014 slowed exports and decreased sales significantly. This situation dramatically changed in April due to the forecasted west port strike in the US, which increased shipments for a period of time. The Northern grape regions of Chile are facing another year of significant drought, affecting grape production for wines and Pisco, as well as other crops such as table grapes, avocados, and other fruits. As per several customers and experts, the 2014 wine quality was above average. One reason for this was the big frost that reduced the crop and made grapes gain in color, concentration, round tannins and full body. White wines were short and prices did not decrease, as demand was stable for the entire 2014 year.

### PROJECTIONS FOR 2015

Initial expectations were for a small/medium 2015 crop after the big frost last year, but vineyards are now looking to have a fair amount of fruit and the crop looks to be bigger than expected. Spring has been cooler than normal with only a couple of rains which caused some fear for Oidium problems in the 2015 harvest. The last rains tremendously affected the Cherry production. 2015 Grape prices are lower than the previous vintage and demand is mainly for white varietal grapes. Wine demand has been very slow in the domestic market, mainly for red wines. We continue to see international demand for small lots, particularly white wines and good quality for value wines. The lower expected prices for 2015 crop will be only available for these wines after July 2015.

## FRANCE

THE YEAR THAT  
WAS 2014

The 2013-2014 French bulk wine campaign started at full pace as a consequence of the very small overall 2013 crop (42.4mHL), combined with low carry-over stock. AOP producing regions (Cotes du Rhone, Bordeaux/South West, Burgundy) were the most affected areas, whereas the Languedoc region produced a good-sized crop. The market has been under pressure for varietal and generic white/rosé wines. Languedoc became the only region able to supply these types of wines and prices increased gradually until harvest. The generic and varietal red market was less affected than that of white wines, with a balanced supply and stable pricing from spring to harvest.

Smaller harvests in other European countries allowed France to regain its leading position as the 1st producer in the world for the 2014 vintage. However, when analyzed, this positive crop result (46.5mHL, up 10% vs. 2013) can be attributed to the volume increase in AOP regions, which saw a small 2013 crop. Languedoc, on the other hand, produced a disappointing 12.2mHL (down 10% vs. 2013), due to a series of adverse weather conditions throughout the year.

### PROJECTIONS FOR 2015

Languedoc wines were contracted early in the bulk sales campaign (60% of the total volume was already sold in December), due to the shortage and increasing price trend (10 to 20% increase vs. 2013). We are already seeing the first signs of a potential shortage for white wines and red wines with high alcohol/color. The market for rosé wine should remain stable.

Although it is difficult to predict what is to come in 2015, it can be said that quick decision-making will be needed. The market will be described as “first come, first served”. Average market prices for good quality varietal red wines will continue to increase (could reach 1 EUR/L as early as February). The limited varietal white wine inventory on the first-hand market is worrying buyers and leaving them with no other options if they don't have their needs covered by the beginning of 2015. If the current bulk supply situation remains in terms of price and availability, the French varietal wine market could be adversely impacted on a mid- to long-term basis, with potential market share losses on the export market in favor of New World producing countries. A new purchase pattern is already starting in France, with domestic buyers gradually switching part of their traditional French purchases to other European supply countries (Spain) and New World countries (South Africa, Chile, Australia).

## GERMANY

THE YEAR THAT  
WAS 2014

The 2014 German wine market was not much different from that of 2013. The general shortage and stable pricing continued through 2014. This is a positive trend for grape growers, who are able to obtain enough income to continue investing in their farms. Most wine marketers, however, would prefer a higher availability at a slightly lower price level. With 9.4 million hectoliters, the German yield was 11% above last year and 7% above average over the last five years. At least this should point to an easing of the situation but will bring no dramatic changes.

### PROJECTIONS FOR 2015

Contrary to what many believe, the world wine market doesn't so much impact the national German wine market. Over the last several years, bulk wine prices have gone up and down around the globe, while German wine prices stayed fairly stable to slightly increasing. Wine consumption in Germany is also stable to slightly increasing, at approximately 21 liters per capita. Of this total, as long as 9 liters per capita is German wine, it will be enough to balance the annual German wine production in 2015. This means, on the other hand, that the regulation of total vineyard size and grape production per acre implemented in Germany 14 years ago might not have been such a bad idea!

## ITALY

### THE YEAR THAT WAS 2014

The year 2014 wasn't great for Italy. Remaining 2013 vintage wine has been tough to sell, due to low quality stocks. A nice crop was anticipated for 2014, but after a very wet summer, results were disappointing. Heavy rainfall in both northern and southern Italy had many consequences on quality. Some vineyards received more than 50 days of rain in July and August. Even after a large buying campaign of sulfited must in Spain, along with

Purchases of rectified concentrate to increase alcohol levels, the 2014 vintage remained low in color and alcohol, with high acidity. Aside from the bubble effect of Prosecco, which remains active, Italian generic wine pricing is not as low as Spanish pricing, leaving many Italian suppliers feeling that they are losing historical markets (Russia, Eastern countries). German sparkling buyers have been unusually quiet on the Italian market. The domestic market crisis continues: most supermarkets have become discounters and there is a big "turnover" of labels that are on promotion for a certain time, and then disappear once the discount period is over. In this situation, the only light seems to come from the US, Canada and Northern Europe, where Italian wines remain popular.

### PROJECTIONS FOR 2015

It is hoped that the EUR/USD exchange rate continues on a downward trend in 2015. This could help to balance the loss of consumption for Italian consumers by better performing on the export market or increasing interest from non-Europeans to travel to Italy for nice wine and food pairings! Even if Spain remains cheaper in the entry-level category, their lower crop will not allow this to continue for long. Good quality wines are now becoming rare to find in Spain and Italy will be next in line for buyers. It is impossible to predict how the 2015 vintage will be, but short volumes could be detrimental for many companies.

## SPAIN

### THE YEAR THAT WAS 2014

2014 was a challenging year for Spain, after the huge/historical 2013 crop (+/- 53mHl), which was followed by a small 2014 crop (+/- 40-42mHl). The 2013 crop record figures in Castilla La Mancha were the result of perfect growing conditions and vineyard productivity after to the latest restructuration plans (vine training, irrigation, new harvesting machines). In 2014, however, bad weather conditions during the harvest period resulted in excess workload during a shorter period and the under-capacity to handle the large

amount of grapes harvested. Consequently, there were significant quality/alcohol issues and an abundant grape juice concentrate production. Bulk wine sales struggled to kick off, with most national and international buyers in a wait-and-see position, knowing that huge volumes were available and good opportunities were to come. Most bulk wine sales were made on a short-term need basis until spring, when market prices dropped. Just before summer, due to the slow bulk market and huge unsold inventories, the Spanish government threatened a possible forced crisis distillation at the cost of the winery. Consequently, huge sales occurred, with historic export buyers making an important comeback on the market, due to attractive pricing. This helped to contract important deals and empty enough cellars to halt the forced distillation plan.

### PROJECTIONS FOR 2015

With competitive pricing and enough supply for quality wines, Spain is making a nice comeback on the international bulk market and with a precise purchase strategy, it will likely be *the* place to source wine in 2015. Historical international buyers are back on the market and will be buying more wine in Spain, due to the fact that they won't be able to find it elsewhere, either for price or availability reasons. The market for red wines is competitive in terms of quality/price, but should go up smoothly and regularly throughout 2015 until the harvest season. White wine supply should remain abundant throughout the year, reaching a balanced position before the 2015 harvest. Pricing should remain very stable until spring/summer, when possible market opportunities may become available. The market for varietal wines has been and will remain very active and fast-moving, due to shortages in France and Italy. These categories might be sold out on a mid-term basis.

## SOUTH AFRICA

THE YEAR THAT  
WAS 2014

The 2014 harvest was an excellent harvest in terms of quality and volume. The largest harvest to date out of South Africa was recorded at 1,520,096 tons. Good quality grapes, wine and yields were achieved in all South Africa wine-growing areas. The bulk export trend from South Africa for 2014 was very different from that of 2013. Shipments in 2014 started off with a continuation of end-2013, where large volumes of 2013 vintage bulk dry white and generic rosé were still being exported. This even continued into the 2014 vintage, shipped from April to June 2014, in order to fulfil some long-term open 2013 contracts.

From around mid-year, 2014 bulk exports slowed down significantly. However, the combination of early 2014 vintage shipments for some “new” 2012/2013 buyers of South African wine, who continued to purchase bulk product in 2014, and the weakening of the South African Rand currency during the year, still makes South African wine very competitive globally. As a result, pricing has remained very consistent during the year. Stock levels by the end of November were above the levels of 2013, but more in line with normal average levels of previous years. Proportionately, though, red wine stock levels are significantly higher than those of white wine varieties.

## PROJECTIONS FOR 2015

Following the exceptional 2014 crop, South Africa had a very good and wet winter. Current conditions look promising for another good quality and above average crop for 2015. Normal winter conditions should result in a combination of good quality and yield in all areas. It is estimated that by the end of December, the 2015 crop should be about two weeks earlier than in 2014, so that harvest will be in full swing by the beginning of February. It is hoped that renewed interest in South African bulk wine at the end of 2014 will result in larger 2015 export volumes. A steady growing interest in South Africa from many “new” international buyers, especially for varieties that are not available in most other producer countries, is broadening the buyer-base and ensuring growth in South African bulk wine sales. The result is a slightly more stable and consistent market, and in turn, more consistent market-related pricing for South African wine.

All economic predictions show the South African Rand not strengthening, but rather, showing a continued weakening trend into 2015 against major currencies. In terms of area under vine, the uprooting of vineyards in lower yielding areas continues, while plantings in higher yielding areas facilitate volume growth. The net effect is the total South African area under vine decreasing. However, total annual crop size shows either a slight increase in a good year or at least an average crop, compared to crop sizes over the last three years.

## CONCENTRATE

### White Grape Juice Concentrate: International

Pricing of Standard White Grape Juice Concentrate has leveled off after a significant downturn globally, due to decreases in both winery and food beverage demand worldwide. Economic and political woes are still causing significant hardships for both growers and processors in Argentina and Spain, making the prospects for decreased volumes out each of those countries a very real possibility in the upcoming harvest year.

### White Grape Juice Concentrate: USA

Both demand and pricing decreased in the United States this year, even though the harvest for generic concentrate grapes was mitigated by heavy raisin demand and a much smaller overall crop size. The international drop in pricing for the White Grape Juice Concentrate, along with sluggish global demand, caused a price decrease well below sustainable farming levels in 2014. Expect to see continued significant dismantling of those acres as farmers shift into much more profitable crops such as almonds, pistachios, walnuts and other alternative crops.

### Red Grape Juice Concentrate

The Rubi Red grape crop continues to remain stable, with long-term contracts being the rule. Pricing did suffer a bit for both the winery and food beverage industries. This was due to the heavy harvest and lower prices of Tintera grapes in Spain and Chile, along with the overall lack of global demand this year. However, popular industry opinion believes this will be short lived, as both of these countries tend to balance out. Additionally, the US domestic wine industry continues to expand the utilization of the Rubi Red grape in dark red wines.



# CIATTI

GLOBAL WINE & GRAPE BROKERS

## CONTACTS

### ARGENTINA

Eduardo Conill

T. +54 261 420 3434

Email: [eduardo@ciatti.com.ar](mailto:eduardo@ciatti.com.ar)

### AUSTRALIA/NEW ZEALAND

Matt Tydeman

Simone George

T. +61 8 8361 9600

Email: [Matt@ciatti.com.au](mailto:Matt@ciatti.com.au)

Email: [simone@ciatti.com.au](mailto:simone@ciatti.com.au)

### CALIFORNIA – IMPORT / EXPORT

CEO - Greg Livengood

Steve Dorfman

T. +415 458-5150

Email: [greg@ciatti.com](mailto:greg@ciatti.com)

Email: [steve@ciatti.com](mailto:steve@ciatti.com)

### CALIFORNIA – DOMESTIC

T. +415 458-5150

John Ciatti – [john@ciatti.com](mailto:john@ciatti.com)

Glenn Proctor – [glenn@ciattii.com](mailto:glenn@ciattii.com)

John White – [johnw@ciatti.com](mailto:johnw@ciatti.com)

Chris Welch – [chris@ciatti.com](mailto:chris@ciatti.com)

### CONCENTRATE

Greg MaGill

T. 559 977 4040

[gregm@ciatti.com](mailto:gregm@ciatti.com)

### CANADA & US CLIENTS

#### OUTSIDE OF CALIFORNIA

Dennis Schrapp

T. 905/354-7878

Email: [dennis@ciatticanada.com](mailto:dennis@ciatticanada.com)

### CHILE

Marco Adam

T. +56 2 2363 9206 or

T. +56 2 2363 9207

Email: [madam@ciattichile.cl](mailto:madam@ciattichile.cl)

### CHINA/ASIA PACIFIC

Simone George

T. +61 8 8361 9600

Email: [simone@ciatti.com.au](mailto:simone@ciatti.com.au)

### FRANCE/ITALY

Florian Ceschi

T. +33 4 67 913532

Email: [Florian@ciatti.fr](mailto:Florian@ciatti.fr)

### GERMANY

Christian Jungbluth

T. +49 6531 9734 555

Email: [christian@ciatti.biz](mailto:christian@ciatti.biz)

### SPAIN

Nicolas Pacouil

T. +33 4 67 913531

Email: [nicolas@ciatti.fr](mailto:nicolas@ciatti.fr)

### UK / SCANDINAVIA / HOLLAND

Catherine Mendoza

T. +33 4 67 913533

Email: [catherine@ciatti.fr](mailto:catherine@ciatti.fr)

### SOUTH AFRICA

Vic Gentis

T. +27 21 880 2515

Email: [vic@ciatti.fr](mailto:vic@ciatti.fr)

-or-

Petre Morkel

T. +27 82 33 88 123

Email: [petre@ciatti.co.za](mailto:petre@ciatti.co.za)

### AFRICA & MIDDLE EAST

Emile Gentis

T. +27 72 23 81 703

Email: [emile@ciatti.co.za](mailto:emile@ciatti.co.za)