CIATTI
GLOBAL WINE & GRAPE BROKERS

Global Market Report

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Ciatti Global Wine & Grape Brokers

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

As every January, this month's report looks back at the year just passed and ahead to the new one. It is now approaching two years since the start of the COVID-19 pandemic and the virus is still with us, but there are two reasons for being hopeful that 2022 is the year it finally has its grip on the news headlines weakened. Firstly, vaccination and booster campaigns – well advanced by now in many countries – seem to be reducing mortality rates; secondly, the emergence of the highly transmissible but apparently milder Omicron variant potentially offers a pathway to a world in which COVID-19 can be treated as an endemic virus similar to flu.

Away from the virus itself, we see two of its knocks-on effects – the global supply chain crisis and rising inflation – as the biggest issues facing the wine trade in 2022. The worldwide shipping container shortage really made its presence felt in 2021 as economies began emerging from 2020's pandemic shock, causing extensive delays and freight price inflation which had to be factored into potential bulk wine deals: could X wines get from Y to Z in one month, two months, three? Who would cover the increased freight costs? Wines can have their price attractiveness offset if they must travel badly-logjammed logistics routes, bringing more expensive but geographically less remote wines into play. Trucking, warehouse and port terminal capacity have also been widely inadequate in dealing with the return to full demand. The feeling is that consistent improvements in the supply chain situation are unlikely to be felt until the second half of 2022.

In addition to record freight rates, the wine industry felt a significant upward pressure on dry-good and other input costs in 2021, as part of inflationary factors at play in the wider economy. The US, the EU and the UK were all experiencing high inflation levels by the end of 2021 off the back of the supply chain logjam, labour shortages, and strong spending. And – in general – bulk wine prices come into 2022 at elevated levels versus where they were in January last year, with perhaps only prices on Australian reds and South African reds and whites consistently tracking below where they were a year ago.

The result for the wine industry is that, in 2022, it must move up on shelf prices to cover these rising costs just as consumers might begin to register wider price inflation and rein in spending. If or when this starts to occur in 2022 only time will tell. The European Central Bank believes current inflation levels are a passing "hump" that will decline this year; if true, and if the Southern Hemisphere's 2022 harvests come in good-sized in the next few months, we can easily envisage some of the inflationary factors on wine dissipating. Ciatti is there to help you every step of the way in 2022, whatever it may bring – just give us a call. Happy New Year, and stay safe.

Robert Selby

UK scraps import forms, agrees FTAs

The UK has scrapped VI-1 import certificate requirements on all wines entering Britain (England, Scotland and Wales), effective 1st January 2022. The certificates – a hangover from the UK's time in the EU, when they were required on all imports of non-EU wines – provided details of the shipment of wine and a technical analysis of that wine.

Wines from New Zealand, South Africa and Argentina are potentially the biggest beneficiaries of this move, as they were previously required to carry out full lab analysis; Australia, Chile, and the US already enjoyed some simplified procedures. VI-1 certificates are still required for non-EU wines entering Northern Ireland, and for non-EU wines entering Britain for onward forwarding into the EU.

In December, meanwhile, the UK and Australia signed a Free Trade Agreement that includes the elimination of UK customs duties – worth AUD43 million annually – on Australian wine imports. Australia's national association of grape and wine producers, Australia Grape & Wine, welcomed the FTA as a way to further enhance export business with Australian wine's leading export market by volume. The FTA is expected to come into effect sometime in 2022.

In October, the UK and New Zealand agreed an FTA in principle. The potential agreement will remove UK import tariffs on the vast majority of New Zealand goods, including wine. The UK is the second-biggest export destination for New Zealand wine, with exports valued at NZD400 million. The FTA is expected to be finalised in 2022.

California

Time on target

2021: The Year That Was

California's Central Valley bulk market came into 2021 highly active due to a pandemic–inspired boom in wine sales at US retail and the state's light 2020 crop, which – at 3.4 million tons – was the smallest since 2011's 3.34 million tons. Export pricing, however, was not seeing the price increases seen on domestic pricing, largely because suppliers were determined to retain the international business they still possessed following a period of gradual export decline (partly due to Brexit and China's imposition of extra import tariffs on US wines).

With bulk supply limited, those wineries benefitting from owning or supplying strong off-premise brands with national distribution were already active on 2021 grapes by the start of the new year. Offers were being made on all varieties, with one-year and multi-year contracts being agreed at prices above their 2020 levels. Planting contracts were also being offered – mainly on the varietal whites (such as Sauvignon Blanc and Chardonnay), white blenders (such as Chenin Blanc) and florals (such as Muscat and Colombard), i.e., those wines proving shortest – but not at pricing high enough to tempt many growers, especially given rising input costs.

By April, activity in the Valley had slowed: the 2020 bulk wines were effectively sold out, what remained was high in price, and only limited amounts of uncontracted 2021 grapes remained available. In addition, retail sales were being assessed as direct comparisons with the COVID-19 pantry stocking boom of March 2020 onward were becoming available: the trend for the rest of 2021 was for a decline in sales versus 2020 but still growth – albeit diminishingly so – versus the pre-pandemic year of 2019. Assessments were also getting made of budbreak after an early frost back in November followed by a drier than average winter and early spring: Sierra Nevada snowpack levels were at only 60% of normal by the start of April. Irrigation consequently commenced in some Valley areas as early as January and clusters by spring were suggesting a state crop coming in below the 4-million-ton mark for the third-successive year.

With the Valley's 2021 bulk wine supply limited and pricing high, buyers requiring immediate supply had two options: wine from Coastal areas or wine from abroad. Coastal pricing remained too high to work in most cases, particularly with the off-trade continuing to drive the market. Formative enquiries were made into wines from Australia, Spain, South Africa, Chile and Argentina by those buyers fulfilling brands that do not necessarily require Californian derivation. The ongoing global supply chain crisis, however, in which there has been an acute shortage of shipping containers, somewhat dampened interest in imports, particularly as the West Coast ports by mid-year were seeing some of the world's acutest delays. We cautioned, however, that Californian prices have meant that, in the past ten years, there has been an increase in the presence of imported wines in the 5-litre and 3-litre box categories – replacing more expensive or pulled-out southern Valley wines – and also in the premium bottled end of the market.

The Valley's 2021 harvest got underway a little earlier than normal amid widespread drought conditions: the State Water Resources Control Board ordered emergency curtailments on water usage in many areas as water levels had reduced to "alarming lows". Very high July and early August temperatures readied Brix levels on multiple grape varieties all at once, compressing the picking period and placing further strain on labor and trucking, both short in supply. The USDA/California Department of Agriculture issued a harvest forecast on 12th August of 3.6 million tons with which we broadly agreed, particularly as the Valley's crop looked to be coming in lighter than average, especially so in the south where heat and drought was the most extreme (and where vine removals in recent years have lowered the ceiling of potential production). By October, the crop had sized-up in Lodi and the northern Valley as the late-season varietals like Cabernet and Petite Sirah came in better than the majority of the whites and Zinfandel; the

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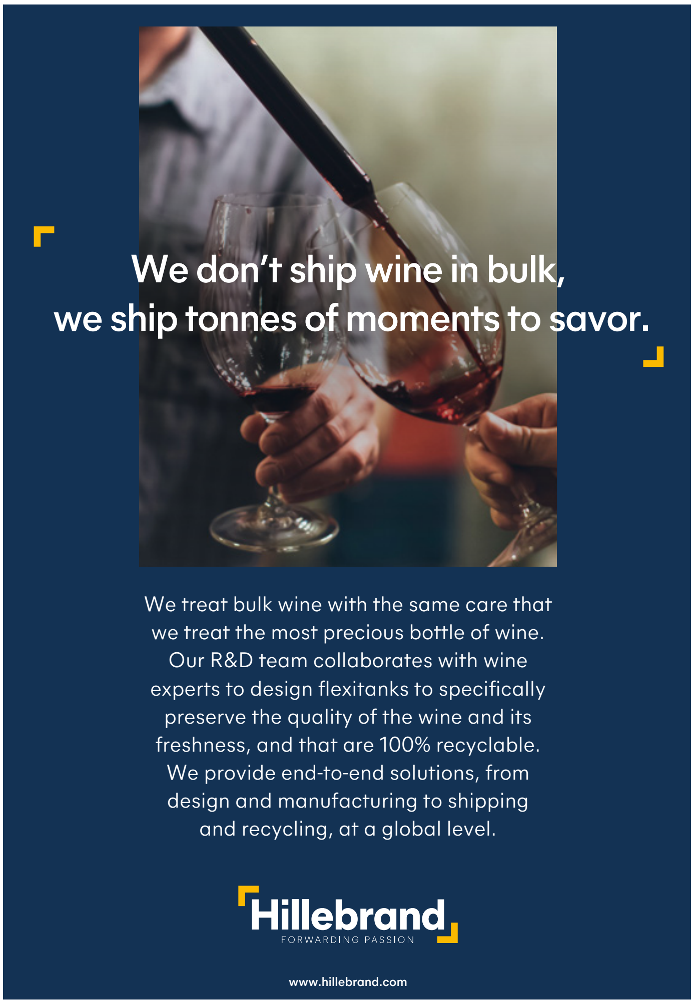
overall shortfall in the southern Valley, meanwhile, could be 10-15% versus the long-term average. A fuller picture will come in February with the publishing of the state's preliminary grape crush report.

With most of the Valley's 2021 bulk wine supply pre-harvest contracted and its 2022 grapes locked into multi-year contracts, market activity was muted for the final few weeks of the year. Yield assessments and vinification were being carried out and the important OND sales period watched keenly. As on bulk wine, grape juice concentrate supply was very limited and up in price. Planting contracts were being discussed on GJC generics but also – again – on white varieties, white blenders and florals more generally. Just as 12 months before, however, planting prices being offered were usually too low to tempt growers.

2022: Looking Ahead

"With upward pressure on all input costs, we are seeing some wineries increase retail prices on their brands in order to maintain margin," we stated in November. "Consequently, it is inevitable that some sales projections will be adjusted downward and, in turn, some extra supply may pop up on the bulk market". We have indeed subsequently seen some 2021 Valley supply appear back on the market and – at the prices being asked – not come under intense demand pressure.

Activity on 2022 grapes is underway, with Chardonnay, Petite Sirah, Zinfandel, Chenin Blanc and Colombard receiving the most enquiries, so too these on planting contracts. However, prices being offered by potential buyers are in some cases well below grower expectations, again highlighting buyer scepticism regarding the strength of wine sales at US retail in 2022 as shelf prices tick up and the pantry-stocking boom of 2020 moves further into the past. A key determiner of 2022 sales will be inflation – the 12-month inflation rate in the US reached 6.8% in November, its highest since 1982. Will inflation levels decline in 2022 or will they rise? If the latter, at what point will it start to harm consumer confidence and on what wine categories in particular?



October and then December brought some welcome rainfall to California, and a string of mountain blizzards through December boosted Sierra Nevada snowpack levels to 200% of normal by the first week of January, allaying drought fears for 2022 somewhat. That said, the rest of winter will need to be similarly wet and snowy to recoup very low water reserves accumulated over the two very dry prior years. The long-range forecast through March continues to predict a La Niña influence, with northern California expected to experience below-average temperatures and slightly below or above-average rainfall, and southern California seeing average temperatures and below-average rainfall.

Logistical headaches – first and foremost the global shipping container shortage – are likely to continue for at least the first half of 2022. We are encouraging open channels of communication between wine buyers, sellers, the FOB and shipping agents and ourselves at Ciatti. The message is: allow for longer lead times and be in close communication with all parties involved.

See next page for more.

Key Takeaways

Availability of 2021 bulk wine in the Central Valley is limited and what is available is high in price from an historical perspective. Enquiries into 2022 grapes are underway but there is often a disparity in pricing expectations between the buyer and the supplier, with the former perceiving the decline of retail sales versus their 2020 spike and increased shelf prices for wine – and wider inflation – potentially dampening consumer demand in 2022. Some good winter rain and snowfall has allayed some drought concern regarding the 2022 crop, but more precipitation is needed to fully replenish water reserves after two very dry years.

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

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Argentina

Time on target

2021: The Year That Was

Despite what had been a tough year for the world in 2020, Argentina's wine industry came into 2021 in good shape, having seen a 26.7% bounce-back in total exports – to 395 million litres, the highest in ten years – while COVID-19's arrival boosted at-home wine drinking: domestic consumption rose by 57 million litres versus 2019 (+6.5%) and per capita consumption (21 litres) reached its highest level in five years.

The country's National Institute of Viticulture (INV) consequently projected that Argentina's total wine inventory would total 324.5 million litres as of 1st June 2021 – reasonably limited, from an historical standpoint. Due to the impressive sales performance in 2020, and a severe frost episode at the start of the growing season in October, grape prices were feeling intense upward pressure by February 2021 and by mid-year were double their equivalent prices in 2020. Bulk wine prices – particularly on generic reds and whites, receiving the most attention – were ticking up. Furthermore, Argentina, like its neighbour Chile, continued to experience unusual weather patterns through the growing season into harvest: late January, February and March were unseasonably wet, creating high humidity levels that raised disease concerns.

However, beneath the upward pressure, deflatory problems were brewing. Argentina's generic wine supplies were becoming limited and the subsequent lift in prices was uncompetitive from an international standpoint, particularly on reds versus Spain. With generics accounting for as much as 120 million litres of Argentina's 193 million litres of bulk exports in 2020, the generic wine supply shortage and high pricing on what remained made it likely 2021 would see a decline in exports versus 2020. (Similarly, Argentina's grape juice concentrate was proving very difficult to come by and pricing increased significantly.) By June the robust picture from earlier in the year had changed:

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Argentina's total bulk exports in the January to May 2021 period were down 44%, with generic wine exports down 56%. And the 2021 crop was defying unusual weather, the threat of disease, and low volume expectations: by May it was becoming clear the harvest would in fact be coming in larger than in 2020 at approximately 2.22 million metric tons, with quality very good.

Thus, by the second half of 2021 Argentina possessed more wine supply than had been projected. All the while, exports were on the decline, domestic consumption had contracted 12% in January-June – due to 2020's high base and Argentina's worsening economic woes (Tetra Brik sales were down 20%) – and its bulk pricing was up due to the strong grape pricing of earlier in the year. Red inventory consequently began to mount (the increase in generic red prices had put off Chinese buyers in particular), while high prices on the limited supply of international white varietals ensured they struggled to compete with South Africa. The INV estimated wine stocks at the country's wineries to be 1.36 billion litres as of 1st October - reds accounting for 1 billion litres of this, mainly Malbec – which, extrapolating out export and domestic sales trends, suggested significant carryover stock of at least 520 million litres at Argentinian wineries going into the 2022 vintage buying campaign.

The domestic picture continued to deteriorate. Domestic wine sales fell 13.2% in January–September, from 708 million litres in the first nine months of 2020 to 614 million in the equivalent period of 2021. Declines in sales of generic red wines (-27%) and Tetra Brik wines (-18%) outpaced the overall slump, illustrating how consumers of everyday wines were increasingly feeling the economic pinch in a country where 12-month inflation was running at 50%+ and prices on everyday items increased 37% in the first nine months of 2021. The government resorted to ordering price freezes on household goods in a bid to shore-up support ahead of Argentina's midterm elections on the 14th November, but it was to no avail – the governing Peronist party lost its congressional majority for the first time in 38 years. The government finally conceded that a devaluation of the peso – which due to the "creeping peg" policy had softened far less than the unofficial "blue dollar" which neared ARS200/dollar by November – would be required, and also that discussions with the International Monetary Fund (IMF) regarding a USD44 billion debt restructuring must go ahead sooner rather than later.

By the end of 2021 Argentinian wineries were facing inflationary costs specific to Argentina's troubled economy in addition to those inflationary headwinds buffeting the rest of the world. The cost of dry goods and shipping was spiralling, while – exacerbated by a fire at a major glass bottle manufacturer in Mendoza in September – a longstanding glass bottle shortage deepened in the important October-November-December sales period.

Argentina's total wine exports for the January-November 2021 period reached 327.8 million litres, down 9.3% from 361.4 million litres in the equivalent 11 months of 2020. Much of this decline was attributable to a 34.6% decline in bulk exports, from 159.9 million litres to 104.5 million litres. Of packaged exports, bottled still wine shipments were in fact up 11.8% to 207 million litres and sparkling bottled wine shipments up 36.6% – from a small base – to 4.2 million litres; Tetra Brik exports were down 10.8% to 11.3 million litres.

Bulk exports for the 12 months to November 2021, meanwhile, were down 35.9% from 178.8 million litres to 114.6 million litres. The UK became the leading destination for Argentinian bulk wine in this period, upping its take by 53% from 16.6 million litres to 25.4 million, and bulk exports to the US also increased, by 31.9% to 14.8 million litres. But they fell significantly to Canada (-33% to 18.1 million litres), China (-51% to 15.7 million litres), Australia (-79%, from 4.2 million litres to 893,000 litres) and, above all, Spain (-99%, from 35 million litres to 425,000 litres).

2022: Looking Ahead

Argentina moves into 2022 continuing to possess significant supply levels of competitively-priced, excellent-quality varietal and generic red wines. The peso has continued to weaken along its "creeping peg" – standing at ARS108/dollar in January 2022, versus ARS90/dollar in January 2021 – but a more abrupt devaluation is widely expected at some stage in the coming months. This should help make Argentina's pricing even more competitive from an

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international buyer perspective, though continued inflationary pressure on winery input costs may serve to offset some of the price softening. In the meantime, the Argentinian government's negotiations with the IMF continue.

As at the beginning of every year, the focus now is on winery maintenance and removing all contracted wines as soon as possible to make room for the new harvest, particularly important this year when considerable inventory remains, taking up space. Argentina is experiencing the effects of the global supply chain crisis like everywhere else, so shipping is proving problematic: we urge all parties in a deal – buyer, supplier, shipping agents – to stay in dialogue with each other and ourselves at Ciatti to help ensure logistics proceeds as smoothly as possible.

Argentina's 2021 winter was unseasonably warm and dry, with snow only coming towards the end, when about a third of the season normal fell over six days in late August. The snow's belatedness is likely to have reduced its positive impact in terms of slow-release water supplies through the growing season. Mendoza received little rainfall from February/March onward, heightening frost concerns for spring, but November brought welcome spring rainfall; the frost risk receded without incident. Currently there is confidence of a good-sized 2022 crop, somewhere between the average of 2.4-2.5 million metric tons and 2021's 2.2 million.

Key Takeaways

Following a good-sized 2021 crop and a decline in sales both foreign and domestic through the year, Argentina possesses significant inventories of good-quality generic and varietal reds, particularly Malbec. Prices are internationally competitive and are likely to become more so as the peso devaluates in 2022 – either gradually via the "creeping peg" with the dollar, or more abruptly should the government finally decide to remove currency controls following any debt restructuring agreement with the IMF. The market now has one eye on the 2022 crop, the size of which is expected to come in somewhere between 2021's 2.2 million metric tons and the long-term average of 2.4-2.5 million.

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Chile

Time on target

2021: The Year That Was

Chile entered 2021 having seen a 2020 crush of 1.033 billion litres, down 13.4% from the prior year due to ongoing drought, while bulk (-5%) and bottled (-0.4%) export performance had remained robust in the face of COVID-19's arrival. Consequently, Chile's bulk wine prices – particularly on Sauvignon Blanc and Chardonnay (both under pressure globally), as well as Pinot Noir – had experienced an uptick and this was translating through to 2021 grape prices.

The relatively high prices on 2021 grapes effectively paused the market. In addition, following unprecedented, record-breaking January rainfall as well as hailstorms, landslides and high winds, uncertainty regarding the coming crop's size added further market hesitation. "Many wineries are putting their sales on hold while they wait to see how the market reacts to the recent weather and then how the harvest fares," we declared in February. Many growing areas then experienced nearly three weeks of mist/fog, so that concern over rain/mildew damage on the early white varietals and Tintorera was replaced by fears for the ripening of the reds.

These two months of strange weather finally led to Chinese and domestic buyer activity on the remaining 2020 wines and international and domestic buyer activity pre-contracting 2021 wines. Some suppliers held their wines back in speculation, others declared their 2021 varietal whites already sold out, as North American, UK, EU and domestic pressure on the 2020 whites immediately transferred through to the 2021 vintage, particularly so on Sauvignon Blanc as reports began to emerge of New Zealand's lighter crop. The varietal white prices were thus experiencing substantial upward pressure, partly held in check by South Africa's white pricing. The reds, meanwhile, were receiving strong domestic and Chinese demand but highly competitive Spanish and Australian pricing checked any price increase.

The protracted 2021 harvest finally came to a conclusion in mid-May and was initially estimated at 1.25 billion litres. By this time, Chile's supply of premium 2021 Sauvignon Blanc was sold out and the price of the standard quality was at a premium-quality level; discussions were already underway on 2022 supply. Supply of 2021 Chardonnay, Pinot Noir and generic white was also soon limited, the latter because of intense demand from domestic wineries and grape juice concentrate producers. Compounding the increased prices for the international buyer was the strengthening of the Chilean peso, which touched the CLP690s in May – its strongest point for nearly two years – off the back of the strongest copper pricing in a decade.

By the time sampling of the 2021 reds was in full-swing in July, Chile's Ministry of Agriculture had released its second preliminary figure for the 2021 crush and it took everyone by surprise: 1.34 billion litres, some 30% up in size versus 2020 and the largest in history. Underneath this headline figure, however, wine with DO (designation of original) totalled 1.08 billion litres and there was an awareness that Chile had inventory levels going into the harvest that were very low.

With good supply levels available of 2021 red wines except Pinot Noir, and strong volume and price competition from Australia, the Chilean bulk market for reds proceeded steadily at first. However, by September demand had risen from China, Australia (as wine programs there attempted to circumvent Chinese tariffs on Australian imports), and – especially – domestical buyers. The easing of Chile's COVID-19 restrictions, the reopening of the country's HoReCa sector, and a USD50 billion fiscal stimulus implemented by the government – via a series of early pension

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withdrawals – triggered a retail sales frenzy. Retail sales grew 66% in June and the overall economy grew 18.1% in the second quarter of 2021, its fastest increase since records began.

Another cause of domestic demand was early concern for Chile's 2022 crop amid the continuation of the country's "megadrought": the country's precipitation levels have been below-average every year since 2006, with significant rainfall deficits continuing to be recorded in all regions through 2021. August brought some belated winter snowfall to the Andes and September some late winter rainfall to the growing areas, but by November the year-to-date deficits still easily exceeded 60% in Valparaíso (-74%) and Santiago (-66%), and 40% in Curicó (-49%), Chillán (-46%), and Concepción (-46%).

With Chile's 2021 varietal and generic whites short in supply or sold out, the red wines depleting steadily, and the Northern Hemisphere's 2021 harvests forecasted to come in short, demand for Chile's 2022 grapes commenced early and pricing rose across the board. In September we declared: "We suggest potential buyers of Chile's 2022 wines communicate their needs sooner rather than later, as 2021 supply is highly limited, 2022 availability is gradually getting pre-harvest contracted, and the currency exchange is currently favorable". The peso – continuing to follow the copper price – had weakened out from its strong point in May to average CLP780/dollar in August.

Chile's bulk market had cooled off somewhat by October as buyers focussed on shipping what they had already bought – no easy task in a year in which the global supply chain crisis really took hold, compounded on South America's Pacific seaboard by unusually large ocean swells through the middle of the year that made it difficult for container vessels to dock in port. Despite these difficulties, Chile's bulk exports (-2.7%) in the January-September period continued stable with the first nine months of 2020, with big upticks in exports to China (+71%) and the US (+12%) offsetting falls to European markets and Japan.

The quieter bulk market and the shipping issues called into question the wisdom of some elevated prices on Chile's 2020 grapes, brought about by growers assuming there would be the same frenzy on 2022 white varietals and Pinot Noir as there had been on the 2021 wines. "Caution now pervades the market" we said in November: "Buying grapes on spec is now seen as a risk by wineries, as they foresee shipping issues potentially harming international buyer demand in 2022, and indeed some wine buyers have been downwardly revising their 2022 needs from Chile." Domestic demand, meanwhile, was continuing strongly off the back of the feel-good factor among Chilean consumers, justified by Chile's impressive COVID-19 vaccination campaign (one of the world's best). The lead-up to Chile's general election on 21st November could not dampen consumer confidence, nor the run-off on 19th December, though financial market worries regarding the likelihood of leftist candidate Gabriel Boric's victory weakened the peso from an average of CLP812/dollar in November to CLP849/dollar in December.

2022: Looking Ahead

Chile comes into 2022 still holding good supply levels of 2021 red varietals – Merlot and particularly Cabernet – but continued steady Chinese and domestic demand for reds is drawing these volumes down. White varietals and white generics are in very short supply and any pockets that do pop up on the bulk market are acquired quickly. Approximately 90% of 2022 grapes are sold and the remaining unsold fruit is high in price. White varietal and Pinot Noir grapes are especially hard to come by.

Before picking of the 2022 crop gets underway, it has been a mixed picture conditions-wise. Springtime in Chile's vineyards passed without any frost alarms and the late winter/early spring rainfall of August and September replenished water reserves sufficiently enough to last at least this far into the growing season. An unusually early and intense summer heatwave in late November, however, led to reports of dehydration on some horticultural crops, while very rare summer hail was reported in the southern Valle Central. For the summer, the La Niña effect is expected to lead to very high temperatures followed by low temperatures. There are tentative expectations of a normal-sized 2022 crop.

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The global shipping container shortage is likely to continue to be felt for at least the first half of 2022. We encourage suppliers and buyers to be shipping smart: stay in dialogue with each other, with us at Ciatti, and with the FOB agents and the shipping agents, to help ensure shipments get to where they need to be in the best possible time and to ensure delays – should they arise – do not as a surprise.

Leftist candidate Gabriel Boric's victory in Chie's presidential run-off on 19th December weakened the peso towards CLP870/dollar before Christmas. The peso subsequently strengthened slightly in the new year, standing at CLP826/dollar as of 13th January due to news of a further rise in inflation in the US.

Key Takeaways

Inventory remains on Chile's red wine market, with good supplies of 2021 Merlot and – mainly – Cabernet at stable pricing. Bulk market demand is led by domestic buyers – meeting a consumer boom in Chile – and buyers from China sourcing in Chile instead of Australia. Supply of 2021 whites is largely sold out. The 2022 grape market is quiet now that most grapes have been contracted and prices on the remaining supply are high. The expectation remains for a good-sized 2022 crop. The peso has been weakened by Chile's presidential elections, nearing CLP870/dollar after the runoff vote in December before coming in to average CLP845/dollar so far in January.

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Chilean Export Figures

Wine Export Figures	January 2020 - November 2020			January 2021 - November 2021			Volume
	Million Liters	Million US$ FOB	Average Price	Million Liters	Million US$ FOB	Average Price	Variance %
Bottled	446,75	1.371,55	3,07	436,67	1.440,34	3,30	-2,26
Bulk	322,70	266,09	0,82	322,52	294,85	0,91	-0,05
Sparkling Wines	3,23	13,75	4,25	3,20	13,12	4,10	-0,87
Packed Wines	23,96	42,32	1,77	18,76	34,04	1,81	-21,68
Total	**796,64**	**1.693,71**	**2,48**	**781,16**	**1.782,36**	**2,53**	**-1,94**

France

Time on target

2021: The Year That Was

France came into 2021 off the back of an average-sized 2020 crop with pricing stable pricing and sample requests moving forward unhurriedly in light of COVID-19 restrictions across Europe in response to a second wave of the virus. Chardonnay felt the most in supply-demand balance, symptomatic of continuing healthy demand for varietal white wines across the world and the fact southern France's 2020 Chardonnay yields were disappointing. Southern French Pinot Noir was also receiving steady demand following a small crop in Burgundy, and rosé was receiving interest.

On the 12th January, in relation to the longstanding US–EU aviation dispute, the outgoing Trump administration expanded its pre-existing 25% import tariffs on French bottled wines "not over 14% alcohol" to encompass all French wines in all formats. This immediately paused transactions with US customers. At the same time, the introduction – as of 1st January – of new, post-Brexit customs paperwork and procedures for exporting wines to the UK caused significant headaches. And with China entering its New Year period, Chinese demand was quiet. Consequently, except for some core EU buyers (Germany, the Netherlands, Scandinavia), international demand was muted and prices softened through the first quarter of 2021, initially on standard and organic reds and rosés but, by April, also on white varietals except Chardonnay.

Re-energising news for the market finally broke on 3rd March when the US and EU announced a mutual suspension – for a period of at least four months – of the tariffs they had levied against each other from October 2019. "We are Ciatti are confident this development will re-boot export sales of French wine to the US," we wrote and, sure enough, loadings of wine ordered before January's tariff expansion were soon underway. The temporary suspension ultimately proved permanent, but it will take some time for French-US wine business to recover to its pre-October 2019 level.

The defining moment of the bulk wine year in France came shortly after, in the week commencing 5th April: sub-zero temperatures brought a severe and prolonged frost wave to the whole of France. Growers out in force deployed anti-frost candles, straw fires and sprinklers but the frost damage was significant. Temperatures dropped as low as -5°C in the Languedoc, burning the buds of the early ripening varietals including Chardonnay, Muscat, Sauvignon Blanc, Merlot and Syrah. The initial expectation was a reduction in the country's crop potential by about a third – from the 45-million-hectolitre average to something closer to 30 million – with as much as a 40% reduction in Languedoc.

The response on the southern French bulk market was immediate: by May many wineries were reportedly sold out of their 2020 and older vintages. Chardonnay, Sauvignon Blanc, Pinot Noir and high-proof, high-quality reds were essentially out of stock, while even the previously lethargic AOP and IGP reds market had become energised and supply was greatly reduced. Prices had risen on all reds and whites and continued rising on those still available, such as Merlot, Cabernet and Syrah. Talks regarding an Emergency Distillation Plan were quietly dropped.

Uncertainty regarding COVID-19 restrictions for the summer season in Europe continued to put a dampener on rosé demand. However, improving clarity on roadmaps for reopening in France, the UK and other key markets as the year wore on, together with the rapidity of the vaccine rollout, meant that, by June, confidence was returning

See next page for more on France.

and rosé loadings had picked up. The southern French bulk market had by this time generally calmed down from its post-frost frenzy and had moved into its traditional summer lull, though any pockets of scarce wines that popped up – IGP Chardonnay, Sauvignon Blanc or Pinot Noir, for example – were sold in a day or two. Prices on the southern French Vin de France market ticked up – on the whites because of a poor harvest expected in South West/Gascony, on the reds because it was expected that IGP declarations would be maximised at the expense of Vin de France red output.

By September it was clear that France had experienced its most difficult growing season for many years, with drought conditions in the south (Languedoc, Provence and the Rhône Valley) and a washout summer elsewhere (leading to mildew, powdery mildew, and black rot) compounding the impact of April's frosts. The French Ministry of Agriculture issued a harvest estimate on 1st September of 33.3 million hectolitres: a crop shorter than those of 1991 and 2017 – also affected by severe frosts – and, because of a gradually diminishing total acreage over the decades, effectively the smallest harvest on record.

The 2021 vintage bulk campaign kicked off in southern France in the final week of October. Sampling of whites, rosés and some reds was immediate, large volumes were hard to come by, and pricing – which had seen a significant uptick, with generics setting the floor for whites at EUR1.00/litre – was largely non-negotiable. Traditional buyers were prioritised and warned they would receive as little as half their white varietal needs (particularly true of Chardonnay) due to the losses in the vineyards; some were informed they would need to acquire their whites via package deals with reds and/or rosés. The heterogenous quality of the harvest meant that the best qualities on standard and organic wines commanded a particular premium: the generic whites that had managed to obtain good levels of ripeness, aroma and alcohol; the high-quality pale and mid-range IGP Syrah rosés; the high-alcohol/high–colour/aromatic reds and Pinot Noir. The latter was particularly in demand from Beaujolais and Burgundian buyers because of their own poor crops.

By December, any small batches of Chardonnay, Sauvignon Blanc or generic white wines that intermittently appeared on the spot market were fetching prices some 50% up on the prior campaign; pricing on Grenache and Cinsaut rosés had increased by EUR0.05-0.10/litre and on Syrah rosé by EUR0.15-0.20.litre; price increases on reds – outside Pinot Noir and the high-alcohol/high-colour reds – were more modest, reflecting the fact important carryover levels remained either unsold (emblematic of slow retail sales for red wine in France and beyond) or still to load.

2022: Looking Ahead

Southern France comes into the new year with considerably less bulk inventory than it began the old, though there remains good supply levels of generic reds, mid-range varietal reds such as Cabernet, Merlot and Syrah, and non-vintage Vin de France rosé.

Buyers of all other wines – generic and varietal whites, high-colour/high-alcohol reds and Pinot Noir, and mid-range/high-end rosé – are urged to move sooner rather than later to secure their needs as supply is tight and any lots that arise are contracted quickly. We do believe that – although availability on the most sought-after wines is low – some new pockets will be put back onto the market by springtime for a range of reasons, including small growers releasing wines they had kept back, some unexercised options becoming available again, perhaps also some volume reduction on slow-running lines.

In relation to the latter point, increased shelf prices for French wine in 2022 – an inevitable consequence of the increased bulk prices in addition to spiralling dry-good and shipping costs – could conceivably lead to a downtick in wine sales at retail, especially as consumer confidence might suffer in the face of inflationary pressure as the year progresses. The European Central Bank has said the rising inflation rates seen towards the end of 2021 were a passing

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"hump" that will decline this year; time will tell. We are seeing improvements in the sea freight situation but we continue to recommend to all international buyers that they allow for extra lead times between contracting wines and receiving them.

France has managed to get through the important OND sales period without reimposing a COVID-19 lockdown, though nightclubs are currently closed and only table service is permitted in bars and restaurants. One concern for the country's on-trade footfall is a planned change to the vaccine passport system which will mean that, from 15th January, only proof of vaccination will permit entrance to public places; proof of a negative test will no longer be sufficient. Omicron is proliferating but growing evidence that is it a milder variant of COVID-19 raises some hope that, by summer, life in France – and the rest of Europe – can return to some semblance of normality.

In the meantime, COVID-19 is continuing to take a toll on wine fairs: Millésime Bio, scheduled for late January in Montpellier, has been postponed and there is a question mark over Wine Paris in mid-February. The repeated postponing of fairs is hindering forward visibility for growers and impacting on customer relations management.

Key Takeaways

Buyers requiring southern French generic and varietal whites, high-color/high-alcohol reds and Pinot Noir, and mid-range/high-end rosé, are urged to move sooner rather than later to secure their needs as supplies of these are limited. We believe that some new pockets of sought-after wine will pop up on the market by springtime for various reasons – perhaps some unexercised options becoming available or some volume reduction on slow-running lines – so potential buyers should get in touch with their needs so we can be ready to pair them up with wines as they become available. The bulk market for mid-range varietal reds and entry-level rosés is slower, as 2020 carryover remains.

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Spain

Time on target

2021: The Year That Was

Spain came into 2021 possessing significant inventory following a good-sized 2020 crush (of which 40 million hectolitres was made into wine) and a difficult year for sales due to COVID-19. Spain was "probably the world's most competitive supplier of bulk wine and grape juice concentrate" we declared in February, with an inventory touching 82.5 million hectolitres (including must), 10% greater than at any time since 2017. By spring, negotiations were underway between the wine industry and the Spanish government regarding an Emergency Distillation Plan, the second in as many years.

Bulk market and GJC activity in Spain continued to be limited in the first two months of the new year, mainly consisting of enquiries from buyers who normally source from Argentina and Chile and who had been spooked by reports emanating from South America of a difficult growing season. There was also interest from Chinese buyers seeking alternatives to Australian red wines following China's imposition of import tariffs, and likewise from Australian operators seeking to supply their Chinese clients with wines from alternative sources. As the great majority of this activity remained enquiries rather than actual deals, prices on Spain's generic reds and whites steadily softened. The pace of loadings, however, picked up as long-contracted wines finally began to get moved.

Some good news finally arrived on the 3rd March when the US and EU announced they had mutually agreed to suspend – for a period of at least four months – tariffs they had levied against each other from October 2019 in relation to the longstanding aviation dispute. The US tariffs suspended included those on Spanish wine "not over 14%, in containers not over 2 liters", alleviating some of the gloom for a Spanish bottled wine sector that had seen domestic on-trade sales slump in 2020 amid COVID-19 lockdowns and restrictions on tourism. This suspension – which subsequently became permanent – immediately unfroze orders and reactivated loadings of Spanish wine to the US market. March also brought some international deals, mainly on generic wines; prices on generics stabilised as a result. European interest consisted of French and German buyers proceeding with their contracts and loading; Italian buyers were concertedly focused on acquiring Spanish GJC – pushing up the GJC price – and sulfated must, the majority of which had been sold by May.

The start of April brought a severe frost wave to France and Italy, with damage to French vineyards in particular reported to be extensive. Spanish pricing consequently increased across the board by 20%, in anticipation of – and as a result of receiving – an uptick in demand. Demand from Italy and especially France poured into La Mancha, adding to pre–existing good demand levels from the US and Canada. By May, Spain's supply of international varietal (standard and organic) reds and whites (particularly Chardonnay and Sauvignon) were becoming harder to find, so too generic white. Negotiations regarding an Emergency Distillation Plan broke off as the EU refused funding, but the change in market dynamics had rendered the idea of emergency distillation moot anyway.

By July, with most French, Italian and German buyers having now covered their needs, the Spanish market cooled again, pricing stabilised, and all eyes turned to the coming crop. The pace of loadings had quickened but the backlog created by many months of slow loadings prior to April's frosts – a slowness exacerbated by the global shipping delays – remained significant, raising storage space concerns ahead of the new crush. A reassessment of the amount of storage space required was, however, being made by late summer: August brought an intense 10-day heatwave to La Mancha, then storms, and as picking got underway it also became clear that frost damage had been incurred earlier in the season. Tonnages on the first grapes to be picked were down from the average by roughly 25-30% and

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rumours swirled of even greater losses on the reds. The result was seller speculation and an increase in bulk prices.

By November there was far greater visibility on the harvest situation: the OIV estimated that Spain's crush reached 35 million hectolitres of wine, down 14% versus 2020 and 9% versus the five-year average; La Semana Vitivinicola projected La Mancha wine and must production at 21.9 million hectolitres, down 22.8% from 2020. Though not as severe as some feared, this output drop, combined with a general desire among Spanish suppliers to make pricing more sustainable after 2020's very low pricing – especially in light of rising input costs – meant a pricing uptick between the end of the 2020 vintage buying campaign and the early stages of the 2021 vintage campaign. Increases in French and Italian spacing created space for Spanish pricing to also move up, and they duly did so to a modest extent – pricing still remained highly attractive, even on the international white varietals experiencing very high demand across the world.

2022: Looking Ahead

Activity levels on the Spanish bulk market were low in December and lower still at the beginning of January. Loadings are running according to contracts as far as is possible amid the global supply chain crisis. Spiralling shipping costs are an additional upward price pressure on ex-works prices, but Spanish pricing currently remains stable.

Initially intense demand pressure on Spain's limited supply of Sauvignon Blanc and Chardonnay has eased off and some supplies remain: potential buyers are, however, urged to register their needs sooner rather than later. Likewise, demand pressure on Spain's high-quality international varietal reds – as well as high colour, high alcohol Tintorera – has eased; we have seen some price softening on standard-quality varietal reds and on generic reds. The grape juice concentrate market is quiet.

Spain managed to get through the important Christmas period without reimposing lockdowns or further restrictions on the on-trade, with mask-wearing outdoors the only reintroduced measure nationally. Omicron is a concern but growing evidence that is it a more mild variant of COVID-19 raises hope that Spain – and much of the rest of Europe – can get to spring without the return of more draconian measures.

Key Takeaways

Spain starts 2022 as it started 2021: as a highly-attractive source of good-quality varietal and generic wines and grape juice concentrate. Prices have risen in the intervening 12 months but they remain globally competitive and, on some wines, the cheapest. With supply sufficient on almost all wines bulk market activity has been muted in the past six weeks, though Sauvignon Blanc and Chardonnay supplies are limited and prospective buyers of these should register their needs sooner rather than later.

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Italy

Time on target

2021: The Year That Was

With flagship wines such as Prosecco DOC (full-year bottlings up 8%) and Pinot Grigio DOC (+4%) continuing their global popularity, and COVID-19 restrictions helping to increase off-trade sales domestically, Italy came into 2021 having performed robustly at home and abroad in 2020. The country's 2020 crop size was in line with the five-year average and, when January brought the return of lockdowns to many of Italy's regions, a huge sampling effort was conducted by post.

The competition between bottlers to sell to supermarkets – while the on-trade was restricted or closed altogether – was fierce, leading to a downward pressure on final wine prices just as bulk supply was declining and prices for it rising. In addition to Prosecco and Pinot Grigio, all reds from Puglia and Sicily were in high demand as well as – among others – Primitivo di Manduria DOC, Primitivo and Negroamaro Salento IGT, Montelpulciano d'Abruzzo, and Nero d'Avola DOC. Requests for Appassimento-style products were also growing, particularly from Chinese buyers seeking alternative sources to Australia. Generic reds and whites, meanwhile, had to compete with Spain's low pricing, but supply was not large enough for this to be an immediate concern.

By April, lockdowns that had been ongoing for weeks across Europe had still not muted demand for Italian wines, with Prosecco sales continuing to perform very strongly – up 8% in March, aided by the introduction of Prosecco Rosé – and the price increasing to a minimum of EUR1.70/litre. Pinot Grigio DOC Delle Venezie bottlings, meanwhile, were up 32% for the month. No wonder that we could report that "the trend is generally towards an increase in bulk wine prices".

Then, on April 7th to the 11th, a severe frost wave struck many of Italy's growing areas; damage to vines did not appear as severe as in France where the impact already looked significant, but the main operators began covering their needs "in case of future production problems in Europe". This was partly the cause of a subsequent boost in demand for Italy's red and white generic wines and sparkling bases. By May all wines from Puglia – Primitivo in particular – were becoming hard to come by, as was Rossissimo. Montelpulciano DOC wines as well as high-degree reds and Appassimento-style wines from the south were also in high demand, so too Chardonnay from across the country.

By July, Italy's pre-harvest grape market was very active, even on reds. It was announced that sales of Prosecco DOC (+24.9%) and Pinot Grigio DOC (+12.86%) were up significantly in the first six months of 2021. By late summer, Prosecco DOC supply was almost exhausted, the remaining volumes were trading above EUR2.00/litre, and pre-harvest pricing on the 2021 grapes was up 20%. Finding supply of Pinot Grigio DOC was likewise becoming a challenge, pre-harvest deals on the 2021 wines were starting above EUR1.00/litre, and 2021 grape prices were also up 20%. A very crowded field of buyers was active in Puglia, vying to secure 2021 production as 2020 supply was almost sold out. Again, Primitivo and Negroamaro grape prices were up by an average of 20% versus 2020 prices.

Italy's 2021 growing season was characterised by a north-south polarisation in conditions, with the north receiving frequent hailstorms and intense rain while the south suffered from drought and temperatures sometimes surpassing 40°C. The harvest was very protracted, with the late-season red varietals still fermenting into November. In terms of size, Italy did not suffer anything like the damage incurred by France, with the crop estimated to have come in 9%

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lighter than 2020 and the five-year average (OIV estimates 44.5 million hectolitres). Sicily, in fact, saw a slightly larger crop than in 2020. Quality across Italy was impressive, with naturally high sugar, a complete absence of disease, and perfect maturation; in Veneto, the quality of grapes for Prosecco was excellent, so too the Pinot Grigio DOC grapes.

Post-harvest, sampling was intensive and pricing firm. In many instances, contracts were for smaller batches as rising input costs on every component of the final product, and the final product itself on the retail shelf, have made buyers cautious regarding 2022 sales. Bulk Prosecco prices reached the heady level of EUR2.30/hectolitre by November, but kept on rising through December: "the real test", we warned, "will be consumer reaction when this increase feeds through to the retail shelf – it will be a barometer of the true power of 'brand Prosecco'".

2022: Looking Ahead

At the start of 2022 we see that Italy's prices have risen significantly in response to high demand levels on the bulk market and rising input costs. Buyers, also facing rising input – and shipping – costs, have been reluctant to move up on price, making agreeing stable prices for 2022 difficult.

One wine that seems to be able to command whatever price it likes is Prosecco DOC, coming into the new year at EUR2.50/litre yet still experiencing +29.5% sales growth in December. Prosecco's total sales in 2021 were up 25.4% versus 2020. Demand is strong enough to raise doubts as to whether supply will be sufficient to last through until vintage 2022 is available. The Pinot Grigio DOC price has also moved up, now to EUR1.20/litre, with a tight supply-demand picture – exacerbated by lower production in 2021 versus 2020 – likely to push it up further. Bottling of Pinot Grigio DOC was up 5.11% in full year 2021.

All of Italy's main wines are receiving good demand levels, both domestically and internationally, especially whites. IGT versions of Pinot Grigio were almost sold out by January while demand for generic whites has also been strong, so too sparkling bases, increasing the likelihood of rising prices on these wines in the new year after the usual big contracts with Germany had been closed at the end of December. Organic wines, high alcohol-degree reds, high-colour reds and all international varietals are also in demand. Probably only the entry-level generic reds are not so required.

With rising inflation and input costs, which will need to be reflected in the retail price for wines, it is likely that 2022 will be a challenging year for the Italian wine industry as all other wine industries around the world. It is hoped that 2020 and 2021's sales momentum continues through at least the first quarter of the new year with Italy possibly able to step in where there are shortages of specific wines from other producer countries, for example on white varietals. (Pinot Grigio DOC rosé is also a new entrant that is likely to attract much consumer interest.) Additionally, the global supply chain crisis is a headache but also an opportunity, if supplier countries from further afield struggle to supply markets with which Italy still has more straightforward access. An important moment on the consumer market will come in spring when the increased wine prices reach the retail shelf. By then, too, we will know if 2022 has brought milder climatic conditions to Europe than spring 2021.

Key Takeaways

The new year is expected to be a challenging one for the industry but there is confidence Italy's excellent performance in export markets will continue at least through the first quarter. Demand levels for Italy's bulk wines – particularly whites – have been high and pricing in many cases has risen: Prosecco supplies may not be sufficient to last until the 2022 vintage; IGT Pinot Grigio is almost sold out; generic white is experiencing intense demand pressure and prices on the better qualities, and sparkling bases, are set to rise. Belatedly, following a protracted harvest, sampling of the reds is moving into full swing now. Organic wines, high-alcohol reds, high-color reds and international varietals are all in demand.

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South Africa

Time on target

2021: The Year That Was

South Africa came into 2021 off the back of two successive years of disappointing export sales, intermittent alcohol sales prohibitions imposed in the domestic market in response to COVID-19, and a good-sized 2020 crop of 1.31 million tonnes, just below the 1.4-million-tonne long-term average. Inventory levels of varietals and – in particular – generics were consequently high, and prices softened in response. "The price-quality ratio on the Cape's international varietals is hard to beat", we stated in January, assisted by a weak Rand and a particularly impressive 2020 vintage in terms of quality, further boosted by high-end wines normally bottled for the on-trade being diverted onto the bulk market.

Export statistics revealed an uptick in export shipments towards the end of 2020 through to March 2021 as international buyers duly took advantage of South Africa's offer and some preferential pricing for those able to ship quickly. Whites such as Chardonnay, Chenin Blanc, Muscat, and generic white, were proving particularly popular.

Meanwhile, conditions in the Western Cape's vineyards were excellent, a wet winter having ensured plentiful water supplies for the growing season. A cooler than normal ripening and picking period in February and March led to a more protracted back-end to harvest than normal; picking eventually drew to a close in the final week of April. Tonnage totalled 1.46 million, close to the ten-year average and significantly higher than the original estimate of 1.31 million, helping bulk prices to remain stable despite a frenzy of sample requests for international white varietals and rosé and immediate international buyer activity on these wines.

This was to become one of the central themes of 2021: strong international demand for good-quality bulk Chardonnay, Pinot Grigio and – especially – Sauvignon Blanc that reflected a global supply/demand imbalance on these varietals. By May we were reporting that demand for the Cape's good-quality Sauvignon Blanc was "running especially hot this year" – including receiving interest from those struggling to find volumes and/or the right prices in New Zealand and Chile – and by July remaining supplies of 2021 Sauvignon Blanc, Chardonnay and Pinot Grigio had become "extremely limited". By then, malolactic fermentation of the reds was complete and shipping was underway, but international interest in Cabernet, Merlot, Shiraz and Pinotage was more muted than on the whites.

The red/white sales dichotomy was reflected in export statistics for the 12 months to the end of July: bulk exports of South Africa's white wines were up 31.6% (Chardonnay and Sauvignon Blanc exports were up 122% and 47% respectively), well ahead of a 12% rise in bulk red wine exports. This intense demand pressure on whites made the relatively modest size of their price upticks remarkable – South Africa's suppliers were determined to harness the opportunity to build long-term relationships and not repeat the mistakes of 2018 and 2019, when many lost business to more price-competitive rivals.

Domestic demand for Colombard and red and white generics, meanwhile, was relatively healthy given the circumstances: an alcohol sales ban had been in place from 28th December to 1st February, then was reimposed from 27th June to the 25th July. The resulting stop-start nature of the market was tough for the industry to cope with, but sales were stubbornly robust: up 15% in the 12 months to the end of June just prior to the latter ban, albeit versus a very difficult 2020 in which sales were down 12-15%. South Africa's on-premise continued to face a number of restrictions – such as being barred from selling alcohol after 8pm – and on-trade wines, mainly reds, continued to be diverted onto the bulk market. Finally, after 18 months, South Africa moved to its lowest level of COVID-19 restrictions from the 2nd October, enabling alcohol to be purchased in the off-trade all week (instead of Monday to Thursday) and bars and restaurants to serve alcohol until 11pm.

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International buyer activity reduced to incremental purchasing towards the end of the year as the in–demand white varietals became sold out and – with the global supply chain in crisis – the focus became on loading and shipping those wines already contracted as expediently as possible. Cape Town port was not experiencing to the same degree the acute loading and shipping delays seen elsewhere around the world, though port operator Transnet's IT systems were the victim of a cyberattack in July, halting port operations for 2-3 weeks. We at Ciatti have been successful in mitigating delays as far as is possible by encouraging open channels of communication between ourselves, the buyers, the sellers, the shipping agents and the FOB agents to ensure wines are not left languishing.

2022: Looking Ahead

Good-quality Cabernet, Merlot, Chenin Blanc, Colombard, generic white and generic rosé remain available in South Africa at globally-competitive pricing that is also negotiable depending on volume and removal schedule. Western Cape Chenin Blanc constitutes a particular opportunity for those international buyers seeking a Sauvignon Blanc equivalent that is available, of excellent quality, and competitive in price. The Rand has trended weaker against the dollar and euro since mid-2021 and is now at its weakest level since November 2020, rendering South African pricing even more attractive.

The conducive conditions that Western Cape vineyards have experienced over the past three years has continued. Cape Town dams were at 100% capacity by September following above-average winter rainfall and good snow levels were put down in the mountains. As a result, for the third-successive growing season, drought has not been an issue. Spring passed without frost incidents and the vineyards appear in good health with a month to go before harvest gets underway. There is thus confidence of a good-sized 2022 crop.

Discussions regarding the 2022 international varietal wines were already underway by December and we expect to see a fast start to the buying campaign for these. We thus encourage potential buyers to enter into dialogue as soon as possible.

Key Takeaways

The Rand has continued to weaken against the dollar and euro in the past six months, making South Africa's attractive, negotiable pricing even more competitive: supplies remain of good-quality red varietals, Chenin Blanc and Colombard, and red, white and rosé generics. Buyers expecting to have their contracted wines shipped from South Africa this month are advised to be proactive – as soon as possible – in keeping on top of shipments; stay in dialogue with the seller, shipping agents and ourselves at Ciatti. In addition, those buyers requiring South Africa's 2022 varietal wines are urged to register their needs as soon as possible as business is expected to be brisk.

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Australia & New Zealand

Time on target

2021: The Year That Was

Australia's 2021 harvest figure was confirmed at 2,028,000 tonnes, an increase of 31% from 2020 and well above the long-term average of 1.74 million tonnes. Many expected the figure to be above the long-term average due to near-perfect grape growing conditions – plenty of water and a lack of disease or heatwaves – which resulted in exceptional quality.

For the 12 months to 30th September 2021, Wine Australia confirmed a decrease in Australian wine exports by 24% in value to AUD2.27 billion and by 17% in volume to 638 million litres. The average overall value per litre also dropped to AUD3.56/litre FOB. The main factor driving this decline in export volumes and value was the lack of shipments to China following the country's imposition of import tariffs on Australian packaged wine from November 2020 onward. Worldwide shipping delays were also impacting the ability to move wine out in consistent movements. The value of bulk wine exports decreased by 7% to AUD535 million and by 8% in volume to 391 million litres.

Pricing of entry-level 2021 grapes softened as demand fell: Shiraz, Cabernet and Merlot saw decreases between 15-23%. Cool climate grapes saw less of a decline in price but much more stock was produced. Reductions in grape price were to be seen on finished wine prices later in the year. Red grapes comprised 57% of the crush at 1.16 million tonnes, an increase of 37% versus the previous year. The white varieties totalled 864,946 tonnes, an increase of 25%, and represented 43% of the crush, the lowest share since 2004.

The imposition of China's heavy anti-dumping tariffs on Australian wine imports created issues for many wineries who have seen the effects of reduced red wines sales flow into surplus inventories and decreased prices. In peak times, Australia exported up to 185 million litres of wine (11% of its total wine output) to China each year, with values as high as AUD1.3 billion (39% of the total value of its wine exports). The anti-dumping tariffs issue is now with the World Trade Organisation's dispute settlement panel.

The 2021 harvest in **New Zealand** officially came in at 370,000 tonnes, down 19% in size on 2020, due to cooler spring weather and late frosts in some regions. The shortfall varied in size between regions, with Marlborough's crop coming in 21% down versus 2020 at 269,521 tonnes, Hawke's Bay (-5% to 41,153 tonnes) and Gisborne (-8% to 17,450 tonnes) also down, but Central Otago seeing an increase of 21% to 10,324 tonnes. In terms of varietal, Sauvignon Blanc production was down 18% to 268,079 tonnes, while Pinot Noir output fell 35% to 22,029 tonnes. New Zealand Winegrowers said that, while the quality of the vintage was exceptional, the shortfall in the total crop size was equivalent to 7-9 million cases of New Zealand wine, which could create some "supply and demand tension". Bulk Sauvignon Blanc prices escalated and the varietal sold out quickly.

2022: Looking Ahead

Another slower market is expected in Australia this year as suppliers have high levels of red wine inventory and will look to reduce their intake of 2022 red varietal grapes. We expect a volume of grapes to be left on the vine unpicked. Suppliers are actively seeking new markets and new buyers to purchase existing stock that was originally destined for China.

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In December, the UK and Australia signed a Free Trade Agreement that is forecasted to unlock GBP10.4 billion of additional trade between the two countries and includes the elimination of UK customs duties on Australian wine imports worth AUD43 million annually. The FTA is expected to come into effect at some stage in 2022. The national association of grape and wine producers, Australia Grape & Wine, welcomed the FTA, seeing it as a way to further enhance export business with Australian wine's leading export market by volume.

With Australia being one of the most competitively-priced red wine suppliers in the world, we anticipate that red varietals will see a mixed result for pricing: relative consistency for entry-level material (pricing has dropped significantly over the last 12 months) whilst the premium market will continue to soften due to the 62% increase in volume of cool climate wines from the 2021 crush. White wine is expected to stay consistent or increase slightly in pricing and demand. Pinot Noir and Sauvignon Blanc continue to remain the popular in-demand varieties. Suppliers should be aware that the Southern Hemisphere's 2021 crops were 19% above average in size – giving buyers opportunity to source from multiple countries.

Water is in good supply in Australia's growing areas due to solid winter rains, whilst some remain sceptical of the possibility of a wet and humid harvest due to the onset of a La Niña. Significant rainfall has already occurred in the eastern states and disease pressure has been high.

New Zealand's Marlborough Sauvignon Blanc is expected to remain firm in price with positive bottled sales ongoing in international markets, notably the US and UK. Early indications suggest an average to slightly above average-sized 2022 crush. Demand for bulk could be volatile as previous Marlborough Sauvignon Blanc buyers who were forced to change country of origin – moving to Chile or South Africa due to unavailability – may not return to New Zealand for future purchases. Price points are expected to remain up from where they were in the years prior to 2021.

Shipping from both Australia and New Zealand has continued to be problematic, with the situation having become slightly more challenging in the past few months. Hopefully things turn around some time in 2022, but we expect accessibility to remain tight for the majority of the year.

Key Takeaways

Australia continues to possess good red wine supplies after the large 2021 harvest and the decline in exports to China following import tariffs imposed since November 2020. Varietal red prices softened significantly in 2021 and are now expected to remain relatively stable; premium red prices are likely to continue softening due to the large 2021 output of cool climate wines. White wine is expected to stay consistent or increase slightly in pricing and demand. Early indications suggest an average to slightly above average-sized 2022 crush in New Zealand, but Marlborough Sauvignon Blanc prices are expected to remain stable at a high level due to demand, though there is a question mark as to how many buyers who were forced to source from alternative markets in 2021 – because of New Zealand's lack of supply – will switch back.

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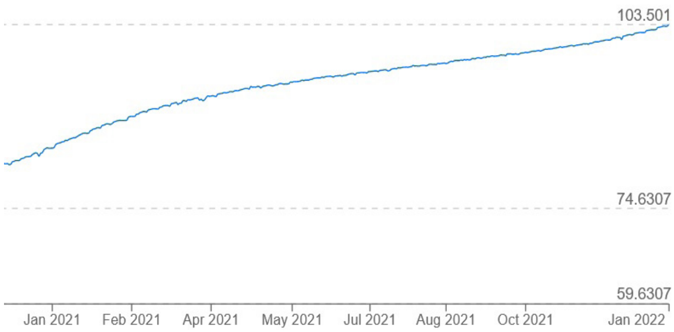
Currency Review

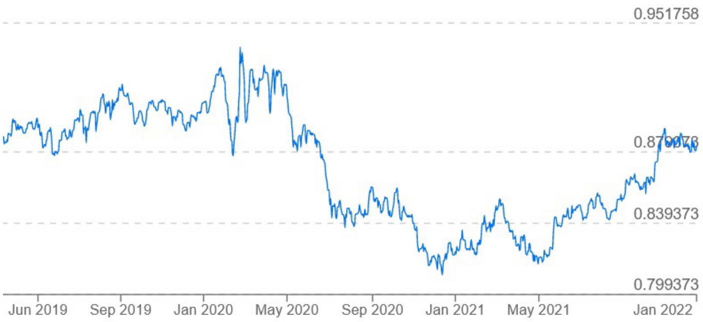
Source: XE Currency Converter

Chilean peso against the US dollar

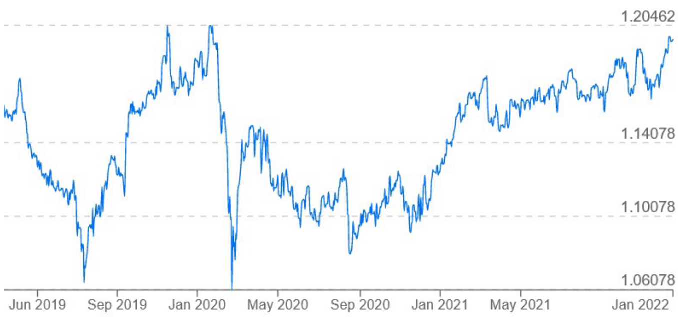


Argentinian peso against the US dollar

Copper prices at ten-year highs strengthened the Chilean peso in April and May 2021 to its strongest level against the US dollar since mid-2019. The peso then tracked copper prices in subsequently weakening. The country's USD50 billion stimulus – via early pension withdrawals, a third round of which came in April – further helped soften the peso. Chile's presidential election on 21st November, followed by the subsequent run-off vote in December in which leftist candidate Gabriel Boric was victorious, weakened the peso past CLP800/dollar by the end of the year. The Argentinian peso, meanwhile, continued through 2021 along the government's "creeping-peg" policy of gradual devaluation, starting the year near ARS85/dollar and ending it past ARS100/dollar. Following the government's heavy defeat in November's midterm elections, a more rapid devaluation is expected in 2022 to better reflect the informal rate (which currently stands at ARS200/dollar). A decade ago, in January 2012, the Argentinian peso was worth ARS4.0/dollar.

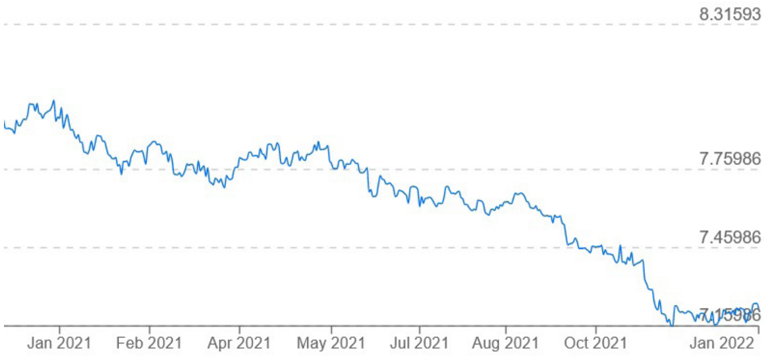


Euro against the US dollar



Euro against pound sterling

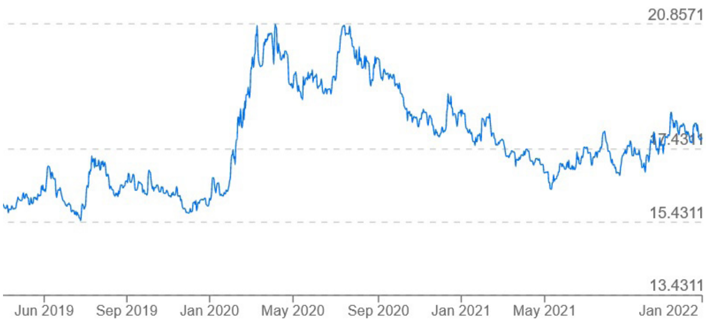
The euro ended 2021 at its weakest point against the US dollar (EUR0.88/dollar) since mid-2020, having softened concertedly since mid-2021 (when it was closer to EUR0.80/dollar), attributable at least in part to the reimposition of COVID-19 measures in several EU counties, rising inflation, and financial market perceptions that the European Central Bank (ECB) disfavours increasing interest rates: the ECB's president, Christine Lagarde, has started it "must not rush into a premature tightening when faced with passing or supply-driven inflation shocks". Since being as strong as EUR1.05/pound in March 2020 when COVID-19 first struck, the euro has softened against the pound in the 20 months since, doing so steadily through 2021 as the UK committed to an "irreversible" emergence from COVID-19 measures and saw inflation rise quickly. The euro finished 2021 at EUR1.19/pound, its weakest since February 2020.

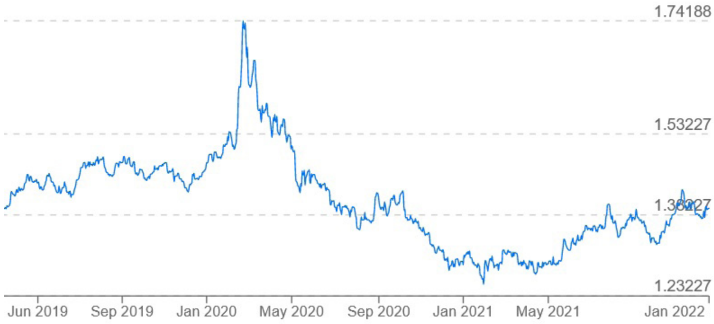


Chinese yuan against the euro

Pound sterling against the Australian dollar

The Chinese yuan has steadily strengthened against the euro since August 2020 when it was at a weak point of CNY8.20/euro following the emergence of COVID-19. China's subsequent stable economic recovery – GDP is predicted to have grown approximately 8% in 2021 – saw the yuan strengthen in to CNY7.20/euro by the end of 2021, its strongest level against the euro since early 2016. Pound sterling has trended stronger against the Australian dollar since January 2021, when it was at its weakest level (GBP0.57/dollar) since the Brexit uncertainty of mid-2019, finishing 2021 at GBP0.53/dollar. In December, the UK and Australia signed a Free Trade Agreement that is forecasted to unlock GBP10.4 billion of additional trade between the two countries and includes the elimination of UK customs duties – worth AUD43 million annually – on Australian wine imports. The FTA is expected to come into effect at some stage in 2022.





Rand against the euro

Australian dollar against the US dollar

Following a 2020 during which it reached its weakest level (ZAR20/euro) against the euro on record, the Rand strengthened into 2021 and remained relatively stable throughout the year, reaching a strong point of ZAR16.30/euro in June before weakening out to end the year at ZAR18/euro. The Rand remains at historically weak levels against the euro when looking back over the 20 years since the euro's introduction in 1999. Although the Australian dollar hit its weakest point against the US dollar for many years in March 2020 (AUD1.74/dollar) when COVID-19 spread globally, less than a year later – in February 2021 – it had reached its strongest point against the dollar for three years (AUD1.26/dollar). The Australian dollar has subsequently seen a gradual softening, ending 2021 at AUD1.37/dollar.

Brewshield & Wineshield

Oak trees first appeared in Europe and North America some 9000 years ago following the receding of the Ice Age. For nearly 4000 years much of Europe and large parts of eastern America were covered by mixed oak forest.

The Greeks and Roman empires used to store their food and drinks in clay amphorae stoppered with wax. When the Romans first conquered Gaul and Germania, they discovered the local use of oak barrels to store wine, spirits and beer. Their preservative qualities were quickly understood; the Romans ditched their amphorae and for the next 2000 years it became the go-to natural food and drink-preserving container. The taste the tannins imparted to the products they contained became the intended standard flavor profile for many wines and spirits that we prize today.

Oak trees for barrel staves are harvested at 150 years old – hardly teenagers in oak lifecycle terms. The demand for French and American oak barrels for use in wine and spirit ageing now far outstrips wood supply. Organic extracts from the same aged sources can offer the same result faster and 30 times more efficiently than their conventional modern counterparts.

The antioxidant, antibacterial, structural, and other magical properties of oak are now being harnessed in a wide range of organic products to naturally preserve and enhance foods and beverages. Scientists and industry alike are also realizing their great potential in numerous other applications. The ongoing world pressure to find natural alternatives to the chemical formulations we have relied on for food to cosmetics and healthcare.

Stoak Technologies has, over the last decade, perfected a method of extracting powerful natural components locked into mature oak wood. Stoak is able to:

- Harness the same antioxidant properties that preserve the tree for hundreds of wet winters and dry summers and utilise these same properties in the preservation and shelf life extension of beverages.
- Deliver in weeks the same maturation, color, structuring and flavour profiles as can only otherwise be imparted to spirits by an oak barrel over many years.
- Provide the finishing tannins that improve structure and mouthfeel, needed by bulk wine makers to finish their products.

We achieve all of this in a natural and responsible process that is many times less environmentally impactful than the use of new wood barrels.

Over the last 36 months the Stoak team has sought and achieved all the regulatory approvals required to sell its products in markets from Canada, the US and Mexico to Japan, China and Australia. It has established supply routes and shipped sample product to customers in all these marketplaces.

Over 50 craft brewers in the Americas already use **Brewshield** to naturally extend the shelf life and flavor profile of their craft beer. Our first organic wineries have started to replace sulphites with **Wineshield**.

The tequila and rum markets have been growing very rapidly and we have on-going product trials with multiple tequila producers who are unable to find sufficient barrels to age and finish their products to meet demand. Following extensive trials, potential customers have helped us refine a blend of French and American oak that meets their needs.

Over the next six months we will look at each of these areas in more detail and explain the opportunity from extending shelf life for craft brewers and organic wineries, to maturing bulk spirits including tequila and rum through to finishing tannins for the bulk wine industry.

-Jason Drew & Andrew Planting

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IBWSS

San Francisco / July 26 & 27, 2022

Grow your bulk wine, bulk spirits, and private label business

The International Bulk Wine and Spirits Show (IBWSS) is an annual trade show and conference, open to trade professionals only, which is set to happen in San Francisco on July 26 & 27, 2022. IBWSS exhibitors are wineries and distilleries looking to sell bulk wine and spirits, producers and negociants who offer contract manufacturing, private label programs and wineries, distilleries, importers who have one time excess stock to clear.

In addition to a wide range of programs running throughout the fair, the trade show will also feature a business conference dedicated to the private label and bulk wine and spirit business. With in-depth market studies and instructional seminars from some of the industry's biggest names, the central part of the conference's remit is to encourage sustainable growth and profitability in the bulk wine and spirit sector.

WHATS ON AT IBWSS

- **Expo Floor**
- **Conference**

+1855 4811112 (USA)

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