CIATTI
GLOBAL WINE & GRAPE BROKERS

GLOBAL MARKET UPDATE

September 2016

Volume 7 Issue No. 9



CIATTI GLOBAL WINE & GRAPE BROKERS

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CIATTI
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Volume 07, Issue No. 09, September 2016

Harvests in Europe are in full swing and the trend is for volumes in line with or below those seen in 2015. Drought in France and Spain has erased talk there of larger harvests than last year; France could be approximately 10% down, Spain in line. There is uncertainty about volumes in Italy, with very early signs that Pinot Grigio could be down as much as 15%. California, meanwhile, is looking at a crop in line with the five-year average and one that won't soften prices, which are likely to remain where they have been for the past 12-18 months.

South of the equator, Chile and Argentina were visited by very cold temperatures and frosts in early September, causing some concern over damage to the vines and if it means spring, starting in the middle of this month, will see frosts. There is not a huge amount of wine there: generic reds, for example, are short and pricey in Argentina, but when buyers cross the Andes into Chile they are confronted by prices firmer than they would like. International buyers who do not enjoy pre-existing relationships in Chile are arriving to discover they have to pay perhaps as much as 50% more than they were hoping to. Chile's 2016 harvest was down in volume and quality: grapes for the coming, 2017 harvest are already being purchased and the minimum guaranteed price will be higher than that of 2016.

Cool temperatures in South Africa mean the vines there are having a good winter rest, though much more rain is needed to fill the catchment dams. Statistics suggest a substantial wine stock in South Africa's cellars by the end of 2016: how much of it is uncontracted? Meanwhile, New Zealand's exports to the US are a good news story – perhaps too good, considering demand for Sauvignon Blanc is set to continue rising while production expansion in NZ is growing very difficult: supply could be trending very short over the next few years. Perhaps other Sauvignon Blanc producers could follow NZ through the hole it has punched in the US consumer market? Neighbour Australia is wasting no time in beginning – very preliminary – trade talks with the UK following Brexit *(an update on which is on page 4)*.

Finally, Ciatti will be attending the 8th World Bulk Wine Exhibition in Amsterdam on 21-22 November, both as itself and as part of the Men in Bulk collaboration. Hope to see you there!

Robert Selby

TIME ON TARGET

The harvest in California is in full swing and cooler temperatures at the end of August into September have allowed grapes to size-up a little, helping yield nudge up closer to the five-year average, perhaps roughly in line with the 2014 harvest, which was 3.9 million tons. Whites are coming in first, with Chardonnay and Pinot Noir for white wines looking average in volume or just under. At this stage, there are no reports of confirmed smoke taint anywhere in the state; mildew has been successfully fought back.

Although nothing is expected to come in significantly below average, it will not be a bumper crop: prices will remain firm, remaining where they have been for 12-18 months. Chardonnay prices should remain steady, for example, so too Pinot Gris, although the latter – alongside Sauvignon Blanc – could have the tightest supply. The situation with the reds should be clearer next month.

The Central Valley's overall crop size looks average, maybe slightly below average on some varietals. International buyers of bulk wines should thus make their reservations now, particularly as the domestic market is currently very dynamic. There might be some supply relief coming from the Central Coast for domestic buyers; nevertheless, they too are recommended to make their purchases soon. Many domestic buyers have made their 2016 commitments already, some their 2017 commitments too.

The harvests up in **Washington** and **Oregon**, meanwhile, have also begun and are expected to be a record in both states. To give some idea of size: Washington and Oregon's combined tonnage comes in similar in size, approximately, to Sonoma County's. Washington's biggest harvest to date was 227,000 tons in 2014; last year it came in at 222,000 tons, led by Cabernet, White Riesling, Chardonnay, and Merlot. Mainly retailing at USD10+ per bottle, Washington and Oregon wines are dovetailing nicely with the premiumization consumer trend occurring across the US at the moment.

What's the latest in that dynamic US market? According to Gomberg, Californian wine shipments to the US reached 113 million 9-liter cases in January-June 2016, up 4% - or 4.5 million cases – on the first half of 2015. A record 48.8 million cases came in from outside the US, with much of the growth driven by sparkling (Italian Proseccos and Spumantes, French Champagne and Vin Mousseux, Spanish Cavas etc).

Another driver is New Zealand wine: in the year to June 2016, the US became New Zealand wine's biggest export market *(see page 12)* both by volume and value. Gomberg reports: "In F&D outlets, brands Oyster Bay, Kim Crawford, Matua Valley, Brancott, Whitehaven, and Villa Maria all posted strong double-digit gains" in January-June. Most of these imports will be NZ – and particularly Marlborough style – Sauvignon Blanc, which has helped reenergise the Sauvignon Blanc market in the US as consumers increasingly seek an alternative to Chardonnay or Pinot Grigio. However, supply of NZ Sauvignon Blanc is forecast by some to tighten significantly in the coming years *(again, see page 12)* while California has not expanded its plantings of the varietal for ten years (Californian supply is thus relatively tight). There is potential, then, for Sauvignon Blanc from other places around the world.

SEE NEXT PAGE FOR PRICES & CONTACTS

KEY TAKEAWAYS

The 2016 harvest – coming in roughly in-line with the five-year average – will not soften prices. It feels like a balanced market, particularly as the domestic scene is currently very dynamic. Buyers – international and domestic both – should not wait to secure their needs.

California: Current Market Pricing (USD PER LITER)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2015	Generic White	0.60 – 0.80	↔	2015	Generic Red	0.80 – 1.05	↓
2015	Chardonnay	1.45 – 1.88	↑	2014/15	Cabernet Sauvignon	1.58 – 2.11	↑
2015	Pinot Grigio	1.58 – 1.98	↔	2015	Merlot	1.18 – 1.58	↔
2015	Muscat	0.92 – 1.32	↓	2015	Pinot Noir	1.85 – 2.25	↑
2015	White Zinfandel	0.85 – 0.99	↔	2015	Syrah	1.18 – 1.58	↔
2015	Colombard	0.73 – 0.99	↔	2014/15	Zinfandel	1.72 – 2.11	↑

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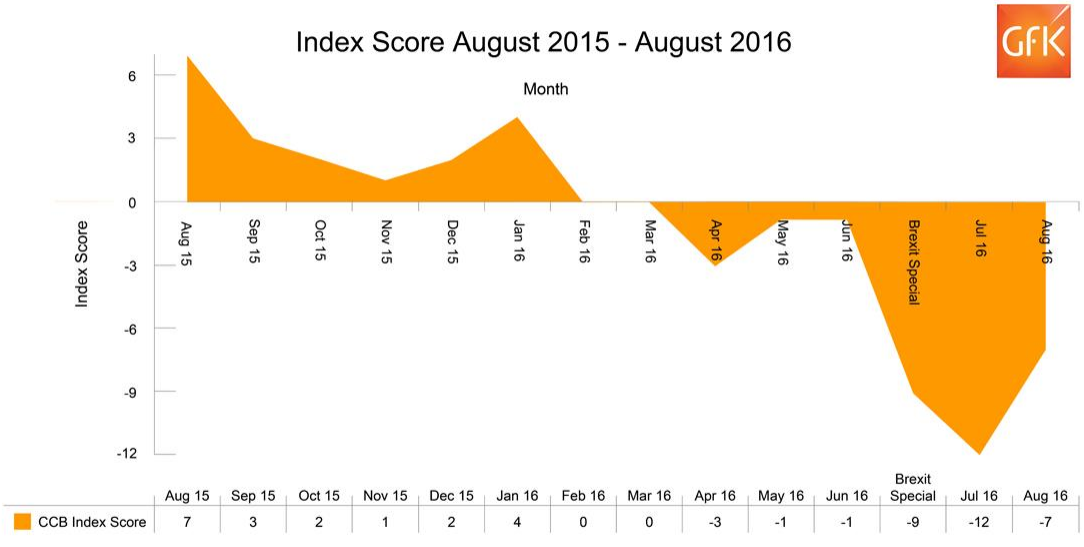
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BREXIT UPDATE

Reading online? Click on relevant information to go through to more detail

According to market research firm GFK's index, UK consumer confidence rebounded a little in August (index score: -7) following a big post-Brexit dip (-12) in July. Inflation, employment and retail sales numbers have all expanded in recent weeks. GDP posted a solid gain of 0.6% in Q2. Banks Credit Suisse and Morgan Stanley have both withdrawn their recession forecasts and in fact doubled their UK GDP growth forecasts for 2016 (to +1.9%). As one market expert has put it: "If the markets buy into the notion that the UK economy has weathered the Brexit storm, the pound could respond with gains." ***The UK, meanwhile, has begun (very) preliminary trade talks with Australia****. The UK is Australia's eighth-largest export market overall, and its largest by volume for wine. While visiting London this month, Australia's Minister for Trade Steven Ciobo told BBC radio that "cheap[er] Australian wine I think is a good fringe benefit of a free trade agreement if we are able to put one in place." Wine Australia estimates the cost of EU import duty on Australian wine exports to the UK at AUD42+ million in 2015. It has said: "If the UK leaves the EU, these duties by default would no longer apply and, as such, level the playing field."*



Source: GfK Consumer Confidence Barometer on behalf of the European Commission (August 2016)

ARGENTINA

Harvest watch: concern regarding prospect of spring frosts

TIME ON TARGET

There is concern that a polar front from the south which brought a snowstorm and frosts to Mendoza's Uco Valley region in the first week of September might have impacted any vines roused by some prematurely spring-like temperatures experienced in August. One particularly severe frost episode Mendoza suffered was on the night of 5/6th, where temperatures in one area, San Carlos, slumped as low as –6.6°C. There is a worry that the spring, which starts from mid-September, could be affected by frosts – as has been the case with more frequency in recent years.

Fears of a frosty spring have slowed market activity significantly, as sellers wait and see. Buyers are struggling to source supply, mainly because there just is not the volume. Before the slowed activity, deals were being cut at USD1.70-2.50/litre for higher-end Malbec.

Domestic buyers are worried by the lack of – and thus expense of – generic reds and are beginning to scout out Chile and Spain. Tetra Pak brand owners will probably find in Chile the entry-level, high-sugar product that they are seeking. The pressure on the consumer price in Argentina is intense: a 1-litre Tetra Pak of entry-level wine that would have cost 15 pesos (USD1) earlier this year will now cost closer to 28 pesos (US1.87), a nigh-100% price hike. Needless to say, grape juice concentrate has not dropped from its inflated USD1,300-1,400/MT price point.

Wine exports in January-June reached 24.9 million litres in volume (-27.5%) and USD70.9 million in value (-20.7%), according to Bodegas de Argentina. January-June 2016 bottled exports to leading destination the US fell by 7.8% (to 3.35 million litres) in volume and 5.3% in value (to USD131.3 million FOB). The UK (+9.7% to USD36.1 million FOB) overtook Canada (-8% to USD32.6 million FOB) to become Argentina's second most valuable export market. The UK now imports 10% of Argentina's exports by value and 11% by volume. Wines of Argentina has said the average import price into the UK is USD39.4/case: "Expanding in the UK [a highly competitive market where sales channels exert strong pressures] is not easy, but Argentina has succeeded in doing so in the last three years, particularly in the on-trade channel, which is one of the hardest and most demanding in the world."

Bulk wine exports were down 41.1% in January-June, from 44.6 million litres to 26.2 million litres. As mentioned last month, a large part of this fall is accounted for by the US (-71.8% to 7.6 million litres), whose buyers of generic reds have sought cheaper pricing elsewhere.

KEY TAKEAWAYS

Supply is tight, prices are high and activity is low. Domestic buyers of generics are now scouting Chile and Spain. Frost fears for the coming spring.

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Current Market Pricing (USD PER LITER; FCA WINERY)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2016	Generic White	0.40 – 0.45	↑	2016	Bonarda	0.90 – 1.20	↑
2016	Generic White (Criolla)	0.35 – 0.38	↑	2016	Generic Red	0.60 – 0.80	↑
2016	Chardonnay	0.90 – 1.20	↑	2016	Cabernet Sauvignon	1.30 – 1.50	↑
2016	Torrontes	0.60 – 1.00	↑	2016	Malbec Entry-Level	1.30 – 1.50	↑
2016	Sauvignon Blanc	0.90 – 1.00	↑	2016	Malbec Premium	1.50 – 2.50	↑
2016	Muscat	0.40 – 0.45	↑	2016	Syrah / Merlot	1.00 – 1.20	↑

TIME ON TARGET

Cold air coming in from the coast has brought frosts to Chile's wine regions in September. Casablanca experienced a -5°C episode and valleys such as Leyda, Colchagua, and Curico have also been affected. It is still early in the season, so any damage should be minor: it is understood Chardonnay has been worst hit, up to 15% of it in the very worst case scenario (which would represent just 2% of the total wine harvest), and Pinot Noir could be affected as well. Frost will be more of a concern if it occurs from mid-September onward.

The market was very active in August and so far this month, mainly driven by the big domestic wineries though international buyers are getting in contact after summer holidays. Inventory of good quality wine is low – varietal Pinot Noir and Merlot are close to being sold out, Cabernet will be sold out by December – and big wineries are needing good wines for their bottle programmes. International buyers who do not enjoy pre-existing relationships are arriving to find they have to pay perhaps 50% more than they were hoping to, but realise if they wait any longer prices will only have increased again. Cabernet, for example, has been sold at USD0.77-80/litre; in two months it may be touching USD0.90/litre. Traditional buyers have been insulated, though they have had to speed up the pace of shipments, likely denting Chile's export figures in the first half of 2017 until the 2017 harvest comes online. Grapes from the coming harvest are being purchased; the minimum guaranteed price will be higher than that of 2016.

Rumours of Argentinian wineries looking to buy wine in Chile is present in some areas *(see page 5)*, though it is hard to see what they can buy unless they increase the prices they expect to pay. Fears that Spain would experience an extra-large harvest and replace Chile in key market categories have been somewhat quelled by news of drought there *(see page 9)*. In addition, Spanish buyers have been present in Chile buying Merlot and seeking pre-harvest contracts for red grapes that go into improving wine colour.

January-July 2016 bulk exports are up 11% on the equivalent period of 2015 *(see below)*. However, perhaps half of this percentage increase can be attributed to shipments of the 2016 vintage occurring faster than in previous years; the increase will thus tail-off in the new year when there simply isn't the volume to move. The resulting decline in exports could deceive buyers into offering lower prices, thinking Chile has wine that is not selling, but this will not be the case.

KEY TAKEAWAYS

Buyers should not wait to cover their needs – prices will not fall for good quality wines, especially reds. Pinot Noir, Merlot and Cabernet are running low.

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Export Figures

Wine Export Figures	January 2015 - July 2015			January 2016 – July 2016			Volume
	Million Liters	Million US$ FOB	Average Price	Million Liters	Million US$ FOB	Average Price	Variance %
Bottled	265,65	848,41	3,19	271,43	836,34	3,08	2,18
Bulk	208,53	150,98	0,72	231,53	148,57	0,64	11,03
Sparkling Wines	2,00	8,25	4,13	2,10	8,44	4,01	5,34
Packed Wines	16,00	27,65	1,73	18,69	31,74	1,70	16,78
Total	**492,18**	**1.035,29**	**2,44**	**523,75**	**1.025,09**	**2,36**	**6,41**

TIME ON TARGET

August brought drought and drying winds to the southern growing regions of France, including to the powerhouse Languedoc region: as a result, the crop forecast has been revised down further, from 44 million hectolitres in July to 42.9 million hectolitres in August *(see table below)*. This would mean a 2016 harvest 10% smaller than that seen in 2015, and 7% smaller than the five-year average.

Drought in the south has affected vines that already experienced a less than ideal flowering stage; the number of grapes on the vine is fewer and they are smaller in size, reducing juice yield. In addition, on August 17 a hail episode affected 2,000 hectares in the Hérault area of the Languedoc. This compounds the shortfall in the northern regions caused by frosts, rains and hailstorms in the spring. All of this means prices, which were creeping lower, will stabilise and the expected – and some believe, much-needed – price adjustment in France will be postponed. Firmer prices, combined with less French table wine available, means imports into France of wine from around the world, including Spain, will continue robustly, further damaging the French industry's market share in its domestic entry-level categories.

The downward harvest forecast revision has led to some market activity, with buyers now interested in stocking up on wine to protect themselves from any post-harvest price increase come mid-October: those with money and space in their cellars are securing some of the remaining 2015 vintage that otherwise would have become carryover. Many cellars are not empty: the loading pace over the summer has been slow and carryover will be an issue, particularly for (non-Provence) 2015-harvest rosé, which is not moving and will be hanging around into spring 2017. Growers who produce rosé are realising that you can't push the wine; it has to be pulled by demand. Another problem will come if they react by moving from rosé into red wine production to such an extent there is then a rosé shortfall. Stability of production is desired.

One wine not log-jamming cellars, of course, is Provence rosé. Pre-harvest contracts with historical buyers are already being made; non-historical buyers will need to act on the free market immediately after the harvest and not wait, because the wine will be sold out within two months approximately. Buyers are encouraged to work out their needs now.

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2016 French Harvest Estimate by Area (AGRESTE, 22 August 2016, unit: 1,000 hectolitres)

Region	5-year Average	2015	2016	2016/15	2016/average
Champagne	2,665	2,500	1,691	-32%	-37%
Bourgogne-Beaujolais	2,255	2,284	1,795	-21%	-20%
Alsace	1,080	1,008	1,192	18%	10%
Savoie	111	111	110	-1%	-2%
Jura	81	80	76	-6%	-7%
Val de Loire	2,640	2,779	1,804	-35%	-32%
Charantes	8,585	9,499	7,970	-16%	-7%
Sud-Ouest	3,404	3,527	3,525	0%	4%
Bordelais	5,415	5,672	5,709	1%	5%
Languedoc-Roussillon	13,320	13,650	12,400	-9%	-7%
Corse	331	353	350	-1%	6%
Sud-Est	5,416	5,594	5,585	0%	3%

France: Current Market Pricing (EUR PER LITER; EX-WINERY)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2015	Generic White	0.50 – 0.60	↓	2015	Varietal Rosé IGP	0.80 – 0.85	↓
2015	Chardonnay IGP	0.95 – 1.05	↓	2015	Generic Red	0.55 – 0.60	↓
2015	Chardonnay VDF	0.95 – 1.05	↓	2015	Cabernet Sauvignon IGP	0.85 – 0.90	↓
2015	Sauvignon Blanc IGP	0.95 – 1.10	↔	2015	Cabernet Sauvignon VDF	0.85 – 0.95	↔
2015	Sauvignon Blanc VDF	0.90 – 1.10	↔	2015	Merlot IGP	0.80 – 0.85	↓
2015	Generic Rosé IGP	0.75 – 0.80	↓	2015	Merlot VDF	0.80 – 0.85	↓
2015	Generic Rosé VDF	0.55 – 0.60	↓	2015	Syrah / Grenache	0.80 – 0.85	↓

KEY TAKEAWAYS

The expected downward price adjustment in France has been postponed by a 2016 harvest expected to come in 7% below the five-year average. Prices have thus firmed-up, though there remain excellent opportunities for buyers with the capacity to load quickly. 2016 vintage Provence rosé will be hot: buyers should not wait to secure their needs.

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TIME ON TARGET

August in the main growing areas of Spain was very dry with little to no rain. Consequently, non-irrigated vineyards have suffered and the projected production increase – estimated earlier in the season at 8-9% above the 2015 harvest – is now unlikely unless September brings rain relief. The harvest forecast has been revised down to one in line with last year – 42-43 million hectolitres – though it could still reach 45 million hectolitres should September see rain.

The harvest – a week to 10 days behind schedule – has begun for international varietals such as Cabernet, Chardonnay and Merlot, but the main part of the harvest, such as Tempranillo and Airén grapes used for the generics, will not get underway until mid to late September. The dry weather has meant no disease or fungus pressure, and no spraying. Quality is good: like last year, the dry weather will be conducive for the reds with nice ripening and colour, and good alcohol. Also like last year, it will be the whites that suffer: there will be work to do increasing acidity and lowering the pH.

As per every year, August's market was quiet. There has been no massive bargain sales and, as there is still some wine available and the new harvest looks in line with (and still possibly larger than) that of 2015, nor has there been a rush to buy. There is still some wine that has been purchased and not yet loaded, and the loading pace throughout the summer has been slow. Interest from the US and Canada has increased following Chile's smaller harvest; it is expected that exports to China will come in higher this year over last. Buyers know that Spain has a harvest soon, there's plenty of wine available for sampling, and the good pricing won't change much. Generic reds are currently priced at EUR0.33-34/litre, generic whites EUR0.33/litre.

Spain's number one export market, France, has been slow to buy. Sales in France have been slow for all wine – domestic and Spanish/other. However, with France expecting a smaller harvest, including in the Languedoc, any downward price adjustment on French generics will likely be postponed, meaning Spain will remain ultra-competitive for buyers looking to fulfil entry-level wine and wine cooler ranges in France.

KEY TAKEAWAY

Spain's very attractive pricing isn't going to change, even if the harvest turns out to be not as big as first thought.

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Current Market Pricing (EUR PER LITER; EX-WINERY)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2015	Generic White	0.25 – 0.35	↔	2015	Generic Red	0.28 – 0.35	↔
2015	White Blends (High Quality)	0.40 – 0.60	↔	2015	Generic Red (High Quality)	0.35 – 0.50	↔
2015	Sauvignon Blanc	0.52 – 0.56	↔	2015	Cabernet Sauvignon	0.50 – 0.65	↔
2015	Chardonnay	0.60 – 0.65	↔	2015	Merlot	0.55 – 0.70	↔
2015	Generic Rosé	0.28 – 0.38	↔	2015	Tempranillo	0.40 – 0.60	↔
2015	Varietal Rosé	0.40 – 0.50	↔	2015	Syrah	0.45 – 0.60	↔
2015	Moscatel	0.40 –0.60	↔				

ITALY

Harvest watch: quality looking good, quantity uncertain

TIME ON TARGET

The harvest in Italy has commenced in some areas – Sicily, for example – but across the country is running approximately 10 days later than last year. In Sicily, Italy's fourth-largest wine-producing region by volume, the signs are that the harvest there will be 10-15% down on 2015. Throughout Italy the main grape harvested thus far is Pinot Grigio – around 20% of it – and the data shows a reduction in quantity of about 15%. Quantities of other varietals are looking normal, but it is too early to say with any certainty.

Regardless of quantity, quality looks excellent. Unlike last summer, which brought very high temperatures, this summer's temperatures have been normal and the nights fresh – the ideal for better development of aromas and higher levels of acidity. Demand for MCR (rectified concentrated grape must) is very low because it seems natural alcohol levels are sufficient and there is no need to increase it with concentrates.

The stock of entry level wines is currently very low. Of the coming 2016 harvest, the price for generic reds and whites will depend on export demand and the output of Italy's main competitor, Spain. The price for new, 2016 Prosecco is not yet clear: some contracts have been signed for EUR180-200 (USD202-224) per hectolitre, but the volumes for those are very small. Prosecco prices will become clearer when the Glera grape harvest gets into full swing any day now.

Prosecco and Spumante exports to Italy's third-largest export market, the US, continued their "remarkable growth uptrend" in the first half of 2016, Gomberg Fredrickson reports. The US imported 3.13 million 9-litre cases of Italian sparkling in January-June, up 19% - over 500,000 cases – on the first half of 2015. Italian sparkling brands posting "excellent growth" in US F&D (food and drug) outlets included Gallo's La Marca, Constellation's Ruffina, and Mionetto.

However, Italy's overall bottled wine export volumes to the US in January-June – 13.6 million cases – were in-line with last year as volume growth in sparkling was offset by declines in the economy Italian table wine segment. As part of the trend towards USD10+ wines in the US, premium Italian brands such as Stella Rosa, Roscato, Risata and Castello del Poggio continue to grow rapidly, and helped the value of Italy's bottled wine exports to the US rise 4% to USD655 million in January-June.

KEY TAKEAWAYS

Stocks of entry level wines and Prosecco are very low ahead of the new harvest, which is 10 days behind schedule and looking good in quality.

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Current Market Pricing (EUR PER LITER; EX-WINERY)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2015	Generic White	0.32 – 0.35	↔	2015	Generic Red	0.32 – 0.35	↔
2015	Chardonnay	0.60 – 0.85	↔	2015	Cabernet Sauvignon	0.60 – 0.80	↔
2015	Pinot Grigio	1.05 – 1.15	↔	2015	Merlot	0.55 – 0.75	↔
2015	Prosecco	2.50 – 2.60	↔	2015	Chianti	1.55 – 1.80	↔

SOUTH AFRICA

Harvest watch: cold temperatures mean growing season 2016/17 is off to a good start

TIME ON TARGET

August brought much-needed rain to South Africa's growing areas, but it was only intermittent and nowhere near enough to fill the catchment dams, which are perhaps 60-65% full. There is better news in regard to temperatures: good cold conditions have ensured very little premature bud break and a nice rest for the vines.

Normal for this time of year, August was a slow month activity-wise. Premium and good quality commercial Cabernet, Sauvignon Blanc, Chardonnay and Merlot is short. There is anecdotal evidence that new buyers are now starting to buy both varietals and generics from South Africa, largely due to competitive pricing. This includes Russian companies (which previously only bought sparkling base wines) and increased volume-buying by Chinese buyers. European buyers are increasingly making smaller lot purchases for tighter stock control; there has been a steady annual increase in US buyers, both in number and volume. There is still little sign of buyers who normally source from Chile prospecting the South African market, following the Chilean volume shortfall and corresponding price increases. Market and shipping activity should increase from mid-September, as Europe returns from holiday and South Africa's wineries seek to free-up space and perform maintenance ahead of the 2017 harvest beginning February.

The 2016 harvest produced 905.5 million litres of wine, down 6.5% from the record harvest of 968.4 million litres in 2015 and the lowest output since 870.9 million litres in 2012. A further 37.8 million litres went into South Africa's brandy industry, an intake down nearly 10% on 2015 which itself was a decline on 2014: following a peak in 2012, domestic consumer demand is trending away from brandy towards whisky and other spirits. Total wine stock at cellars on 31 December 2016 is currently predicted to be 7.3% down on 2015; however, as 2016 was a smaller crop than 2015, proportionately the stockholding and carry-over is expected to be relatively similar in size to last year.

Total demand for wine, meanwhile, is estimated to be up 4% this year on last, likely driven by competitive consumer pricing for entry-level wines. There has been positive recent economic news domestically – the economy grew by 3.3% in the second quarter, for example, and trade surpluses are being posted – but none of these factors impact on the consumer confidence (or otherwise) of the average man in the street. The Western influence, with its demand for premium branded luxury products, is growing slowly but surely in South Africa; this is helping to increase interest in high-end wine from private wine estates. However, this currently still accounts for a very small fraction of demand.

KEY TAKEAWAY

Premium and good-quality commercial Cabernet, Sauvignon Blanc, Chardonnay and Merlot is short. More rain is needed ahead of harvest 2017.

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Current Market Pricing (SA RAND PER LITER; FOB CAPE TOWN)

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
2016	Generic White	4.95 – 5.35	↑	2016	Generic Red	5.80 – 6.60	↔
2016	Chardonnay	6.70 – 7.80	↑	2016	Cabernet Sauvignon	7.00 – 8.50	↑
2016	Sauvignon Blanc	6.80 – 8.50	↑	2016	Ruby Cabernet	6.00 – 6.50	↔
2016	Chenin Blanc	5.30 – 6.20	↑	2016	Merlot	6.80 – 8.00	↔
2016	Muscat	5.75 – 6.35	↔	2016	Pinotage	6.60 – 7.50	↔
2016	Generic Rosé	4.95 – 6.00	↔	2016	Shiraz	6.90 – 8.25	↔
2016	Cultivar Rosé	5.70 –6.60	↔	2016	Cinsaut	6.00 – 6.30	↔

AUSTRALIA

Harvest watch: up on last year by 6% in **Au** and 34% in **NZ**

TIME ON TARGET

Australian Sauvignon Blanc is back domestically following years of New Zealand 'Sauvalanche'. The product is in value growth of 18% versus New Zealand Sauvignon Blanc which has seen a decline of 2% in value over the past two years. Additionally, Australian Sauvignon Blanc is in strong volume growth of 28% while New Zealand has grown only 5% over the past two years.

In terms of exports, Australia's growth in China has continued to increase, according to fresh statistics from Wine Australia. In the 12 months to June 2016, Australian wine exports to the Chinese mainland grew by 50% in value to AUD419 million. The average value of bottled Australian wine increased by 7% to AUD6.49 FOB per litre – the highest in the top seven imported countries of origin. Red wine is the most popular style, with Shiraz making up 52% of varietal label claims exported. There's been growth across the price spectrum, although wines priced at AUD10 and over per litre FOB have shown the strongest increase, up by 71 % in value.

There has been positive news with two large major corporates announcing profits. Treasury Wine Estates (TWE) has more than doubled its annual profit and is gearing up for a big push of its US brands into China. TWE's shares hit a record high after the CEO unveiled a AUD179.4 million profit – up from AUD77.6 million. Revenue was up 19% to AUD2.34 billion. Australian Vintage, meanwhile, has recorded a full-year net profit of AUD7.2 million which is marginally up from AUD7.1 million last year. CEO Neil McGuigan said that over the past five years sales of the company's three key brands — McGuigan, Tempus Two and Nepenthe — had almost doubled.

Accolade Wines (Australia's second-largest wine company), which owns brands including Hardys, Grant Burge and Banrock Station, is set to return to the stock exchange in a AUD1 billion-plus listing in the first half of 2017 as private equity firm CHAMP exits after six years of ownership.

GoFarm Australia (a group of investors) has bought one of Australia's biggest vineyards. They have also captured one of Victoria's biggest parcels of water with its purchase of Del Rios for AUD22-25 million. The 900 hectare vineyard, north of Swan Hill and near the junction of the Murray and Murrumbidgee rivers, was sold last month along with its 5,476 mega litres of high-security water. The vineyard has already been bulldozed and almonds will be planted instead.

NEW ZEALAND

TIME ON TARGET

Data seen by Ciatti forecasts a falling Inventory to Sales Ratio for New Zealand Sauvignon Blanc between this year and 2020, with inventory "trending very short" as grape supply becomes further constrained just as export demand continues to rise.

Sauvignon Blanc came in at an estimated 303,711 tonnes in 2016, according to New Zealand Winegrowers (NZW). Ciatti has discussed tonnage forecasts with New Zealand operators – that is, assumptions based on historical averages and new vine constraints forecasts – for 2017 (275,000 tonnes) and 2018 (290,000 tonnes) that are significantly below this year's figure. This could mean the average price per tonne exceeding NZD2,000 in 2018, for the first time since 2008.

It is estimated that 227.7 million litres of Sauvignon Blanc will result from the 2016 harvest, but the smaller grape harvests that are forecasted for 2017 and 2018 would result in 206 and 216

million litres respectively. The exponential growth rate in producing hectares (from under 4,500 hectares in 2003 to 21,200 in 2016) is slowing, the operator says, and cannot be sustained as new planting is not available: 25,000 hectares is the estimated maximum. This as export demand for Sauvignon Blanc continues to grow: from 57.8 million litres in 2006 to 209.4 million litres in 2015. For the year to May 2016, the varietal had a reported 85.6% share of total NZ wine export volume. The Sauvignon Blanc market is thus in shortage territory, and will have dipped into a "probably not sustainable" Inventory to Sales Ratio level by 2018.

NZW's Annual Report shows total NZ wine exports have risen 10% in the last year to just under NZD1.6 billion, marking the 21st consecutive year the industry has experienced significant export growth *(see right)*. Domestic sales – which dropped 7% to 56.3 million litres due to the reduced supply from a smaller 2015 vintage – have been overtaken by sales to the US and UK.

Export data seen by Ciatti corroborates information described in the Australia section above: for the year to May 2016, NZ wine exports to Australia were down 4.8% in value and 13.1% in volume, relegating Australia from first to third – behind the US and the UK – in export destinations. Exports to the US rose 24.2% in value (from NZD368.8 million to NZD457.9 million) and 14.6% in volume (from 53.7 million litres to 61.6 million litres) to make it NZ's largest export market. Similar growth occurred in the Canadian market (+11.9% in value, +9.6% in volume), while more value (+8.6%) was squeezed from in-line volumes to the UK.



Source: New Zealand Winegrowers

AU & NZ KEY TAKEAWAYS

NZ's Sauvignon Blanc is in demand internationally (particularly from the US and UK) and that demand is rising, with production growth restricted by space and geography. It could trend very short in the coming years.

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

Vintage	Variety	Price	Trend	Vintage	Variety	Price	Trend
NV	Dry White	0.60 – 0.75	↔	NV	Dry Red	0.75 – 0.90	↔
2016	Chardonnay	0.85– 1.00	↔	2016	Cabernet Sauvignon	1.00 – 1.15	↔
2016	Sauvignon Blanc	0.90 – 1.05	↔	2016	Merlot	0.95 – 1.10	↔
2016	**NZ Marlborough SB**	**NZD3.20 – 4.00**	↔	**2016**	Shiraz	1.00 – 1.15	↔
2016	Pinot Gris	1.20 – 1.35	↑	2016	Muscat	0.75 – 0.90	↔

CRAFT BEER UPDATE

Reading online? Click on the hop names to go through to more information

JOHN FEARLESS
BREW BOLD. BREW FEARLESS.

The US hop harvest is in full swing and the guys at John Fearless have been on the ground in Washington, a state which accounts for 73% of total US acreage, witnessing at first-hand how things are going. The growing season experienced normal conditions; the harvest size is thus on course to reflect the 17% increase in hop acreage that occurred between this year and last. As there is over two more weeks of harvesting still to go, however, usual caveats about Mother Nature apply!

Aroma hops – the engine of craft beer growth in the US, now accounting for about 75% of the total hop harvest, up from 25% 5-7 years ago – generally ripen earlier than bittering hops. As a result, while at the time of writing the US is about a quarter of the way through its total harvest, half of the aroma crop has been harvested. To help even-out the intake to the processing plants during the intensive 40-day (approx.) harvest, each new hop varietal that is created is designed to ripen at a different time.

What happens at the processing stage? Well, after the entire 18-20ft hop vine is felled and removed to the processing plant, its hop cones are gently shaken off by mechanical rotating fingers. The cones collect on a conveyer that ultimately leads to the drying beds; there, heated air is applied from underneath the cones while they are rotated to ensure an even drying. Once dried to the desired extent, the cones are collected into bales – hessian bags - which weigh 100-200lbs when filled. The hops are then ready for use in brewing (usually between 18-36 hours after being harvested); however, the majority of brewers accept their hops in pelletized form, so on the cones go to the pelletizing process.

At the last count the US grows 83 different hop varietals (more than double that of traditional hop-growing powerhouse, Germany) and it was clear from being on the ground how excited even brewers of twenty-plus years' service are by the current surge in innovation: the good brewers are always seeking to create different beer styles.

And that's where John Fearless comes in: the company possesses direct relationships with hop growers and processors, so it is able to see – and access – what's new off the conveyer. The company's website now lists the hop varietals it can offer; in addition to commercial hops such as Cascade or Centennial, it can provide experimental varieties such as ADHA-484 ('Cedar, woody, bubble-gum and spice'). This hop is dual purpose because it is relatively high in alpha acids – which contribute to a beer's bitterness – but also delivers a pronounced aroma. Consequently, it can be used like a bittering hop early in the brew cycle, or later on in the cycle like an aroma hop. This, along with experimental aroma hops ADHA-529 ('Sweet, coconut, lemon, hay, mint and herbal tea') and ADHA-527 ('Anise, nectarine, stone fruit, hint of lime and spice') are receiving very positive feedback from brewers and – alongside Fearless's other aroma offerings – meet the demand for 'fruit-forward' tropical-citrus aromas. On September 8-10th, at the 2016 Craft Beer Summit in Sacramento, it was great to be able to taste excellent beers brewed with hops and/or hop essence sourced by Fearless!

KEY TAKEAWAY

John Fearless has available aroma and bittering hop inventory from the US and South Africa, and can source hops from across the world for brewers' long-term needs. See more details on the website at www.johnfearless.com.

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Export Pricing: USD per liter
Currency Conversion Rates as of September 14, 2016

ARGENTINA

Pricing in bulk; FCA

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2015	Generic White	0.40	-	0.45	↑	2015	Generic Red	0.60	-	0.80	↑
2015	Generic White (Criolla)	0.35	-	0.38	↑	2015	Cabernet Sauvignon	1.30	-	1.50	↑
2015	Chardonnay	0.90	-	1.20	↑	2015	Malbec Entry-Level	1.30	-	1.50	↑
2015	Torrontes	0.60	-	1.00	↑	2015	Malbec Mid-Level	0.00	-	0.00	↑
2015	Sauvignon Blanc	0.90	-	1.00	↑	2015	Malbec Premium	1.50		+	↑
2015	Muscat	0.40	-	0.45	↑	2015	Syrah / Merlot	0.00	-	0.00	↑
2015	Bonarda	0.90	-	1.20	↑	2015	Tempranillo	0.00	-	0.00	↑

AUSTRALIA & NEW ZEALAND

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Dry White	0.45	-	0.56	↔	NV	Dry Red	0.56	-	0.67	↔
2016	Chardonnay	0.63	-	0.75	↔	2016	Cabernet Sauvignon	0.75	-	0.86	↔
2016	Sauvignon Blanc	0.67	-	0.78	↔	2016	Merlot	0.00	-	0.00	↔
2015	NZ Marlborough SB	2.32	-	2.90	↔	2016	Shiraz	0.75	-	0.86	↔
2016	Pinot Gris	0.89	-	1.01	↑	2016	Muscat	0.56	-	0.67	↔

AUD Rate: 0.745541 **NZD Rate:** 0.724884

CALIFORNIA

Pricing in bulk; FCA

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2014	Generic White	0.60	-	0.80	↔	2014	Generic Red	0.00	-	0.00	↓
2014	Chardonnay	1.45	-	1.88	↑	2013/2014	Cabernet Sauvignon	0.00	-	0.00	↑
2014	Pinot Grigio	1.58	-	1.98	↔	2014	Merlot	1.18	-	1.58	↔
2014	Muscat	0.92	-	1.32	↓	2014	Pinot Noir	1.85	-	2.25	↑
2014	White Zinfandel	0.85	-	0.99	↔	2014	Syrah	1.18	-	1.58	↔
2014	Colombard	0.73	-	0.99	↔	2013/2014	Zinfandel	1.72	-	2.11	↑

CHILE

Pricing in bulk; FOB Chilean Port

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
NV	Generic White	0.55	-	0.60	↑	NV	Generic Red	0.55	-	0.60	↑
2015	Chardonnay	0.80	-	1.00	↑	2015	Cabernet Sauvignon (Basic)	0.78	-	0.95	↑
2015	Chardonnay (Varietal Plus)	1.10	-	1.25	↑	2015	Cabernet Sauvignon	1.00	-	1.50	↑
2015	Sauvignon Blanc	0.70	-	1.10	↑	2014/2015	Cabernet Sauvignon (High Quality)	NA	-	NA	↑
2015	Pinot Noir	1.80	-	2.50	↑	2015	Merlot	0.78	-	0.95	↑
2015	Syrah	0.00	-	0.00	↑	2015	Malbec	NA	-	NA	↑
2015	Carmenere	0.78	-	1.05	↑	2015	Malbec (Varietal Plus)	NA	-	NA	↑

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FRANCE

Pricing in bulk; Ex-Winery

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2015	Generic White	0.56	-	0.67	↓	2015	Generic Red	0.62	-	0.67	↓
2015	Chardonnay IGP	1.07	-	1.18	↓	2015	Cabernet Sauvignon IGP	0.95	-	1.01	↓
2015	Chardonnay VDF	1.07	-	1.18	↓	2015	Cabernet Sauvignon VDF	0.95	-	1.07	↔
2015	Sauvignon Blanc IGP	1.07	-	1.24	↔	2015	Merlot IGP	0.90	-	0.95	↓
2015	Sauvignon Blanc VDF	1.07	-	1.24	↔	2015	Merlot VDF	0.00	-	0.00	↓
2015	Generic Rosé IGP	0.62	-	0.67	↓	2015	Red Syrah / Grenache IGP	1.03	-	1.12	↓
2015	Generic Rosé VDF	0.62	-	0.67	↓						
2015	Varietal Rosé IGP	0.90	-	0.95	↓						

Rate: 1.122740

GERMANY

Pricing in bulk; Ex-Winery

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2014/2015	White Wine	0.67	-	0.79	↔	2014/2015	Red Wine	0.73	-	0.90	↔
2014/2015	Pinot Grigio	1.07	-	1.35	↔	2014/2015	Dornfelder	1.07	-	1.18	↔
2014/2015	Riesling	1.07	-	1.35	↔	2014/2015	Pinot Noir	0.95	-	1.12	↔

Rate: 1.122740

ITALY

Pricing in bulk; Ex-Winery

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2015	Generic White	0.36	-	0.39	↔	2015	Generic Red	0.36	-	0.39	↔
2015	Chardonnay	0.67	-	0.95	↔	2015	Cabernet Sauvignon	0.67	-	0.90	↔
2015	Pinot Grigio	1.18	-	1.29	↔	2015	Merlot	0.62	-	0.84	↔
2015	Prosecco	2.81	-	2.92	↔	2015	Chianti	1.74	-	2.02	↔

Rate: 1.122740

SOUTH AFRICA

Pricing in bulk; FOB Cape Town

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2015/2016	Generic White	0.34	-	0.37	↑	2015/2016	Generic Red	0.40	-	0.45	↔
2015/2016	Chardonnay	0.46	-	0.54	↑	2015/2016	Cabernet Sauvignon	0.48	-	0.59	↑
2015/2016	Sauvignon Blanc	0.47	-	0.59	↑	2015/2016	Ruby Cabernet	0.41	-	0.45	↔
2015/2016	Chenin Blanc	0.37	-	0.43	↑	2015/2016	Merlot	0.47	-	0.55	↔
2015/2016	Muscat	0.40	-	0.44	↔	2015/2016	Pinotage	0.45	-	0.52	↔
2015/2016	Generic Rosé	0.34	-	0.41	↔	2015/2016	Shiraz	0.48	-	0.57	↔
2015/2016	Cultivar Rosé	0.39	-	0.45	↔	2015/2016	Cinsaut	0.41	-	0.43	↔

Rate: 0.068936

SPAIN

Pricing in bulk; Ex-Winery

Vintage	Variety	Price			Trend	Vintage	Variety	Price			Trend
2015	Generic White	0.28	-	0.39	↔	2015	Generic Red	0.31	-	0.39	↔
2015	White Blends (Higher Quality)	0.45	-	0.67	↔	2015	Generic Red (Higher Quality)	0.39	-	0.56	↔
2015	Sauvignon Blanc	0.58	-	0.63	↔	2015	Cabernet Sauvignon	0.56	-	0.73	↔
2015	Chardonnay	0.67	-	0.73	↔	2015	Merlot	0.00	-	0.00	↔
2015	Generic Rosé	0.31	-	0.43	↔	2015	Tempranillo	0.45	-	0.67	↔
2015	Varietal Rosé	0.45		0.56	↔	2015	Syrah	0.00	-	0.00	↔
2015	Moscatel	0.45	-	0.67	↔						

Rate: 1.122740

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