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SA and Global Trends

Global Update July 2016

Over the past six months there was a notable shift in the structure of global wine stocks. Inventories of premium wines had been relatively tight, while inventories of generics and ‘fighting varietals’ were more robust. The large 2015 harvest in Italy has eased supply constraints and increased pressure on Spain’s pricing. Argentina and Chile have reduced global supplies of some lower-end commercial varietals providing relief to suppliers elsewhere in the world.

Argentina
The 2016 harvest was down by 30% on last year and 35% below the 10-year average. The lower production helps with lowering bulk volumes and tighter supplies have led to higher prices, as well as a looming Malbec shortage. Farmers and wineries struggle with inflation at almost 40%. Exports fell by 14% in volume and by 6% in value in Q1 2016.

Australia
Brexit could lead to export problems to their biggest market, the UK. Export volumes decreased by 7.6% and value increased by 3.3% for Q1 2016. Exports to China contribute to the largest share of volume growth. Bottled export value to the US trade at AUD4.00 per litre FOB.

California
The light 2015 harvest resulted in higher bulk wine prices. Premiumisation trends have created softer demand for lower priced wines. The 2016 harvest is expected to be average and inventories are fairly balanced.

Chile
The 2016 harvest is down by 25% resulting in tighter supplies and higher prices. Winemakers are thinking long term by prioritizing historical buyers. For Q1 2016 Chilean wine exports grew by 6.4% in volume, but fell by 3.9% in value. The volume was driven by bulk wine exports to China.

France
Weather conditions created harvest problems in the northern half, but the south is on track. Inventories are high, although there is a demand for imported Cinsaut Rosé and generic rosé from South Africa for B-in-B and flavoured wine drink markets. Brexit uncertainty prevails. Export volumes fell by 1.2%, but rose by 3.4% in value supported by higher-level sparkling wine during Q1 2016.
Italy
Expect normal 2016 harvest and looming higher bulk wine prices. Export volumes saw minimal decline, but value rose by 3.2%, driven by Prosecco.

New Zealand
Harvest up by 34% and with stocks depleted the increase in production should not depress export prices. Wine export volumes fell marginally, but value rose by 6.4% for Q1 2016. Exports to the US and Canada increased, but decreased to the UK and Australia.

Spain
Expect normal 2016 harvest. Inventory is balanced and bulk wine pricing stable. Exports volumes declined by 5.5% (mainly bulk wine), but value rose by 2.1%.

The USA
Wine exports rose by 3% in volume and by 3% in value. Bulk wine exports were down by 2% in value and by 6% in value. This was more than compensated for by the growth in bottled wine exports – 10% in volume and 9% in value.

Wine imports for Q1 2016 grew by 8% in volume and by 6% in value – bottled by 5% in volume and value; bulk by 18% in volume and by 26% in value.

South East Asia Consumer Markets
The uptake of wine consumption has been frustratingly slow for the world’s exporters. The low degree of cultural affinity, religion, high import tariffs and excise duties remain major impediments.

The rapid economic development in recent years has been effective in elevating many of the region’s 622 million residents into the burgeoning middle class, although not evenly distributed across individual countries. Singapore and Malaysia lead the purchasing power of this region.

Growing inbound tourism from western wine consuming countries (40% over the past five years) supports local wine consumption growth. Outside of retail travel South East Asia is a costly market to service. It is geographically, culturally and socio-economically diverse. Logistics can also be challenging and traditional channels are fragmented.

Urbanization will result in two-thirds of the region’s population living in cities and urban centres of under 500 000 people in the next ten years.

Wine consumption is growing from a small base and while it remains challenging in the near term, it has significant scope for growth over the long-term.

Sources: AC Nielsen, Ciatti, Rabobank, Wine Intelligence