Global Trends - Wine Industry Key Elements

Ciatti – 2020 Looking ahead

California
We expect to see grape buyers coming back onto the market at some stage in the new year, seeking to reset their core supply to better reflect the state’s oversupply situation: longer-term deals, yes, perhaps of up to three years, but at prices markedly lower than they were in the years before 2019. If they do not secure any of these new deals, many growers who have not already commenced doing so will begin rightsizing or realigning their vineyards to boost efficiencies – whether that be by removing, mothballing or replacing vines.

We noticed an uptick in bulk wine activity towards the end of the year and we may see a further uptick at the start of the new one as retailers and the buyers who supply them assess their Q4 2019 sales and calculate future sale projections.

European suppliers seeking to export to the US, meanwhile, found things growing more challenging in 2019, with – effective from 18 October – the US levying increased import duties on Spanish, German, French and UK wines “not over 14% alcohol, in containers not over 2 liters”. This was in retaliation for EU subsidies to aircraft manufacturer AirBus. Furthermore, a notice issued on 12 December by the Office of the US Trade Representative (USTR) confirmed that it was considering further tariff impositions, including the widening of their scope to include wines from all EU countries, in any packaging format. It is unknown at what rate these further tariffs would be set, should they be implemented, but the USTR in its notice stated that it could be “up to 100%”. The existing measures could potentially harm imports of French Provencal rosé, with some French suppliers enquiring about importing into the US in bulk and bottling there in order to circumvent the new tariffs. The mooted expansion of the tariffs would also potentially harm imports of Italian Pinot Grigio and Prosecco. The other imported wine which has seen strong growth in the US market in recent years, New Zealand Sauvignon blanc, is of course unaffected.

Argentina
Argentina moves into 2020 with significant inventory – the estimated carryover stock of...
red wines will total 495.3 million litres as of 1 June 2020, with whites at 215.9 million litres – and highly attractive, stable pricing. International and domestic interest has risen; white wines make up a far smaller proportion of the total carryover than reds, so buyers seeking international quality whites at the best pricing are recommended to move onto the market sooner rather than later.

The peso was at approximately ARS59.5/dollar in the first week of January, stable with where it had been through the final quarter of 2019 – a reflection of Macri’s currency controls and the fact the election of his successor, Alberto Fernández, did not significantly move the markets. Fernandez appointed the respected economist Martín Guzmán as his economy minister and tasked him with negotiating debt repayment terms with private bondholders and the IMF. The new government has passed legislation declaring a public emergency until 31 December 2020: a package of measures includes the rolling out of tax increases on the wealthier, tax cuts for the poorest, a 30% tax on foreign currency transactions abroad, the maintenance of the currency cap of USD200 per person per month imposed by the Macri administration, and latitude for the government to impose taxes on exports.

Argentina’s 2020 harvest is expected to be a good one, with vine development so far in good shape.

Chile
There is an acknowledgement among Chilean suppliers that price rises would be difficult in a bulk wine market that is slow globally. In addition, neighbouring Argentina’s very cheap generic wine prices will likely mean Chile’s own generics will go mainly into the domestic market, with only those international buyers requiring specifically Chilean wines coming in for them.

What are the expectations regarding Chile’s 2020 crop? The high temperatures, rainfall deficit and generally extreme weather seen through 2019 - plus firmer pricing on 2020 grapes - have put an end to expectations of a larger-than-average crop and any resulting price drops. The majority view now is that prices will increase. Several big wineries bought big volumes of 2019 wine before Christmas, knowing that the 2020 crop could potentially be short and prices could move higher. While the vineyards currently look in good shape, there is a widely-held belief that the rainfall deficit could start to be felt halfway through summer, from mid-January onward.

France
The French bulk wine market at the start of 2020 was exhibiting characteristics not dissimilar to those of 12 months before: standard and standard-plus quality IGP rosés and whites (and all organic wines) are in good demand, with prices in line with the previous vintage; the red market, meanwhile, is weighed down by carryover, with only the high-quality, high-alcohol wines receiving strong interest. Buyers of reds are mainly holding off while their final clients assess their retail sales – indications are that red wine consumption in France is stagnant – and the future volumes they require. With tough conditions also in China (economic slowdown; market restructuring), the US (tariffs) and the UK (Brexit uncertainty), France’s red wine case good exports have slowed.
Supply of 2019 table reds is expected to be shorter as growers prioritised their AOP and IGP declarations – pricing has subsequently risen and is non-negotiable. There continue to be excellent opportunities on good-quality AOP red wine carryover from Bordeaux and Languedoc, with attractive pricing open to negotiation. Similarly, there are expected to be pockets of 2018 and non-vintage table reds popping up on the market in the new year, with prices open to negotiation.

Spain
The OIV estimated Spain’s 2019 harvest at 34.3 million hectolitres, down a significant 24% from 2018’s bumper yield but a more modest 10% down from the five-year average. As a result, the year ended with Spain’s bulk market proceeding steadily, with supplies of generic red, white and rosé plentiful and their prices unbeatable from a European – if not a global – standpoint, and softening.

The most balanced situation was to be found on the international varietal whites – particularly Chardonnay and Sauvignon blanc – due to the harvest shortfall. Again, however, prices were not rising as demand was slow and Chile and Argentina were price-competitive. Even fresh batches of Spanish low-alcohol degree wines – feared lost to the heat – were popping up on the bulk market due to slow sales.

Italy
For full-year 2019, Prosecco DOC certifications grew by 4.9% on average; bottling of Pinot Grigio DOC, meanwhile, saw a 34% increase year-on-year. By the end of 2019 and into the new year, the overall bulk market in Italy had grown more active, with the big operators starting to close part of their contracts and a large number of new bottlers active in the marketplace. The most demanded wines were the better qualities – such as high-quality reds, high-quality international varietals, good-quality Primitivo, organic wines, good-quality sparkling base wines and other wines for blending – and a definite move away from entry-level wines. This was part-enabled by a 2019 vintage viewed as generally good, with the reds – especially the late varietals – significantly better in quality than 2018’s.

South Africa
All of South Africa’s wineries are now taking a more long-term view, willing to work more constructively with buyers and the end market to ensure they have buyers for their current and future production, and not just relying on speculation.

The Western Cape experienced a welcome wet winter – Cape Town’s dams entered the summer at approximately 85% of capacity – and cold winter temperatures ensured the vines started the growing season well-rested. Fruit set was good. A slightly cooler than normal October, combined with what appears to be a good-sized crop, means the harvest timetable could run a week to 10 days behind normal, though this can change quickly if there are any intense heat spells.

The size of any uptick in the Cape’s grape harvest volumes this year – and for the next 1-2 years – could potentially be constrained by the lack of rootstock available over the
past few years due to the drought. Re-plantings and new plantings have often not been possible. It is encouraging, however, that there is a desire among growers to plant, suggesting the industry is becoming more profitable and sustainable moving forward.

As it traditionally does, the Rand ended the calendar year strengthening against the dollar and euro, starting 2020 at approximately ZAR14.00/dollar and ZAR15.70/euro. South Africa’s economy contracted in two of the last three quarters of 2019, and the International Monetary Fund forecasts sluggish growth in 2020. Due to a shortfall in generation capacity, state-owned power firm Eskom is likely to continue intermittently operating “load-shedding” – pre-arranged blackouts – across the country into 2020, potentially another drag on the economy.

Australia & New Zealand
The ongoing drought, lack of rainfall and hot conditions in Australia are expected to continue in 2020. Bushfires are predicted to persist due to the heavy fuel loads and strong winds. Smoke taint will be monitored and checked in the next 4-8 weeks to confirm the impact. These weather conditions may lead to a small reduction in crush volume.

The overall decline in Chinese demand for Australian wine is expected to continue and sellers need to prepare their sales/intake accordingly. Increased competition on entry-level wines from Chile and Argentina should continue as their respective 2020 crushes look to be positive. We expect more Australian buyers to take advantage of the South American quality and pricing.

Australia’s grape prices in 2020 will increase on average but it is expected that pricing for entry-level bulk wines will remain consistent.

Meanwhile, firm prices are expected to continue on New Zealand’s Marlborough Sauvignon Blanc through 2020, with positive sales continuing in international markets (key markets the US, UK and Australia are showing consistent or increasing growth trends). The early indications are that there will be a higher grape price this year. Minimal levels of spare fruit will be available as many will seek to process and retain for their own use.

Source: Ciatti Global Market Report January 2020