June brought heat to the Northern Hemisphere. While very high temperatures mid-month and a lack of rain throughout meant good sanitary conditions in the vineyards, drought is a concern in France, Italy and Spain. Water restrictions are in place in parts of all three countries. California proceeds more confidently, following a winter that laid-down a large Sierra Nevada snowpack and replenished ground water levels with above-average rainfalls.

April’s Europe-wide frost episode, some subsequent hailstorms and now drought conditions are causing concern for the 2017 harvests in France, Italy and Spain. This is feeding into the sense that the global supply-demand situation is in balance. Following a short 2017 crop, Argentina’s Malbec price is at USD1.90-2.10, up from USD1.40-1.50 this time last year. Chile, whose 2017 crop was 6.4% shorter than its already short 2016 crop, is doing its best to absorb the pressure from North American, European, Chinese and some Argentinian demand: Ciatti has heard from Chilean wineries sold out of their 2017 wines in May. In Spain, inventory of 2016 generic reds is about sufficient to cover needs until the 2017 vintage comes on-line: prices are creeping up slightly, week-on-week.

Many Russian, Chinese and North American buyers seem to have concluded that South Africa is the most attractive alternative to Spain and Chile. SAWIS data shows that, in the June 2016-May 2017 period, South Africa’s bulk wine exports to ‘Eastern Europe’ – i.e. predominantly Russia – were 46% up on the prior 12 months (to 32 million litres); they were also up some 201% to China (13.3 million litres), 44% up to Canada (19.8% million litres), and 840% up to the US (from 1.6 million litres to 15.1 million). Increased bulk shipments to Germany (+4%) and France (+1%) also partially offset a 7% decline in shipments to the UK. Availability on South Africa’s varietal bulk Sauvignon Blanc, Chardonnay, Cabernet and Merlot is very tight.

South Africa has proven attractive because very dry conditions throughout its growing season kept rot and fungus under control, allowing a healthy 2017 harvest. Of course, the very same dry conditions can become a curse the longer they last: as of 3 July, the usable water supply in Cape Town’s catchment dams was effectively at just 15% of capacity. Only an exceptionally wet winter will ensure water supply shortages are not a significant problem in the next growing season.

Although South Africa’s bulk wine shipments to the UK – its leading export market – fell 7% in May 2016-June 2017, packaged shipments to the UK climbed 13%, or 4 million litres, to 35.6 million litres. And last month came the news that UK buyers have been as active on the Chilean market as ever. Despite fears to
the contrary, the post-referendum UK economy has not been parlous: see this month’s extended Brexit Update for all you need to know – and probably more – regarding the Brexit process, which formally commenced on 19 June. The UK is due to leave the European Union by 29 March 2019 (a Friday), but it seems increasingly likely an interim transitional phase will be in place that could last until at least 2022 – or indefinitely. There should be plenty of time for the wine industry to adjust.

Robert Selby

California

Time on target

HARVEST WATCH: Very hot mid-June temperatures seemingly negated by good ground water levels and good canopies

Like Europe, California experienced a very hot mid-June. During a two-week cycle of heat, the coastal growing regions saw temperatures reach in excess of 100°F (37°C+) while the Central Valley experienced a number of days over 110°F (43°C+). The feeling is that good ground water levels (thanks to some above average winter rainfall and a very healthy Sierra Nevada snowpack), and good canopies, helped the vines weather the heat spell well. The picture will become clearer over the next few weeks when berry sizing begins in the coastal regions. Temperatures returned to a normal band by the end of June and into July.

Tentative early predictions are that California is on course for a harvest of 4 million tons or upwards, with some forecasting 4.2 million tons. For context, the 2016 harvest came in at 4 million tons, the 2015 harvest at 3.7 million tons and 2014 at 3.8 million tons. However, there is still more than enough time for Mother Nature to intervene.

Ciatti has not seen any market changes in the past month. The spot market is inactive and there have been no new listings of grapes. Buyers are quiet at this point on purchasing additional grapes: they will wait to see if the 2017 harvest sizes-up and whether or not some excess tonnages become available at cheaper prices.

There has been little change on prices since last month. As mentioned then, the big 2016 Pinot Grigio crop has meant some lower prices becoming available on that varietal. The expectation is that 2017 Cabernet yields will be pretty solid, with another wave of new acres having come online, so the Cabernet market has softened slightly, both in demand and a little on price. Pinot Noir could use some new plantings of its own coming down the road. There is very little availability on 2017 Sauvignon Blanc grapes.

There is more interest in Californian Malbec, due to Argentina’s high prices, but there’s not much significant Californian volume available. Some of California’s Malbec inventory will be used in-house by domestic firms, in lieu of higher-priced or unavailable Malbec from Argentina; normally these firms would sell their domestic Malbec into the bulk market and import Argentinian Malbec, profiting from the arbitrage.

Meanwhile, the Californian state report on acreage shows that there were 94,500 acres of Chardonnay in the ground in 2016, down from 96,800 acres a year earlier. Non-bearing Chardonnay acreage was at 3,200 acres, less than 5% of the varietal’s total acreage – the percentage widely held as the minimum required to sustain stable output moving forward. There have likely
been some Chardonnay removals in the Central Valley, and in the Coast some removals that will be replanted. With continued growth in demand for Chardonnay off a very large base, the supply of the varietal from the – average-sized – 2016 harvest was tight (its pricing was up as a state average by 10.8%, reflecting a continued demand). Early indications are that the 2017 Chardonnay harvest will not be big, so supply may tighten further moving forward, with not enough of the right appellations. It may mean there will be new plantings going in over the next couple of years, but the lead-time before they’re fully bearing could leave a void if sales continue as they have been. It’s something to keep an eye on: give Ciatti a call.

Washington state continues to have excess standard-level Merlot available at a good price following a big 2016 harvest. According to the Washington State Wine Commission, the state’s overall wine grape harvest totalled 270,000 tons in 2016, up 22% on 2015 and beating the previous record crop of 227,000 tons in 2014.

Ciatti’s report this month two years ago stated: “Today, the supply activity is for newly developed brand offerings, which were either non-existent 10 years ago or were recently purchased labels that have been revamped and marketed for growth, mainly in the premium segment. This growth into premium and ultra-premium wines is targeted by all wine marketers selling in the US market.” What was news then is the new normal now. As covered last month, Nielsen data for the 52 weeks ending 22 April 2017 showed the USD3-5.99 category being outpaced and the USD6-8.99/bottle category feeling the squeeze, while the USD9+ categories all experienced impressive value and volume growth. New and previously undiscovered brands such as Meiomi, Josh Cellars and The Federalist are continuing to come onto the market at the higher price points and finding that consumers – particularly Millennials – are happy to accept the price.

Key Takeaways

The big 2016 Pinot Grigio crop has meant some lower prices becoming available on that varietal. The Cabernet market has softened slightly on expectations that 2017 Cabernet yields will be pretty solid, boosted by new acres. Washington state has excess standard-level Merlot available at a good price. California looks on course for a harvest somewhere between 4 and 4.2 million tons.

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See next page for pricing.
California: Current Market Pricing (USD per liter)

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<td>Zinfandel</td>
<td>1.72 – 2.11</td>
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Argentina

Time on target

HARVEST WATCH: At an estimated 1.957 million tons in 2017, up 10% on 2016

Argentina’s winter weather is proceeding normally, with cold temperatures, continued snow in the mountains and rain in the valleys, boding well for snowpack levels and water supplies in the growing season to come. The campaign for October’s midterm elections is now underway and could lead to some political and economic uncertainty: sure enough, on 3 July, following an opinion poll that showed former president Cristina Fernández de Kirchner’s coalition tied with President Mauricio Macri’s governing party, the Argentine peso shed 1.2% of its value to trade at a record low of 16.825 versus the dollar, and has devalued further since.

Argentina’s exporters have been encouraging Macri’s government to devalue the peso closer to 20 pesos to the dollar in order to improve competitiveness, so a peso moving beyond 17 to the dollar – up from 14 pesos a year ago – will be welcome. On 2 June the Macri government approved a hike in the price of gasoline by 7.2% and diesel by 6%, something unlikely to help keep the country’s inflation rate – running at 2% per month in recent times – under control.

The bulk wine market in Argentina is very slow. With 2017 Malbec prices at USD1.90–2.10/litre, buyers are trying samples (quality seems excellent) but not taking positions. European buyers have been sourcing from Chile instead. Argentina’s currency devaluation, if it continues and does not reverse, could lead to some reductions in the Malbec price, but no one really knows what will happen (on 5 July, US news website Business Insider reported that analysts expect a 17.8 pesos per dollar exchange by the end of 2017). Going forward in the next month or so, suppliers may be open to selling for slightly less than the USD1.90–2.10/litre going rate, if it’s in significant volumes. Give Ciatti a call.

There are no 2016 volumes left of any note. Generic 2017 reds and whites are available, but the domestic buyers sourced from Chile in late 2016/early 2017. However, increased prices in Chile and the Argentine peso’s devaluation could make sourcing generics domestically attractive again. There have been no requests for 2017 Chardonnay or Cabernet; requests for these are more likely to come domestically but, again, there has been no buying activity on the domestic market.

Argentina’s competitiveness or otherwise will become clearer from November, after the frost season and the midterm elections have passed and the Northern Hemisphere harvests are known. By then, too, the peso may have devalued further.

See next page for more on Argentina.
**Key Takeaways**

The ongoing peso devaluation against the dollar could make 2017 Malbec prices more attractive for buyers, if it continues. However, how the peso reacts to political developments over the coming weeks, until the 22 October elections, is very difficult to predict.

### Argentina: Current Market Pricing

<table>
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<th>Variety</th>
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<th>Trend</th>
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<th>Variety</th>
<th>Price</th>
<th>Trend</th>
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<td>Malbec Entry-Level</td>
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</table>

### Chile

**Time on target**

**Harvest Watch:** At 949.2 million litres, 2017 volumes came in 6.4% below 2016’s

For the year to date the Valle Central growing region has received 5% more rainfall than the average, and 58% more rainfall than at the same stage last year. The snow season commenced in the mountains earlier than normal. Meanwhile, the 2017 crop figures have been released and show a crop 6.4% shorter than the already short 2016 one, at 949,205,801 litres. Varietal wines came in at 805,061,414 litres, generics at 110,329,802 litres, with table grape wines making up the rest.

Some 67.3% of the wine produced was red, and 32.7% white. Cabernet Sauvignon remained the most-produced varietal – representing 28.4% of total output – and suffered the largest fall between 2016 and 2017, of 17.5%. Sauvignon Blanc represented 15.3% of output, followed by Merlot (13.3%), Chardonnay (9.2%), Syrah (7.9%) and Carmenere (6.7%). The wine that saw the second-biggest slump in output after Cabernet Sauvignon was Pais (Mission, -15%), then Carmenere (-12%), Chardonnay (-9.3%), and Pinot Noir (-9%).

Production in the largest producing region, Maule, was down 7.7% on 2016, from 467 million litres to 431.2 million litres; production in the second-largest, the O’Higgins Region, fell 2.1%, from 322.4 to 315.5 million litres. The biggest drop came in the Bío Bío region, where output halved between 2016 and 2017, from 40 million litres to 19.23 million.

As normal for this time of year, with many countries on holiday, Chile’s export market has been slow. After the release of the crop report the domestic market became active, with the big wineries active on the market. Wines from the 2017 vintage are being

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See next page for more on Chile.
shipped already. There is still pressure for Chilean Malbec due to Argentina's high prices, but deals are taking a long time. Argentina is still buying and shipping wines from Chile. Chile’s bulk wine exports in January-May were down slightly, by 1.73% to 173.8 million litres, while bottled wine exports were up 5.9% to 195.8 million litres in the same period. The cheapest offers for 2017 wines are sold out, while the market is stable, as is currency exchange at around 665 pesos to the dollar.

**Key Takeaways**

The 2017 crop was 6.4% shorter than the already short 2016 crop; wines from the 2017 vintage are being shipped already, and the cheapest offers are already sold out.

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### Chilean Export Figures

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<thead>
<tr>
<th>Wine Export Figures</th>
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<td></td>
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### Chile: Current Market Pricing (USD per liter; Ex-Winery)

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<td>Cabernet Sauvignon VDF</td>
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<td>Carmenere VDF</td>
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France
Time on target

HARVEST WATCH: Ongoing hot, dry weather has meant good sanitary conditions in the vineyards; water shortages are a concern.

France was visited by the mid-June, Europe-wide heatwave: the 21st day of the month was the hottest June day in France since 1945, with temperatures reaching 37°C (98.6°F) in some areas. Things cooled-off towards month-end, though temperatures have started to rise again in July. The growing areas have received little to no rain during the past few weeks, with disease pressure under control and sanitary conditions excellent. The main concern now is drought: as of 11 July, some 55 departments in France contain zones that are on water shortage alert levels severer than the lowest level (‘Vigilance’), and most zones on the highest alert level (‘Crisis’: the discontinuation of non-priority water use, including for agriculture) are situated in the western half of the country.

The potential size of the 2017 harvest in France has been reined-in by April’s frost. It became clear from talking to growers at (a very warm) Vinexpo on 18-21 June that the frost’s impact in Bordeaux was significant, particularly in areas such as Saint-Emilion, Pomerol and Médoc. Some growers will not harvest in 2017 at all. As a consequence, the market for 2016 Bordeaux AOP wines livened-up, with the pre-frost price of approximately EUR1.30/litre climbing towards EUR1.55/litre after the frost had passed, inconveniencing some negociants.

Beyond Bordeaux, all of France’s growing regions were frost-affected to varying extents. Less volume is expected in the Côte du Rhône, for example, where Grenache has not performed well in terms of vineyard development. It’s a similar picture in Provence. It seems certain that France’s overall 2017 harvest size will be smaller than last year’s.

The market in France continues to be slow-moving and there remains 2016 wines in good supply. Little-by-little, inventory is declining, however, and generally the co-ops are relaxed about inventory levels. In demand is good quality AOP wines from southern France, some good quality rosé to meet final summer needs, and varietal bulk Merlot and Cabernet. France can offer international varietal bulk wines — such as Merlot, Cabernet and Sauvignon Blanc out of Bordeaux and Languedoc — in good volumes and at a very attractive price-quality ratio. Prices in France are broadly unchanged from last month: basic entry-level red can be found at EUR0.50/litre; good quality table wines can be found at EUR0.55/litre.

Thoughts are starting to turn to the 2017-18 buying campaign and what it will look like. With the global supply-demand situation seemingly in balance and France’s 2017 crop expected to be down in size on last year, prices in France will probably start at somewhere around the average of what they have been in this current campaign.

Key Takeaways

The 2017 harvest will very likely be down in size on 2016’s. Inventory of 2016 wines is declining little by little. France can currently offer international varietal bulk wines — such as Merlot, Cabernet and Sauvignon Blanc out of Bordeaux and Languedoc — in good volumes and at a very attractive price-quality ratio.

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See next page for pricing.
France: Current Market Pricing  
(EUR per liter; Ex-Winery)

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<th>Variety</th>
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**Brexit update**

On 18 April, UK Prime Minister Theresa May unexpectedly called a general election, to be held on 8 June (the next general election was not due to be held until 2020). May called this election as she was confident it would increase her Conservative party’s slim, 12-seat majority in the 650-seat House of Commons and thus ease the passage through the Commons of Brexit-related measures. However, in a shock result, rather than see its majority increase, the Conservative party suffered a net loss of seats and its majority disappeared.

The Conservative party remained the largest in the Commons and thus constitutionally within its rights to try to form a minority government, a form of governance historically rare, shaky and short-lived. In order to govern sustainably, on 26 June the Conservatives signed a “confidence and supply” agreement with Northern Ireland’s pro-Brexit Democratic Unionist Party (DUP). In return for supporting the government on all Brexit-related votes for the duration of the new parliament, the DUP secured extra funding for Northern Ireland. With the addition of the 10 DUP members of parliament, the government has a working Commons majority of 13.

The significance of this slim but important majority was highlighted three days later, on 29 June, when the government managed to pass its Brexit-focussed Queen’s Speech through the Commons by just 14 votes (323 to 309). The Queen’s Speech sets out the government’s agenda for the coming parliamentary year (but – this time – did so for the next two years, in order to accommodate the passage of a large volume of extra, Brexit-related legislation such as the “Great Repeal Bill” – see Ciatti’s October 2016 report). The Queen’s Speech vote is equivalent to a confidence vote: as such, if the government had been defeated, another general election would likely have been called – and once again the kind of Brexit the UK wishes to seek, and the negotiation process, would have been open to question.

**The Timetable**

As it is, the albeit chastened government has managed to proceed with the planned Brexit timetable. Official negotiations between the UK and the EU finally commenced on 19 June in Brussels. It was agreed that the “Brexit divorce bill” – how much the UK will be required to pay the EU to meet outstanding obligations – and the rights of EU citizens living in the UK, and vice versa, will be the first two items to be settled.
The aim is to make what the EU deems “sufficient progress” on these issues to begin trade talks after the EU summit on 19-20 October. The two sides agreed that negotiations will be held in four-weekly cycles, with one week each month set aside for face-to-face negotiations.

As the UK officially triggered the two-year Brexit process on 29 March this year, the UK is due to leave the EU by 29 March 2019. The EU hopes for negotiations to be concluded in October 2018, to allow time for the European Parliament to ratify any deal.

“Hard” and “Soft” Brexit

Compounded by the recent political turbulence in the UK, it remains unclear exactly what kind of Brexit the UK government will prioritise seeking. Some commentators and politicians have discussed opting for a “soft” Brexit instead of a complete – or “hard” – withdrawal. A “soft” Brexit would see the UK remain inside the EU’s Single Market and/or the Customs Union, or retain some element of its current presence inside either of these.

For example, during the Queen’s Speech debate, one opposition member of parliament tabled an – unsuccessful – amendment that aimed to preserve the UK’s Single Market membership. This is known as the “Norway Option”. Norway is inside the EU’s Single Market (the internal market that allows the free movement of goods, services, investment and people) but is neither an EU member nor part of its Customs Union. Norway thus benefits from tariff-free access to all the other countries inside the Single Market while being able to set its own tariffs on goods imported from outside the Single Market, as well as (ostensibly at least) being spared what is perceived to be the EU’s encroachments on national sovereignty.

But for UK politicians there are two potentially toxic downsides – electorally-speaking – of the “Norway Option”. First, being inside the Single Market means accepting the free movement of people – and fears in the UK regarding the current level of net immigration was one of the main factors in the ‘Leave’ campaign’s referendum victory. Secondly, countries in the Single Market must make annual contributions to the EU budget – again, being a net contributor to the Brussels budget while austerity continues at home was one of the big factors in Leave’s win.

Then there is the “Turkey option”. This would mean the UK leaving the Single Market, but remaining in the Customs Union (i.e., retaining the ability to trade tariff-free with EU neighbours but without the free movement of people). Again, there is a significant downside: members of the Customs Union are unable to negotiate their own free trade deals with third countries – and one of the biggest selling points for Brexit during the referendum campaign was that it would allow a fully-independent UK to go “Out – and into the world”, seeking and making trade agreements with any country it chooses.

“Soft Landing” Brexit

Despite its electoral wobbles, the UK government appears fixed on achieving its goals set out in the 29 March letter Theresa May wrote to EU President Donald Tusk, triggering the start of the Brexit process: the UK will no longer be a member of the Single Market, but will maintain tight regulatory convergence to ensure good access; it will be outside the Customs Union, but seek low or zero tariffs and frictionless customs arrangements.

Commentators believe there is a growing consensus in the government for a “soft landing Brexit”. This would entail a “hard” withdrawal from the EU insofar as it would be total, but with a – strictly time-limited – interim implementation phase to avoid a “cliff-edge” separation. These interim Brexit arrangements would last until new, long-term arrangements are fully up and running, with the target of 2022 set for the end of any transition, the year the next UK general election is now due. Letting the transition extend beyond the next election could potentially run the risk of any new government delaying the end to the transition indefinitely, and the UK limping along in “permanent transition”. It should be noted, however, that the UK’s other main political party, Labour, is itself committed to Brexit.

In short, then, it may not be until sometime in 2022 that new tariffs, taxes and customs arrangements come into effect – five years from now. So, although the picture remains opaque and ever-fluctuating, the wine trade can be assured that any changes it may have to face will not be coming overnight.
Spain

The La Manchuela growing region in south-eastern La Mancha was severely impacted by heavy rain and flooding on 4 June, but vineyard development across the rest of La Mancha was very good throughout the month, with no fungus pressure thanks to hot, dry conditions. The main fear now is drought: according to media reports, by early July Spain’s reservoirs were at 56% of capacity following a dry spring which – Euro Weekly reported – was the hottest ever recorded in the country.

The inventory of 2016 reds in Spain is good but only sufficient enough to cover needs until the vintage jump in December. This fact, along with the expected loss of volume in La Manchuela, drought fears, April’s Europe-wide frost episode, and the shot crops in South America, have combined to nudge up prices in Spain very slightly, week-on-week. The price for entry-level, 11% alcohol generic red is now at EUR0.38-0.40/litre, up from EUR0.35/litre a month ago.

The inventory of entry-level whites is good and the price is stable at EUR0.35-0.36/litre. Italian buyers are said to have been in Spain reconnoitring prices for wines and concentrate, in case of a shorter 2017 crop at home. If this comes to nothing, prices on Spain’s whites may soften a little depending on the inventory available.

The 2017/18 buying campaign in Spain is very likely to start after a smaller crop than last year, a small to balanced carryover stock, and a higher demand from both international and domestic buyers. Prices are thus likely to start higher than they did at the beginning of the present campaign, more in-line with what they were in the middle of this campaign.

Buyers of grape juice concentrate out of Spain – of which there may be many due to Argentina’s problems – should express their needs now. Ciatti is gathering the first demands from around the world. Although it is slightly early for the suppliers to be able to give price quotes, they will at least be aware of clients’ needs and be able to negotiate with the growers and factories accordingly. The volume of high proof red grape juice concentrate will have been impacted by the storm in La Manchuela, with Tintorera and Bobal area impacted. Give Ciatti a call.

**Key Takeaways**

April’s frost, a storm in La Manchuela, and drought fears – together with the balanced global supply-demand situation – have nudged-up prices on reds slightly. Inventory is sufficient but not huge. Whites are stably priced. Buyers of grape juice concentrate out of Spain are recommended to express their needs now.

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See next page for pricing.
Spain: Current Market Pricing (EUR per liter; Ex-Winery)

<table>
<thead>
<tr>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
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<td>Generic Red</td>
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<td>Generic Red (Higher Quality)</td>
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<td>2016</td>
<td>Generic Rosé</td>
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<td>2016</td>
<td>Merlot</td>
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Italy

Time on target

**HARVEST WATCH:** Drought is a concern; the north has received some damaging hail

Since April’s frost, the weather in northern Italy has been hot, as in France and Spain, with the country’s health ministry declaring emergency temperature levels in 10 cities around the country in mid-June. Drought is a potential issue for growers and water restrictions are in place in some areas. At the start of July the north saw some storms which brought a degree of rain, but also damaging hail.

This hail, and more importantly April’s Europe-wide frost episode, means there will be less Pinot Grigio and Prosecco available from the 2017 harvest than hoped. The price for Prosecco is expected to be around EUR2.0/litre as bulk. The Pinot Grigio DOC Venezie price is not yet fixed but is expected to be around EUR1.5-1.20/litre. As well as for climactic reasons, there may be less Pinot Grigio available due to the fact it will be used as a blender by Prosecco growers.

Some volumes of Pinot Grigio will be available in Abruzzo, though less than in northern Italy and Sicily. Trebbiano-Pinot Grigio blends are possible too. A few areas of Puglia were hit by April’s frost but Primitivo should be okay: prices should remain stable at EUR1.05-1.10/litre for entry-level wines and at EUR1.20-1.30/litre for more premium qualities. It will be possible to blend with Negroamaro in order to improve volumes and price.

In the south, Sicily is on course for a normal harvest, with no weather issues experienced as yet. It should be remembered that from the 2017 vintage onwards Nero d’Avola and Grillo can be produced only with the DOC Sicilia appellation and can only be bottled by companies that can demonstrate they have been bottling the old appellation IGT Sicilia for at least two years.

There may be some opportunities on Pinot Grigio volumes in Sicily, with availability at EUR1.0/litre a possibility, up from the 2016 price of EUR0.90/litre. It will still be possible to blend Pinot Grigio with Inzolia or Catarratto to boost volumes and maintain good prices. Sicily is also a good area from which to source international quality Merlot, with prices at around EUR0.85/litre for ripe qualities, and for Chardonnay too, at EUR0.80-0.90/litre.

See next page for more on Italy.
**Key Takeaways**

Pinot Grigio and Prosecco production volume in the north is expected to be down. Prosecco prices are expected to increase, as it is very sensitive, due to a tough growing season, with frost, drought, and hail. Pinot Grigio opportunities in Abruzzo are more limited than from Sicily and the Veneto region.

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### Italy: Current Market Pricing (EUR per liter; Ex-Winery)

<table>
<thead>
<tr>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
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<td>↑</td>
<td>2016</td>
<td>Generic Red</td>
<td>0.40 – 0.50</td>
<td>↑</td>
</tr>
<tr>
<td>2016</td>
<td>Chardonnay</td>
<td>0.65 – 0.85</td>
<td>↔</td>
<td>2016</td>
<td>Cabernet Sauvignon</td>
<td>0.70 – 0.90</td>
<td>↑</td>
</tr>
<tr>
<td>2016</td>
<td>IGT Pinot Grigio</td>
<td>0.95 – 1.20</td>
<td>↑</td>
<td>2016</td>
<td>Merlot</td>
<td>0.65 – 0.90</td>
<td>↑</td>
</tr>
<tr>
<td>2016</td>
<td>DOC Prosecco</td>
<td>2.50 – 3.00*</td>
<td>↔</td>
<td>2016</td>
<td>Primitivo / Zinfandel</td>
<td>1.20 – 1.40</td>
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<td></td>
<td></td>
<td></td>
<td>2016</td>
<td>Chianti</td>
<td>1.60 – 2.00*</td>
<td>↔</td>
</tr>
</tbody>
</table>

*Bottled Price

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### South Africa

**Time on target**

**Harvest Watch:** 2017 volumes estimated at 1.418 million metric tons, approximately 3% up on 2016

The Western Cape is experiencing some cold spells but has remained fairly dry, receiving the odd day of intermittent rain only. After a prolonged drought and a May that was drier than in recent years, it is hoped the historically rainiest months of July and August – or sometimes August into early September – deliver some replenishment to the catchment dams. As of 3 July, the overall percentage water level in the Cape Town area’s catchment dams was 25.3% (compared to 40% at the same time in 2016, 54% in 2015 and 96% in 2014). As the last 10% of water is difficult to use, 25.3% essentially equates to a usable water level of just 15%. With water reserves so low, only an exceptionally wet winter will improve them meaningfully.

Pricing in South Africa remains stable. The market has quietened a little, with the country amid its three-week winter holidays (though the wineries remain open) and the summer holiday season getting underway in the Northern Hemisphere. Availability of varietal bulk Sauvignon Blanc, Chardonnay, Cabernet and Merlot is very tight. Shiraz is not as tight, and there seems to be more Chenin Blanc, dry whites and generic rosé coming onto the market. There have been quite a few Russian and Chinese buyers visiting South Africa in recent weeks, seeking varietals but mainly generic reds, creating a perception on the market that there is a shortage of dry reds in South Africa.

Data from South Africa Wine Industry Information & Statistics (SAWIS) and tabulated by Ciatti shows that South Africa’s combined packaged and bulk wine exports in the 12 months from June 2016 to May 2017

*See next page for more on South Africa.*
totalled 451.8 million litres, up 37.9 million litres – or 9% – on June 2015-May 2016. The export of white wines increased the most, by 24.7 million litres – or 12% - to 231.5 million litres, while red shipments increased by 14.6 million litres – or 9% - to 179.9 million litres. Blanc de Noir/rose exports increased 3% to 36 million litres. Total bulk shipments climbed 14.3% (35 million litres) to 279.5 million litres; packaged shipments increased by 1.7% (2.9 million litres) to 172.4 million litres.

The perception of increased Russian and Chinese activity in South Africa is borne out by the SAWIS figures: bulk wine shipments to ‘Eastern Europe’ – i.e. predominantly Russia – were 46% higher in the June 2016-May 2017 period than the year before, from 22 million litres to 32 million litres. Exports of bulk red to Russia/Eastern Europe were up 86% to 6.6 million litres, with bulk whites up 26% to 23 million litres and bulk Blanc de Noir/rose up 590% from 144,000 litres to 2.2 million litres. These increases can potentially be attributed to Russia’s need for base wines, with a shortness of reds in Chile, and rising prices on whites and rosés in Spain. Russia/Eastern Europe climbed above France to become the number three export market for South African bulk wine in the June 2016-May 2017 period, behind the UK and Germany.

Meanwhile, packaged shipments to Russia/Eastern Europe were also on the rise, by 67% from 4.1 million litres to 6.9 million. Combined, packaged and bulk wine shipments to Russia/Eastern Europe were up 49% in the June 2016-May 2017 period, from 26.2 million litres to 39 million litres. Breaking it down by varietal, Russia/Eastern Europe has been in particularly for bulk and packaged Sauvignon Blanc, bulk generic white, packaged and bulk Shiraz, and bulk Cabernet, Merlot, generic reds and Blanc de Noir/rose.

In the June 2016-May 2017 period, bulk shipments to the Far East (i.e., China) increased 201%, from 4.4 million litres to 13.3 million, with red wine accounting for 8.1 million of the 8.8 million litre increase. Again, this is likely due to the shortness of reds in Chile. Packaged shipments to the Far East were up 14% to 13.9 million litres, with reds accounting for 11.2 million litres of that. Bulk and packaged shipments combined, South Africa’s exports to the Far East increased 63%, from 16.6 million litres to 27.2 million. China has been in particularly for bulk Cabernet, Merlot and generic reds, and packaged and bulk Shiraz.

North America has also been active on the bulk market in South Africa: bulk shipments to Canada grew 44%, from 13.7 million litres to 19.8 million litres, with reds (up 3.8 million litres to 6 million litres) primarily accounting for the increase due to Chilean prices, then whites (up 1.9 litres to 13.4 million litres). Like China, Canada has been in particularly for bulk Cabernet, Merlot and generic reds, and packaged and bulk Shiraz. South Africa’s exports to the US, meanwhile, jumped from 1.6 million litres to 15.1 million litres, with nearly all the increase accounted for by dry whites (14 million litres).

Bulk shipments to South African wine’s leading export market, the UK, were down 7% in the June 2016-May 2017 period, from 71.3 million litres to 66.4 million. Of the decline by 4.8 million litres, some 3.2 million litres was on reds. However, packaged exports to the UK grew 13% - or 4 million litres – from 31.5 million litres to 35.6 million, with reds and whites contributing roughly an equal share of the increase. Packaged exports to Sweden and Denmark, two significant markets for South African wine, were each down 14%; Sweden by 2.3 million litres to 14.4 million litres, Denmark by 1 million litres to 6.7 million litres. Bulk exports to Sweden were also down, by 19% to 5.7 million litres, though to Denmark they were slightly up, by 7% to 13.7 million litres.

Finally, official production figures for this year’s harvest in South Africa have been late appearing. The estimated number is 1,418,333 metric tons, about 3% up on 2016’s harvest and in-line with 2015’s, with the very dry conditions ensuring little or no disease pressure.

Key Takeaways
Supply of varietal bulk 2017 Sauvignon Blanc, Chardonnay, Cabernet and Merlot is very tight. Russian, Chinese, and North American buyers have been active on the market, borne out by the export figures. Prices have remained stable since April, following the initial increase at the start of the campaign.
South Africa: Current Market Pricing (SA Rand per liter, FOB Cape Town)

<table>
<thead>
<tr>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
<th>Vintage</th>
<th>Variety</th>
<th>Price</th>
<th>Trend</th>
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<tbody>
<tr>
<td>2017</td>
<td>Generic White</td>
<td>5.20 – 5.60</td>
<td>↑</td>
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<td>Generic Red</td>
<td>6.00 – 6.80</td>
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<td>Cabernet Sauvignon</td>
<td>8.00 – 9.50</td>
<td>↑</td>
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<tr>
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<td>2017</td>
<td>Ruby Cabernet</td>
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<td>Chenin Blanc</td>
<td>6.00 – 6.70</td>
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<td>Merlot</td>
<td>8.20 – 9.30</td>
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<td>2017</td>
<td>Muscat</td>
<td>6.50 – 6.80</td>
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<td>Pinotage</td>
<td>7.00 – 8.30</td>
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<tr>
<td>2017</td>
<td>Generic Rosé</td>
<td>5.20 – 5.65</td>
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<td>2017</td>
<td>Shiraz</td>
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<tr>
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<td>Cultivar Rosé</td>
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<td>2017</td>
<td>Cinsaut Rose</td>
<td>6.50 – 6.90</td>
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Australia

Time on target

Harvest Watch: The 2017 vintage was a strong one; subsequent winter rainfall has been minimal so far

Dry conditions throughout June have caused concern for many growers as the minimal rainfall teeters close to setting new records. As of the end of June, many of the main grape-growing areas in Australia had received minimal rainfall, less than 5 millimetres during the period. June rainfall in Loxton (in South Australia) totalled 1.6mm, Mildura (Victoria) 2mm and Griffith (New South Wales) 2.2mm. If the dry weather persists through the winter, the lack of rain could cause issues if there is a frost occurrence during bud burst.

Many wineries are now finalising the last of their cool climate red allocations. Interest in 2016 reds remains high. The rollover to 2017 red wines is set to occur quickly. Demand for 2017 Shiraz, Cabernet and Merlot varieties is high and availability is tight, even with the expected larger harvest figure from this year’s crush. White wines have a good availability from 2017.

Treasury Wine Estates recently purchased a sizeable vineyard operation in South Australia’s McLaren Vale that will add 252 acres of quality vineyards to its portfolio. The vineyards – which include good volumes of Shiraz and Cabernet, among other varieties – were purchased for AUD10 million. The sale compromises three separate vineyards, sold under the one title. Treasury is expected to use the wine in its Penfolds Grange and Bin products. This is a significant purchase for the McLaren Vale region and shows that excellent South Australian vineyards are still sought-after in the industry. As of 2016, South Australia’s wine production is valued at around AUD951 million; the state is responsible for around 51% of Australia’s total wine crush and produces almost 80% of Australia’s premium wine.

Meanwhile, Treasury is set to begin selling French wine to China as it seeks to gain a wider share of the world’s fastest-growing wine market. The new brand it will move forward with in China is called Maison de Grand Esprit, sourced from some of France’s best vineyards and bottled in France.

See next page for more on Australia.
Finally, power costs are becoming a concern for growers and irrigators in South Australia's Riverland region. According to The Weekly Times, the state’s Central Irrigation Trust – a cooperative that pumps water to more than 14,000 hectares of horticultural crops – is struggling with an AUD1.3 million surge in its electricity costs and will be forced to pass on the rise in the next financial year. Industry leaders have said escalating energy costs – which have become an ever-growing problem in the past decade – could hobble South Australia’s horticulture industry and render it severely uncompetitive on the world market.

**Key Takeaways**

Interest in 2016 reds remains high and the rollover to 2017 red wines is set to occur quickly; demand for 2017 Shiraz, Cabernet and Merlot varieties is high and availability of these wines is tight. There is good availability of 2017 whites. Minimal winter rainfall up until now is causing some concern.

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

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<td>2016</td>
<td>Merlot</td>
<td>1.15 – 1.35</td>
<td>↔</td>
<td>2016</td>
<td>Shiraz</td>
<td>1.25 – 1.40</td>
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</tr>
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</table>

**Price estimates for 2017 material; final grapes are being crushed**

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<tr>
<th>Vintage</th>
<th>Variety</th>
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<th>Trend</th>
<th>Vintage</th>
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<th>Price</th>
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New Zealand

Time on target

**Harvest Watch:** At an estimated 396,000 tonnes, a smaller 2017 crop than expected

Indicators for the 2017 vintage in New Zealand estimate a wine grape harvest of 396,000 tonnes, down 9% on 2016 due to some challenging weather conditions later in the growing season. According to New Zealand Winegrowers, reports from across the wine regions indicate that wineries are positive about vintage quality.

The Marlborough region is estimated to have produced 302,396 tonnes of wine grapes (some 79.1% of New Zealand’s total 2017 harvest), down 6% on the previous vintage. Hawke’s Bay’s harvest is estimated at 33,679 tonnes, down 2.2%. Nelson (-15% to 8,540 tonnes) and Central Otago (-9% to 8,324 tonnes) are also estimated to have seen declines, but Gisborne’s harvest is expected up, by 2% to 16,388 tonnes.

Sauvignon Blanc grapes accounted for some 74.8% of the total harvested in 2017, at an estimated 285,862 tonnes, a decline of 6% on 2016. Pinot Noir – 7.5% of the total harvest – is estimated to have seen a steeper drop, by 19% to 28,760 tonnes, while Chardonnay – 7% of the total – is estimated to have experienced an 8% fall to 26,843 tonnes. Pinot Gris (-17% to 20,755 tonnes), Merlot (-17% to 7,714 tonnes) and Riesling (-35% to 3,880 tonnes) also saw declines to varying extents.

**Key Takeaways**

Vintage 2017 Sauvignon Blanc production is estimated at 285,862 tonnes, some 6% smaller than vintage 2016’s. All major varietals are expected to have experienced a decline, to varying extents, but wineries are positive about quality.

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The Ciatti Company is committed to providing you with all your wine and drink making needs. Whether you’re after five gallon pails or bulk tanker quantities, we can find the right product for your requirements.

*The following are products we source from around the world:*

- BULK WINE
- EVALUATION SERVICES
- GRAPES
- CONCENTRATES & ALCOHOL
## Export Pricing: USD per liter

Currency Conversion Rates as of July 13, 2017

### Argentina (Pricing in bulk; FCA)

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**Rate:** 1.141270

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### Italy

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### South Africa

**Rate:** 0.075518

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### Spain

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Contact Us

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John White – johnw@ciatti.com
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