The Australian bulk wine market: 2010 outlook

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This article reviews the impact of better rains, improved water availability and smaller national vine plantings on the likely 2010 vintage outcome. Other key influences impacting the market for Australian bulk wine, such as the impact of a persistently high Australian dollar and the rapidly growing volumes of Australia's bulk wine exports, are also examined. Bulk wine inventory and prices are also discussed in detail, and finally, the author provides Australian wineries with reason to be optimistic about their prospects.

2010 vintage outlook

Weather: Better rains and generally benign

Generally speaking, most Australian grapegrowing regions have experienced reasonably good late winter and early spring rains, yielding good spring growth following a promising budburst.

There has been two heatwaves across South Eastern Australia so far this growing season (up until the time of print[1]). The first occurred during spring (early November) when Adelaide experienced eight consecutive days above 40°C. The heatwave occurred when some varieties were flowering – something that is very rare. Apart from some minor but obvious crop damage in, for example, Grenache in McLaren Vale and the Barossa, as well as some red varieties in the Riverland, Langhorne Creek and Sunraysia, the overall impact on the vintage does not appear to be significant. This may be due to good soil moisture profiles resulting from good late winter and early spring rains, but we will not really know the impact until harvest.

The second heatwave occurred during January when Adelaide recorded a further five consecutive days above 35°C, including four days above 40°C. Again, the overall impact does not seem to have been significant. To put these weather events into context, two heatwaves per growing season could probably be considered fairly standard in SE Australia. Separately, disease pressure has generally been low and there have only been a few reported spring frost events.

Water availability: the best in five years, but still scarce

Table 1 illustrates the slightly improved water situation that South Eastern Australia has experienced this year. Better water availability has resulted from better rainfall during late winter and early spring in grapegrowing regions, as well as recent heavy flooding in outback Queensland and New South Wales.

Table 1.

Water in storage in South Eastern Australia[2]		
Current storage volume (GL)	Percentage full (Excl. dead storage)	As at
2482	25%	Jan 6, 2010
2241	22%	Jan 7, 2009
1728	17%	Jan 9, 2008
2013	19%	Jan 5, 2007
5686	60%	Jan 11, 2006

The table shows water in storage for Murray Darling Basin Commission (MDBC) storages for the past five years. Storages are currently 25% full – the best position since 2006, which has lead to more generous water allocations for growers than during the previous four years. But the storages are still pretty empty and, at 25% full, they are less than half then at the same time in 2006.

Vineyard area: a small but significant reduction

There have been various estimates of the vine area that is likely to come out of production prior to the 2010 vintage, and most estimates are in the vicinity of 5000 to 10,000 hectares. To put this into perspective, the upper end of this estimate (10,000ha) is greater than the average annual grapevine plantings for the past 20 years, except the three peak years of 1999, 2000 and 2001. At an average yield of 12 tonnes/ha, this means a reduction in annual production potential of 60,000-120,000t per annum. Key drivers of the reduction in vine area are:

- The Federal Government's buyback of irrigation water licences[3], which are available to all irrigators including winegrape growers.
- The collapse of two high profile managed investment schemes[4], which controlled about 3000ha of vines between them. It is unclear precisely how many of their vineyards will be taken out of production.
- Major wine companies removing very small areas as part of their asset rationalisation plans.

2010 winegrape crop: Some grapes likely to be left unpicked

All the evidence points to more grapes being grown than harvested in 2010, and this is a reasonably consistent outcome during the past five years, with the notable exception of the short, drought induced 2007 harvest. A much higher proportion of growers are probably now out of contract than at any time during the past decade, as wine companies exit contracts to reduce their grape intakes. Both spot and contract grape prices will drift lower in the absence of a major viticultural calamity prior to harvest.

Vintage size: Austwine's best guess

At this time of year, just before harvest really gets underway, Austwine is often asked about the likely vintage crush size, so here is our best guess: 1.5-1.6 million t. And here is our basic logic:

- Good spring rains and generally benign weather conditions
- Adequate water availability
- A likely small reduction in vine bearing area
- Wine companies exiting grower contracts, most likely leading to grapes being left unpicked
- 2009 was 1.706mt and 2008 was 1.832mt[5], which was more than required each year.

Other key bulk market influences

Currency: Persistently high

Table 2 is a snapshot of the Australian Dollar average each June for the past 12 years compared with the United States Dollar, the United Kingdom Pound and the Euro. Together these markets account for almost 80% of the value of Australia's wine exports.

Highlighted in red are periods of a high exchange rate, which I have, somewhat arbitrarily, set as more than US$0.75, £0.40 and €0.60. The strength of the A$ in recent years is self-evident in the table.

I have also, again somewhat arbitrarily, chosen annual snapshots of the average level of the A$ each June. As a small currency, the A$ can be extremely volatile, and this can give Australian exporters false signals. For example, during the global financial crisis in late 2008, the A$ fell extremely rapidly to about US$0.60, but bounced back so fast that the fall is hardly noticeable on an annual view between June 2008 and June 2009.

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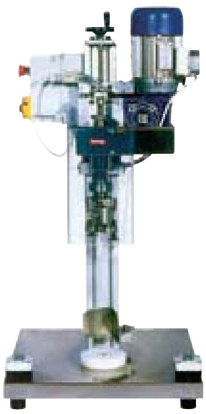

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Table 2.

The value of the Australian Dollar [6]			
Average for June	A$1		
	US$	UK£	EUR€
1998	0.60	0.36	0.54
1999	0.65	0.41	0.63
2000	0.59	0.39	0.62
2001	0.51	0.37	0.60
2002	0.56	0.38	0.59
2003	0.66	0.40	0.57
2004	0.69	0.37	0.57
2005	0.76	0.42	0.63
2006	0.74	0.40	0.58
2007	0.86	0.42	0.62
2008	0.95	0.48	0.61
2009	0.80	0.49	0.57
2009 – December	0.90	0.55	0.61

Both buyers and sellers of bulk wine often ask about the likely direction of the A$, but this is beyond the expertise of our company; however, two really significant driving forces of a high A$ appear to be:

- Relatively high domestic interest rates (Australia is a net capital importer)
- Chinese demand for US$ denominated Australian commodities.

Until these drivers diminish in significance, Australian wine exporters will probably have to accept a high A$ as a permanent fixture of their trading environment.

Australian bulk wine export volumes: Now nearly 40% and growing rapidly

Despite the high A$, Australia's bulk wine exports have resumed their growth of recent years after a sudden fall arising from the 2007 drought. During the past year, Australian bulk wine exports have increased by 13 percentage points and now represent 39% of Australia's total wine export volume.[7] This means that nearly four in 10 litres of Australian wine is now leaving our shores in bulk.

Part of this increase is due to wineries moving surplus bulk wine inventories, but a significant part is also due to major brand owners moving their bottling offshore in order to extract savings in bottling and transport costs, as well as to enhance their environmental credentials. By undertaking more value-adding in destination markets, the major brand owners are hedging their cost structures against a rising A$ and reducing their carbon footprint.

Bulk red wine exports for the year to December 2009 rose to 138mL, growing at a very high rate of 49% during that time. Bulk white wine exports rose to 140mL, growing at an even higher rate of 113%.

Other recent events affecting the 2010 outlook for Australian bulk wine

- Major Australian wine companies (which control perhaps 60-85% of the market, depending on which measure is used) continue to exit from segments that are unprofitable for them, such as cask wine and some aggressively priced supermarket promotions. These companies have been announcing asset rationalisations, vineyard and winery sales, stock write-downs, termination of grower

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Objective aroma and performance

The success of the popular premium white wines made from Sauvignon, Chenin, Manseng and Colombard is mainly based on their aromatic typicity. These grape varieties actually contain odorless thiol precursors. By carefully combining enzyme and yeast, the enologist can increase and direct aromatic intensity through the monitored diffusion, release and conversion of aromas.

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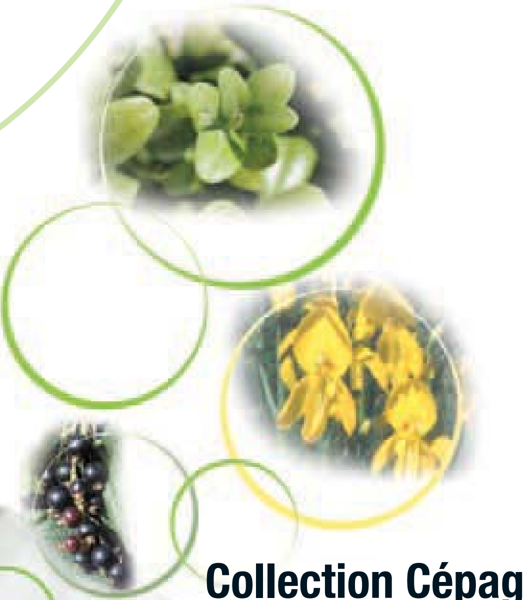

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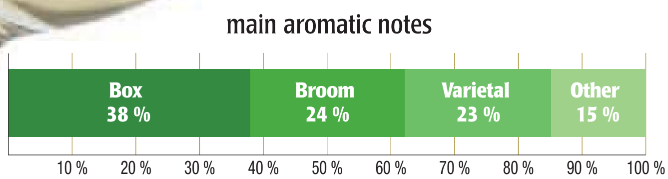
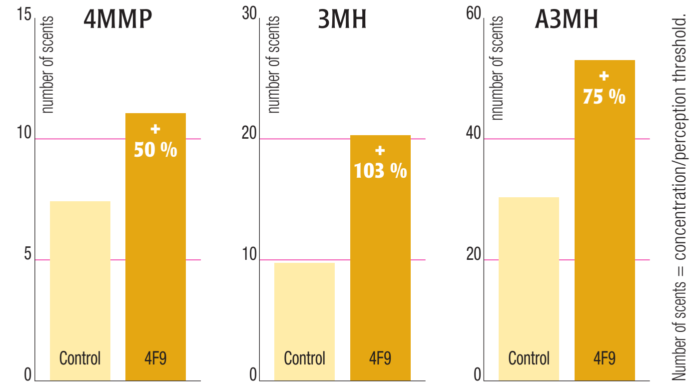
This yeast, selected by DSM and ITV, Nantes, releases 3MH and, most importantly, the 4MMP thiols that are the source of varietal notes of box and broom. Collection Cépage® Sauvignon contributes to beautifully balanced wines.



Sensorial analysis of 21 wines obtained using Collection Cépage® Sauvignon, 2007.



Aromatic analysis of Chenin white wine with Fermicru® 4F9 ITV 2001.

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for releasing and converting thiols and expressing fruity notes.

Fermicru® 4F9, a Bayanus strain selected by DSM and ITV Nantes, releases 4MPP and 3MH then converts 3MH into A3MH intensifying guava and passion fruit notes. This yeast leads to obtaining full-bodied wines.

DSM has considerable expertise in both biotechnology and biochemistry and is providing original reliable wine-making protocols that enable enologists to achieve organoleptic objectives in their wines, whilst improving their production profitability.

contracts, replacement of key personnel, and possible mergers – all this to try to balance their asset portfolios against smaller, but hopefully more profitable, market shares. This increases the availability of bulk wine.

- New Zealand Sauvignon Blanc continues to occupy a significant proportion of the Australian domestic wine market, taking market share away from Australian wineries and releasing white varietals, especially Chardonnay, onto the bulk wine market.
- Family companies seizing the initiative and telling the world about Australia's wine diversity and landmark wines. This venture, or alliance, is called Australia's First Families of Wine. This may reduce the supply of bulk wine as these companies work to build equity in their brands.
- California coming out of oversupply in the Central Valley (equal to Australia's inland irrigated regions). This has fuelled demand for cheap Australian wine, especially Chardonnay in bulk.
- The European Union continuing its gradual decline in production. Most recently, the EU has targeted removal of 175,000ha of vines in three years – an area equal to Australia's entire vine plantings. This may increase demand for Australian bulk wine by limiting alternative sources of supply. (By way of comparison, Australia is expected to remove 5000-10,000ha of vines prior to the 2010 vintage.)

Current Austwine bulk wine inventory round-up

Chardonnay

Chardonnay is our largest inventory item, and makes up nearly half of all white winegrapes crushed in Australia. About 399,000t of Chardonnay was crushed in 2009, down 11% from the previous year.

Table 3 is a summary of all Chardonnay bulk wine inventory on Austwine's books. There is a total of 28.4mL of Chardonnay with an average parcel size of about 128 kilolitres, but the average parcel size of cool climate chardonnay is just 56.3kL – slightly more than two bulk wine export containers. Because the cool climate volumes are so small, they are really not available for most export opportunities, and there is not much domestic demand for this variety. So this leaves us with about two-thirds of the volume (19.2mL) of Chardonnay coming from warm areas, with an average size of 319.2kL, which is effectively available for export. We currently have 60 parcels of such wines, so there are still some good choices available, especially when most of the wine comes from the 2009 vintage.

Table 3.

Chardonnay – Austwine bulk wine inventory summary							
Total	Warm	Cool		2009	2008	2007+	Total
28.4	19.2	9.2	Vol (mL)	18.4	8.0	2.0	28.4
224	60	164	No. of lots	86	97	41	224
127.9	319.2	56.3	Av. size (kL)	214.5	82.3	47.8	127.9

Shiraz

Let's turn now to Shiraz, which is our second largest inventory item. About 403,000t of Shiraz was crushed in 2009, down 8% from the previous year, but it was still the biggest single variety in 2009, accounting for 23.6% of the total crush and nearly half of the red grape crush. More Shiraz was crushed than the next two biggest red varieties put together – Cabernet Sauvignon and Merlot.

The key point here is the total volume of cool climate Shiraz we have on the books. It is more than half the total inventory of 25.1mL, and we have 271 lots of cool climate Shiraz with an average size of 47.4kL – again, too small to export and generally too expensive. That leaves 12.3mL of warm area Shiraz across 43 lots, which is much less than Chardonnay availability, and this accounts for the price difference between these two varieties (which I will discuss later in the article)

Table 4.

Shiraz – Austwine bulk wine inventory summary							
Total	Warm	Cool		2009	2008	2007+	Total
25.1	12.3	12.8	Vol (mL)	13.0	9.4	2.7	25.1
314	43	271	No. of Lots	73	153	88	314
80.0	285.3	47.4	Av. size (kL)	178.0	61.4	30.9	80.0

Cabernet Sauvignon

Next, Cabernet Sauvignon, and there is much less of this variety available – in total about 16.9mL. This is about 60% the volume of

Chardonnay and about two-thirds the volume of Shiraz. Again, like Shiraz, there is an abundance of cool climate Cabernet Sauvignon (8.6mL), which represents about half the total inventory of this variety. We have just 32 lots of warm area Cabernet Sauvignon compared with a huge 201 lots from cool climates.

Cabernet Sauvignon inventory is mostly ex 2009, with little older vintage stock remaining. It is interesting to note that the average parcel size of 2008 and older Cabernet Sauvignon is much smaller than the 2009 average parcel size. This is indicative of cool climate lots coming onto the market.

Cabernet Sauvignon is the shortest inventory item of the top three reviewed so far, and in 2009 247,000t of the variety was crushed, down 4% from the previous year.

Table 5.

Cabernet Sauvignon – Austwine bulk wine inventory summary							
Total	Warm	Cool		2009	2008	2007+	Total
16.9	8.3	8.6	Vol (mL)	10.1	4.1	2.7	16.9
233	32	201	No. of lots	67	86	80	233
72.4	258.7	42.7	Av. size (kL)	150.3	47.2	34.2	72.4

Merlot

Finally, let's take a look at Merlot, which is by far the smallest of the top four varieties grown in Australia. Different wine, same issue – a disproportionately large volume of cool climate bulk wine (at generally too high asking price) stored in too small volumes to export. Most of the wine is from the 2009 vintage, but there are a large number of very small parcels of older vintages still on the market. In total, there is 10.1mL of Merlot on our books.

In 2009, 26,000t of Merlot was crushed, down 4% from the previous year.

Overall, there are good stocks of Australian bulk wine going into vintage. With competitive pricing (see the following discussion), this could change after the 2010 vintage.

Table 6.

Merlot – Austwine bulk wine inventory summary							
Total	Warm	Cool		2009	2008	2007+	Total
10.1	5.0	5.2	Vol (mL)	6.3	1.8	2.1	10.1
154	25	129	No. of lots	51	59	44	154
65.8	198.1	40.2	Av. size (kL)	123.1	30.4	46.9	65.8

Current Australian bulk wine prices

Set out in Table 7 are bellwether indicative prices for the main Australian varieties – A$FOB/L for export with shipment during, say six months, and a minimum volume of, say 250,000L. To the right of the current price, I have also displayed historical prices immediately since the 2008 harvest to get a sense of perspective of market movements.

Table 7.

Bellwether indicative pricing for Australian bulk wine								
	<--Historical--------------------------------------->							Current
A$FOB/L	Mar 08	May 08	Sep 08	Nov 08	Jan 09	Mar 09	Jun 09	Nov 09	Jan 10
Shiraz	1.50	1.50	1.35	1.25	1.10	1.05	1.05	0.85	0.85
Cabernet Sauvignon	1.50	1.50	1.35	1.25	1.10	1.20	1.10	0.90	0.90
Chardonnay	1.25	1.25	1.00	0.90	0.90	0.90	0.80	0.65	0.65
Merlot	1.50	1.50	1.35	1.25	1.10	1.05	1.05	0.85	0.85
Dry Red	1.10	1.10	1.00	0.85	0.85	0.85	0.80	0.70	0.70
Dry White	1.10	1.10	1.00	0.85	0.85	0.85	0.70	0.60	0.60
Semillon and Colombard	1.10	1.10	1.00	0.85	0.85	0.85	0.70	0.75	0.75

Prices have generally stabilised since late last year

Shiraz and Merlot are currently about A$0.85/L, and their prices have moved in tandem for quite some time. Cabernet Sauvignon has been a little shorter during the past year or so, and this is evident in the small pricing premium it commands compared with Shiraz and Merlot.

Chardonnay is in clear oversupply at A$0.65/L. Its oversupply can also be demonstrated by it falling below the price of its two traditionally cheaper blenders, Semillon and Colombard. Dry red and dry white are about A$0.70/L and A$0.60/L, respectively.

Summary

In summary, the following key observations can be made to wrap up the review of the 2010 outlook for Australian bulk wine:

- Better rains and generally benign growing conditions, not unusual for Australia, during the 2010 growing season.
- The best water availability in five years, but it is still scarce with dams at 25%.
- A small but significant reduction in vine area of 5000-10,000ha prior to 2010.
- Some grapes are likely to be left unpicked in 2010.
- Our best guess of the size of the 2010 vintage is 1.5-1.6mt.
- A persistently high Australian Dollar reducing competitiveness.
- Australian bulk wine export volumes growing rapidly to nearly 40% of total wine export volumes.
- Generally good current stock of Australian bulk wine.
- Current Australian bulk wine prices generally stable after falling from highs following the 2007 drought.

Addendum

We have observed some negative market sentiment from Australian wineries that generally seem pretty depressed about their economic plight. So, as a value-add, we have included the following extra piece, which might help contribute to a healthier psychological outlook from Australian wineries.

Customers still love Australian wine

Yes, customers still love and are very enthusiastic about Australian wine. That has been the consistent feedback received from the international marketplace during the past several years of cyclical downturn.

But this is completely incongruous with observations from within the Australian wine industry at the same time, which has ▸

been a period of natural adjustment after, perhaps, the irrational exuberance[8] of the late 1990s, driven by exceptional demand growth for our wines.

What does this have to do with bulk wine? Well, a lot since the negative sentiment within the Australian wine industry is extremely pervasive at present and it impacts on all parts of the industry, including bulk wine. In fact, our reputation as an innovative, viable and strongly competitive export-orientated wine producing country seems to be increasingly questioned, so much so that it may be seriously in doubt in the minds of many of those vested with nurturing the Australian wine industry's growth and prosperity. This is bad for business. We need to get our heads straightened out, and start looking outwards again for the opportunities that are out there. So here is a set of random facts to help cure us of this potentially disastrous attitude:

Australia still ranks highly in the wine world

- Australia is the world's fourth largest wine exporter.
- Two of Australia's largest wine companies are in the top five global wine companies.
- Six of the top 10 export wine brands are Australian. Thirty six million cases of Australian wines are in the top 10, which is more than 23m cases that make up the rest of the world in the top 10 combined. We are talking about Australian wine here – this sort of comparison is usually reserved for the United States Navy, which is bigger than the next 13 of the world's navies combined.[9]
- Australia ranked second only to France in total awards received at the 2009 International Wine Challenge. This is an example of the success that smaller Aussie winemakers can achieve.

Top 10 wine exporting countries
Exports as a proportion of world wine export volume, %[10]

Italy	20.7
Spain	19.2
France	16.8
Australia	8.5
Chile	5.6
US	4.2
Portugal	3.7
Germany	3.6
Argentina	3.3
South Africa	3.2
Total top 10	88.8

Top 5 wine export companies[11].

Constellation Brands	US
E&J Gallo	US
Foster's Wine Group	Aus
The Wine Group	US
LCGF	FR

Top 10 export still wine brands globally[12]

Brand	Export vol (9L cases)	
[yellow tail]	9.5m	Aus
Hardy's	8m	Aus
Blossom Hill	6.5m	US
Jacobs Creek	6.5m	Aus
E&J Gallo	6m	US
Lindemans	6m	Aus
JP Chenet	5.5m	FR
Concha Y Toro	4.8m	CH
Wolf Blass	3.5m	Aus
Banrock Station	2.5m	Aus
Total top 10	58.8m	Aus = 36m

2009 International Wine Challenge: Total awards by country.

Country	Total
France	809
Australia	616
Italy	427
Spain	356
Portugal	307
Chile	283
New Zealand	260
South Africa	185
Germany	128
Argentina	123
Austria	109
US	72
All others	279
TOTAL	3954

• These random facts did not exist during the period of irrational exuberance of the late 1990s.

So, a special message to all Aussie wineries: We need to open our eyes and ears, and align our view of the world with what customers and consumers of Australian wine are telling us – Aussie wineries make excellent and interesting wines. So why are we crying in our soup? Is it simply because the world is no longer beating a path to our door to buy our wine? We must adjust our attitude and enthusiastically get on with the business of taking our marvellous wines to the world in a competitive marketplace.

Re-read these amazing achievements about Australian wine and remember that you have been a part of it! Then call a customer and ask them how you can help serve them better. Be amazed at the wonderful curative properties to the health of your wine business! ■

*About the author and Austwine

Jim Moularadellis is chief enthusiasm officer (CEO) of Austwine, Australia's bulk wine specialist. Established in 1993, Austwine will celebrate 400 million litres of bulk wine transactions this year. Moularadellis was named 2007 Entrepreneur of the Year, Services, for South Australia by Ernst & Young, and in 2008 Austwine was announced winner of the Business SA Agribusiness Award. In 2007 and 2008, Austwine was in the Top 25 Fast Movers for SA, an index of SA's fastest growing companies.

Moularadellis joined Austwine in 1998, is a Certified Practicing Accountant, and holds an Honours Degree in Law from the University of Adelaide. He can be contacted by phoning (08) 8363 5188 or emailing jim.moularadellis@austwine.net.au.

References

(Endnotes)

[1] 18 January 2010.

[2] MDBC storages. Full supply = 9352GL.

[3] The Federal Government has various water buyback initiatives, including the Small Block Irrigators Exit Grant and Restoring the Balance in the Murray Darling Basin.

[4] Great Southern and Timbercorp.

[5] Winemakers' Federation of Australia.

[6] www.x-rates.com.

[7] AWBC Wine Export Approval Report, December 2009.

[8] 'Irrational exuberance' is a phrase used by the then US Federal Reserve Board chairman, Alan Greenspan, in a speech made on December 5, 1996 during the stock market boom of the 1990s. The phrase was a warning that the US stock market might be overvalued.

[9] The US Navy is the largest in the world. Its battle fleet tonnage is greater than that of the next 13 largest combined.

[10] 2006 data (Top 10 values) displayed from Table 31, The Global Wine Statistical Compendium 1961-2006.

[11] AWBC 2006 data.

[12] Euromonitor.