



2017 Australian Wine Grape Harvest Update

5 minute Q & A

with Jim Moularadellis, Austwine

1. Where is Australia currently at with 2017 wine grape harvest?

As a broad generalisation, most grape growers and winemakers are reporting vintage being 3 weeks later than the last several years. The exception is the Hunter Valley, where vintage is nearly finished and winemakers are reporting excellent quality outcomes.

2. What are the growing conditions like for this vintage?

Quite unusual: generally, it was a very wet winter and spring followed by a generally mild summer in many regions, often punctuated by violent storms. For example, on 11 November 2016, there was a large hail storm that cut a swathe across the Riverland and Murray Darling regions. The impact of this event is very hard to assess, since some vineyards were devastated, whilst nearby ones were left untouched. In Western Australia there have been some quite devastating rains recently and the impact of this is not yet known.

3. How do you think this will affect the size & quality of the forthcoming vintage?

Very hard to tell but some commentators are saying a 5% reduction in quantity expected in the Inland Irrigated Regions due to the 11 November hail storm.

A wet winter and spring usually means good crop loads in the dryland areas, although many such regions already reported a large crop last year. Anecdotally, berries are generally bigger in these regions this year, although set is patchy.

The extended ripening period due to the cooler summer conditions does increase the prospects of a high quality 2017 Australian vintage.

4. In the current market, which varieties are in longest/shortest supply?

- *Short-Very Short: Commercial/Entry level Shiraz, Cabernet Sauvignon, Merlot, Sauvignon Blanc and Pinot Gris*
- *In Balance: Dryland reds, despite a large crop last year.*
- *Uncertain: Commercial/Entry level Chardonnay. 2016 is still reasonably abundant, but a possibly shorter 2017 crop may change this.*
- *Long: Dryland Chardonnay*

5. What is the current level of bulk wine inventories?

Generally in balance to tight-ish supply, although there are large variations across vintage, varieties and regions. What is quite clear is that there is certainly less abundant bulk wine inventories than last year, which in turn, were less abundant than the year before.

I don't think it is too much of a stretch to say that for many varieties a really big crop is needed to fully satisfy current demand at current prices.

6. Vintage 2016 saw prices generally firm from previous vintages, especially for reds. What do you expect for Vintage 2017 pricing?

- *Upward price pressure: Commercial/Entry level Shiraz, Cabernet Sauvignon, Merlot, Sauvignon Blanc and Pinot Gris*
- *Slight price increase: Commercial/Entry level Chardonnay, as a result of an increase in 2017 grape price.*
- *Stable: Dryland reds, despite a large crop last year.*
- *Downward price pressure: Dryland Chardonnay, except perhaps Adelaide Hills.*

7. What position would you recommend buyers take in the current market conditions?

Each buyer has a different set of needs, opportunities and pressure points that they are managing, so a lot depends on individual circumstances.

Some buyers are best advised to lock in medium and longer term supply if they can be reasonably certain of their demand forecasts, and the downside risks of stock outs or poor supply choice is very significant for them. The key takeaway for this group is get your supply needs sorted early.

For other buyers, it might be appropriate to buy only what they need in the very short term, if they are less certain of their demand forecasts or, can better handle potential stock outs or less abundant supply choices. The key take away for this group is that wine may not be readily available when you need it, at the price you need it, which is what is happening now with Commercial/Entry level reds from 2016.

But what is clear is the increased recent interest from large domestic buyers of bulk wine after many years of absence. For international buyers this changes the game. Domestic buyers are generally extremely well informed, and have the massive advantage of being able to find, taste, analyse and approve wine within very short timeframes - within hours if needed - compared to international buyers. The disadvantage of local buyers is that they come into the market when supply is short and depart when the market is long.

8. What position would you recommend sellers take in the current market conditions?

Easy: look after your customers well! This might include:

- *Good sample preparation;*
- *Timely sample delivery;*
- *Familiarising yourself with the market to ensure your wine is priced competitively; and*
- *Aligning yourself with partners who have good route to market.*

9. What would be your advice to both buyers and sellers?

Play nice: people usually do business with people they like and it costs nothing to be friendly and polite. Courtesy, manners and respectful behaviours, apart from being basic tenets of good human relations, ensure the possibility of miscommunication and misunderstanding, especially across cultural differences, are minimised.

Such an approach can only be good for your well-being and your business. Remember that your market or negotiating position is only ever temporary.

10. What is your prediction for the total Australian 2017 crush figure?

A tough question: I'll hazard a guess and say 1.8mT, which is the same as last year.

On the upside, the wet winter and spring may deliver larger dryland crops.

On the downside, there have been some large vineyard removals, perhaps the last of them for this wine cycle, including this one in the Murray Darling region that regularly produced 25,000 tonnes of grapes. Check out how big it is was:



Add the minimal new bearing area, as well as the impact of the 11 November hail storm and I think the 2017 crush size may end up pretty much the same as last year.

11. China is the hottest export destination for Australian wine. Can you give us an overview of what is happening and whether it will continue on current trend?

Certainly China has been important to the recent turnaround in Australia's wine fortunes and without China our recent export growth would have otherwise been diminished. There is no doubt about that.

It is very difficult to have clear visibility into the Chinese market, since the market is highly fragmented, supply chains very opaque and demand often quite unpredictable.

Whether the trend will continue is an open question, but with more and more Chinese people entering the middle class, good growth is a distinct possibility in the short term. Of course, as volume grows, the current high growth rates are much harder to sustain.

Furthermore, every market has its cycle and wine is no different.

12. Can you give us an overview of how you see the current world bulk wine market?

To summarise a huge topic in just a few words: Highly competitive, highly price sensitive and with increasing competition from wines and supply countries that are becoming more and more highly substitutable.

13. What is happening with new plantings in Australia?

Anecdotally, nurseries are quite busy, but the number of vines propagated is still fairly modest. If wine and grape prices keep improving, and in the absence of any external shock, be it weather, market access or geo-political changes, then this will certainly encourage significant new investment in plantings.

14. What are the current Government policy settings?

The WET Rebate on bulk wine has a timeline to be abolished. Whether you are for or against this change, it is clear that its abolition will remove a large distortion in the market place.

As a free trader, my instinct is for less government intervention, not more: one of the reasons why so many vineyards were planted here was a result of a previous government policy to allow very generous tax depreciation allowances for new vineyards in the 1990's and early 2000's. This, along with a high exchange rate, big crops and aggressive discounting, led to an almighty hangover for the industry that lasted 15 years and sent many people to the wall. Before that, just a decade earlier, in the late 1980's, the government was paying growers to remove vineyards!

Unfortunately, Government intervention such as this has been going on since Roman times, often at the behest of industry participants, so I don't think such intervention is going to end anytime soon.

15. Over the next 3-5 years, what do you foresee happening in the Australian wine industry?

Suddenly Australian wine has become interesting again: exports are growing, driven by China, and prices are generally rising. This has not been an overnight success: there are a lot of Australian grape growers and winemakers that have been working diligently and quietly without fanfare to innovate and continually improve their market offerings during the last 10-15 years, during which time the economics for Australian wine have been extremely difficult. These activities are very hard to measure, and the turnaround in fortunes which appears very recent, is really a result of a lot of work by a lot of people over a long period of time.

But the world is changing so rapidly now, it would be foolish to bank on growth rates, especially for China, continuing into the distant future. For example, the Apple iPhone is just 10 years old this June which is spawning far reaching changes in our society, and in same period of time Australia has had six Prime Ministers.

In stark contrast to the changes in the world around us, we need to remain grounded to the fact that the wine industry has very long supply response times. It takes the best part of 10 years to get a single premium vineyard from planning to a stage where it can reliably produce top quality fruit!

Therefore, on the current trajectory, the next 3-5 years look quite promising. But Murphy's Law dictates that trajectory will change, as new variables surface and exert their influence in the marketplace.

I don't know when or by how much, but change is a given, so a sense of perspective is essential: Cleopatra remains closer in time to the iPhone than to the building of Great Pyramid of Giza.