AUSTWINE
Australia's Bulk Wine Specialists

AUSTRALIAN 2016 MID-VINTAGE UPDATE

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Contents

Australian Bulk Wine Market Fundamentals

Market Fundamentals - Exchange Rates

- Significant improvements in the competitiveness of Australian Wine Exports as the A$ falls.

- The A$ is currently at its lowest against ALL the currencies in its top 5 markets, as follows:

- UK£ Down 35% in 2 years
- € Down 30% in 3 years
- US$ Down 40% in 4 years
- Yuan Down 35% in 4 years
- C$ Down 10% in 1 year

Market Fundamentals - Free Trade Agreements

- In recent times, Australia has signed 3 key FTA's in very quick succession:

• Dec 14	South Korea
• Jan 15	Japan
• Jun 15	China

- Also, very recently:

• Oct 15	Trans-Pacific Partnership Agreement
• Dec 15	WTO Elimination of Agricultural subsidies

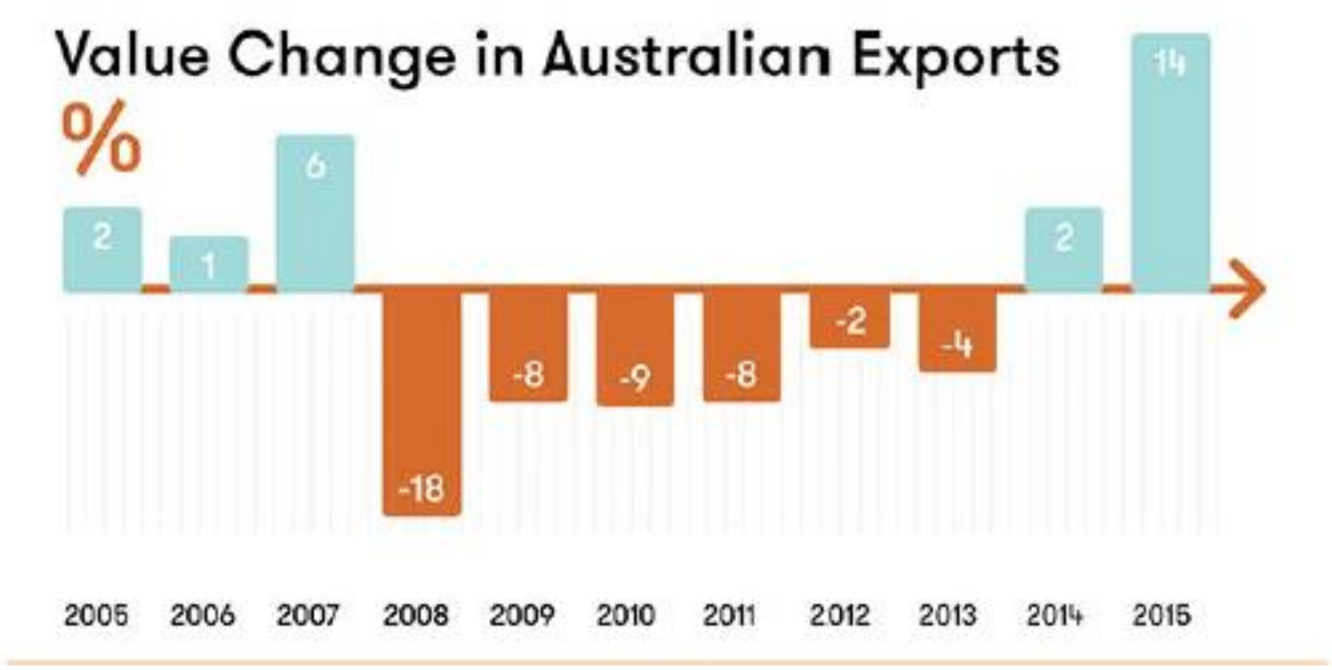
AUSTRALIAN WINE EXPORT RENAISSANCE

An Export Renaissance has been stimulated by an improvement in Market Fundamentals

Driven by China, but also felt across major markets…

Across all price points…

After years of pain…



The Export Renaissance is the beginning of a Game Changer for Australian wineries.

- The renaissance in Australian Wine Exports gives local producers an opportunity to achieve higher pricing outcomes to more sustainable levels.

Meanwhile….. vineyard removals have continued as a result of years of unsustainable prices…

The future for Murray Valley growers hinges on 2016 grape prices

MURRAY VALLEY WINEGROWERS (MVW) has warned that grapes prices must increase next year to help secure the future of the winegrape industry in the Murray-Darling and Swan Hill regions.

An annual growers' survey conducted by MVW to track changes from the previous year has revealed a net loss of 1818 acres of winegrapes since this time last year. In two years, more than 3700 acres have been discarded due to prices that have been among the lowest in 10 years.

Growers harvested 285,000 tonnes this year, down 45,000 tonnes on the 2014 vintage.

The MVW growers' database shows that over the past two seasons, 105 families quit growing wine grapes.

Mike Stone, MVW executive officer, says the message from many of the growers remaining is that they will do the same if prices don't improve substantially.

The increasing price of water will also be a factor in determining the future of the winegrape industry.

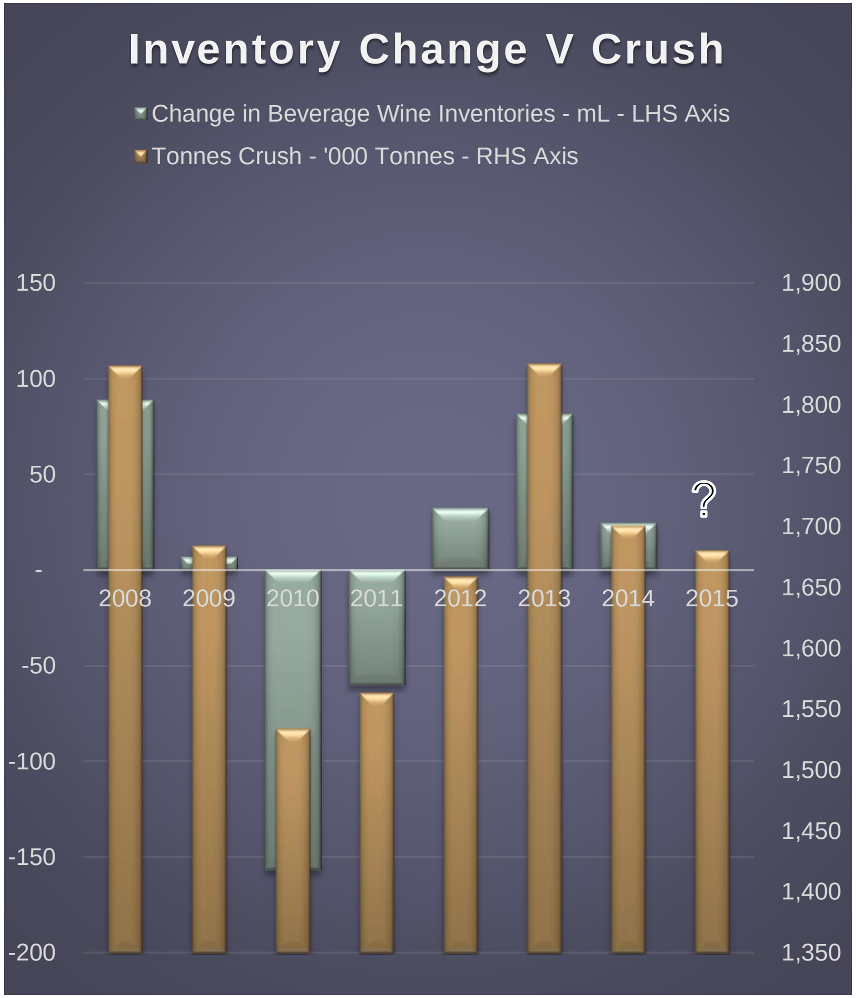
"The cost of temporary water has skyrocketed to more than $250/mg, which presents growers with a dilemma," Stone said. "The high price could be a barrier to growers who need to supplement their allocation, while others may be in a position to sell water rather than grapes.

"In this scenario, crops could suffer through lack of water, particularly in heatwave conditions, or may be discarded if irrigation water is sold into a flourishing water market."

Winegrape prices for the 2016 vintage are yet to be revealed, and wine companies that signed-up to the Australian Wine Industry Code of Conduct are not required to release indicative prices until mid-December.

"Growers already are questioning whether to buy or sell water now, or wait until they receive information on grape prices. And with water prices rising so rapidly, they may not be willing to wait."

And crush levels remain modest...



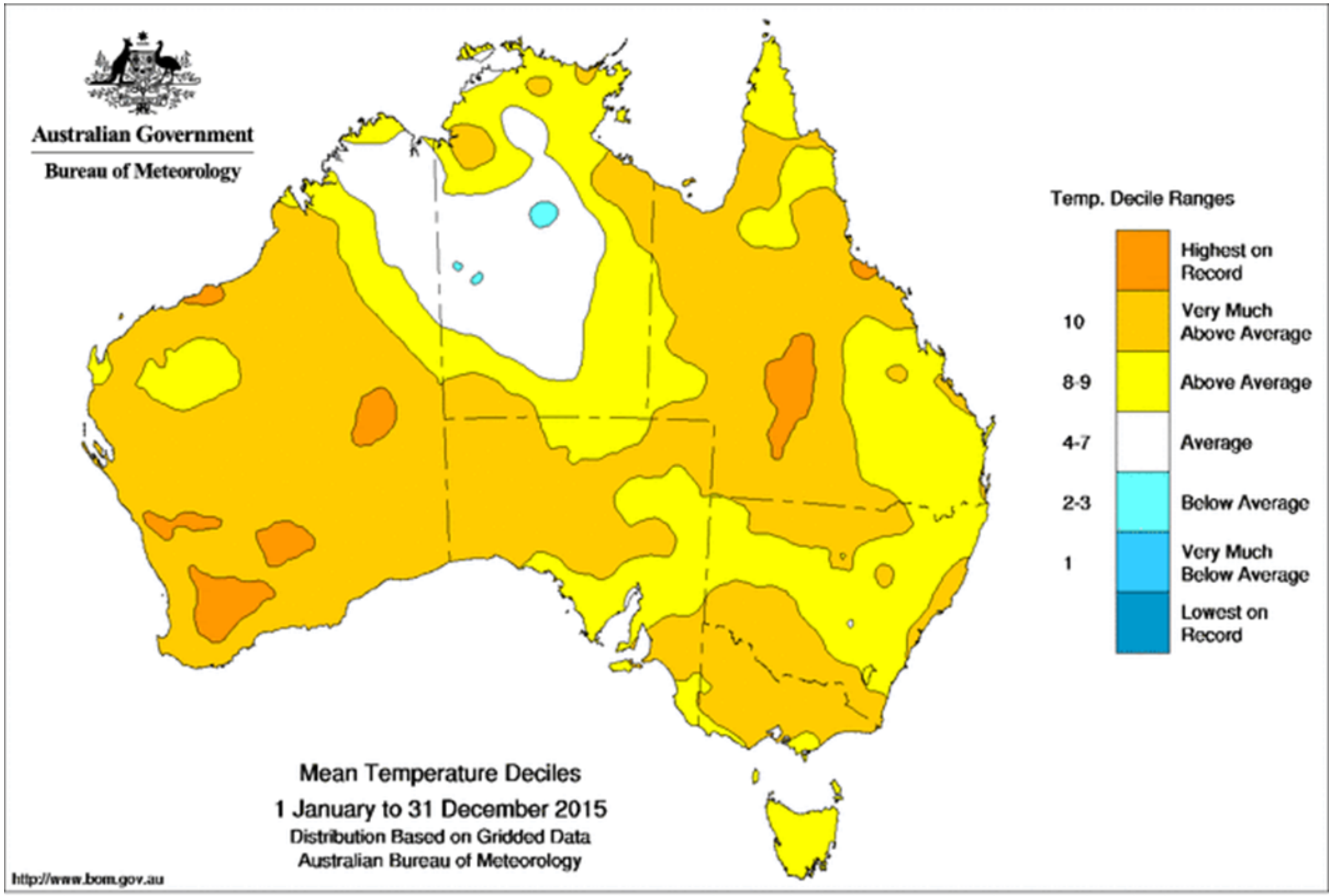
- Historically, for most of the past decade, an average Australian wine grape crush has been ~1.65mT.
- It can be seen from the graph opposite that:
  - Vintages above ~1.65mT were generally considered too big, since they led to inventory ***increases.***
  - Vintages below ~1.65mT were generally considered too small, since they led to inventory ***decreases***.
- Following the improvement in Market Fundamentals detailed above, which is likely to stimulate demand for Australian wine, is an average crop of 1.65mT enough?
- Time for vineyard removals to stop?

Australian 2016 Vintage Outlook

The Season so far..

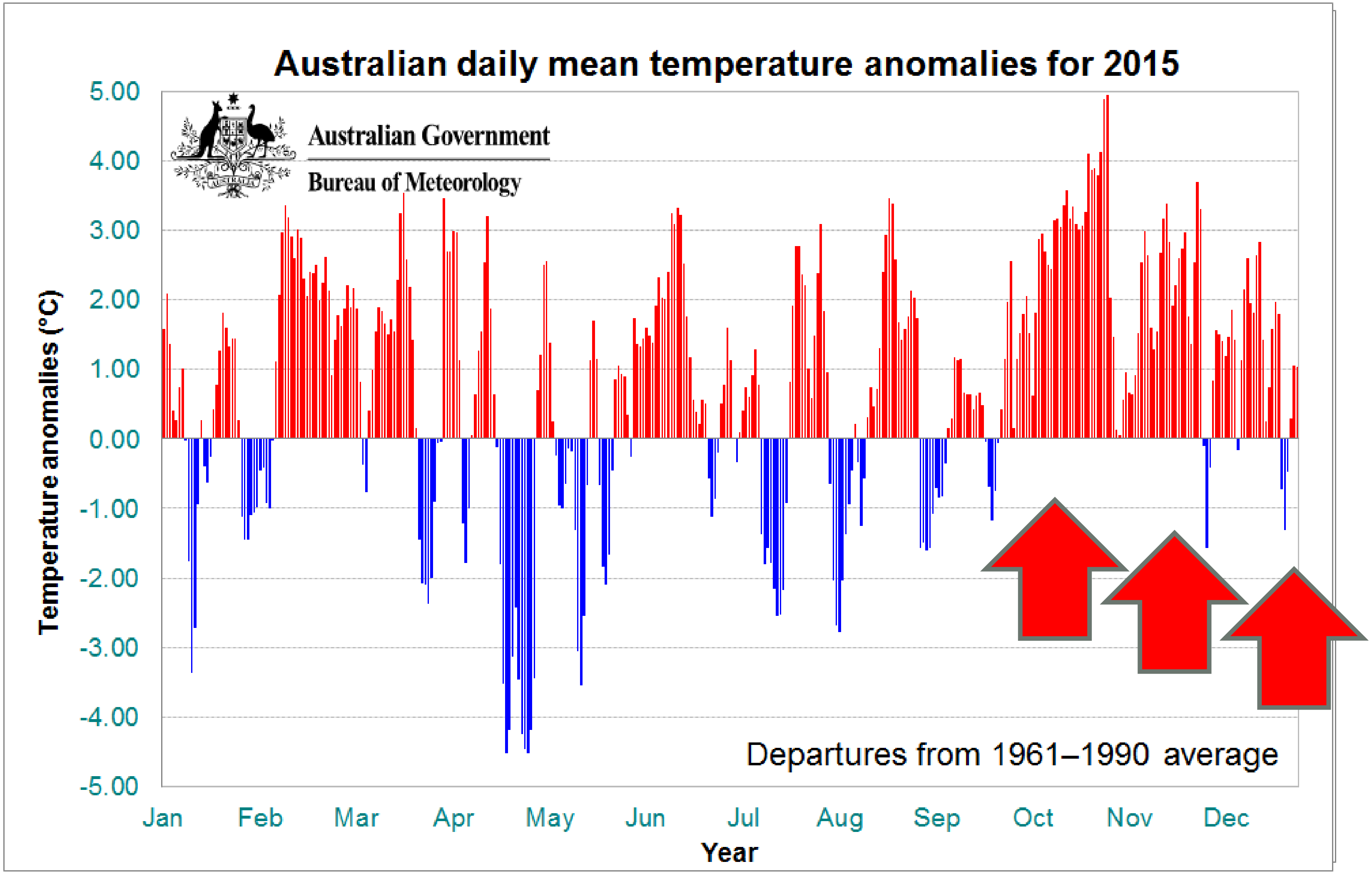
- An Unusually Hot & Dry Growing Season.
- An Unusually Very Wet start to Vintage.

A Hot Year !



 ID code: AWAP Issued: 03/01/2016

A Very Hot Growing Season



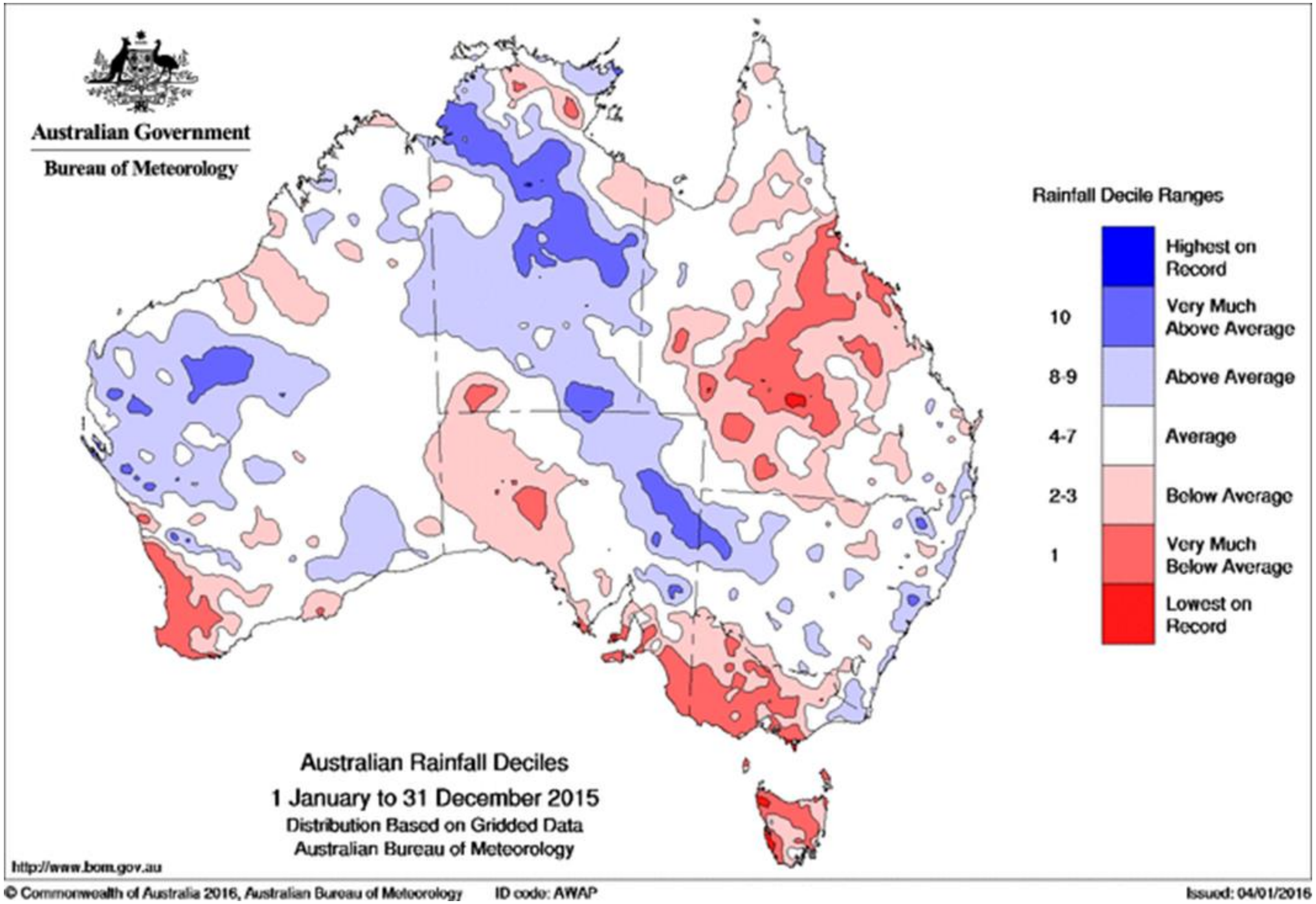
And Very Hot In the Inland Vineyard areas, especially pre-veraison, which is highly unusual.

2015/16 Growing Season

Days over 35C	Sep	Oct	Nov	Dec	Jan
Mildura	-	6	6	18	11
Renmark	-	10	6	17	13
Griffith	-	1	6	12	10

Source: Australian Government Bureau of Meteorology

…and Dry in SE Australia & WA



Very Dry In the Inland Vineyard Regions

2015/16 Growing Season

Days over 10mm Rain	Sep	Oct	Nov	Dec	Jan
Mildura	-	-	-	-	3
Renmark	1	1	-	-	1
Griffith	1	-	1	2	4

Source: Australian Government Bureau of Meteorology

Very Dry In the Inland Vineyard Regions …until the grapes ripened during January…

2015/16 Growing Season

Days over 10mm Rain	Sep	Oct	Nov	Dec	Jan
Mildura	-	-	-	-	3
Renmark	1	1	-	-	1
Griffith	1	-	1	2	4

Source: Australian Government Bureau of Meteorology

A non-wine producing resident in South West Western Australia reflecting on flash flooding during January 2016. **(Courtesy ABC Rural)**

A Wet start to Vintage in Inland Vineyard Regions

Technical Advisory

CCW CO-OPERATIVE LIMITED

3rd February 2016

No. 25 – 15/16, Page 1

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Topics in this Issue

Rain and Bunch Rots

More rain fell during the last week throughout the Riverland last Friday and Saturday, causing increased concerns about bunch rots. Rainfall totals ranged from 10 to 25mm. Fortunately, temperatures during the rain periods and after were relatively low. We were also very fortunate that the rainfall from the decaying cyclone Stan moved to the south of the Riverland, and we received little or no rain yesterday.

Despite the rainfall and high humidity we have experienced over the past two to three weeks, the number of patches with serious bunch rot appears to be low at this stage. Few growers have contacted us for an assessment. While many patches have isolated berries with some type of rot, very few at the moment are what could be regarded as under serious threat, of either rejection or significant crop loss. The bunch pictured (right) was taken on Monday 1st Feb. The photo shows sporulating Botrytis, but, importantly, it shows that the berry to berry infection has stopped. Unless further rain events occur, the affected berries should dry up and not affect adjacent berries. In this case, the grower was advised to limit the humidity within the canopy by cutting back irrigations as much as possible and skirt or trim the vines. The prospect of at least a week with no rain and higher temperatures will assist in drying up existing infected berries. The application of fungicides or sanitisers was not considered necessary, appropriate or worthwhile at this stage.

The bunch or berry rots have not only been caused by Botrytis. Various sour rots and sooty moulds have also been observed.

A Wet start to Vintage in the Barossa.

MAGARRY PLANT PATHOLOGY

Western Electronic Design

GrowCare Barossa

Brought to you by the Barossa Grape & Wine Association

This message was posted **by 10.30am on Thursday 4 February 2016** and will be updated as necessary for best management of vineyard issues.

BAROSSA · GRAPE & WINE ·

2015/16 V3 #6

Recent Rains

- Data from the ***GrowCare*** weather stations across the Barossa indicated that since the recent rains began on 21 January, there have been substantial rainfalls with significant durations of wet foliage at moderate temperatures at all sites.
- The rainfall totals, minimum temperature (Min T) and lengths of leaf wetness (LWet) during the rainfalls for the period (21 Jan to 3 Feb) were as follows:

Site	Rain	Min T	LWet
• Craneford	>16mm	~13C	~32.5hr
• Lyndoch	40.2mm	10.5C	42.3hr
• Gomersal	38.4mm	11.5C	32.1hr
• Ebeneezer	34.2C	10.8C	43.2hr

The figures for Craneford are approximate only since the weather station was 'down' for some hours.

- The mild temperatures and long periods of foliage wetness at each site suggests the conditions were good for disease.
- Given that the season is close to harvest and the berries are maturing with increased sugar levels, the risk of bunch rots was increased considerably during this period.

Risk of Disease

The Season So Far - Summary

- Hot & Dry Growing Season with late season rains during January causing disease pressure.
- Both events conspire to constrain the size of the grape crop that could otherwise be harvested.

Bulk Wine Inventories - Whites

- The supply of white varieties remains tight…
- Sauvignon Blanc is quite short, mainly driven by a shorter NZ Sauvignon Blanc crop in 2015.
- Pinot Gris supply is very tight.
- Chardonnay supply is reasonably scarce, leading to increased demand for blenders such as Colombard & Semillon.
- A VERY big crop is needed to change these supply dynamics (this is less likely).

Bulk Wine Inventories - Reds

- Shiraz remains the most at risk of lower crop arising from drought conditions, due to a high propensity of berry shrivel. If the early vintage rains continue, then this is less likely, but Shiraz also tends to suffers the most from disease pressure.
- Cabernet Sauvignon is in balance and hardier against both drought & disease.
- Merlot is in oversupply.

2016 Grape Prices

- Inland Irrigated Regions (Mildura, Riverland & Griffith):
  - Increased grape prices paid by many specialist inland bulk wineries in 2016, compared to last year.
  - Many grape (& wine) prices in the last couple of years have been unsustainable.

- Dryland Regions (eg Barossa, McLaren Vale):
  - Slight upward pressure on grape prices expected; resistance from wineries as they ‘bump into’ price point ceilings.

2016 Expected Crop Levels

- About average: Not a massive crop and not a crop failure either.
- Water stress felt less by Inland Irrigated Regions and Dryland Regions throughout the growing season.
- Biggest ‘at risk’ variety for water stress is Shiraz, due to propensity to shrivel.
- Recent rain events have changed the game, but the drought has not broken for most regions, but instead have brought varying levels of disease pressure.
- Biggest ‘at risk’ variety for disease is Shiraz, due to thinner berry skins than Cabernet or Merlot.

2016 Expected Bulk Wine Prices

- Driven by higher grape prices, as a very course rule-of thumb, expect price increases of 10-15cpl across most main varieties from Inland Irrigated Regions.
- Firm pricing for Famous Dryland Regions (eg Barossa & McLaren Vale) to continue.
- Static, but slightly softer pricing in other, less well known, regions.
- Best Value Dry Land Region is Limestone Coast, including Coonawarra.

- If you require any further information, please contact:

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GMT: +9.30 hrs / +10.30 hrs Summer Time

Ship Bulk: ***Cut*** $\boldsymbol{CO_2}$

- Or visit us at ProWein Hall 9, Stand 21