



2018 Australian Wine Grape Harvest Update

5 minute Q & A

with Jim Moularadellis, Austwine

1. Where is the 2018 Australian wine grape harvest up to?

Very hot conditions during January and February across South Eastern Australia have reduced crop levels and inhibited sugar accumulation significantly during the past 2-3 weeks. Vintage has slowed to a snail's pace as grape growers and winemakers wait patiently for red grapes to ripen. The white harvest in the inland areas is generally now finished and a flurry of activity is expected from now until the end of vintage as the red grape harvest winds up.

2. What is the expected harvest size?

Crops appear to be fairly average in size, with widespread reports of slightly lower-than-expected crops due to the extremely hot weather in January and February in regions such as Clare, Barossa, McLaren Vale Riverland and Mildura. We are hearing very few reports of large or bumper crops.

There has been much less rain than last year, translating into smaller berries with plenty of flavour, but lower tonnes: winemakers are happy, but accountants less so.

Furthermore, a severe frost in the South East of South Australia and Western Victoria during November had a significant impact on many vineyards and a devastating impact on a few. Damage was highly variable, but was significant in those areas affected, which included Great Western, Limestone Coast, Wrattontully and Coonawarra and parts of Padthaway.

The very hot summer, the late season frost and the absence of any abundant rains compared to the last growing season will almost certainly lead to a slightly smaller vintage than last year.

3. What is your prediction for the total Australian 2018 crush figure?

Somewhere 5-10% below last year's record crop of 1.980mT.

If this year's crush is 5% less than last year, expect around 1.900mT for 2018.

If this year's crush is 10% less than last year, expect around 1.800mT for 2018.

There doesn't appear to be any significant developments that point to a crush larger than last year.

4. What are the expected quality outcomes of the forthcoming vintage?

Winemakers are generally very enthusiastic about the very good quality outcomes they are experiencing. A generally dry growing season has led to few reports of any major disease pressure this season, with hot sunny weather and very dry conditions persisting during the latter part of the growing season.

5. Which varieties are currently in longest/shortest supply?

- *Critically Short:* Commercial/Entry level Shiraz, Cabernet Sauvignon, Merlot and Pinot Gris
- *Short-Very Short:* Commercial/Entry Sauvignon Blanc and Chardonnay
- *Long:* Dryland/Premium reds, arising from very abundant crops during the last couple of years.
- *Long-Very Long:* Dryland/Premium Chardonnay & Sauvignon Blanc

6. What's up with Commercial reds?

Commercial/Entry level Shiraz, Cabernet Sauvignon and Merlot are all critically short, as demand outstrips supply.

This is mostly due to the spectacular growth in Australian wine exports to China, dominated by red wine. The growth rate is breath taking: 63% during the past year and from a large base.

China is now the biggest market for Australian wine by value. Furthermore, it is bigger than the next two largest markets for Australian wine, USA and UK, combined.

See the graphic opposite (courtesy AGWA) for a neat summary of the top 5 export markets for the 12 Months to December 2017:

During the past couple of years, producers of Commercial level reds have probably experienced more enquiries than they have wine for. Almost all stocks of Commercial level reds of any significant volume are allocated, and many wineries are reporting multiple buyers for the same wine.

It is certainly a very different supply situation across all Commercial level red wines, compared to say, 3 years ago.

The 2018 crop is unlikely to fully satisfy current demand at current prices, and any downside in the tonnes crushed will increase supply and pricing pressures as buyers try get their share of wine.



7. What's up with Commercial Chardonnay?

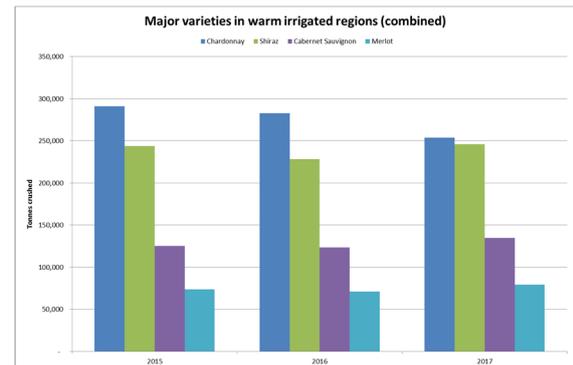
Commercial/Entry level Chardonnay is generally assumed by most market players to be in abundant supply. But it is not.

One could easily count on one hand the number of inland wineries that have any substantial volumes of unallocated Commercial Chardonnay from 2018 vintage. I don't think this is well understood by the market, including perhaps those few wineries that have unallocated Commercial Chardonnay.

See the chart opposite: check out the falling tonnages of Commercial Chardonnay crushed over the past 3 years. This is in contrast to the static or only modest increases in tonnages for the three main red varieties.

China doesn't take much white wine, which has led to Chardonnay vineyard removals over the last few years. However the current drought conditions in South Africa, and the well-publicised short 2017 European crop have contributed to significantly reduced availability of this variety.

Expect much more limited supply choice, accompanied by price increases as supply diminishes for Commercial Chardonnay



8. What's happening with new plantings in Australia?

Many alternative crops are still much more lucrative than wine grapes, and this has inhibited the development of any significant new wine grape supply. This is reflected very neatly in the price of permanent water in the Murray Darling Basin, which is at record highs. A high price for permanent water indicates robust demand across a variety of permanent crops, for example almonds, table grapes and citrus, and all of these crops are now competing with wine grapes for limited water resources.

Anecdotally, the few remaining nurseries still in business are quite busy, but the overall number of vines propagated remains fairly modest. There appear to be very few, if any, large scale vineyard developments underway. Most wine grape development seems to be replacement of aged vineyards to more lucrative varieties or, depending on the region, to other more lucrative crops.

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

Increases to supply is likely to be muted over the next 3-5 years, since there are currently only modest levels of planting activity, and China will drive much of the demand for Australia's wine during this time. Should Chinese demand for Australian wine continue unabated, then bulk wine prices will rise in the absence of any significant new supply from Australia or alternative supply from other producing countries.

A large 2018 European wine grape crop, plus the expectation of another large European crop in 2019 will be required to take the edge off the current outlook for increasing worldwide bulk wine prices.

These events in Europe will play out later this year and during the 2019 Northern Summer. Australia's wine fortunes are likely to be impacted by these events, together with what happens with crop levels in places such as Chile and South Africa.

10. Any final words to market players?

This has little to do with any market dynamic at any particular time: just play nice.

People prefer to 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 are minimised. Especially if the news is not what the other party wants to hear!

Such an approach can only be good for your personal well-being and for your business's success and longevity.

Remember, no matter who you are, or who you think you are, your market and your negotiating position is only ever temporary: if Rome and Sparta can fall, then so can your business.