AUSTWINE
Australia's Bulk Wine Specialists

Australian Bulk Wine Pre-Vintage Market Update

...IN A FEW SIMPLE CHARTS

JIM MOULARADELLIS, 8 FEBRUARY 2022

Key Events

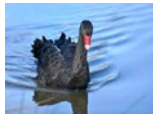
- 3 Key Events that are moving Australian Grape & Bulk Wine markets:

Key Event No. 1: Loss of China

The loss of the Chinese wine market has not been immediately offset by other markets. This will take some time. Downward pricing pressure on red wine previously destined for China is expected to remain, as Australian winemakers more closely align inventory to sales.

Wine Australia

Figure 1: Export value, mainland China versus rest of world

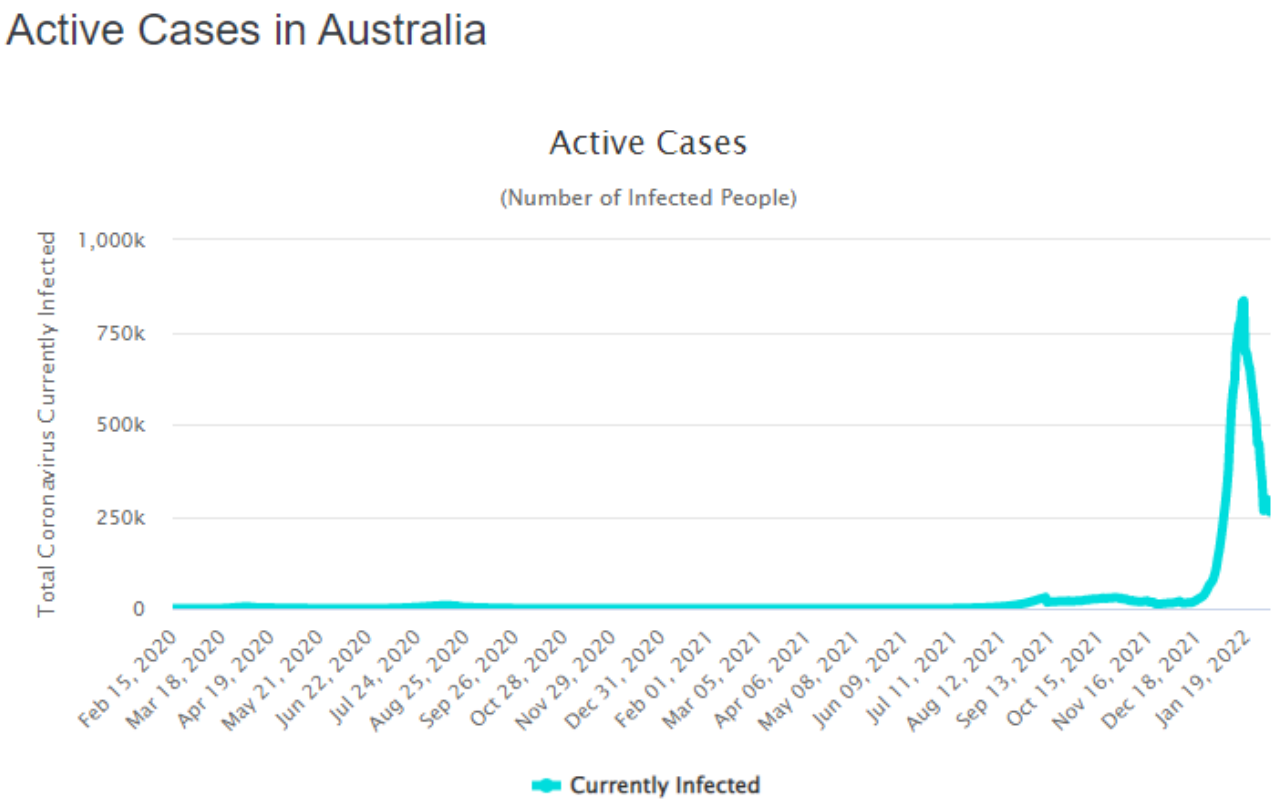


Key Event No. 2: High Shipping Costs

Constrained container & shipping space availability, port delays and trucking bottlenecks are now all too familiar features of supply chains and part of the operating environment.

Key Event No. 3: Ongoing Covid-19

Australia has recently opened most of its borders, and is now experiencing significant Covid-19 case numbers. This has lead to typically faster decision making, based on shortened time horizons.



Market Reactions

- How are markets reacting to these 3 Key Events?

Grape Market Reaction:
A difficult market. Why?

Buyers

- Buyers are shedding uncontracted supply of red grapes. This includes buyers that had little direct exposure to China, since the loss of this market has impacted all wineries.
- Many wineries did not do this ahead of 2021vintage, since vintage plans were already in place before final announcements on China tariffs were made.

Sellers

- Grape prices are down in 2022, for a second year in a row.
- Broadly speaking, 2021 grape price falls were modest, so many growers lived in a bubble, not realising how tough things were, until they tried selling any uncontracted grapes ahead of the 2022 harvest.
- Further, but smaller, falls in red grape prices could also occur in 2023.

Grape Market Reaction:
A difficult market. Why?

Buyers

- Buyers have displayed very little appetite for any speculative purchases of cheap grapes.
- Are finding it difficult to justify taking any uncontracted red grapes, even if tied to white grapes.
- Are focusing on clearing tanks of existing stock.
- Red wine over stock made worse by protracted shipping delays.

Sellers

- Barring a climatic disaster, significant volumes of red grapes are likely to be left unpicked this vintage.
- Some growers will be caught with white grapes unpicked also. At most risk are growers leaving their run too late to try and sign red-white tied deals.
- This is the first time grapes will not be harvested for several years.

Grape Market Reaction:
Consequences of a difficult grape market.

Buyers

- Some feedback that we have received from the market place includes:
- "Every red tonne of red grapes that I bought in 2021 cost me money."
- "The prospects for 2022 are still too poor for any profit on red grapes."
- "I am just hanging in there to support my long term growers."
- "Even if you got me the grapes for picking cost, I still can't take them."

Sellers

- Will growers exit? A few, perhaps, but not a mass exodus.
- Most growers are highly professional and have enjoyed several years of quite good profitability.
- Unlike the 1990's export boom, very little "hot city money" has flowed into the wine industry in recent years, so fewer are chasing fast returns.
- Although some recent entrants must be thinking "what have I gone & done investing in the Australian wine industry?"

Grape Market Reaction:
Should I make my surplus grapes into wine?

- No.
- If you can't sell your grapes on the spot market, it is highly unlikely that you will be able to sell the resultant bulk wine on the spot market.
- It will likely be a case of throwing good money after bad.
- In a down market, your first loss is your best loss.
- Regional 'Grapes for Sale' registers have begun appearing again.
- This indicates a clear surplus of grapes.
- This is also a likely precursor to unharvested grapes.
- Growers would be well advised to take any reasonable grape deal that is offered.

Bulk Market Reaction:
Increased Bulk Wine availability. Why?

Buyers

- Have been unsure of where the bottom of the market is for red wine.
- Have tended to buy a bit shorter, and more often, during the last 12-18 months.
- This pattern was first observed in the early days of Covid during 2020, and has continued for red wine in particular.

Sellers

- Vintage changeover dates have been pushed out for red wine.
- Sellers want to exit high priced stock from 2021 and earlier vintages.
- Looking to sell off older vintages, and recalibrate intake to closer match current sales rates.
- In other words, "re-set" inventories to better align to current sales patterns.

Bulk Market Reaction:

A slow bulk market, with little appetite for risk, observed from both Buyers and Sellers. Why?

Buyers

- Buyers have been very limited in their ability to travel to Australia to seek out new supply opportunities.
- Buyers have tended to stick with known suppliers, unless there are compelling reasons to change.
- Buying shorter, with more smaller deals more often, due to sales uncertainty and rapidly changing forecasts.

Sellers

- Sellers are finding it is much harder to open new markets when travel opportunities are severely restricted.
- Are using aggressive pricing to try and gain sales traction, especially from new markets and customers.
- But are mostly very keen to ensure their existing customers are taken care of.

Bulk Market Reaction:
Large spreads in asking prices. Why?

Large Pricing Spreads

- We have observed large spreads in asking prices for similar qualities of bulk wine during the past 12-18 months.
- This has historically been a feature of some 1st Tier regions, most notably the Barossa (and also Coonawarra & McLaren Vale) but usually commensurate to quality, and on the price upside.
- We now observe this trend across many regions, but usually on the price downside in an overall soft market.

Why?

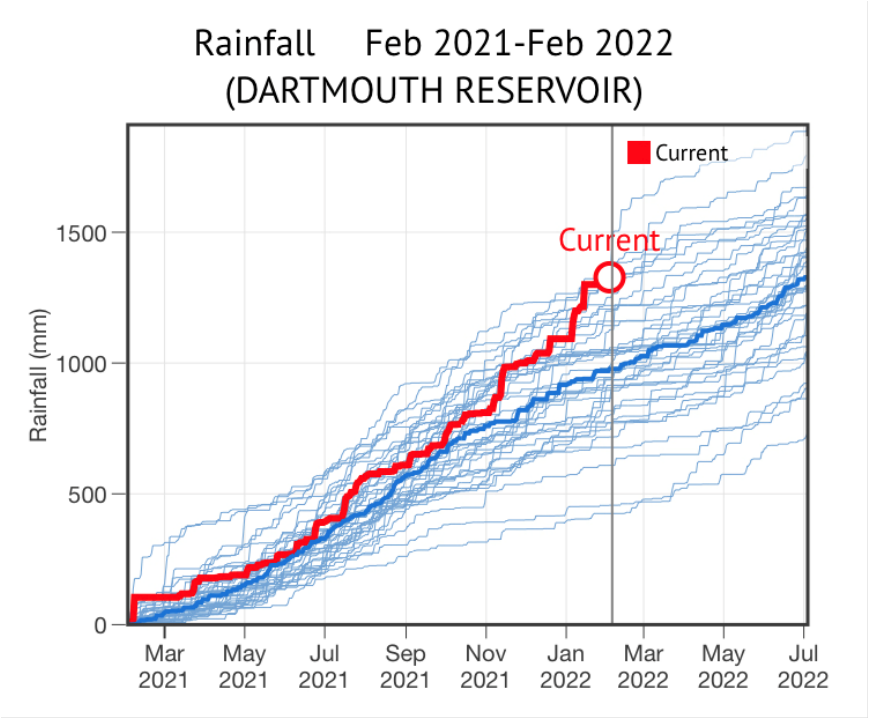
- As information about market conditions flows throughout an organisation, each organisation tends to react at different speeds.
- The speed of reaction time is usually directly correlated to the volatility of existing markets already served.
- For example: a winery that sells their all their production on allocation, usually reacts slower to market sensitive news than a winery that sells everything on the spot market.

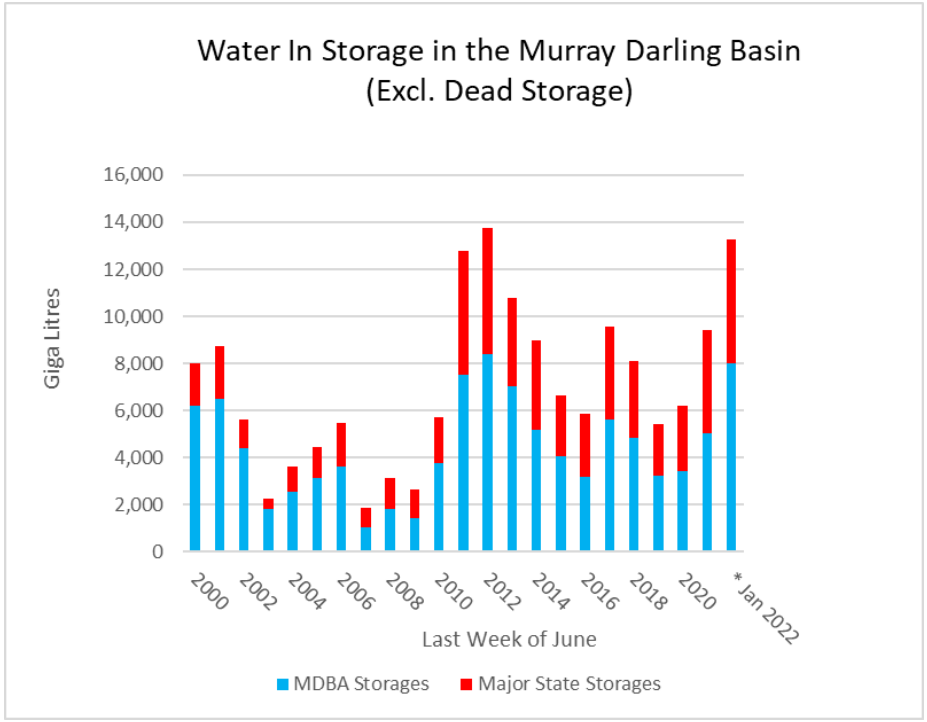
Vintage Crop Outlook:

- What is driving the outlook for 2022 vintage & beyond?

2022 & 2023 Vintage Outlook: Water Everywhere

Back-to-back La Niña events over the last two summers. High rainfall resulting in abundant water in storage, even now during the peak of the Australian summer. This augurs well for abundant vintages this year and next.





Beyond 2022 & 2023

- Like a few other smaller, non-critical industries, Australian wine has suffered at the hands of geo-politics and other factors outside of its control.
- However, it has some enduring fundamentals, including being a world class, export orientated, rural employer that adds value to primary production at home.
- Moreover, the Australian wine industry operates in a country with abundant natural resources, which is home to a bright and adaptable people with "can do" attitude.
- Other opportunities will arise.