



**Rabobank**

## Wine Quarterly Q1 2020

*Can the US wine market regain its momentum?*

### **RaboResearch**

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### ***The US in the Spotlight***

Consumption growth in the US wine market is slowing. If the industry is to return to its previous growth rates, it is going to need to make bold moves to respond to a changing market structure, and an emerging consumer with different values. Wineries will need to invest in e-commerce capabilities and re-think traditional brand building strategies.

### ***Bulk Wine Prices***

Despite a decline in wine production in 2019 and the likelihood of somewhat smaller crops in a number of southern hemisphere countries in 2020, price increases are elusive due to uncertainties about demand in China and the US. Both markets are facing uncertainty, and together they represent around 20% of global consumption, as well as nearly half of total demand growth between 2014 and 2018.

### ***M&A***

A number of recent deals in the global wine market have been triggered by traditional interests in reinforcing route-to-market and market position. However, we also note two additional developments of interest: Increasing consolidation moves in eastern Europe, and increasing incursions by beer into the wine space. We believe the latter could eventually alter the competitive landscape for some segments of the wine industry.

### ***Global Trade***

Tariffs, trade agreements, and the coronavirus outbreak have shaped global trade in recent months. Hopefully, the latter will be contained quickly, but lost demand from the period will not be recovered. Tariffs and trade disputes are here to stay, and although they may not affect absolute volumes of consumption in the countries involved, they will trigger some reshuffling in global trade.

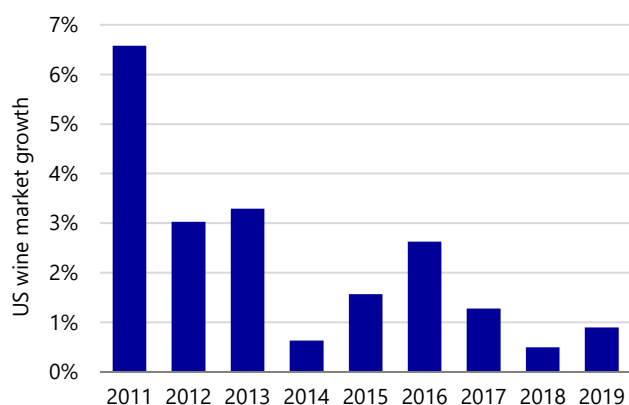
## The US Wine Market: Can it regain its momentum?

The Unified Wine & Grape Symposium, held every year in Sacramento, California, is the largest conference of its type for the US wine industry. As such, it always provides a good platform to gauge the health and mood of the industry. At this year's symposium, the mood was subdued (despite the ongoing premiumization trend), as the industry continues to face the convergence of an oversupply of wine and slowing sales growth.

### Tepid US Wine Consumption Growth

Finding ways to return the market to growth is becoming a major focus of US wineries. For an industry that has become accustomed to annual growth rates of 2% to 3% or more, the decline in recent years to ~1% annual growth is cause for concern (see Figure 1).

Figure 1: US wine market growth, 2011-2019



Source: bw166, Rabobank 2020

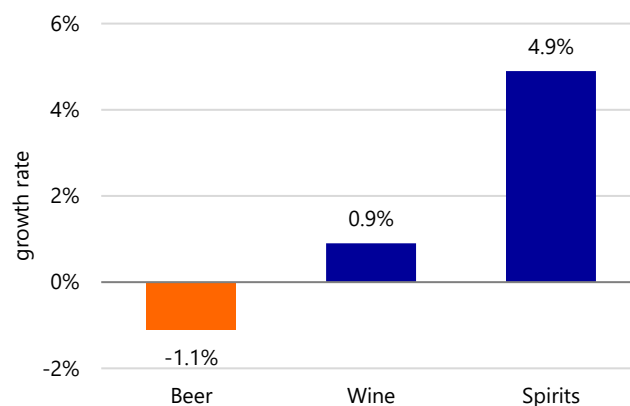
### Sober Curious or Bourbon Curious?

With wine sales growth slowing, the question most often asked within the industry is: "Why?" The first response we often hear is that it is the result of consumers (particularly younger consumers) dramatically reducing alcohol consumption – the 'sober-curious movement.'

While this movement may one day have a true impact on consumption, the data available thus far suggests that this is not the cause of the industry's challenge. A look at the overall beverage alcohol market indicates that, while beer is down and wine is nearly flat, distilled spirits are growing at an impressive rate (see Figure 2). Calculations by bw166 also show that overall units of alcohol consumed by legal-drinking-age (LDA) adults has remained flat over the past ten years, in spite of shifts from one beverage type to another.

Unless bourbon and tequila are considered part of a sober lifestyle, the sober-curious movement is not the main cause of wine's woes.

Figure 2: US consumption (growth) of beer, wine, and spirits, 2019



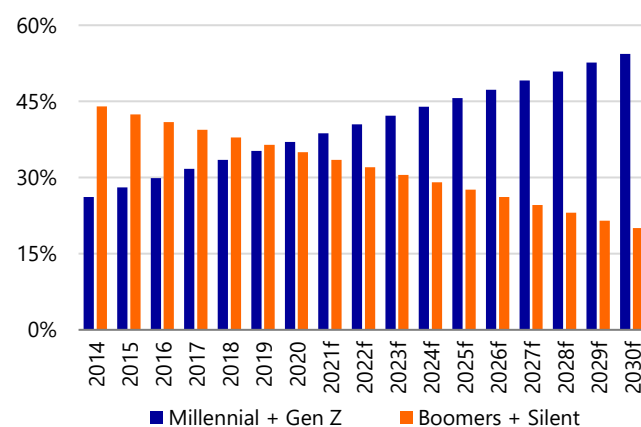
Source: bw166, Rabobank 2020

The silver lining is that consumers are shifting between alcohol segments and not dramatically abandoning alcohol consumption (at least not yet), which can be viewed as good news for wine. It is easier to recruit a beer or cocktail drinker to the wine category than an abstainer.

### Inflection Point in the US Consumer Base

As has been discussed ad nauseam within the industry, a major driver of change in the US market – not just for wine – has been the rising influence of younger consumers. This year will mark an important inflection point in this shift, as emerging generations will overtake older generations in influence (see Figure 3). The next ten years will become increasingly painful for wineries that fail to find ways to effectively connect with younger consumers.

Figure 3: Share of LDA population under 80, Boomer + Silent vs. Millennial + Gen Z, 2014-2030f



Source: US Census Bureau, Rabobank 2020

## The Path Forward: Adapting to Change

To return to the days of more heady growth, the industry is going to need to take bold action to adjust to a rapidly changing environment. These changes include:

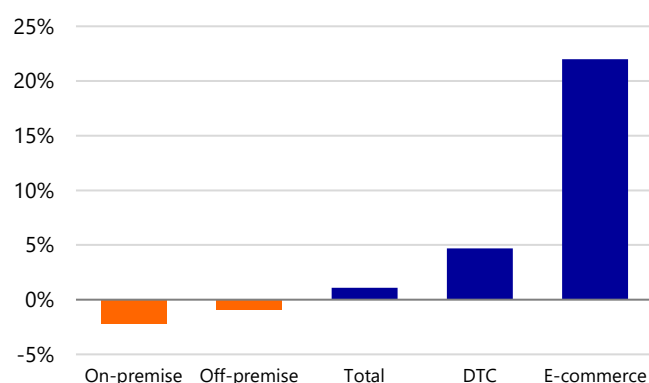
1. E-commerce transforming the operational context
2. Evolving consumer preferences require updated branding strategies

### E-Commerce Transforming the Operational Context

One of the opportunities – and challenges – for the industry is the rise of e-commerce. This issue has been the focus of much of our [recent research agenda](#), as well as ongoing discussions with our clients.

In terms of the opportunity, consider that sales in wine's two most important channels – on-premise and grocery – were negative in 2019. Direct-to-consumer sales were positive (4.7%), but the growth rate has seen a notable slowdown. By contrast, online wine sales grew by approximately 22% (see [Figure 4](#)). E-commerce represents an attractive opportunity, with strong, long-term growth prospects.

Figure 4: Wine sales by channel, 2019



Source: SipSource, Sovos, Nielsen, Rabobank 2020

However, while e-commerce sales are registering strong growth, it should be noted that the rise of e-commerce is also creating a structural loss of occasions for wine in traditional channels, and the industry lacks a cohesive response.

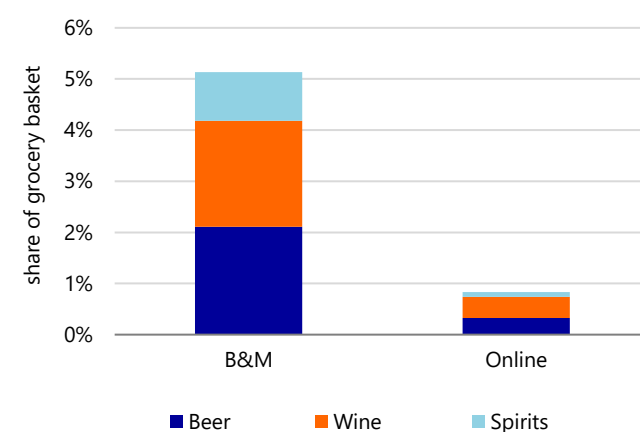
### Wine Purchase Occasions Being Lost

In the off-premise, consumers are rapidly shifting grocery purchases from brick-and-mortar stores (B&M) to shopping online. Grocers have been building out their e-commerce platforms in recent years, but they have been slow to include beverage alcohol for a variety of reasons (e.g. complications of age verification, etc.). As a result, wine purchase occasions are being lost.

In B&M, beverage alcohol represents ~5% of a typical basket. When consumers shop online, this figure drops to 0.8% – a massive gap (see [Figure 5](#))! This shift, by our estimates, resulted in grocers missing out on USD 1.5bn in alcohol sales in 2019 alone, of which nearly 40% was wine. We believe this is one reason why the grocery channel is underperforming in the overall category.

Finally, while we have focused much of our efforts on the off-premise, we would also note that e-commerce is likewise transforming the on-premise. The rising share of take-out meals from full-service restaurants (supported by numerous apps, such as Grubhub, DoorDash, etc.) is likewise reducing the number of traditional wine purchase occasions (see our report "[Home Delivery From Full-Service Restaurants Is Increasing – A Missed Opportunity for Wine](#)" for analysis on how this is impacting wine sales in Europe).

Figure 5: Beverage alcohol share of typical grocery basket, B&M vs. online, 2019



Source: Nielsen, FMI, bw166, Rabobank 2020

### Winning in E-Commerce

There is a growing need for industry players to invest wisely in order to support their brands with the infrastructure and digital assets needed to succeed online (which will also support growth in other channels). Having a strong presence on e-commerce retail platforms, such as Wine.com, is also an important strategy to consider, to help tap into the growth in online sales. While traditional grocers saw declining wine sales, Wine.com sales rose 16% in 2019. Where possible, wineries should also be encouraging traditional B&M retailers to make wine available to their online shoppers and to make sure their customers are aware.

## Evolving Consumer Preferences Require Updated Branding Strategies

Younger consumers are quickly becoming the largest segment of the LDA population (see Figure 3). These consumers behave differently, have different values, and engage with brands in a different manner than previous generations. The traditional focal point of most wine marketing – wine scores, tasting rooms, vineyard soil quality, etc. – seem to be less relevant for this generation. It is becoming clear that wineries need to re-think marketing strategies to reach the emerging consumer.

### The revised 'Four Ps' of marketing

Historically, any basic business course will review the 'four Ps of marketing': product, place, price, and promotion. However, many of the emerging beverage brands that are finding success in today's market seem to be doing so with a very different playbook and may provide some important lessons for the industry. There are increasingly common strategies we see being used across all beverage segments, but wine is significantly behind the curve. Wine companies that are seeking to connect with the new consumer should consider exploring what we will call "the revised four Ps":

- Purpose
- Presence (on social media)
- Personality
- Packaging

The following examples illustrate how brands are finding success with innovation in these areas.

**Purpose:** A number of brands in the market today are finding success, at least in part, by connecting their brand to a bigger mission – something that gives the brand a higher sense of purpose. As we've discussed before, Naked Wines has emerged as the largest e-commerce direct-to-consumer player in the US, in part because they have made the experience about more than just buying wine. Members are referred to as 'angels' because they are not just buying wine, they are helping to "change a winemaker's life," for which they should "feel warm and fuzzy inside." The company has made buying wine a benevolent act.

Scottish craft brewer BrewDog is one of the fastest growing brands by value in the UK, and at least one factor of its success has been its sense of purpose. As stated in their "manifesto": the brewer aims to "revolutionize the beer industry" and take a stand for "independence, quality, and craft". But, beyond just

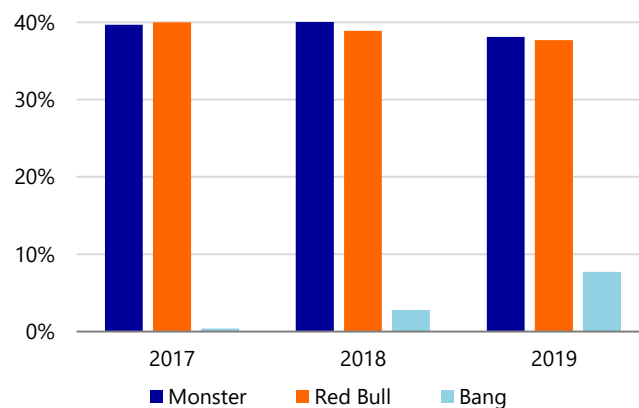
stating the mission, the company consistently and effectively engages their consumer base around these themes. The mission has to be backed up with action.

Mission-driven brands are playing an increasingly important role in the market. Having a clear sense of purpose allows brands to engage with consumers on a level that is more than just transactional. Brands that seek to connect with consumers may benefit from defining and communicating a greater sense of purpose.

**Presence** (on social media): Nearly all wine brands have a presence on social media today, though it is often limited to sharing pictures of the winery, the brand, or consumers in their tasting room. Few seem to be fully leveraging the power of this channel.

Bang Energy is a brand that has quickly risen from obscurity, completely disrupting the established duopoly of the US energy drinks market (see Figure 6), and is a great example of how successful companies are leveraging these channels. The company has an established process for recruiting influencers that have an established following, which it uses to build brand awareness. The company has emerged as a powerhouse, and leveraging social media influencers has been a cornerstone of their success.

Figure 6: Share of US energy drink market for Red Bull, Monster, and Bang Energy, 2017-2019



Source: Euromonitor, Rabobank 2020

Another example can be seen in the canned wine brand Babe Rosé. The founder, Josh Ostrovsky (known on Instagram as "The Fat Jewish"), was able to easily raise awareness of the brand with his 10m+ followers and effectively break into a crowded market. AB InBev acquired the brand in July 2019.

Perhaps the clearest example of the potential for social media to impact brand awareness has been the rise of White Claw hard seltzer in the US, which got a powerful boost from a YouTube video posted by an independent comedian. The video and its catch-phrase "Ain't no laws

when you're drinking claws" helped catapult the brand – and perhaps the entire hard seltzer category – into the major growth story of the US beverage alcohol industry.

If the wine industry is going to find success with an evolving consumer, it is going to have to become more savvy about leveraging social media.

**Personality:** One of the qualities we see in many successful brands today is a clear sense of personality. Of course, the personality is generally a reflection of the person or people behind the brand. This is certainly true of many of the brands we've cited earlier. The personality of the BrewDog founders is evident when they present their annual results dressed as Queen Elizabeth and when they roll through town in a tank to promote their brand. The irreverent personality of Babe Rosé is best personified by the photos of its founder, dressed in a pink ladies' swimsuit (with a beer belly, a beard, and a man-bun), surrounded by models, all holding cans of Babe.

The value of a brand having a clear personality was really driven home during a recent interview we did with a successful entrepreneur. At the end of 2018, we invited Fausto Zapata, co-founder and CEO of El Silencio mezcal, on to our [Liquid Assets podcast](#). El Silencio is the largest and fastest-growing super-premium mezcal brand in the US market. The brand has a definitive 'bad-boy' feel to it – something akin to the Hell's Angels – and everything about the branding is consistent with this image.

In the interview, Fausto focused on the importance of the team in the brand's success and how much value they place on hiring people with the right chemistry for the brand's culture. The team embodies the personality of the brand; the team's personality is the brand's personality.

For wineries looking to build brands with a unique personality that will stand out from the crowd and connect with the consumer, getting the right team behind the brand is critical. The point is not that every wine brand should be as irreverent as Babe Rosé or as edgy as El Silencio but that a compelling brand (and the team behind it) generally requires a well-defined personality. By contrast, many wine brands in the market today would struggle to define what makes them interesting or why the consumer should be compelled to engage them. Defining the personality of the brand – not just the quality of the wine in the bottle – is a challenge for the industry.

**Packaging:** Glass bottles (750ml, 1.5L, etc.) are far and away the dominant format for wine brands in the US market (and for most others as well). However, the rise of

brands such as Black Box Wines, Bota Box, and Babe Rosé show the rising consumer demand for alternative formats. According to Nielsen, wine sold in 750ml glass bottles declined 1.7% in 2019, while wines in .375L glass bottles and premium bag-in-box grew approximately 8%, wines in Tetra Paks were up more than 14%, and sales of wine in cans were up approximately 70%.

Alternative formats seem to be on fire.

In spite of its iconic position, the challenges facing the traditional glass bottle make sense in the context of evolving consumer preferences. The traditional 750ml bottle of wine holds approximately five servings, and quality starts to decline when left open for too long. If drinking alone, the consumer is forced to choose between overconsuming or drinking leftover wine of lower quality in the following days. In this sense, the traditional wine bottle is like the 64oz beer growler, and how strong would the beer category be if beer were only served in growlers?

Wineries have often been somewhat reluctant to shift their brands to alternative packaging formats, due to fear of loss of brand equity – the traditional wine bottle continues to have an iconic image. But with slowing sales and shifting consumer preferences, it may be time for established brands to experiment; these formats are showing strong growth. For those reticent to make the shift with established brands, the current oversupply situation may make it attractive to explore launching new, premium brands in formats such as bag-in-box.

## Summary

With wine sales growth slowing, the industry needs to take bold action to find new ways to engage the market and connect with an evolving consumer. This will require investments to build out e-commerce capabilities and to improve brand-building skills to help reach a consumer that engages brands differently. As we discussed at length in a [recent podcast](#), this will also likely require the wine industry to become more intentional about recruiting a younger and more diverse talent base in the future.

## M&A Deal Drivers in 2H 2019

Although the Constellation-E&J Gallo deal was the focus of attention in 2H 2019, many other transactions – although smaller – were closed in the same period. In addition to the usual flow of deals within each major wine-producing country, a number of deals suggest a clear interest in two areas.

## Reinforcing Route-to-Market

Improving route-to-market, including the digital route, is a crucial factor for securing and improving sales. At the end of June, Cool Japan Fund bought of a majority stake in Chinese wholesaler East Meets West Fine Wines, aiming to improve sake sales in China.

In August, Schloss Wachenheim bought the retail unit of Pieroth, including 18 stores, as well as the online business. This move allowed them to double their position in the German market.

Meanwhile, consolidation continues in wine e-commerce. Pernod Ricard bought Bodeboca in July 2019, one of Spain's largest wine e-commerce platforms. This move follows other recent e-commerce plays by Pernod Ricard, such as its acquisition of Vivinum, and its investment in Jumia.

## M&A Outlook 2020

The industry appears to be heading into another dynamic year, with deals already closing in the first weeks of 2020 (e.g. Platinum Equity's acquisition of Farnese Vini for EUR 170m). Technology and e-commerce deals will continue to flow, and certain regions are likely to stand out in terms of deal opportunities in developed markets. But aside from the more typical types of deal flows, we would also highlight some interesting consolidation moves being made in eastern Europe, as well as the growing incursion of brewers into the wine market. This latter development could potentially have long-term implications for the wine market.

### Increasing M&A Activity in Eastern Europe

It is worth noting that Eastern Europe is quietly becoming a hotbed of activity for M&A activity in wine. Romanian wine company Zarea, which has seen significant growth in recent years, acquired leading local brand Sange de Taur in 2019, and other local players also appear to be eager to expand in the region. JNP Group has expressed interest in acquisitions within its home market in Poland, while listed Polish player Ambra is seeking targets in neighboring Czech Republic and Romania.

### Brewers Looking to Reshape the Wine Market

Looking to the south, the recently announced acquisition of Argentine vineyard Dante Robino by AB InBev (ABI) is part of a transformational trend that appears to be gaining momentum, and that could have

critical long-term implications for the global wine industry. Brewers having a presence in the wine industry is certainly nothing new (think CCU in Chile or Constellation Brands in the US). But until recently, most multi-category beverage companies were desperately seeking the exit door from wine: Foster's separated its wine company from the beer company, and many of the large global spirit players (Diageo, Brown Forman, Campari, etc.) have sold off nearly all their wine assets. Even Constellation is selling-off a large portion of its wine portfolio.

But a look at the forays major brewers are making into wine recently, suggest that brewers are now taking a very different approach. ABI's acquisition of Babe Rose and Saturday Session, CUB's acquisition of Riot Wine in Australia, and MolsonCoors' launch of Movo in the US suggest that, rather than trying to play the traditional wine game, the large brewers may be looking to reshape segments of the wine market to make it play more like beer. The recent Dante Robino deal appears to be part of this reformulated incursion into the wine space, as it follows their launch of a canned wine brand in Argentina (Blasfemia).

Given their consolidated position, their brand-building know-how and their considerable distribution muscle in many markets, it seems quite feasible that brewers would one day emerge as formidable competitors for low-priced wines. If this happens, it could profoundly change how the consumer engages with the category.

## Export Trends of Major Producers

Trade agreements (Japan-EU), tariffs (US) and changes in trends (China, US) shaped global wine trade flows in 2019, and will continue to have an impact in 2020.

Heading into 2020, the global wine industry continues to face significant uncertainty regarding international wine trade. The US tariffs on selected EU wines were only in effect for the final two months of 2019, but may affect the entire year in 2020. Chinese demand for imports were already slowing, due to subdued economic conditions, and the impact of the coronavirus is exacerbating the trend, at least in the first months of 2020. Looking forward, Brexit may potentially cause further trade disruptions towards the end of the year.

All these factors may destabilize a market that is already reflecting the impact of ample inventories and slow trade. Buyers are increasingly concerned by the lack of



visibility about how consumer demand will evolve in a number of key markets.

## France

Exports of French wine in the first eleven months of 2019 increased by 4.8% in value terms and 1.8% in volume terms, when compared to the same period of 2018. The numbers represent a deceleration compared to previous months. A major reason for this is the decline in wine exports to the US in the month of November (-14% in volume and -21% in value, when compared to the same month last year) as a result of the 25% tax imposed on imports of French wine, among other products. Prior to November, the US had been a major contributor to the increase of French wine exports in 2019.

## Spain

Exports of Spanish wine rose 7.4% by volume, but declined by 8.5% in value terms, in the 11 months through November 2019. Packaged wine exports for the period increased by 0.4% in volume but declined by 4.8% in value. Lower sales to markets such as Germany, China and Netherlands couldn't be offset by the increase in exports to other markets such as Canada or Japan. Bulk wine exports increased by 11.6% in volume and declined by 23% in value terms.

## Italy

Italian wine exports to the end of October increased by 11% in volume and by 3.6% in value, compared to the same period of 2018. The US, Germany, and Japan were the largest contributors to total growth in absolute value terms, while exports to the UK contracted in value terms (-2%), despite a 4% increase in volume.

Sales of bottled and sparkling wine increased both in volume (+6.4% and +8.1% respectively) and value (+4.8% and +5.3%), whereas bulk wine sales increased by 24% in volume but declined by 8.3% in value, and accounted for less than 7% of total export value during the period.

## US

In the first eight months of 2019, US wine exports declined by 2% in volume and 9% in value. Bottled wine exports declined by 7% in volume and 11% in value, respectively, during the same period. The numbers reflect a contraction in sales to China, Mexico, and Canada. Although sales of bottled wine to the EU declined, the shortfall was more than compensated by larger bulk wine exports.

**Table 1: Change in wine exports for selected countries**

Country	Volume change (%)	Value change*(%)	Period of measure
France	+1.8	+4.8	Jan-Nov 2019
Spain	+7.4	-8.5	Jan-Nov 2019
Italy	+11.7	3.6	Jan-Oct 2019
US	-2.0	-9.0	Jan-Aug 2019
Argentina	8.7	-2.4	Jan-Nov 2019
Chile	2.7	-3.3	Jan-Dec 2019
South Africa	-24	-7	Jan-Dec 2019
Australia	-12.0	3.0	Jan-Dec 2019
New Zealand	8.8	8.2	Jan-Dec 2019

\*Value changes in local currencies, Argentina and Chile in USD. Source: ISTAT, I numeri del vino, OEMV, [lekiosque.finances.gouv.fr](http://lekiosque.finances.gouv.fr), Wine Australia, SAWIS, ODEPA, Stats NZ, Observatorio Vitivinícola Argentino, the Gomberg Fredrikson Report, Rabobank 2020

## Argentina

Argentine wine exports in the first eleven months of 2019 saw an 8.7% increase in volume, with value declining by 2.4% when compared to the same period of 2018. Bulk wine exports suffered a strong reduction in average prices, driving a growth of 20.9% YOY in volume terms, but declined by 4.3% in value. Bottled wine exports increased by 3% in volume and declined by 2.2% in value.

Exports to the US, the largest buyer of Argentine wines, increased by 6.8% in volume but declined by 6.7% in value. These numbers reflect a change in the mix, with bulk wine gaining share. Exports to the UK increased by 22% in volume and 10% in value terms, while sales to Canada increased by 2.9% in value, with a 56% increase in volume.

## Chile

In 2019, Chilean wine increased by 2.7% YOY in volume terms, but declined by 3.3% in value (USD). The decline in the average price per liter is a combination of lower prices for virtually all products and a change in the mix. Bulk wine exports increased by 12.7% in volume (-2.5% in value) and suffered the largest decline in price per litre (-9%), while exports of PDO bottled wine exports declined by 2.8% in volume terms. Prices were more resilient, down by 1.4% for the year, and showing some recovery towards the end of 2019.

In value terms, exports to China declined by 5.2% YOY mainly due to an 18% reduction in bulk wine sales. Sales to the UK declined by 2%, as a 12.7% increase in bulk wine exports could partially offset an 8% decline in bottled wine sales. Exports to Japan declined by 11% as the country favored EU wines following a free trade

agreement with the region – in place from February 2019. Both Brazil (+1.8%) and the US (+7.1%) bought more Chilean wine in 2019 than in 2018.

## South Africa

In 2019, South African wine exports declined by 24% in volume terms and 7% in value (local currency). Bulk wine exports were down 30% in volume and 17% in value, with bottled wine sales down 14% in volume and 4% in value. Export prices were higher across the board, reflecting scarcity and quality.

Exports to the UK – the largest buyer of South African wine – declined by 26% in volume and 8% in value. Exports to Germany, the second-largest destination, also declined by volume and value. Among the relevant buyers, only the Netherlands and Belgium increased their purchases in volume terms. Within Africa, Tanzania, Nigeria, and Ghana bought larger amounts of South African wine than in 2018, but this was not enough to compensate for the declining demand from Kenya and other major off-takers.

## Australia

In 2019, Australian wine exports declined by 12% in volume but rose by 3% in value, YOY. Bulk wine exports declined by 18% in volume and 12% in value, while bottled wine exports declined by 5% in volume but increased by 7% in value. Tight availability and a shift to higher quality justify the trend. In fact, the value of exports of wine priced above AUD 20 per liter increased by close to 30% YOY.

Sales to China increased by 12% in value, despite a 17% decline in volume terms. Australia is now the largest wine exporter to China by value, and, in turn, China is the largest market for Australian wine. Exports to the US declined by 1% in value and 14% in volume, and sales to the UK declined by 9% in value and volume, but the latter remains the largest market for Australian wine in volume terms. These three markets represent around 70% of total Australian wine exports.

We observe some deceleration in exports towards the end of the year, and we expect the first months of 2020 to be challenging for the Australia's exports, reflecting the impact of the coronavirus in their largest market.

## New Zealand

In 2019, New Zealand wine exports rose by 8.8% in total volume, and 8.2% in value (local currency), when compared to the previous year. This shows an

acceleration in the last three months of the year (+6.5% in value and +9% in volume YOY), when compared to the previous quarter (+2.5% and +6% respectively).

## US Import Trends

In the first eight months of 2019, US wine imports increased by 2% in value and 7% in volume as activity somewhat recovered after a slow start of the year (see Table 2).

We would expect the numbers for the last months of 2019 and beginning of 2020 to reflect the disruption created by the tariffs imposed in November. Despite the tight schedule between announcement and when the tariffs came into force, some operators managed to ship additional volumes in October and early November.

For the first months of 2020, uncertainties about consumer demand add to the impact of tariffs. Exporters, importers, and the entire value chain will likely remain cautious, limiting their purchases to the minimum necessary to maintain business flow. Attractively-priced wines from countries such as Argentina or Chile may outperform other origins, and Italian wines – so far unaffected by tariffs – will also likely perform well.

Table 2: US imports by country of origin, Jan-Aug 2019

	Value (USD million)	Change (%)	Volume (thousand cases)	Change (%)
Italy	1,350.2	-3	27,122.9	1
France	1,493.5	8	14,420.8	6
Spain	260.8	-1	6,487.1	2
Australia	218.3	-3	10,927.4	-11
New Zealand	307.4	4	5,637.6	4
Chile	157.5	-5	9,921.3	9
Argentina	183.4	-3	5,545.5	27
Portugal	70.0	-1	1,570.9	3
World total	4,408.8	2	100,532.1	7

Source: Gomberg-Fredrikson Report, Rabobank 2020

## Bulk Wine Pricing

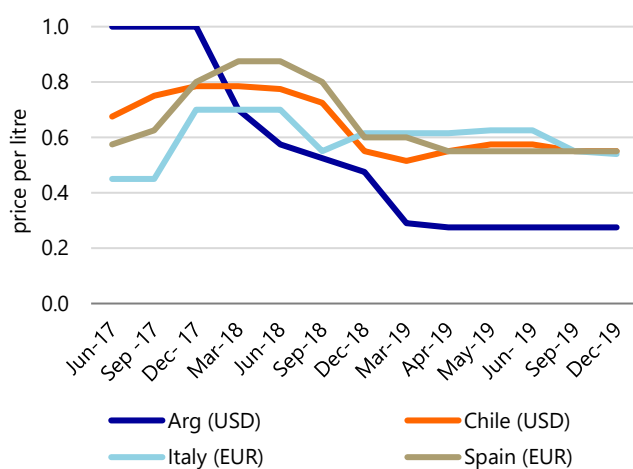
Although EU wine production (60% of the world's total) declined by 15% YOY in 2019, bulk wine prices remained stable in the last months of the year (see Figures 7 and 8), and the situation is predominantly unchanged at the beginning of 2020. There are concerns about the impact that persisting drought may have in the forthcoming southern hemisphere harvests, but the abundance of stock (in particular of red wines) and uncertainties about demand are keeping prices in check.



A major element affecting the global wine industry in recent months is the situation in the US. Stagnant domestic demand, as well as a number of uncertainties (trade wars, oversupply, etc.), are weighing on the local buyers' appetite.

The developments in China are also affecting bulk wine prices. The closing down of the country due to the Covid-19 outbreak is adding to the slowdown in Chinese wine imports. The coronavirus outbreak is not only affecting actual consumption and trade flows of all goods, including wine, at the moment, but its economic consequences may undermine demand for wine even after the disease subsides.

**Figure 7: Prices for generic red bulk wine by country of origin and currency, Jun 2017-Dec 2019**



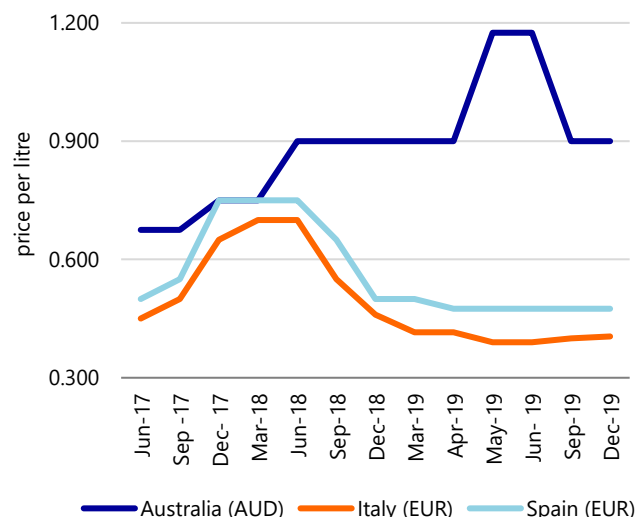
Source: Ciatti Company, Rabobank 2020

Argentine bulk wines seemed to have bottomed out towards the end of the year, supported by stable exchange rates, resulting from currency controls and the growing likelihood of a below-average yield in the forthcoming crop. However, any significant price recovery may be challenged by the global trading environment and the country's own ample inventory, in particular of red wines. In fact, the need to make space for the new vintage may bring red wine prices further down in the coming weeks.

Drought is also affecting Chilean vineyards and may eventually trigger some increase in Chilean bulk wine prices. However, the impact of a decline in exports to China, the largest buyer of Chilean wine at present, is creating downward pressure on prices. In addition, the weakness of the Chilean peso can affect export values when measured in USD.

Bulk wine prices have been relatively stable in recent months. Drought, hail, and fire are creating upward pricing pressure on grape prices, but these are kept in check by uncertainties regarding the Chinese market.

**Figure 8: Prices for generic white bulk wine, by country of origin and currency, Jun 2017-Dec 2019**



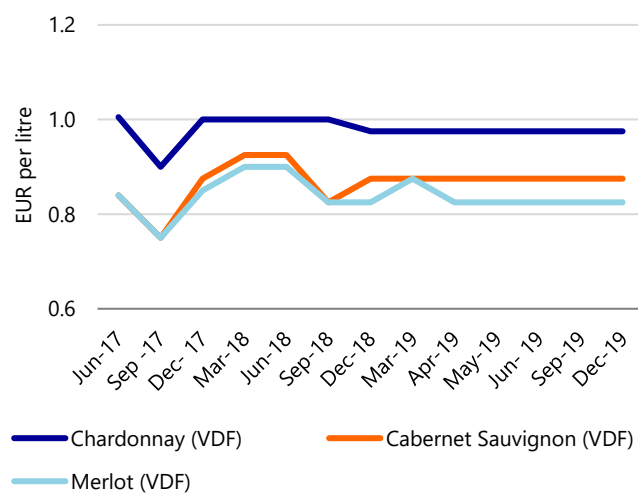
Source: Ciatti Company, Rabobank 2020

Prices for French bulk wine have been stable in recent months but there have been relevant differences per product (see Figure 9). Prices for white varietals such as Sauvignon blanc and Chardonnay are stable and availability is short. However, demand for red wines is slow, and availability ample, which puts prices under some pressure.

Spain is also suffering from the ample global availability of red wines, competition from Chile and Argentina, and from the impact of US tariffs. Prices remain under pressure even if 2019 production came in at 24% below the previous year, and 12% shorter than the five-year average.

Meanwhile, prices for Italian bulk wine are stable overall, but there is a growing interest in some specific products, such as prosecco and organic whites.

**Figure 9: Prices for French bulk wine by varietal, Jun 2017-Dec 2019**

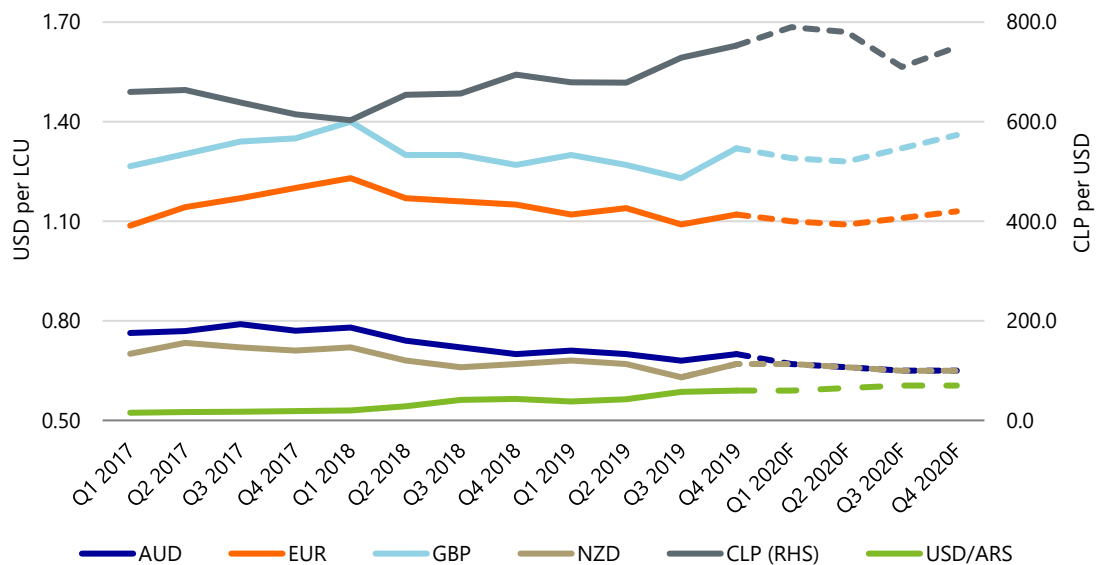


Source: Ciatti Company, Rabobank 2019

## Currency Outlook

Market sentiment in the final weeks of 2019 was dominated by optimism regarding a phase-one trade deal between the US and China. The improvement lifted demand for EM assets and commodities-related currencies, such as the AUD and the NZD. There was always the risk that market sentiment would stumble again once the phase-two trade talks commenced. It is clear that the low-hanging fruit has already been picked and that difficult issues such as China's state subsidies to various industries would be far harder to tackle. The negotiations would also be taking place against a backdrop of widespread suspicion in Washington over Beijing's intentions regarding hegemony. In the event, it wasn't trade but coronavirus fears that quashed risk appetite though the latter part of January. However, by early February, a huge injection of liquidity by the Peoples' Bank of China, and controls over the selling of shares, had brought back the appearance of stability in the market. It is too early to make a strong judgement as to the impact of the coronavirus on Chinese and global growth. That said, the assumption that there will be some negative impact on activity is a drag for commodities prices. It also raises the risk of further central bank policy moves. We expect the US dollar to retain a relatively firm tone in the months ahead. We see risk that the commodities currencies and many in the EM space will remain vulnerable, and see the GBP being guided by the tone and progress of the EU/UK future relationship talks. Capital controls are expected to remain in Argentina for the time being (see *Figure 10*).

**Figure 10: Wine currency movements and forecasts, Q1 2017-Q4 2020f**



Source: Bloomberg, Rabobank 2020

# Imprint

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