Newsletter Spain - January 2018

Since our last report from September 2017, we have had little rainfall in Spain, in the La Mancha region there were 25 liter/m^2 in December 2017, and in January we are not accumulating more than 20 liter/m^2. All in all, these 45 liter/m^2 are not enough, and we are very pessimistic about the situation, because if the great drought in Spain continues, this will certainly have a very negative impact on the expected harvest volume for 2018. The water reserves in Spain are less than 45%, and if it does not rain in the coming months, the situation could be critical.

According to official estimates by the Spanish Ministry of Agriculture, the total crop in Spain in 2017 was 37 million hl, of which 3 million hl was produced as must. The wineries and cooperatives in Spain had used up their 2016 crops because of to a very strong demand from the European markets due to the huge crop deficits in France and Italy before they could start delivering the first 2017 harvest wines. In other words, in December 2017, we started to supply wines from the 2017 harvest, without any stocks of the previous harvest.

In our opinion, two important factors must be considered:

1. All contracts signed in 2017 for wines from the 2017 harvest were signed at prices that were already relatively expensive at that time. Most contracts were concluded with deliveries by September 2018 and many even only until March 2018. These contracts were made with the idea that prices would fall again starting in April 2018, and many buyers believed that starting in March / April 2018, they would again have favorable market opportunities like in a normal wine year. We believe that there will be no price cut this year and that prices will not go down, at least until the announcement of the prices for the new 2018 wines at the end of August.

   - Prices for white wine range between € 5.10 / hlº and € 5.50 / hlº EXW and they are stable.
   - Prices for red wines today are between € 5.50 / hlº / € 5.70 / hlº EXW, and we will certainly see a price increase in the coming weeks.

- The varietal wines with the indication of variety and vintage on the eDA, in red and white, are so far very limited, but still smaller quantities are available.
- The rectified grape must concentrate is currently between 1.90 €/kg and 2.10 €/kg EXW

2. The largest private wineries in Spain have covered their needs only until the end of March 2018, which means that they will soon make new purchases to have stock until the availability of the 2018 wines. We are sure that this will quickly lead to price increases.

In addition, we know, that the contracts signed at the expensive prices have been loaded by the customers, so we assume that the market in general is accepting the price increase, though reluctantly. One indication of this is, that even though prices have continued to rise since October 2017, many new contracts have been continuously signed by suppliers and the wines of those contracts have all been delivered. We therefore conclude that the market situation has generally been reluctantly accepted by the buyers and the market. This has generally encouraged the customers to continue trading despite the price increases.

Taking into account the analysis of the previous points, we can rightly assume that it will be difficult to match the availability of the 2017 harvest to the availability of the wines from the next crop in 2018 and, above all, that prices will decline again. The prices, we will have at the beginning of the harvest 2018 will be very much affected by the drought, the existing risk of frost in the bloom, possibly hail, and much more. Of course, it is still too early to give a prognosis now. In any case, one thing is certain, given the factors we have described, it is absolutely necessary to stock up on wine as soon as possible until at least the end of August 2018, as there is no indication that prices will go down, but quite the opposite.

We currently know about the crop in the southern hemisphere that it looks like this:

- In Argentina, the 2016 harvest was 8.8 million hl and the 2017 harvest was less than 7.5 million hl. For this new harvest in 2018, a normal harvest of about 10 million hl is expected, but almost all will be destined for the domestic market.

- In Chile, the last two harvests were also very bad, in 2016 the harvest was 10 million hl and in 2017 9.4 million hl. For this year, Chile expects a slightly higher harvest than last year, about 10.5 million hl, but below the average of a normal harvest of about 12 million hl. The most of the production is exported to China, Canada and the USA.

  We estimate the prices after the 2018 harvest in Chile as follows:

  - Generic Red wine 12% vol. 65.00-70.00 USD/hl FOB Valparaiso,

  -> Converted into EURO 54,00-58,00 €/hl

  - Cabernet Sauvignon red wine 12% vol. 95.00-100.00 USD/hl FOB

  -> Converted into EURO 79,00-83,00 €/hl

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