

October 22, 2013

Australian Consumer and Beverage

The Global Wine Industry

Slowly moving from balance to shortage

Declining in global production deepens supply shortage

The global wine industry has seen an excess of 600mn unit cases (almost ¼ of global consumption) in 2004, reduce to just 1m unit cases in 2012 – largely through an ongoing structural reduction in capacity. After adjusting for non wine uses, demand for wine *exceeded* supply by 300mn cases in 2012, the deepest shortfall in over 40 years of records. Production in 2012 also fell to its lowest levels in more than 40 years.

Impact of shortage lags - demand for exports is likely to accelerate in the medium term

In the short term, inventories will likely be reduced as current consumption continues to be predominantly supplied by previous vintages. As consumption turns to the 2012 vintage we expect the current production shortfall to culminate in a significant increase in export demand, and higher prices for exports globally. Further growth in consumption in the meantime may exacerbate the shortage when it comes through.

Net exporters such as Australia, Chile, Argentina, South Africa and NZ are best placed to benefit

With tightening conditions in Europe, the major new world exporters stand to benefit most from increasing demand on global export markets. Relative cost of production, varietal preference, and relative currency evolution will impact share, however with overall demand tracking ahead of supply each will likely see increased export demand. Chile, Argentina and South Africa should see current excess supply absorbed, whilst Australia and New Zealand are already in balance / shortage domestically, and may see more immediate upward pressure on export prices.

Treasury Wine Estates (TWE.AX, A\$4.73) is our top Australian consumer pick

Pure play listed wine companies are rare, and vary in terms of their ability to capitalise on global opportunities. Within the Morgan Stanley coverage universe TWE is the only diversified wine 'pure play'. For our most recent views on TWE please see our report published on September 30th, 2013 titled 'A Hypothetical Cure for the US Hangover'.

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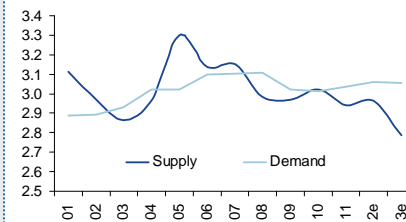
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Global Wine Supply / Demand



Supply lagged 1 year. Million unit cases.
See pg 11 for references

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Summary

Global View – Production declines maintain outlook for global shortfall

There are more than 1 million wine producers in the world, producing approximately 2.8 billion cases of wine each year. Global consumption (including non wine uses) is c3 billion cases.

The top ten wine-producing countries control 80%+ of production across 4.4m hectares of vineyards. These countries represent 60% of global consumption, creating a delineation between net exporters and importers.

Global wine production peaked in 2004 and continues to decline. In 2012, production declined to its lowest level in 40+ years. Global consumption inflected in 2010 and continued growing in 2011 and 2012.

Similarly, global excess supply peaked in 2004, and has been in balance / under supply since 2006 – working down excess inventories following an extended period of surplus. Following the weak V12, global undersupply is at its deepest level in more than 40 years. Data suggests there may be insufficient supply to meet demand in coming years, as current vintages are released.

In the past couple of years, production declines have continued in France, Spain and Italy and new world* production has peaked.

The French remain the largest consumers of wine, with consumption maintaining a positive trend since 2010, following decades of decline. The US is now a very close second. The US and China are the main drivers of consumption growth globally.

The global export market is about 1 billion cases. Excluding intra EU trade, we estimate the global 'seaborne' export market is about 600 million cases, 60% of which is to the UK, the US and China.

New world now represents c30% of global exports, compared to less than 3% in the early 1980s.

^ France, Spain, Italy, Germany, Portugal, Greece, Austria, Switzerland, Romania

* USA, Australia, Argentina, Chile, South Africa, New Zealand

What Has Happened in the Past 12 Months?

Industry capacity continues to decline: Structural adjustment has continued in Europe. Europe now has ~10% less winemaking capacity than it did in 2005. France and Spain, with Europe's largest capacity are 10% and 13% lower respectively than in 2005.

Overall global production fell 5%-6% in 2012 to the lowest level in 40+ years. This was primarily the result of large declines in European production as a result of poor weather conditions. France in particular saw a sharp fall of c20%. Argentinean production also fell 24% in 2012.

Global consumption has continued its recovery, rising 1% in 2012.

Declining production and rising consumption has resulted in a large undersupply of almost 300m cases.

Exports now account for 40% of global production, up from 15% 30 years ago, with global consumption growth being dominated by net importing nations of China and the US.

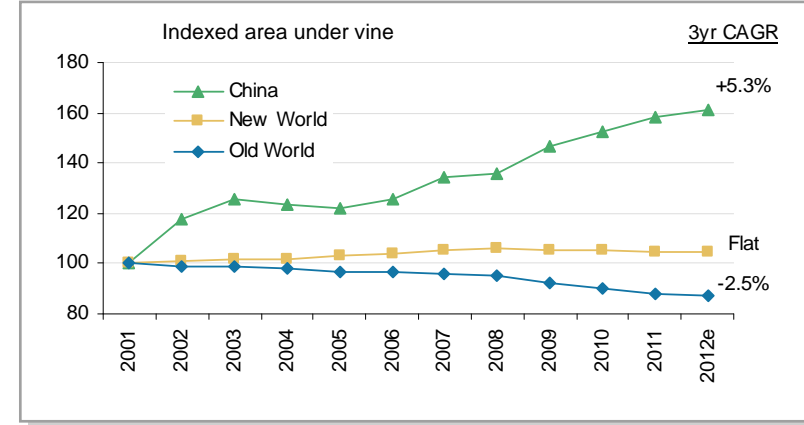
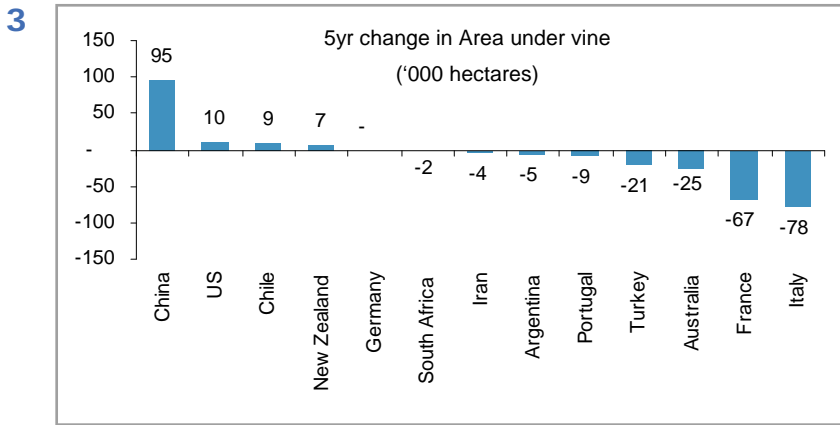
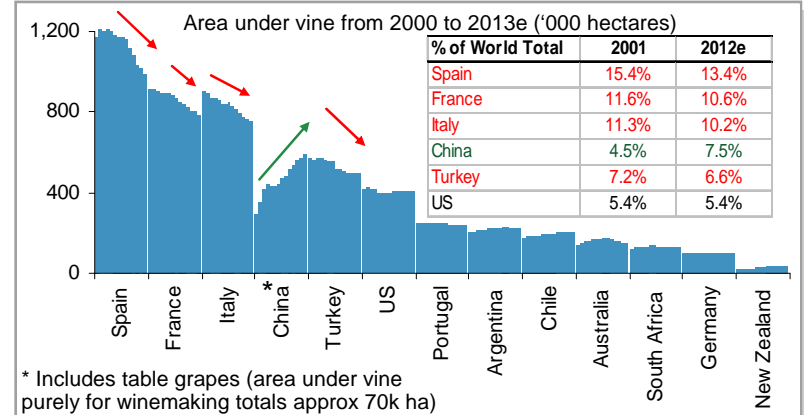
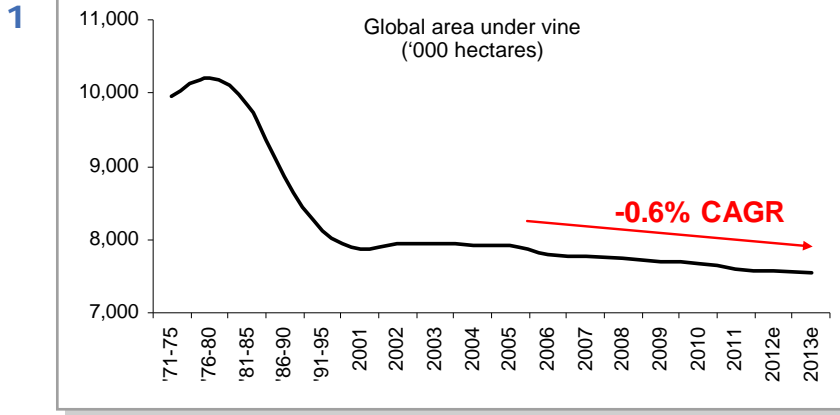
Australia saw further progression towards a balance between supply and demand, with ongoing reduction in inventories. This is being driven by continuing vine pull amid a fairly static consumption environment.

Ongoing structural growth trends in the US have seen consumption draw almost level with France. Domestic production increased substantially in 2012, which may put downward pressure on imports over the coming 12 months as supply re-aligns with demand.

Europe saw plummeting production, driven by ongoing vine pull and poor weather. Consumption rose for the first time since 2001, driven by France.

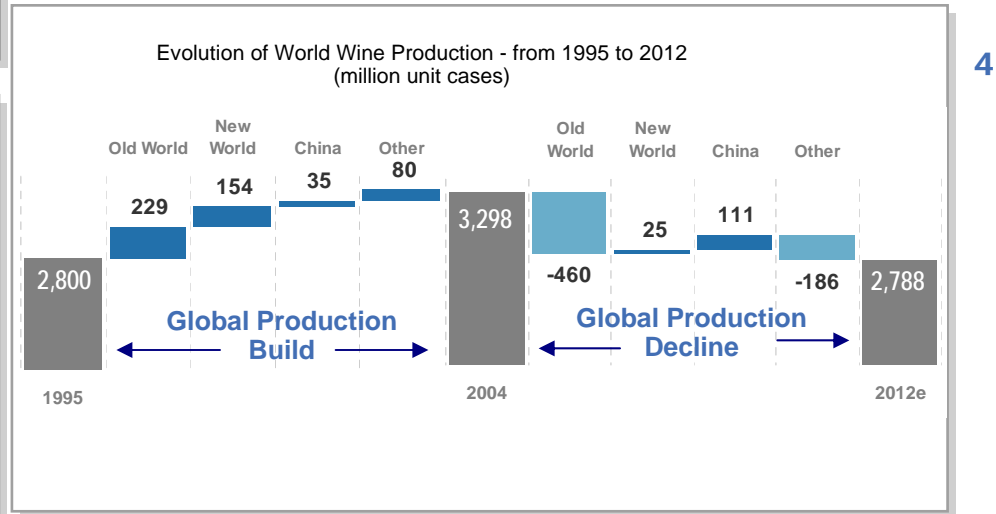
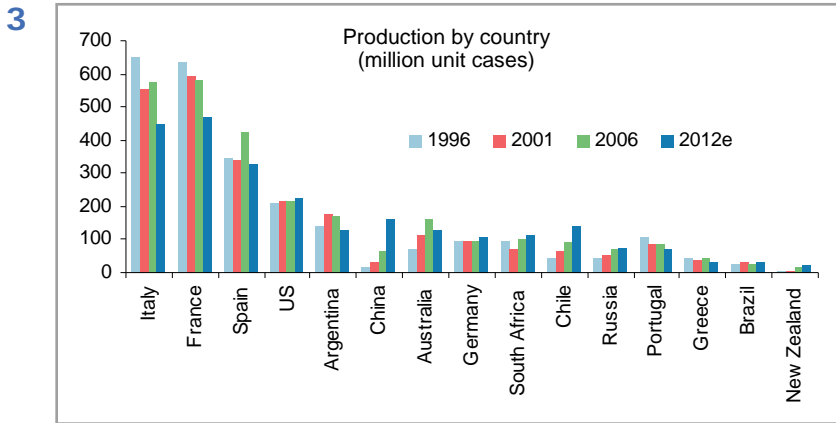
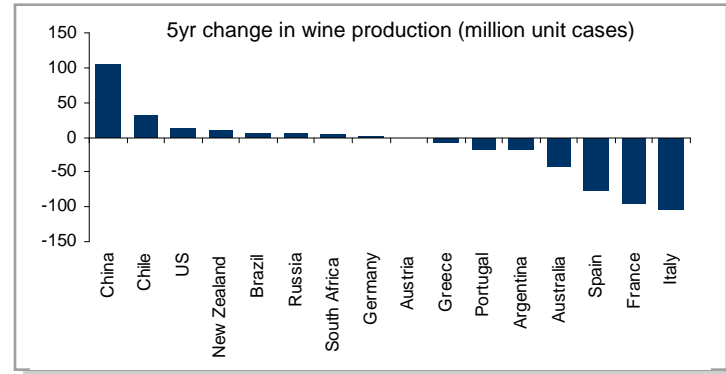
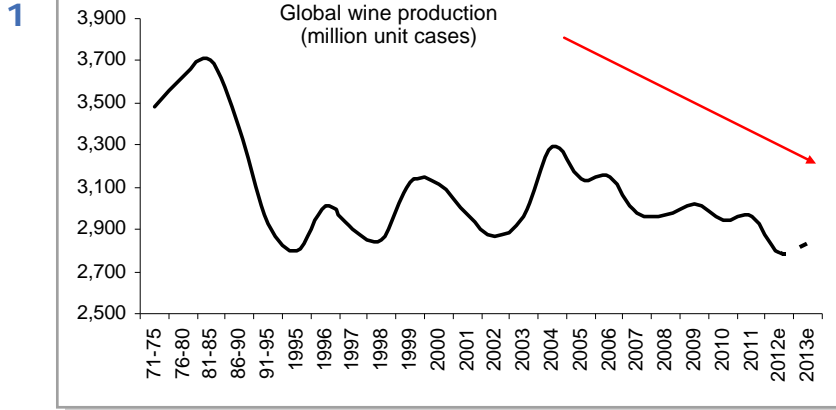
Asia continued to see strong consumption growth, driven by China. Imports have been the primary driver of growth, although domestic production has also increased.

Global Wine Industry – Area Under Vine: Continuing to decline



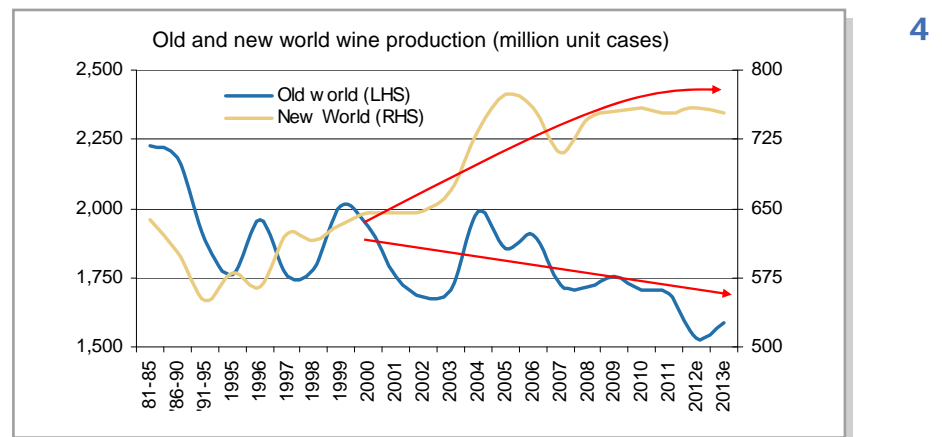
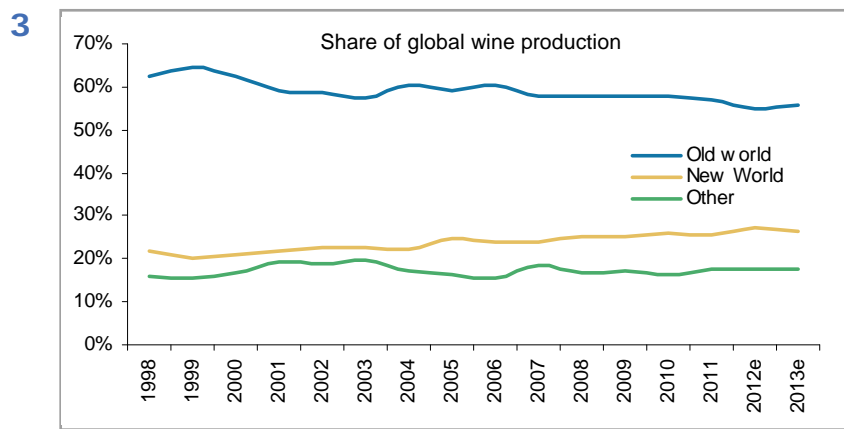
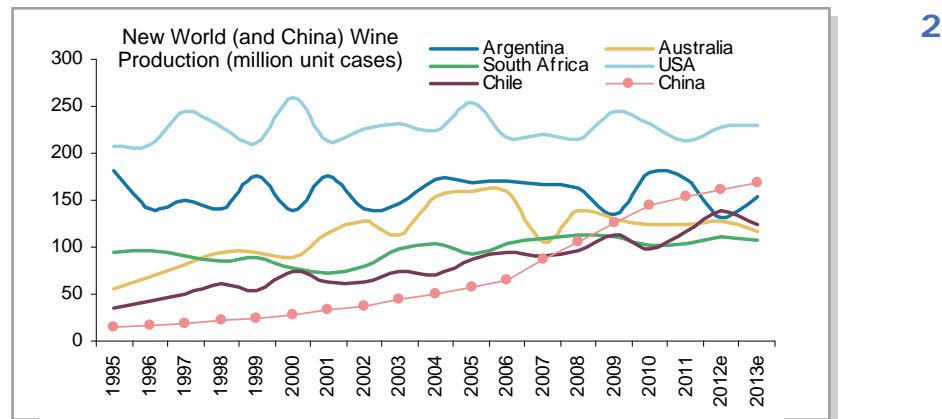
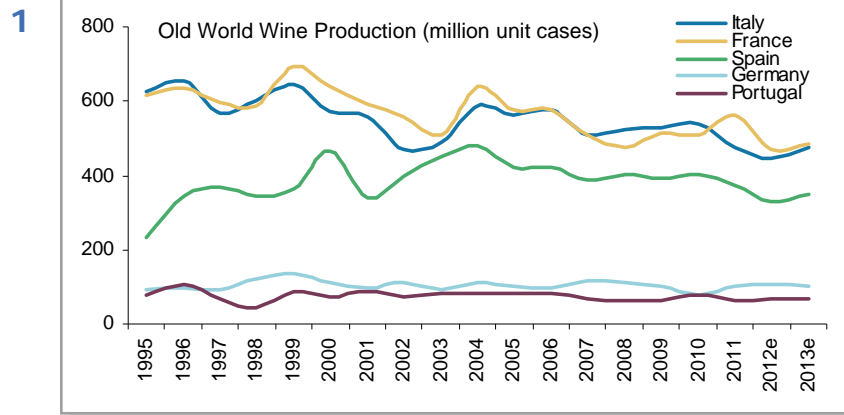
Global area under vine has continued its steady decline [1], driven by vine pull in the old world (at c2.5% pa) and minimal new plantings in the new world [4]. China, is the only country consistently expanding its vineyard footprint with an average growth rate of 5.3% over the past 3 years [2,4] although data from OIV is total table grapes, grapes for winemaking are estimated to be a much smaller % of the total.

Global Wine Industry – Production: Temporarily stabilised in 2011



Production is more volatile than area under vine due to fluctuating agricultural conditions, but has, over the past decade, demonstrated a substantial declining trend [1]. In 2012, global wine production reached its lowest levels in more than 40 years, driven by ongoing removal of capacity and poor weather conditions. Global wine production has undergone a significant shift over the past 2 decades with both old and new world growth driving the first decade, whilst old world declines have dominated the second [4].

Global Wine Industry – Production: The Old World Still Dominates

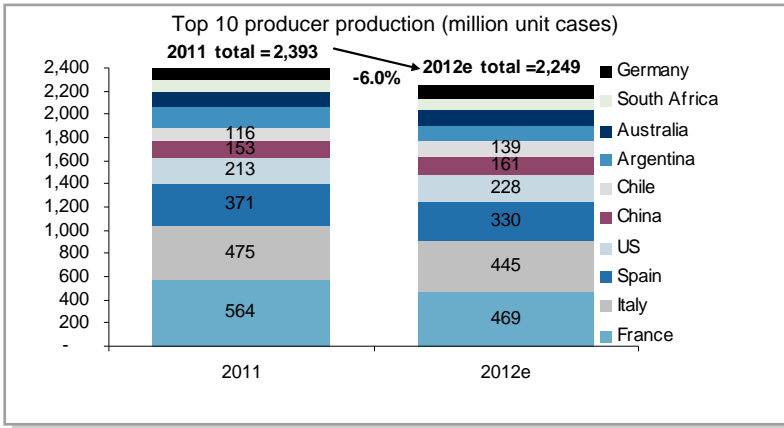


Total **old world** production in 2012 is estimated to be 1.5bn cases, **down 9.5% from 2011** with a sharp fall in particular from France (-18%) [1 & 4]. New world production remains flat at c760m cases, with increases in production from South Africa, the US and Chile more than offset by a 24% decline in Argentina [2 & 4]. These trends, along with the rise of Chinese wine production, are driving production share declines in the old world, despite signs of maturity in new world markets [3 & 4].

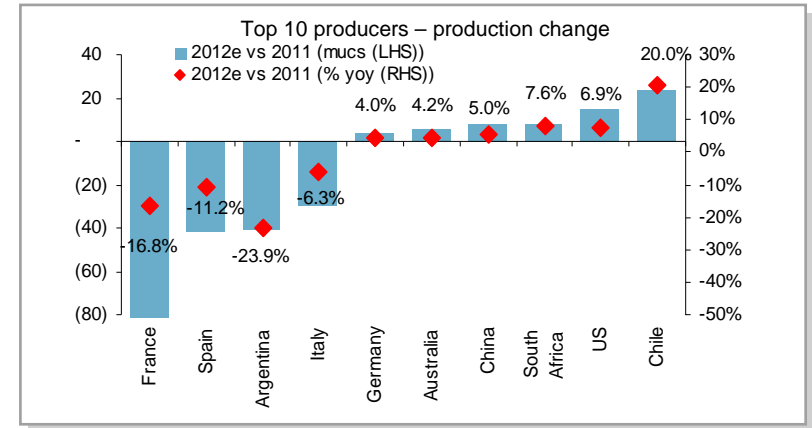
Source: OIV, Morgan Stanley Research, (e)=OIV estimates in 2012; MS estimates in 2013

Global Wine Industry – The top 10 producers have seen production decline since 2004

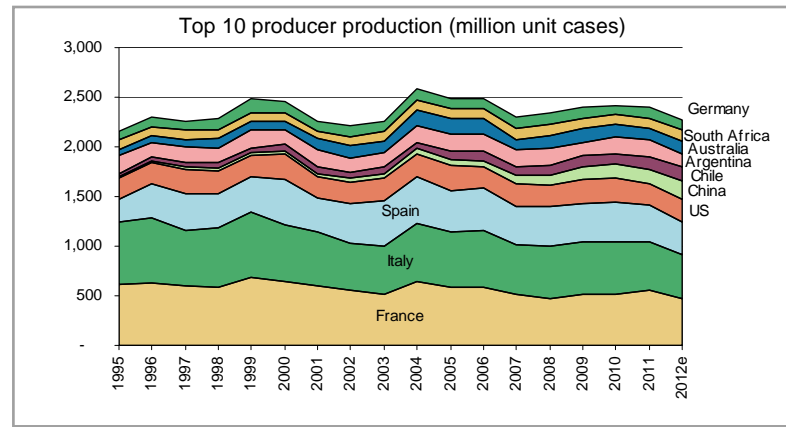
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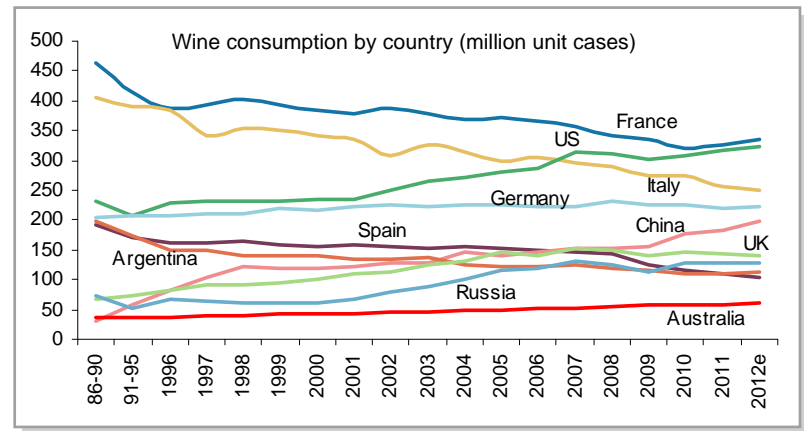
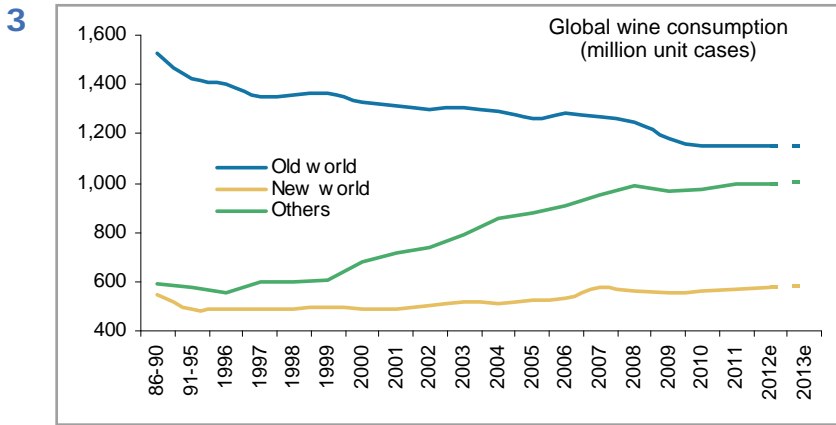
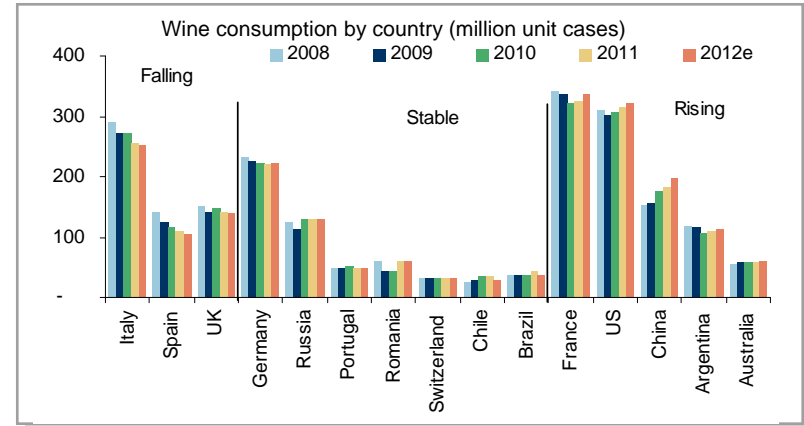
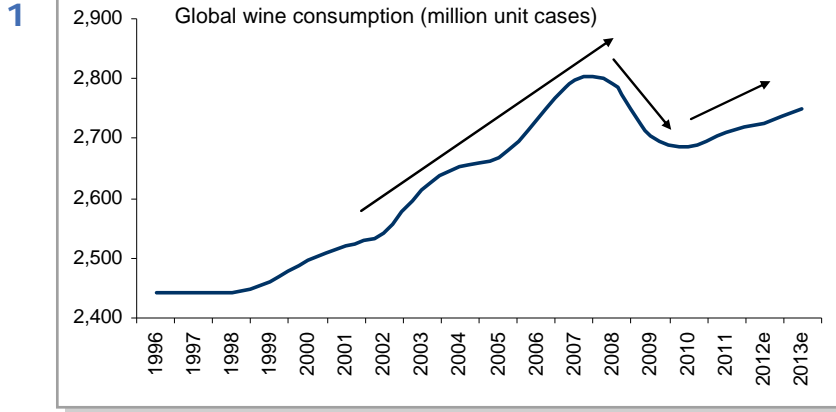


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[1] Total production amongst the top 10 producers fell 6% in 2012, with larger declines from the major regions of France, Spain and Italy, but also Argentina [2]. China is one of few regions that has seen production increases over the past decade. Despite the decline, France, Italy and Spain continue to dominate global production [3].

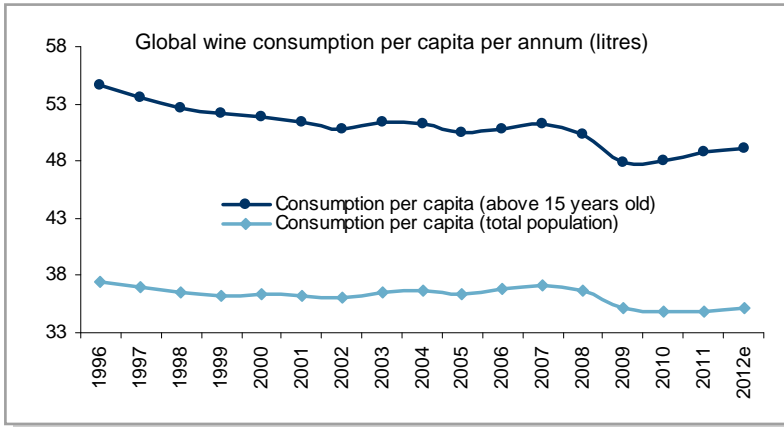
Global Wine Industry – Consumption: Making a recovery, led by France, the US and China



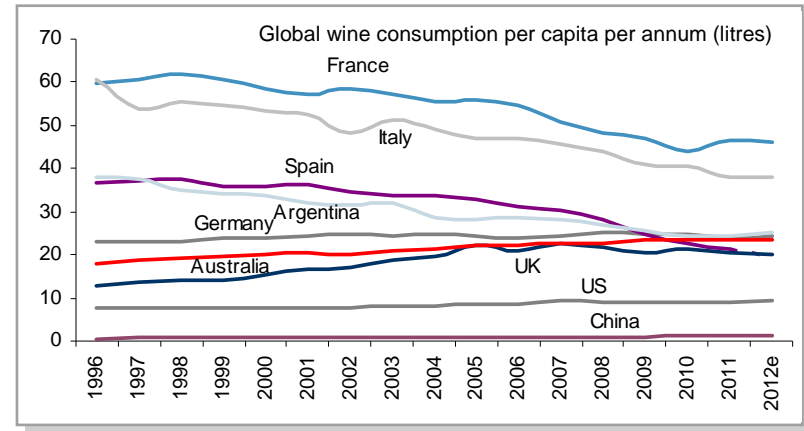
Global wine consumption has continued to recover [1] with France, the US and China driving incremental growth while other old world regions continue to show declines [3]. The important markets for growth, the US and China have more than offset declines in old world markets over the past 10 years [2, 3 & 4].

Global Wine Industry – Consumption Per Capita: Reached inflection point

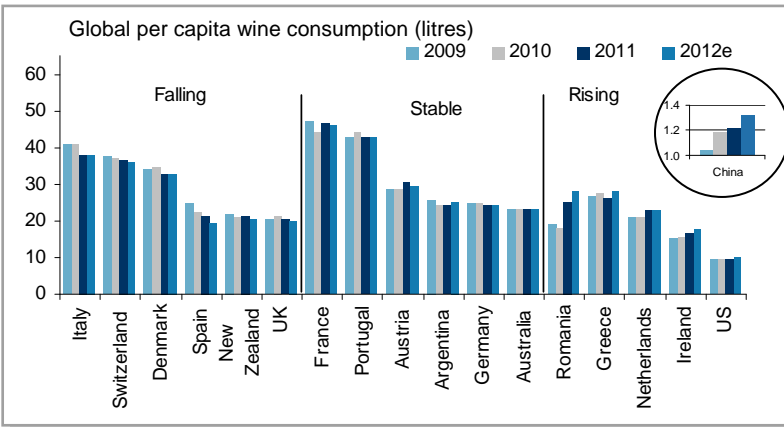
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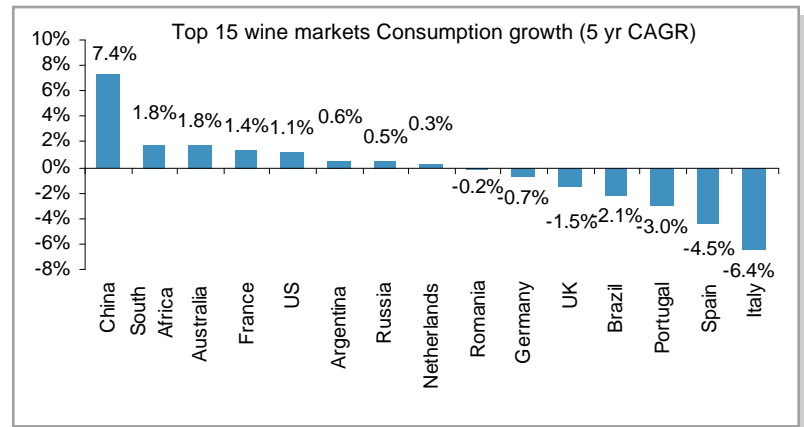
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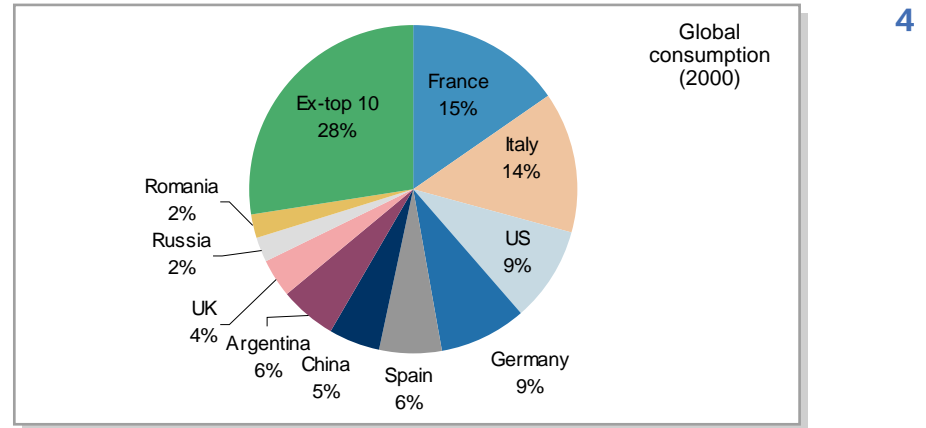
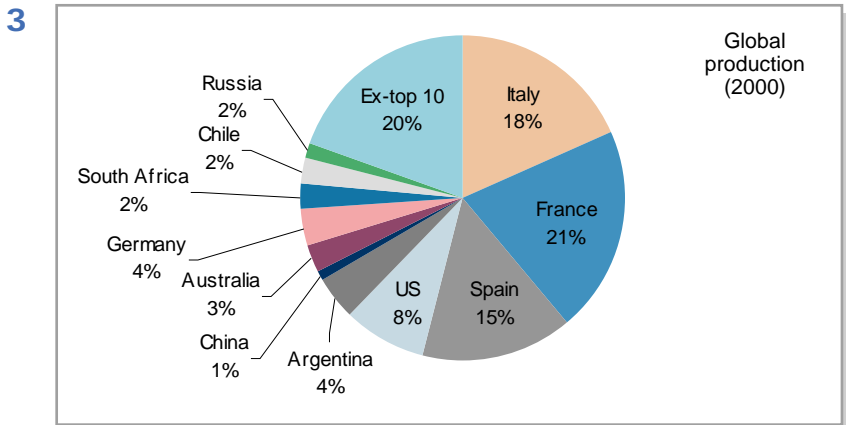
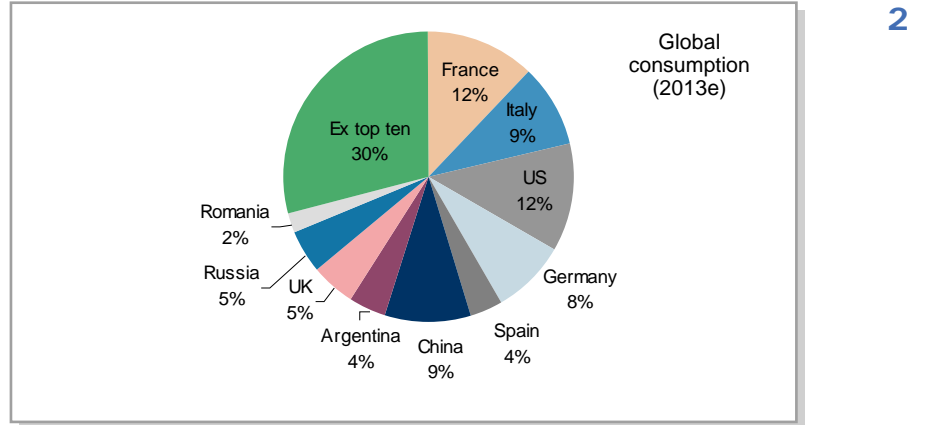
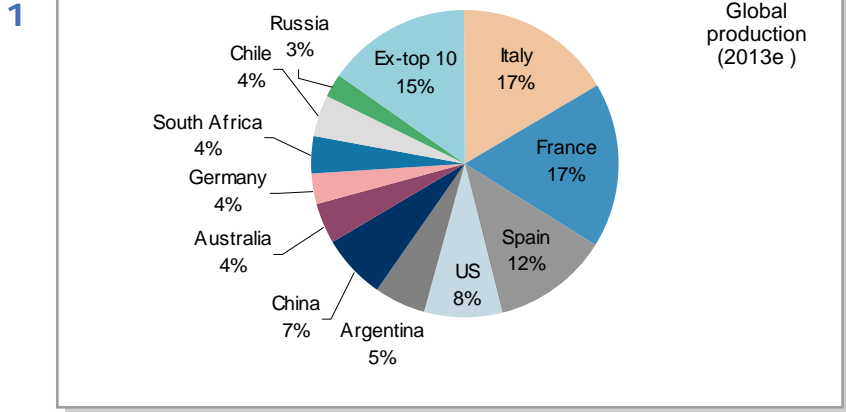


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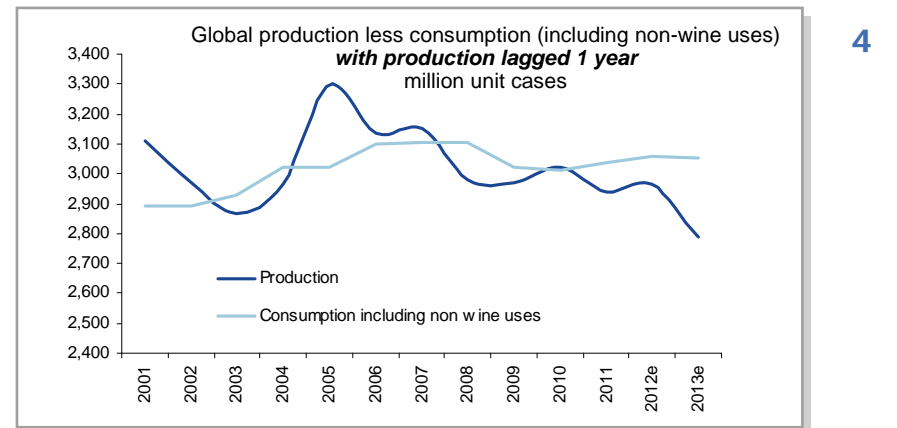
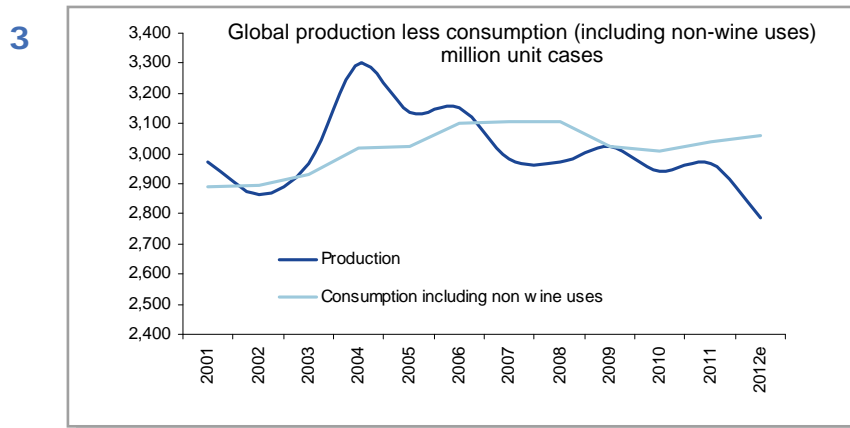
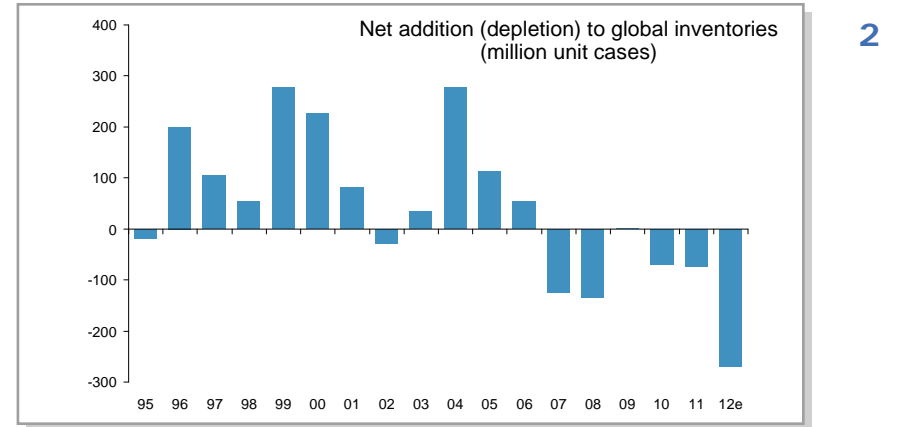
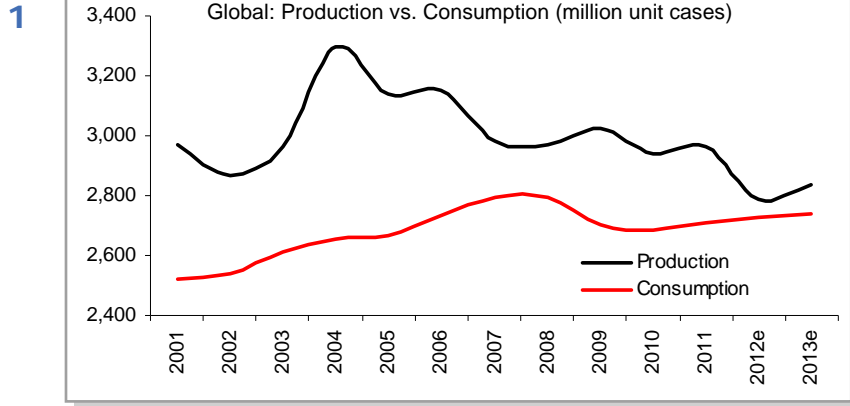
Global per capita consumption has reached an inflection point, with growth continuing off 2009 lows [1]. Growth from new world markets and China is more than offsetting declines in some Old World countries [2 & 3]. French consumption has maintained its recovery since 2011, after an extended period of decline [2]. Chinese per capita consumption remains low by international standards, despite strong ongoing consumption growth [3 & 4].

Global Wine Industry – Production & Consumption Over Time



[1, 2, 3, & 4] following a weak 2012 vintage, Italy, France, and Spain represent 43% of global wine production (down from 54% in 2010), and 25% of global consumption (down from 35% in 2010). New World production has increased from ~20% in 2010 to around 30% today.

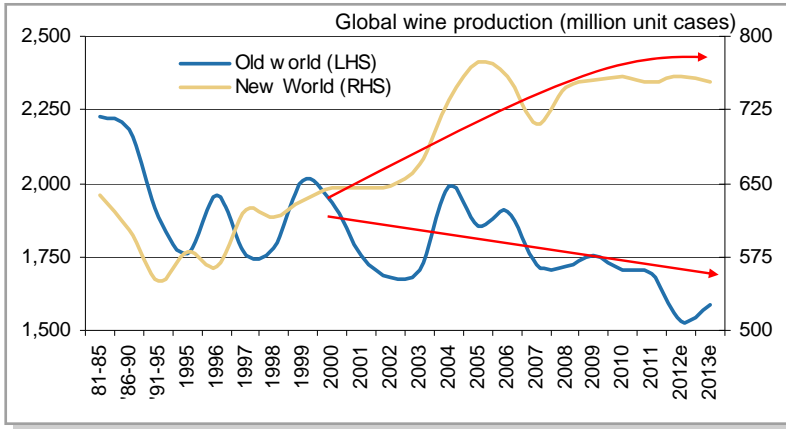
Global Wine Industry – Global Supply and Demand: Expanding Excess Demand



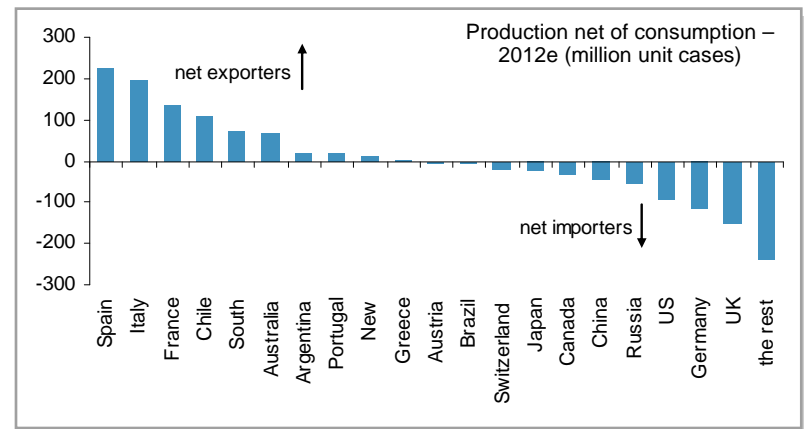
A continuing rebound in global consumption combined with declining global production saw total global undersupply deepen substantially in 2012. After adjusting for non-wine uses (OIV estimates ~300 million unit cases are used for non-wine purposes such as vermouth, brandy, etc.), there appears to be a global *undersupply* of wine of almost 300mn cases [3]. The impact of the 2012 production shortfall lags, as current consumption is still dominated by earlier vintages. [4] shows the impact assuming a 1 yr lag. Inventories have been reduced by almost 700m unit cases since 2006 [2].

Global Wine Industry – Old and New World

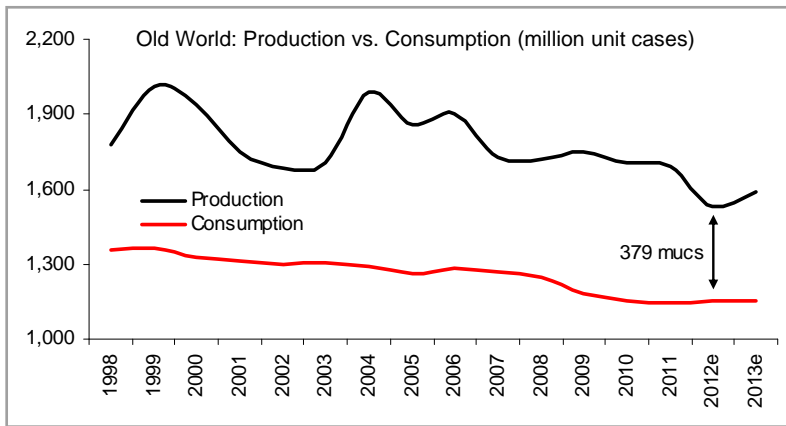
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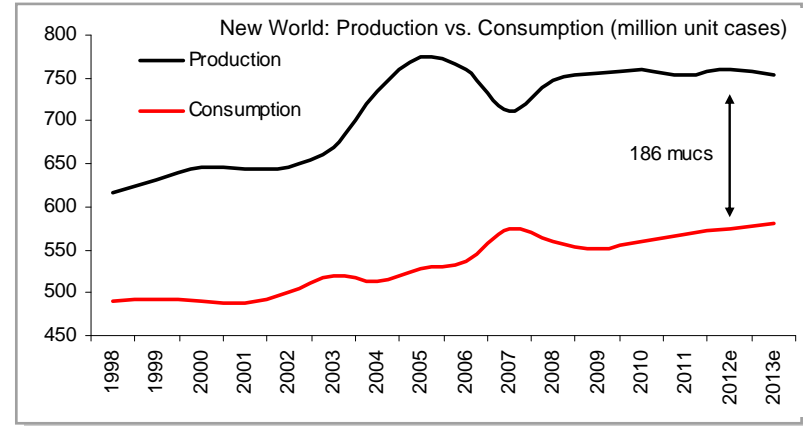
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These charts do not include other markets (such as China which is not officially classified as old or new), nor do they account for non wine uses.

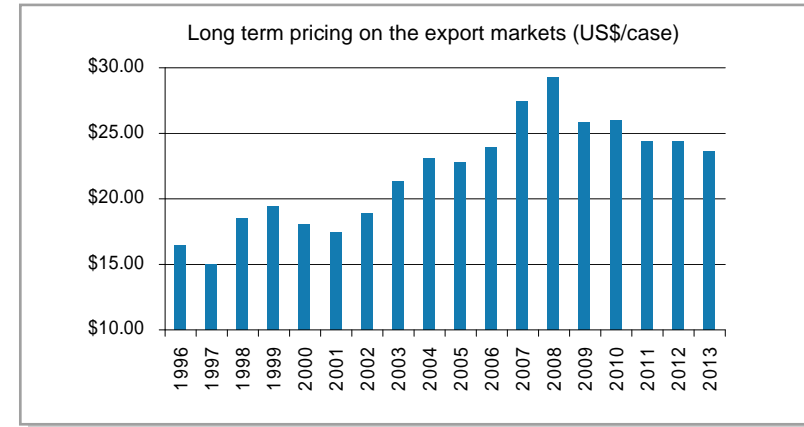
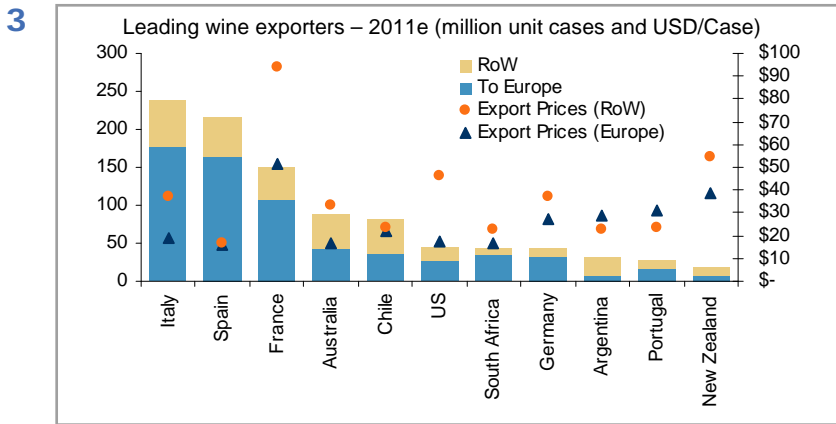
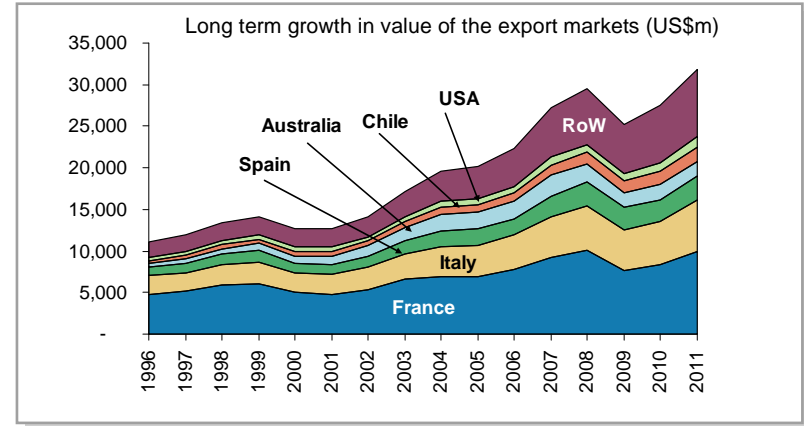
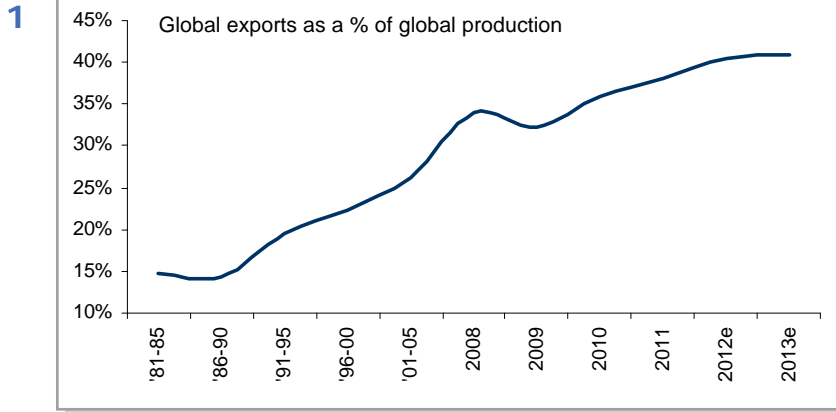
The old world still produces significantly more wine (c2x) than the new world [1], although including China reduces this gap. The wine industry can be categorised into net exporters and net importers [2]. Broadly, old world oversupply has contracted [3], while the new world’s oversupply continues to diminish [4].

Source: OIV, Morgan Stanley Research, (e)=OIV estimates in 2012 and MS estimates in 2013

Old World: France, Spain, Italy, Germany, Portugal, Greece, Austria, Switzerland, Romania.

New World: USA, Australia, Argentina, Chile, South Africa, New Zealand

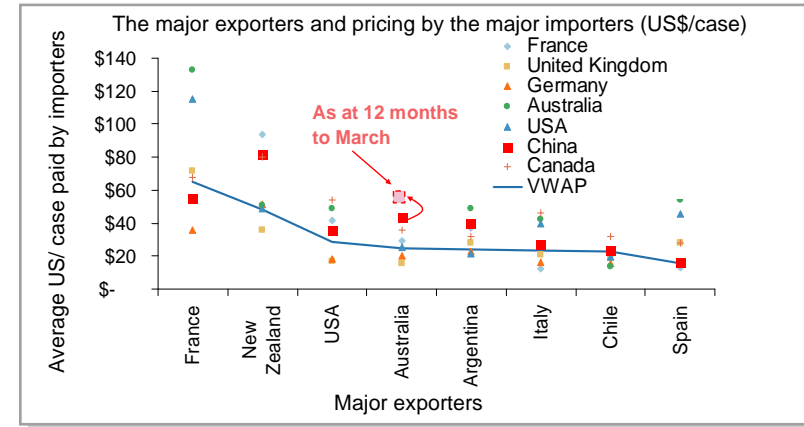
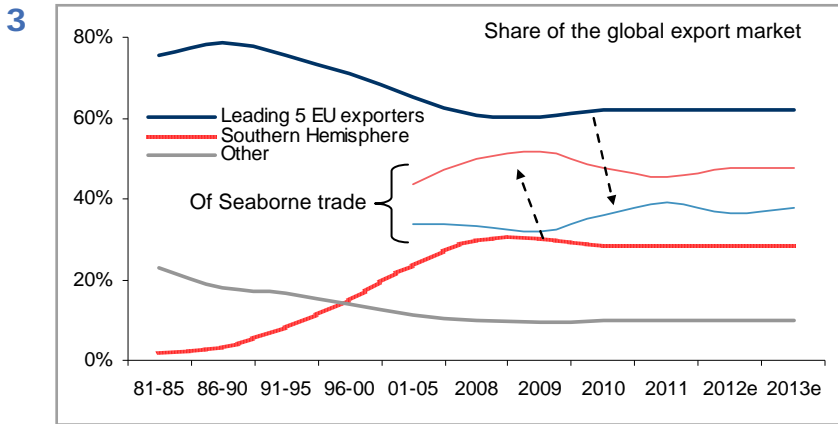
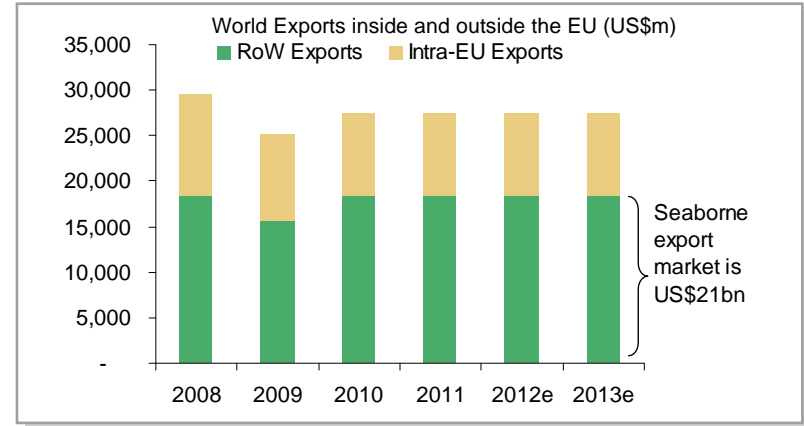
Global Wine Industry – The Global Wine Trade : The Export Market is growing strongly



The global wine trade has grown dramatically in the past 30 years and now represents 40% of total production [1] and is worth over US\$30bn [2]. At ~US\$10bn, French wine exports represent one third of total export value [2], which is largely a function of the higher prices its wines command [3]. The US\$15-\$20/case price point is where many countries compete for the large EU demand pool [3]. Pricing overall on export markets has been a growth story for the past 15 years, with 2011 rebounding strongly from 2010 lows [4].

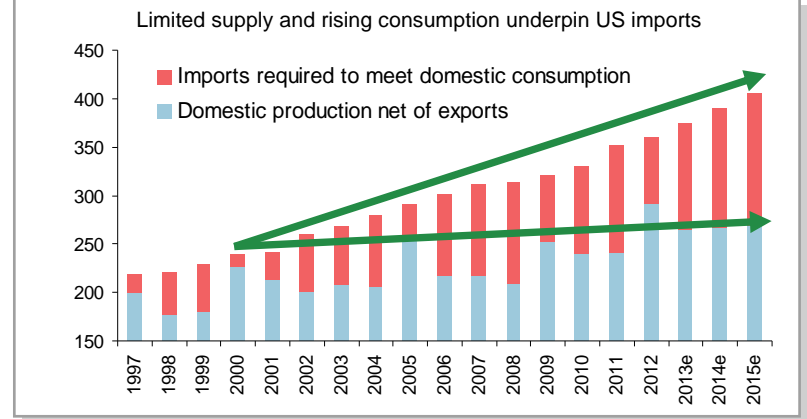
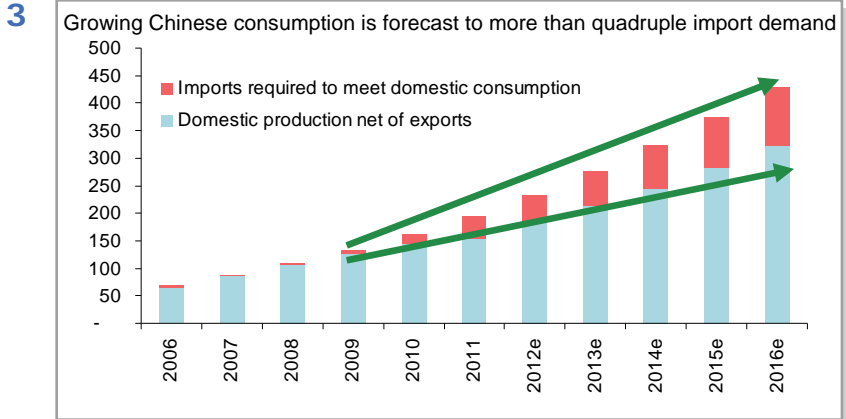
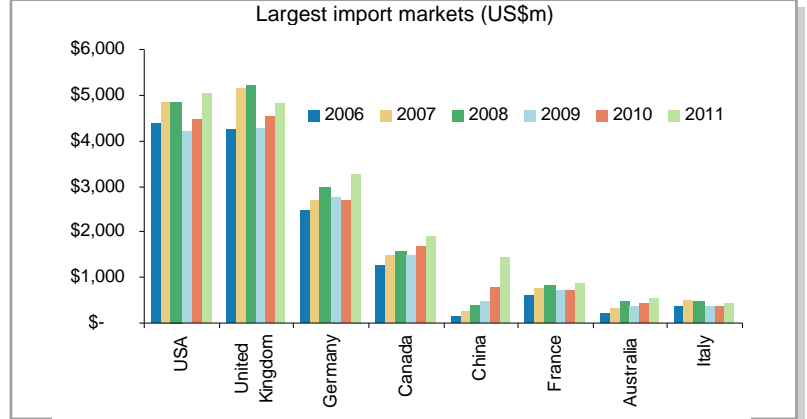
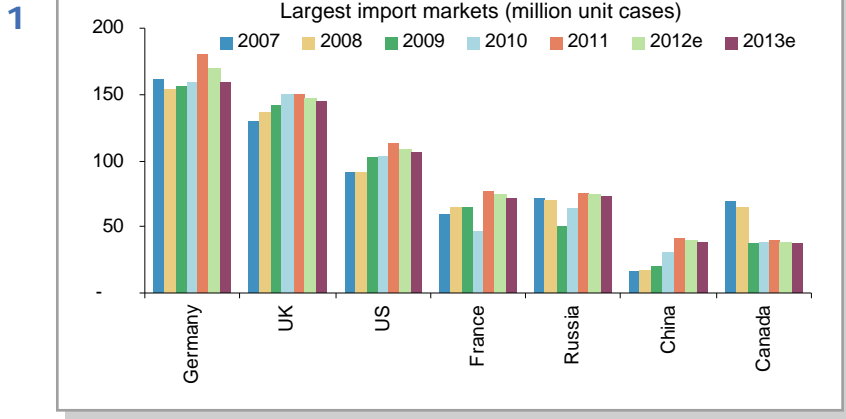
Source: OIV, Comtrade, Morgan Stanley Research, (e)=OIV estimates in 2012 and MS estimates in 2013

Global Wine Industry – The Global Wine Trade : The Seaborne Market



By volume, almost half of the global export market is intra-EU trade while by value it is closer to one third [1 & 2]. We remove this intra-EU trade to calculate 'seaborne' trade, which more accurately defines the addressable export market for New world exporters. After this adjustment, the share of export markets appears much more equal between the old and new world, and in fact the greater share seems to go to the new world [3]. Aside from France in the top spot, new world producers round out the top 5 in average export prices [4].

Global Wine Industry – The Global Wine Trade : US, UK and China drive import demand growth



Import demand growth is primarily driven by Germany, the US and China [1 & 2]. Import demand growth is set to be driven by China and the US, two of the largest importers who consume more than they can produce domestically. Euromonitor estimates that Chinese consumption will reach over 400 million cases by 2016, far ahead of Chinese government targets for production [3]. A similar situation exists in the US, where IWSR projects consumption growing to almost 400 million cases, whilst domestic capacity is near full [4].

Source: OIV, comtrade, Chinese Customs, Morgan Stanley Research, (e)= OIV estimates (1&2); Euromonitor and International Wine and Spirits estimates (3&4)

Australia – Has returned to balance, scope for demand led tightening in medium term

Wine making capacity has reduced noticeably since 2007. Land under vine is at its lowest levels since 2001, almost 20% below peak in 2008. Importantly, bearing hectares is almost 100% of total land under vine, reducing risk of an increase in capacity coming on line in the near term.

Production is 25% below its peak from 2008. With bearing hectares almost equal to land under vine, variations in production are likely to come from yield. Yields have been broadly flat since 2008, although below previous peaks.

Imports are now 15% of total consumption, compared to 7% 5 years ago. New Zealand represents 2/3 of all imports, and around 60% of total import growth since 2007. Growth in imports from EU have been more modest.

Total consumption grew 2% in 2012. Consumption growth was supported by strong import trends, particularly from New Zealand. Consumption of domestically produced wine was broadly flat.

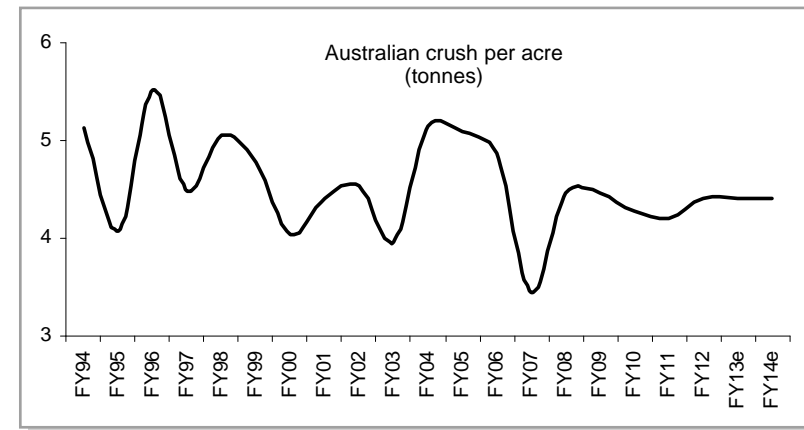
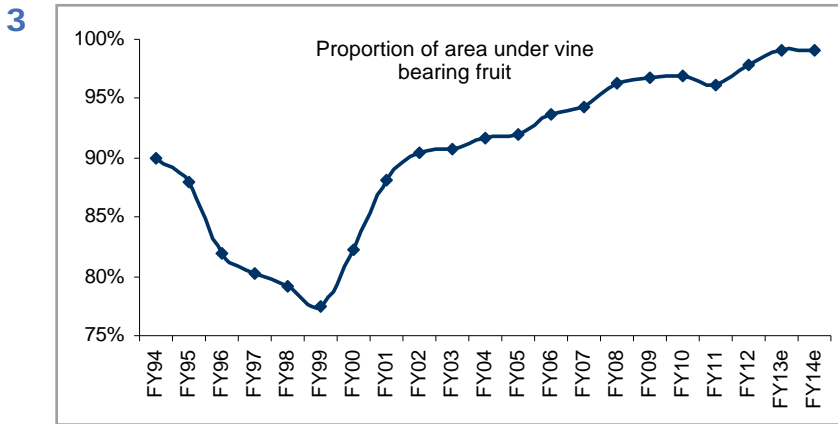
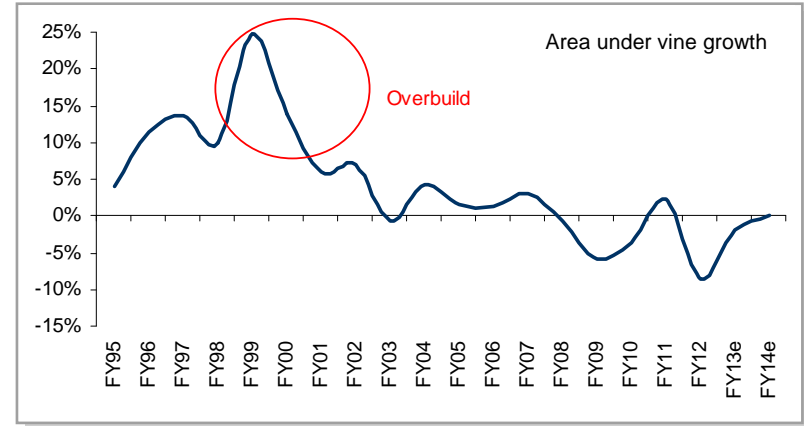
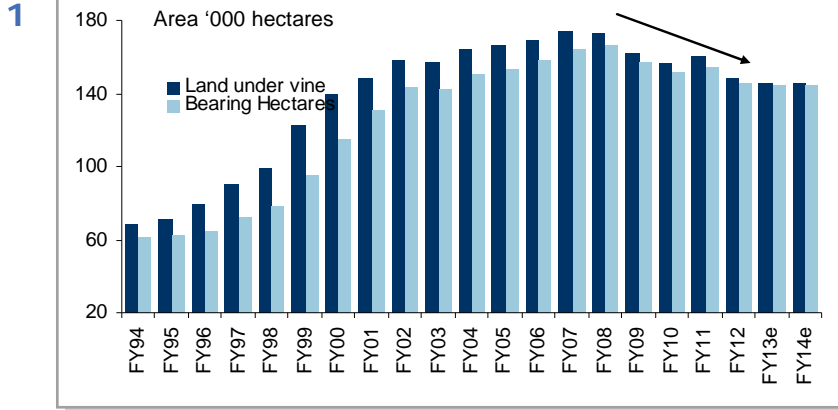
Export volumes remain broadly in line with 2011, although remain 10% below the 2007 peak. Export pricing (in local currency) has been impacted by the strong A\$ and 2012 remains near all-time lows.

That said, Exports have been trending positively over the past 12 months, with monthly bottled exports now reporting growth year on year both in value and volume.

Overall demand continues to marginally exceed supply, driving a reduction in inventories since 2007. The stocks to sales ratio has narrowed from peak of 1.8x to 1.3x in 2012, below the industries 'comfort range' of 1.5 – 1.6x.

Continuing A\$ strength remains a headwind for the industry, particularly for exports at lower price points where Australia is less competitive in terms of cost of production. Import demand for mid to premium priced wine from The US and China presents the greatest opportunity for demand growth, and could lead to further tightening of supply.

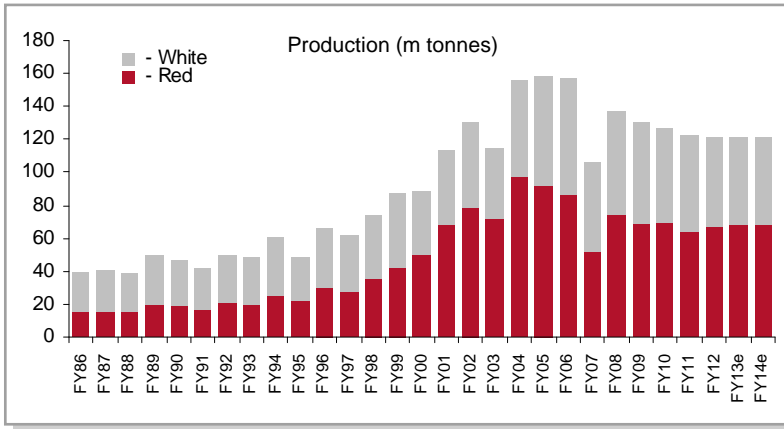
Australian Wine Industry – Capacity



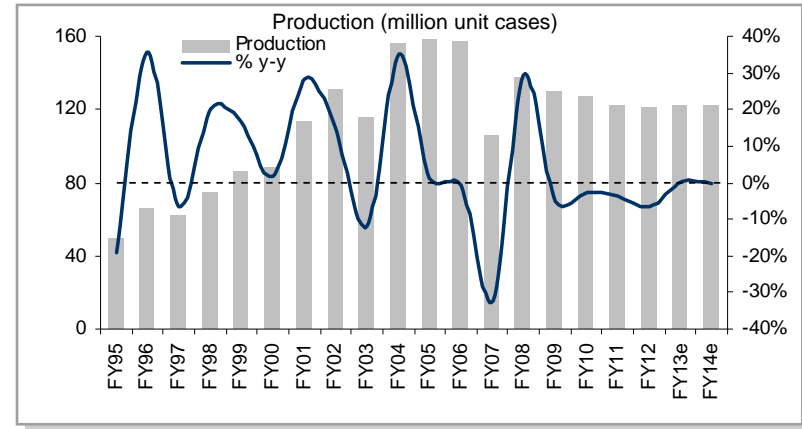
[1 & 2] The substantial increase in land under vine seen through the late 1990s has reversed since 2008. Land under vine is now 15% below its peak, falling 7% in 2012 alone. As most planted land is now bearing [3], capacity is less likely to be a driver of increased production in the near term. Supply variations can still be large however, based on yields [4], which have been broadly flat since 2008, although yields have been considerably higher, and lower over the past decade.

Australian Wine Industry – Production

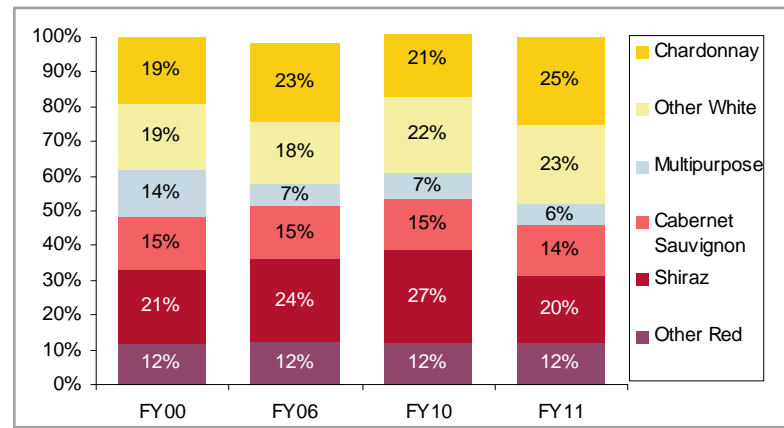
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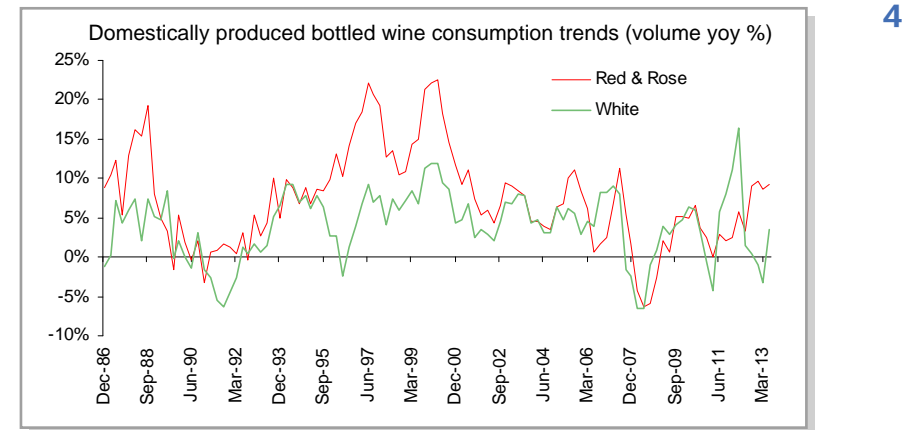
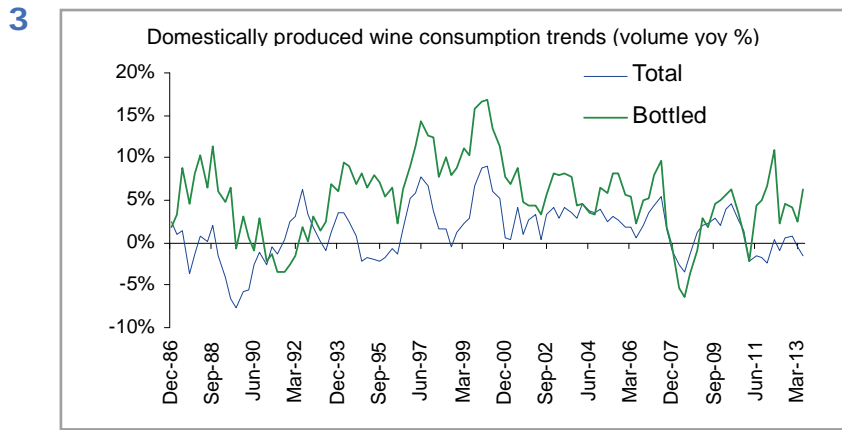
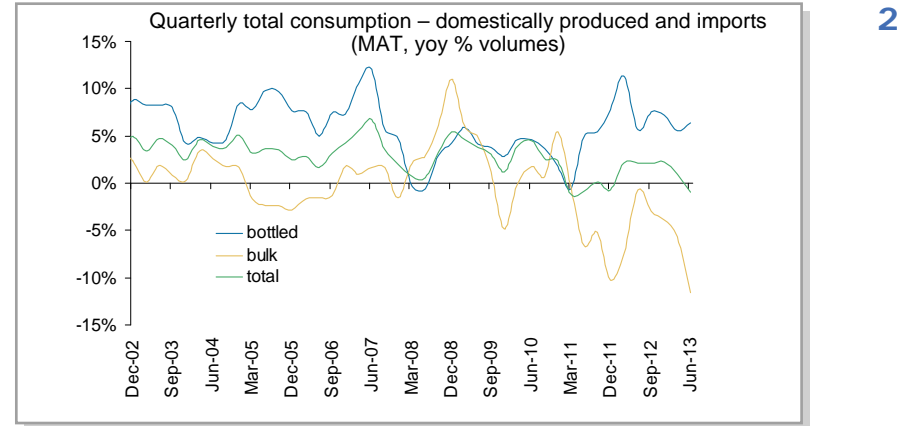
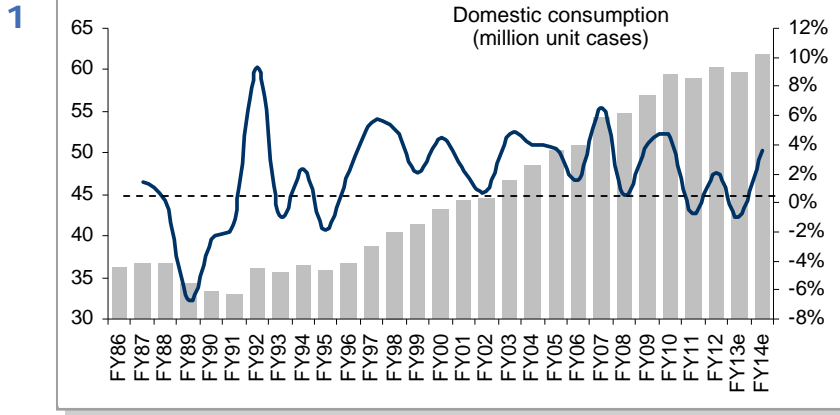


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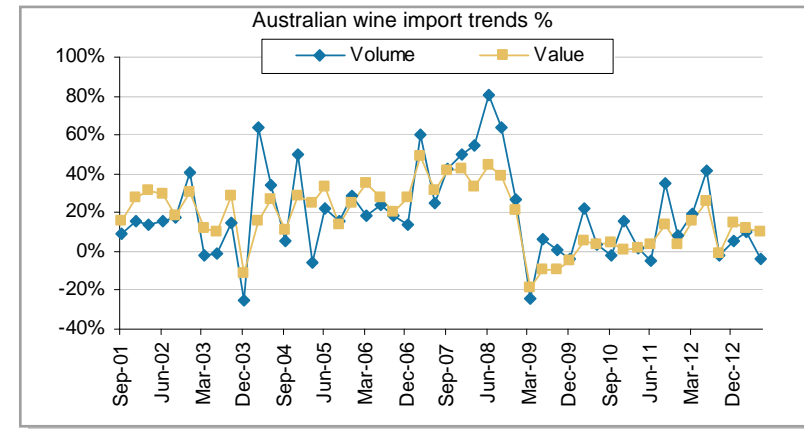
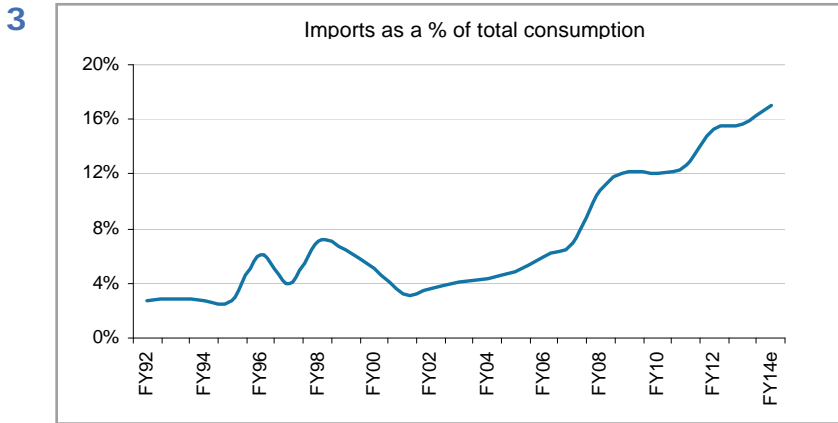
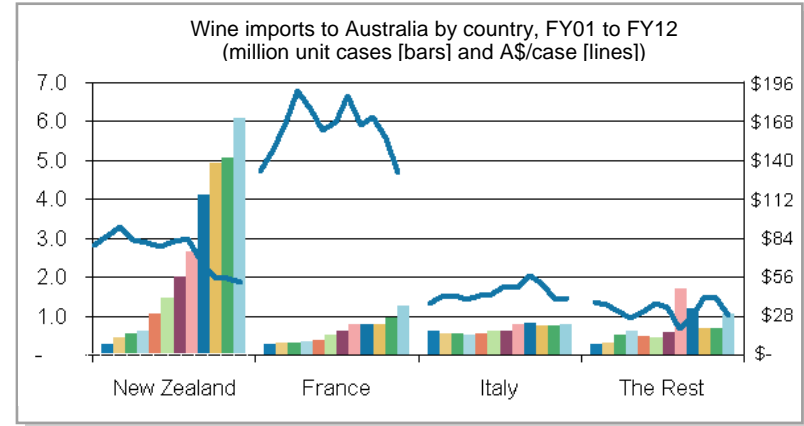
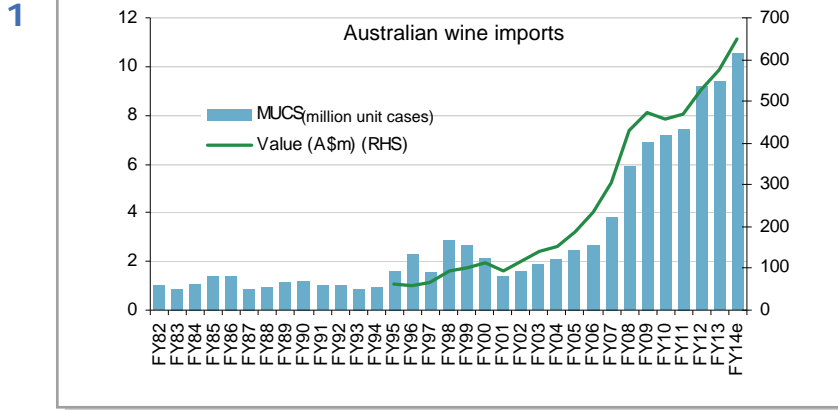
[1] Australian production almost quadrupled from 1986 to 2006, although has reduced significantly from its peak. Weather impacts have seen sharp variation in 2003 and 2007, Premium red wine has been the key area of expansion [1 & 2]. Australia produces ~120 million unit cases a year, now evenly balanced between red and white wine, with red wine share reducing over the past 5 years.

Australian Wine Industry – Domestic Consumption



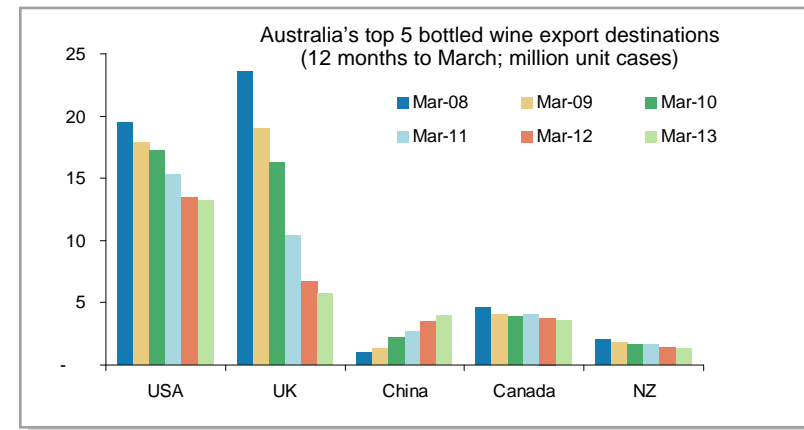
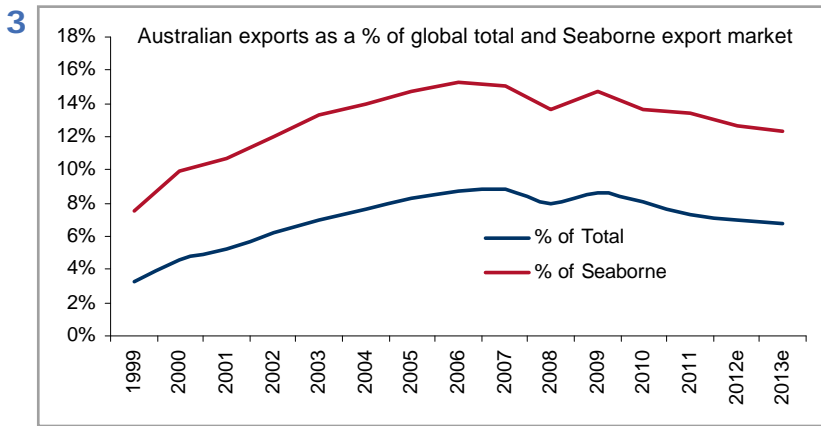
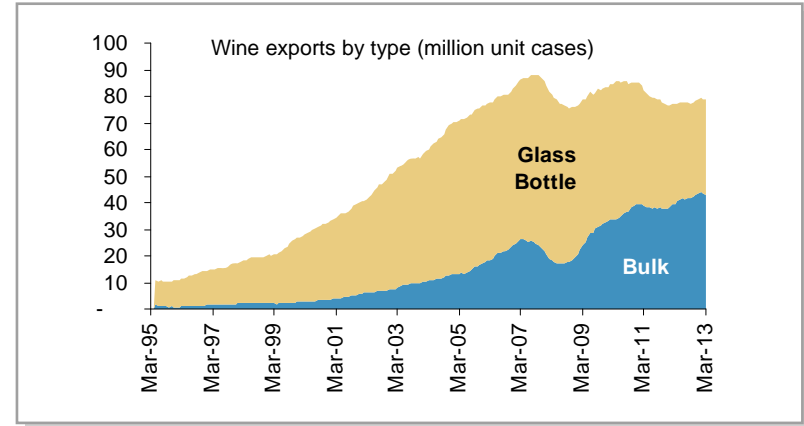
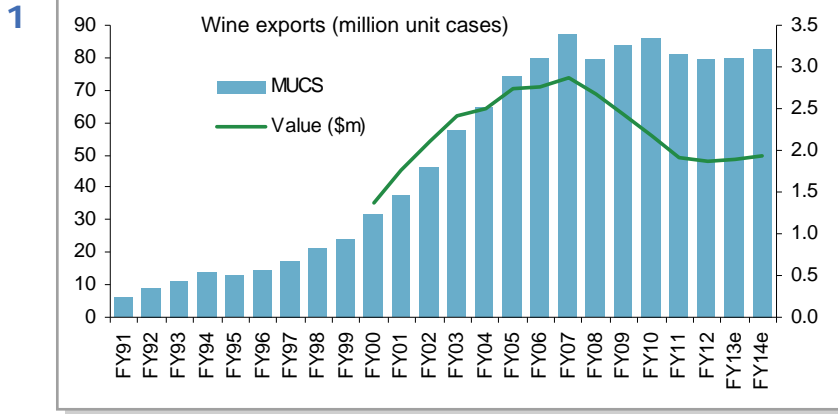
[1] Strong economic conditions and falling prices have fuelled domestic demand growth to over 50 million unit cases in the past decade, with recent economic weakness temporarily halting growth. [3] Consumption growth of domestically produced bottled wine was in lower single digits in 2012. [2] Total consumption growth has been boosted consumption of imported bottled wine, primarily NZ sauvignon blanc. Mid to high single digit consumption growth in bottled wine shows more structurally positive trends, although is currently being offset by declines in bulk / cask.

Australian Wine Industry - Imports



[1] The import market is relatively small, at ~9 million unit cases in 2012, but has shown strong growth trends over the past 3 years and now accounts for ~16% of total consumption. [2] The vast majority of this volume comes from New Zealand, but France is a key source of imports when measure by value [3]. Despite strength in the A\$ vs the Euro, around 90% of import volume growth over the past 5 years has come from New Zealand (Sauvignon Blanc), with EU import volume increases more modest.

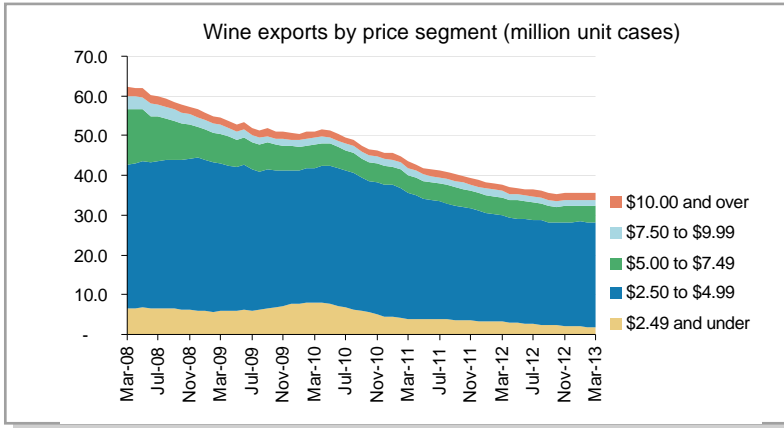
Australian Wine Industry – Export Trends



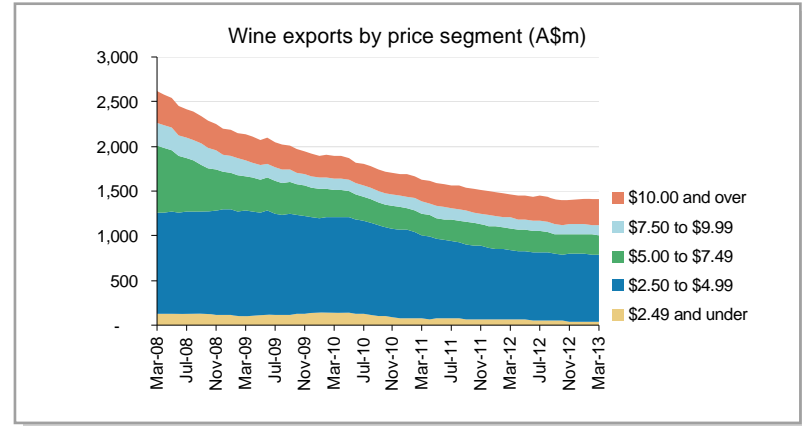
[1] Australian wine export volumes have declined but are relatively unchanged from five years ago. Total value however has deteriorated significantly with the rise of bulk exports and A\$ strength [2]. Australian exports represent over 10% of the global seaborne export market [3] but have lost some share, particularly at low price points, to lower cost of production regions in recent years. China has been the only significant source of growth for Australian exports, and is now Australia's third largest export market [4].

Australian Wine Industry – Exports by price segment

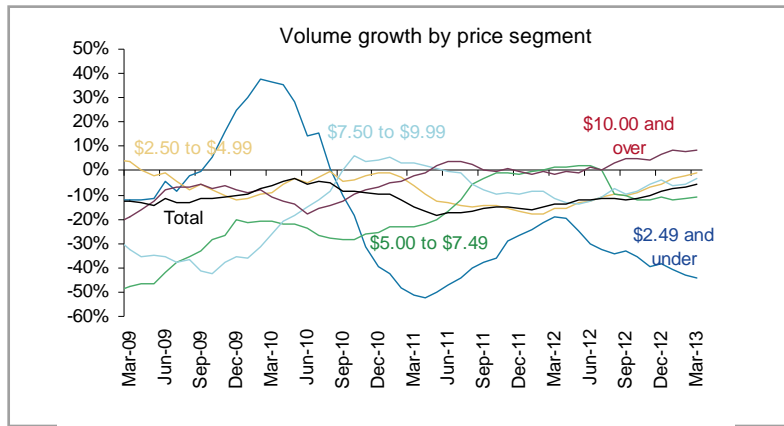
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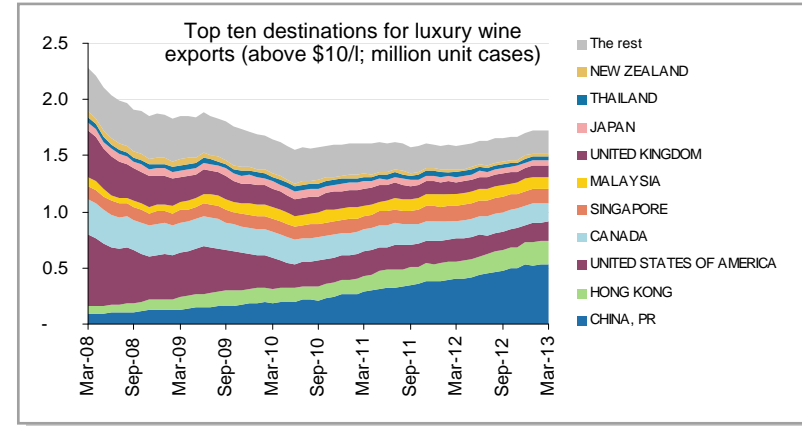
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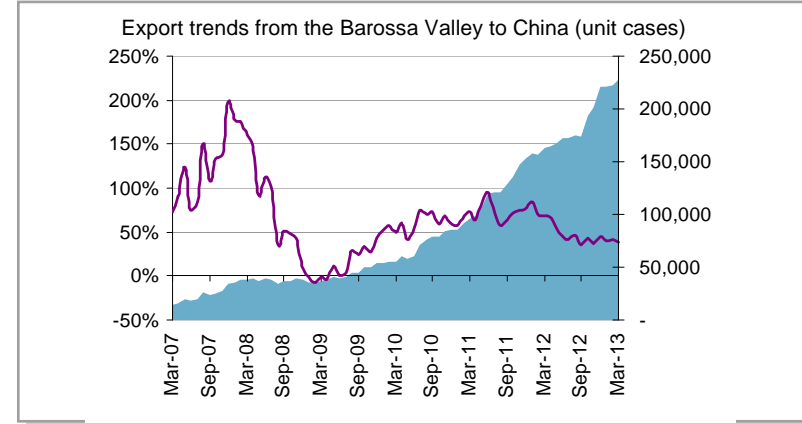
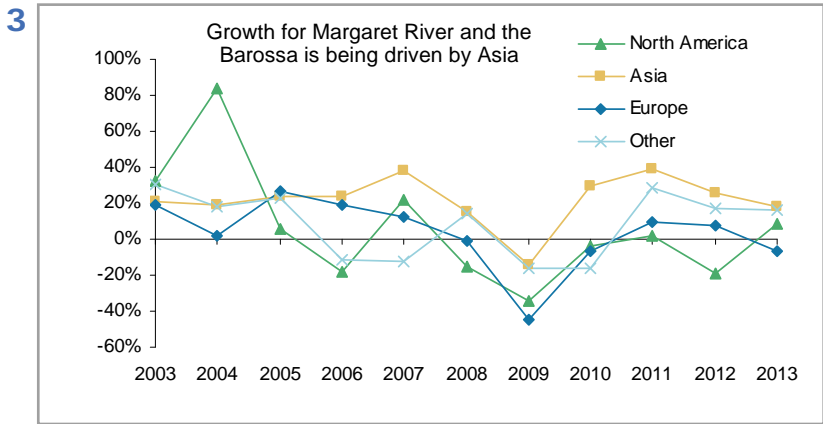
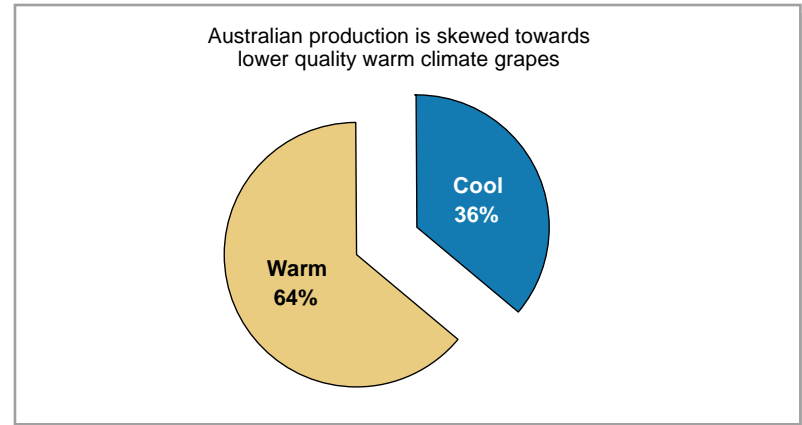
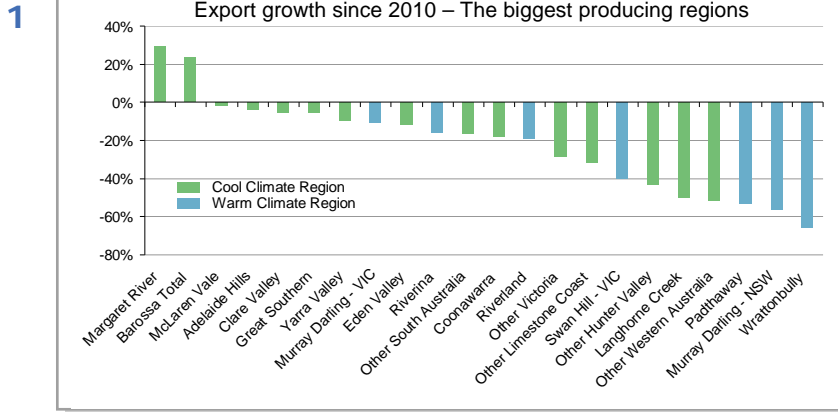


4



[1] Export volumes are heavily skewed to the lower price points (almost 75% is now below \$5/l), and just over 50% of value [2]. Export growth is dominated by the higher price points as demand for premium and luxury wines increases [3]. The source of this demand is primarily China, Hong Kong and other Asian countries, China is now Australia's largest export market for wine over A\$10/l [4].

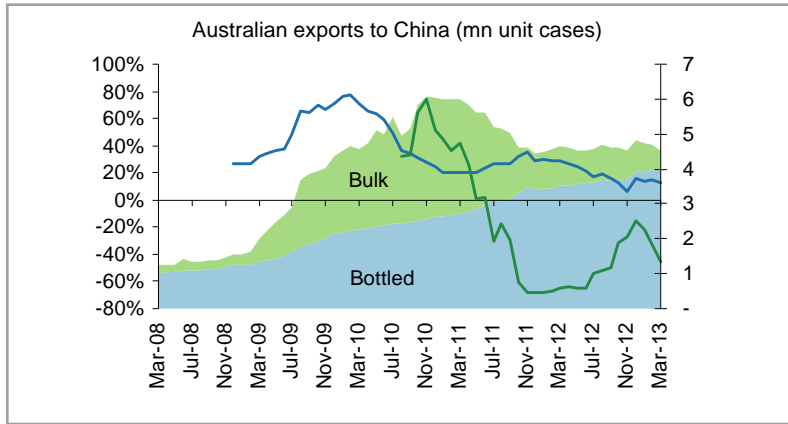
Australian Wine Industry – Exports by source region



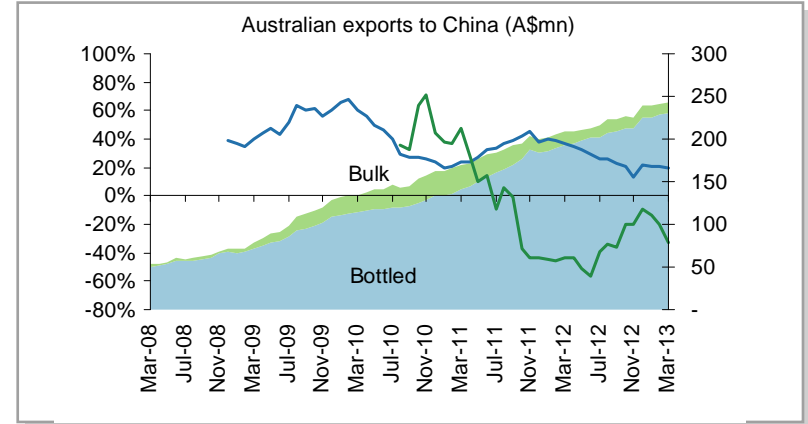
[1] Though overall export growth has been limited over the past few years, two regions have been stand-out performers for the industry – The Barossa and Margaret River. [2] Overall weak export growth for the wine industry has been driven by falling demand for Australia’s cheaper wine production – the warm climate areas which dominate overall production. [3] For Margaret River and the Barossa, growth is being driven by demand from Asia, and from China in particular for the Barossa [4].

Australian Wine Industry – Exports to China

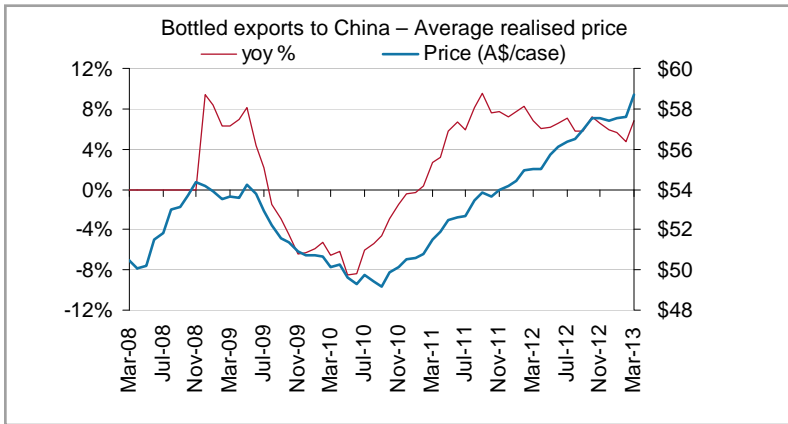
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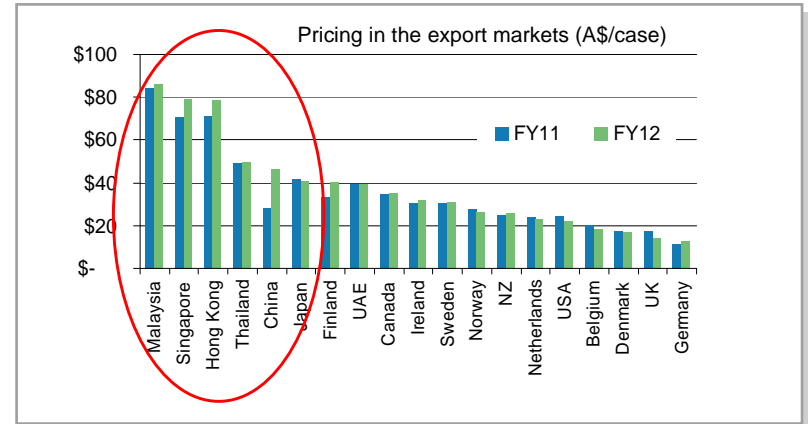
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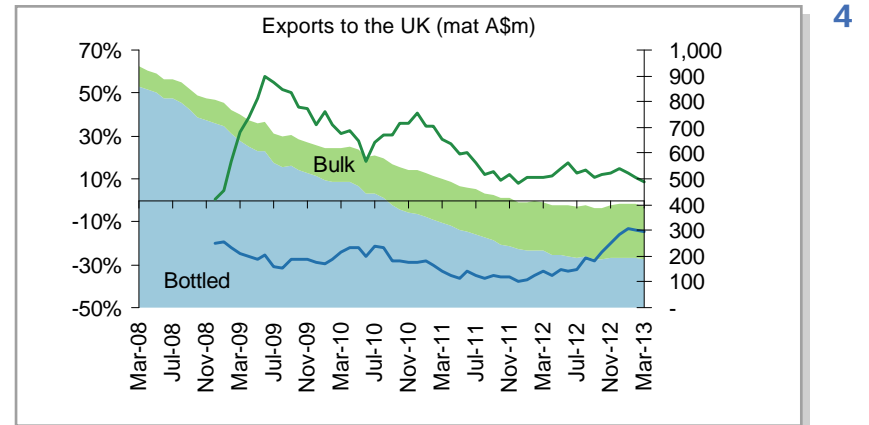
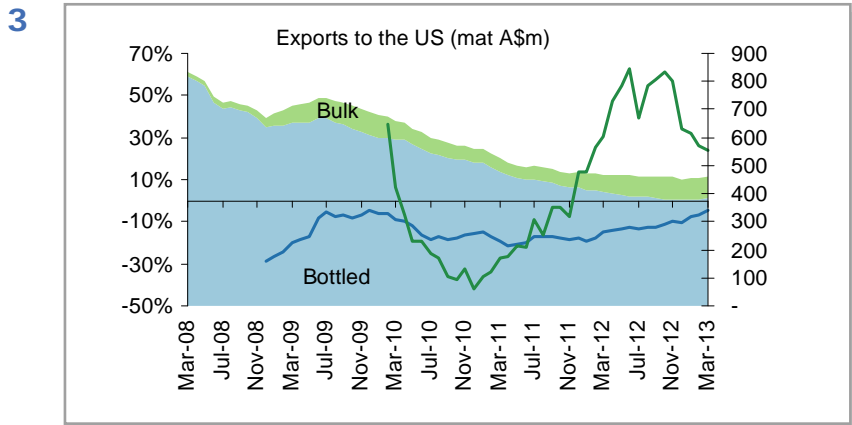
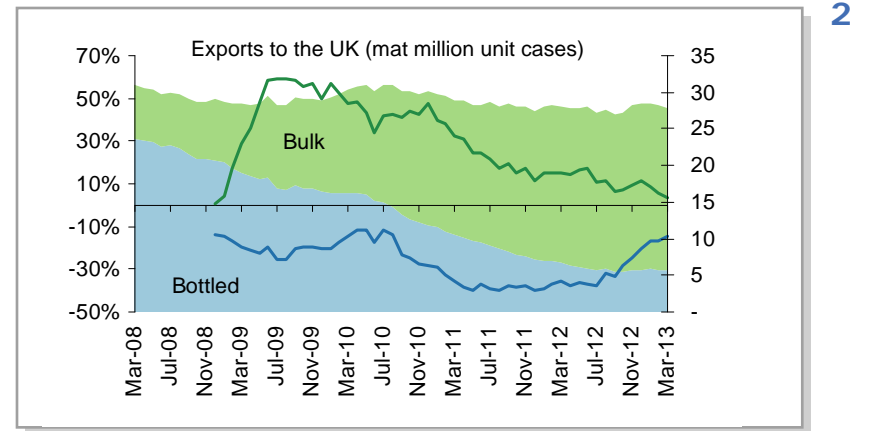
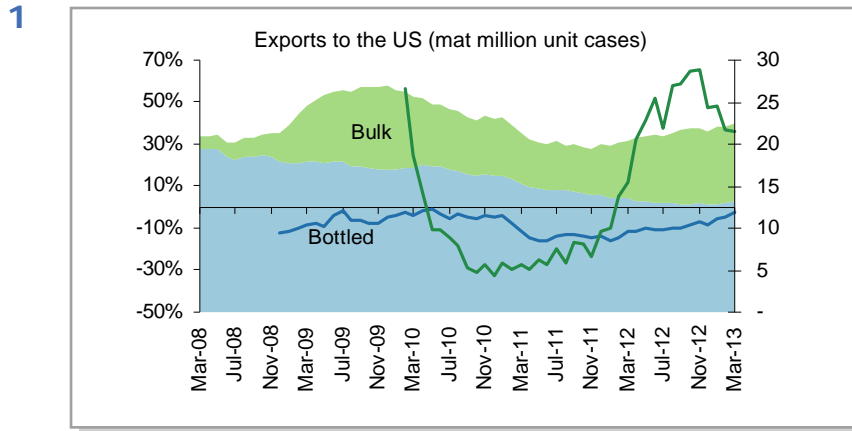


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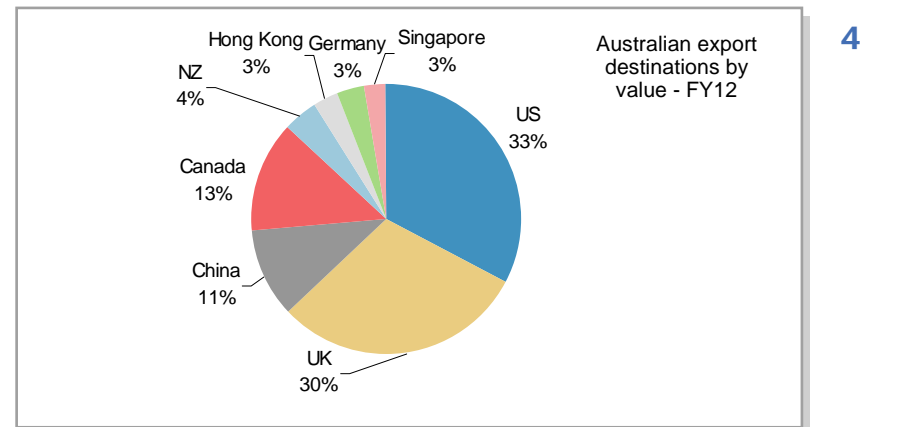
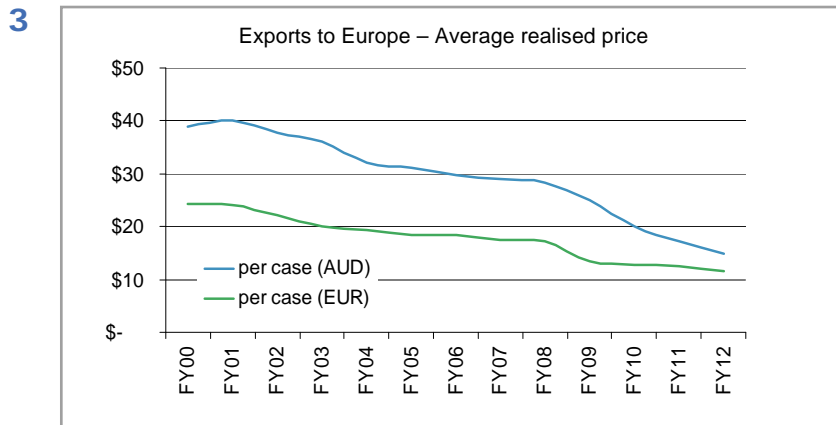
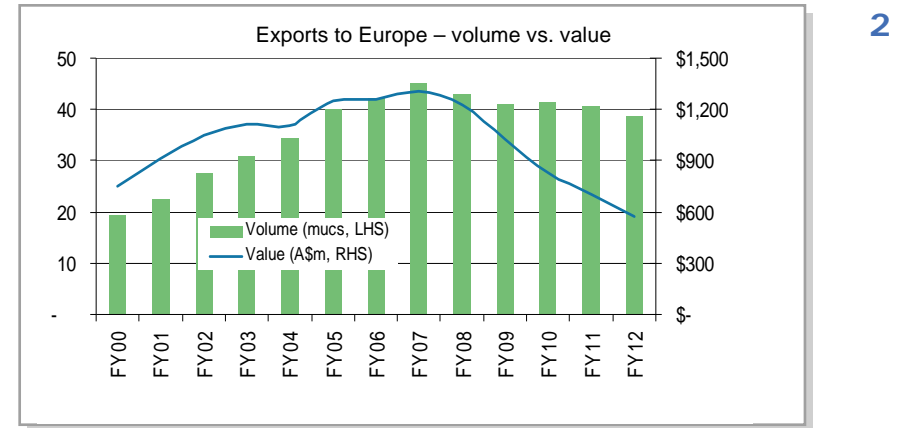
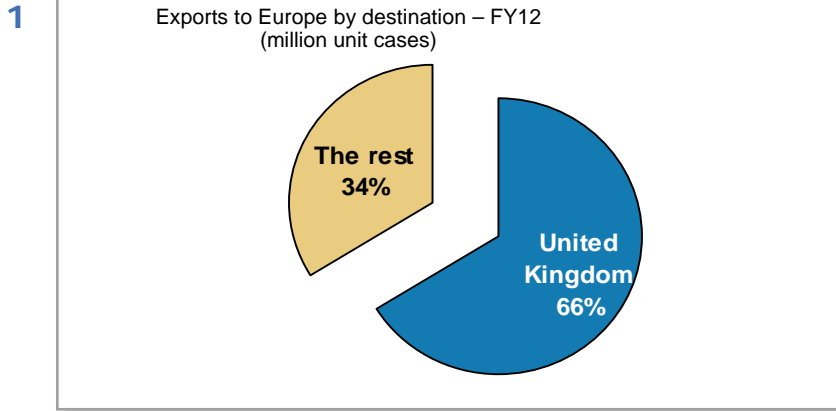
[4 on pg 22] China is Australia's largest market for luxury wines (above \$10/l). [1 & 2] During 2010 / 2011 China switched its sourcing of bulk wine away from Australia and towards lower cost producing regions, however bottled wine imports from Australia maintained significant growth, as did total value. Export volume growth has more recently consolidated at ~10% [3] Average price per bottle has accelerated significantly, not just through the unwinding of bulk, but continuing through to today. Asian countries make up the top 6 of average price for exports, with China showing a substantial step up in 2012 [4]

Australian Wine Industry – Exports to The US and The UK



[1&3] Bottled exports to the US are showing a recovering trend (both volume and value), and are now in positive territory on a monthly basis (Q1 2013 +13%). Bulk exports to the US continue to show strong volume growth, although slightly less in value indicating A\$ pricing pressure. [2&4] Exports to the UK have seen more meaningful value erosion. Bulk exports have significantly outperformed bottled, and now represent the vast majority of volumes, and half of value. Though the value erosion appears to be stabilising more recently [3&4].

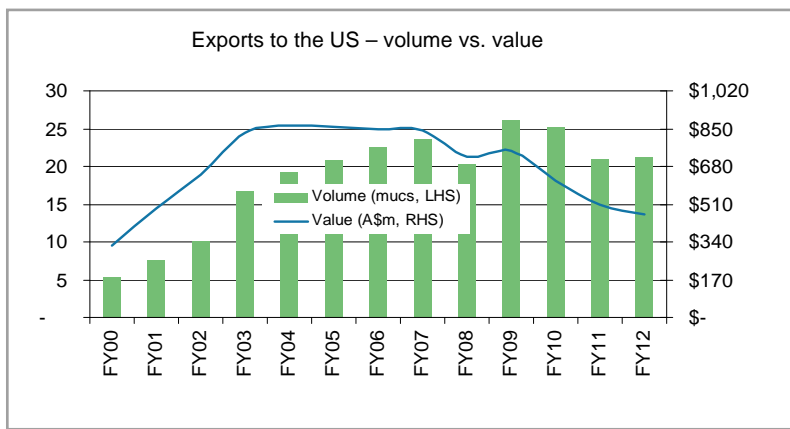
Australian Exports to Europe



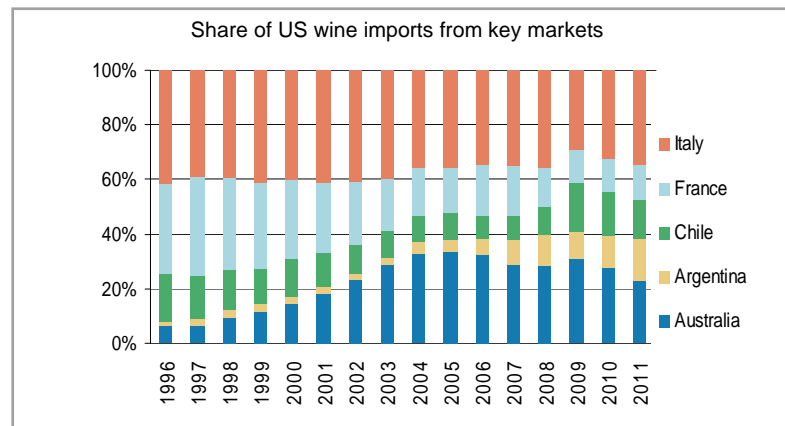
[1] The UK represents 2/3rds of Australia’s exports to Europe, where brand Australia enjoys about 16% market share. [2] Whilst export volume declines have been modest in recent years, value declines have been more substantial, as a result of a shift towards bulk exports and A\$ strength [3]. Average export prices from Australia to the EU are the lowest of all export markets [4 on pg 24].

Australian Exports to The US

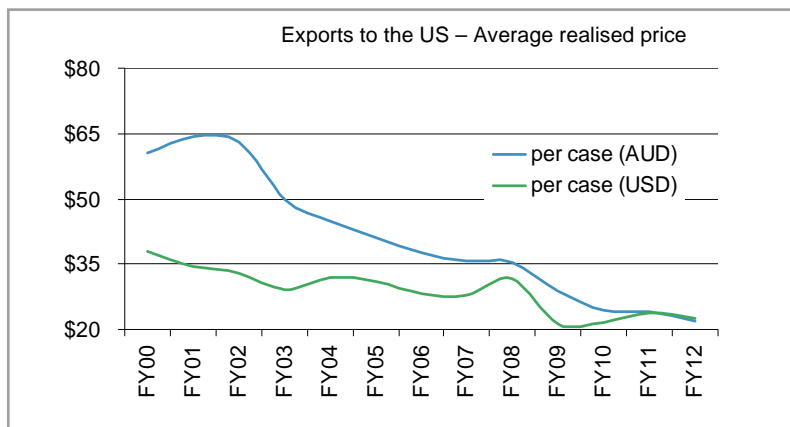
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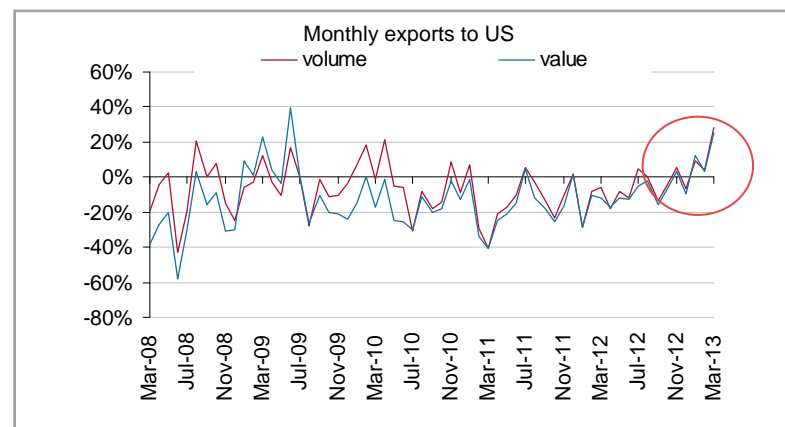
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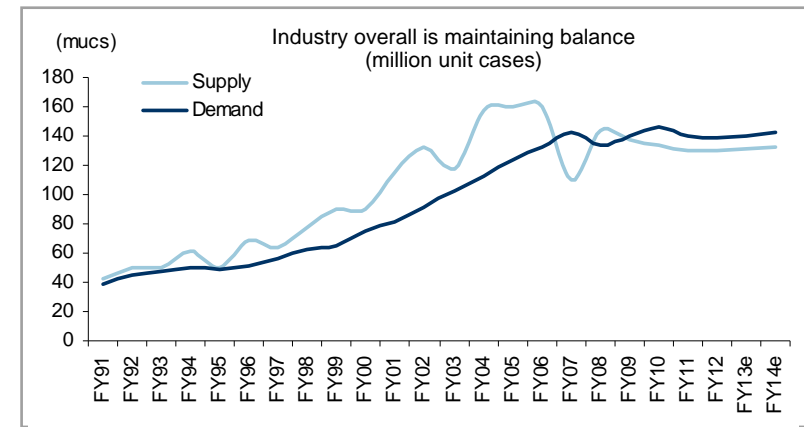
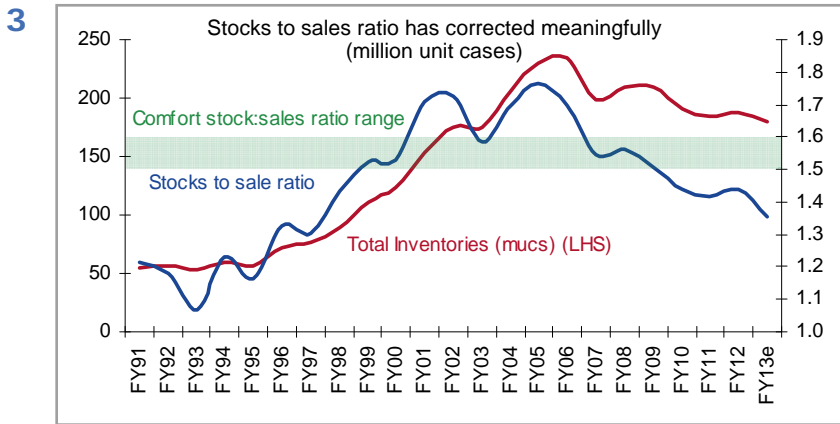
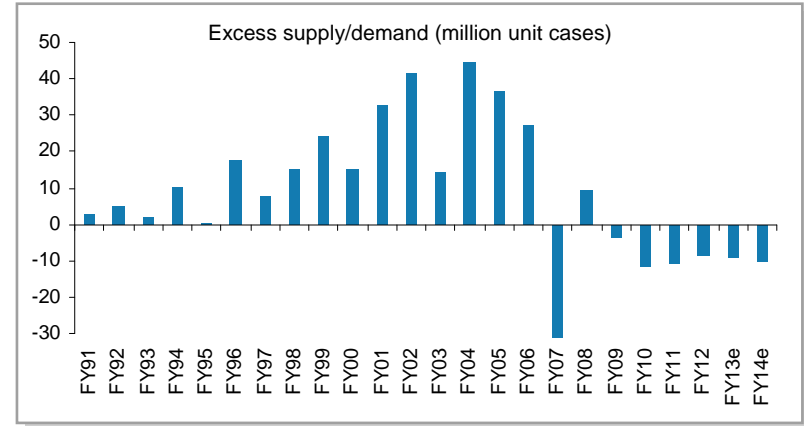
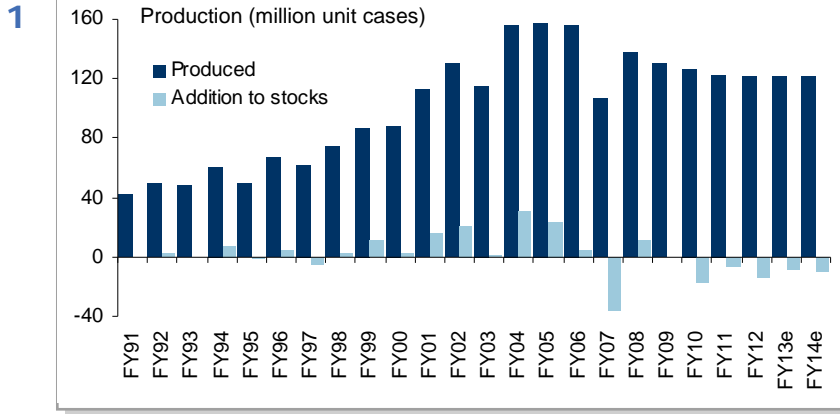


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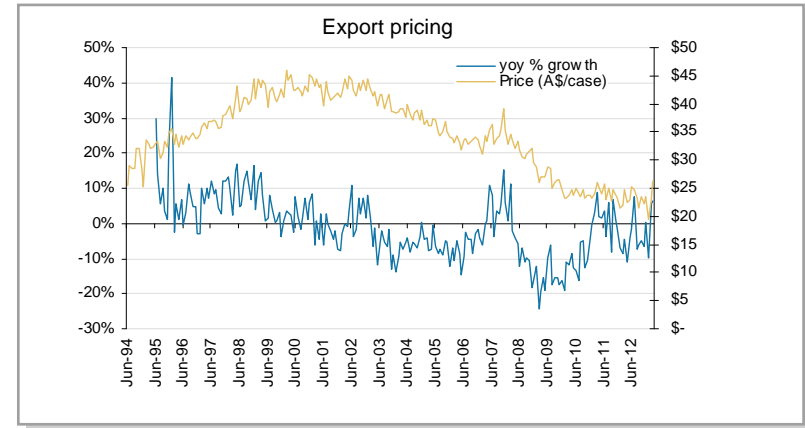
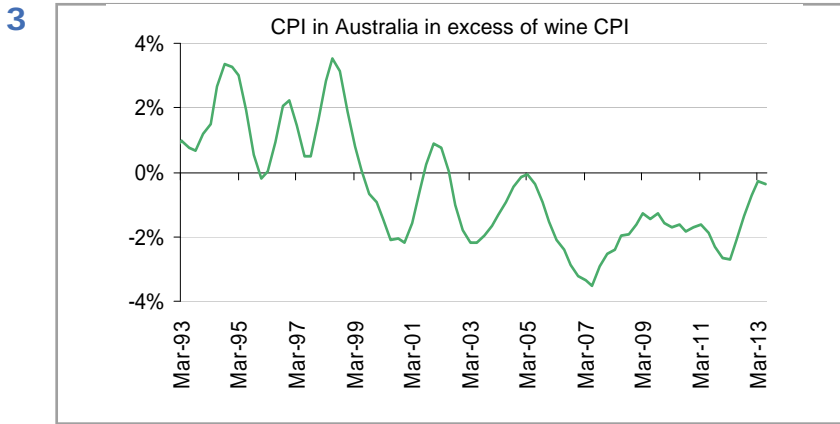
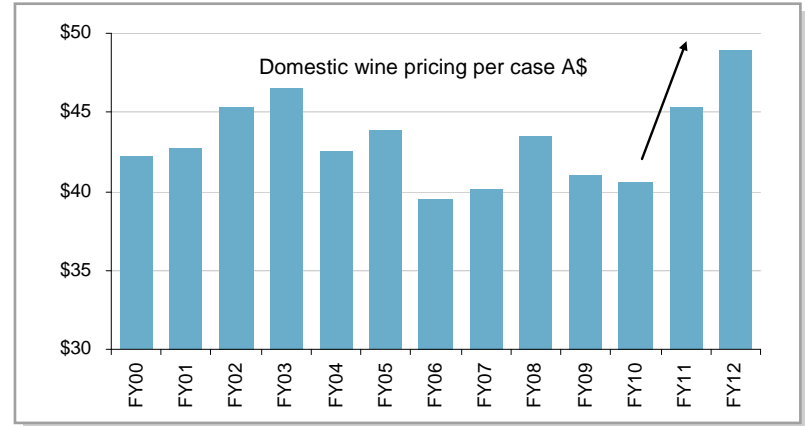
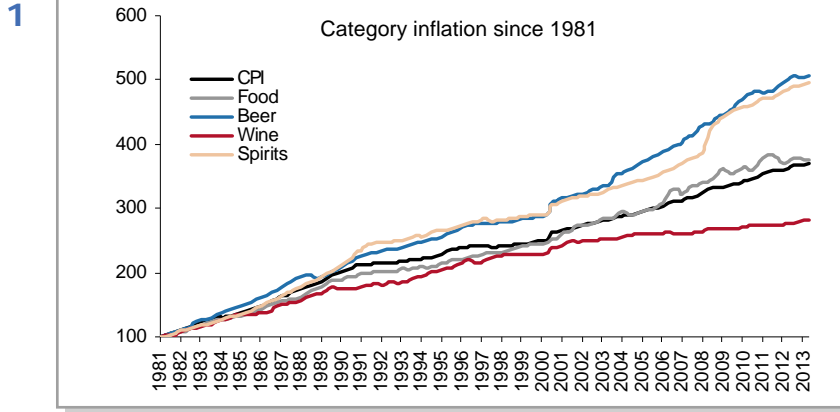
[1] Australia has moved from exporting 5 million cases to around 20 million cases of wine to the US in the last 10 years (reaching 25m cases in 2009). [2] Market share has been eroded over the last few years as Chile and Argentina have grown on the back of lower cost and a switch of varietal preference amongst US consumers. [1] Export volumes and value have both been in decline as the A\$ has strengthened, although monthly data for bottled exports has been trending positively over the past 12 months, and in fact reported growth in the first quarter of 2013, accelerating to +28% in March [4].

Australian Wine Industry – Supply led correction has restored overall balance



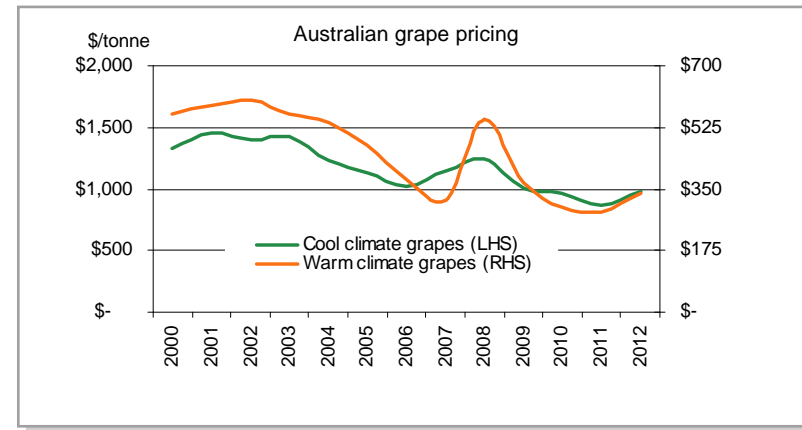
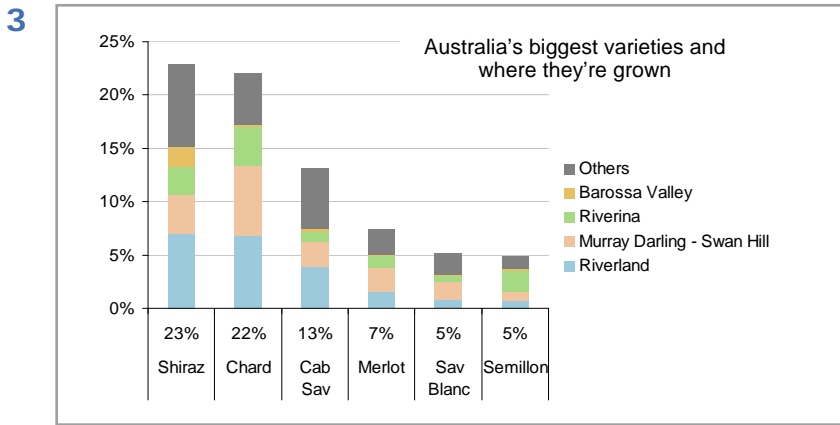
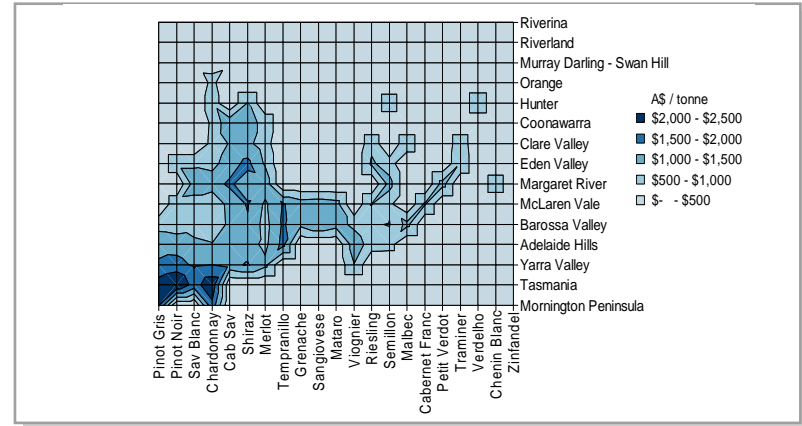
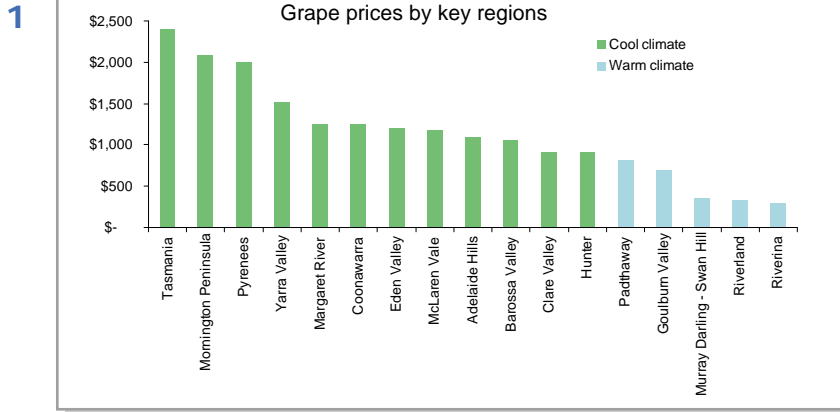
[1] A ramp up in production led to a steady accumulation of stocks through to 2006. Together with slowing export growth, the industry was running in excess supply and the stocks to sales ratio peaked at 1.7 to 1.8 in 2006 [3]. A supply led correction has led to a gradual reduction in inventories since then, with the ratio now back to around 1.3. Following a period of excess supply, we observe the industry is holding a broadly balanced structure overall, with further scope for inventories to reduce near term [4].

Australian Wine Industry – Wine Pricing catching up with CPI in Australia



[1] Australian domestic wine pricing has lagged inflation throughout the last decade of excess supply. [2] The most aggressive domestic discounting appears to have passed, and clearly tracked the wine inventory overhang. [3] The gap between overall CPI and average CPI has narrowed over the past 12 months, with wine pricing drawing almost equal in the March quarter. [4] Pressure on wine export prices has abated, though pricing growth still seems to be a struggle for the industry.

Australian Wine Industry – Grape Pricing



[1] & [2] Australian grape vary significantly depending on region and variety. [3] The large bulk-producing regions of the Murray and Darling rivers account for 70% of Australia's total production. [4] Grape pricing has already begun to revert, rising 10%+ in 2012 and reversing multi-year declines.

Australian Wine Industry – Regional Charts



Source: Quentin Sadler
<http://quentinsadler.wordpress.com/2011/10/17/australian-luxury/>

Australian Wine Industry – Langton’s Vintage Ratings

PENFOLDS & HENSCHKE SA		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Vintage		/	/	10	6	/	6	10	10	6	9	8	8	9	/	10	/	/	9	10	/	/	9	10	8	/	8	10	-
Henschke Hill of Grace		/	6	10	/	9	/	10	10	/	6	9	6	10	6	10	9	/	9	10	6	9	8	9	/	8	-	10	/
Penfolds Grange																													
NSW																													
Vintage		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Canberra District Shiraz-Viognier		-	-	-	-	-	-	-	-	-	-	-	-	-	6	9	/	/	9	10	/	8	10	8	8	10	10	7	5
Hunter Valley Cabernet		5	9	8	8	4	6	7	9	7	6	9	7	9	7	10	8	9	8	7	10	7	8	10	8	4	7	6	8
Hunter Valley Chardonnay		5	/	8	/	4	6	6	8	/	6	9	/	8	/	10	/	9	/	8	10	8	8	8	8	4	9	10	8
Hunter Valley Semillon		-	-	10	8	4	8	8	8	/	/	8	/	9	8	10	8	9	8	9	10	8	8	9	9	6	10	8	9
Hunter Valley Shiraz		5	6	8	/	4	6	/	10	/	6	/	6	9	6	10	8	9	/	10	8	8	10	8	4	7	5	9	
Mudgee Chardonnay		-	-	-	-	-	-	6	6	5	6	8	8	8	5	9	6	5	4	8	/	/	/	9	6	4	9	/	5
Mudgee Shiraz		-	-	-	-	-	-	/	/	5	5	8	9	8	5	9	8	5	4	9	/	/	/	9	6	4	9	/	3
Orange Cabernet Sauvignon		-	-	-	-	-	-	-	-	-	-	-	-	-	/	8	/	6	8	8	/	8	9	9	6	/	8	8	4
Orange Chardonnay		-	-	-	-	-	-	-	-	-	-	-	-	-	/	8	/	6	8	8	/	8	9	9	6	/	8	8	6
Orange Shiraz		-	-	-	-	-	-	-	-	-	-	-	-	-	7	8	7	6	8	8	7	8	9	9	6	7	8	7	3
Riverina Botrytis Semillon		10	5	5	8	8	3	8	6	6	9	10	9	9	8	8	9	9	/	/	9	/	8	8	9	/	8	6	6
Southern NSW Cabernet Sauvignon		-	-	-	-	-	-	-	-	-	-	-	-	-	6	9	/	/	9	10	/	8	9	8	/	9	8	8	6
Southern NSW Chardonnay		-	-	-	-	-	-	-	-	-	-	-	-	-	6	9	/	/	9	10	/	8	8	8	/	8	8	8	5
Southern NSW Shiraz		-	-	-	-	-	-	-	-	-	-	-	-	-	6	9	/	/	9	10	/	8	9	8	8	10	8	8	4
SA																													
Vintage		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Adelaide Hills Chardonnay		-	-	-	-	-	-	-	9	8	/	/	9	9	8	10	/	/	6	10	8	9	8	/	8	6	10	9	4
Barossa Valley Shiraz		-	-	10	6	8	5	10	10	6	8	8	/	10	/	10	9	/	8	9	6	8	8	9	6	6	8	10	6
Clare Valley Riesling		-	-	10	8	/	6	10	/	/	8	9	8	10	8	9	6	8	10	/	/	10	9	/	9	10	9	/	7
Clare Valley Shiraz		-	-	10	/	8	5	10	10	/	8	9	6	9	/	10	8	/	9	9	6	6	8	10	/	8	9	9	4
Coonawarra Cabernet		/	/	10	6	/	5	10	10	6	/	8	4	9	/	10	8	9	/	9	8	9	9	9	/	8	8	9	6
Coonawarra Shiraz		/	/	9	6	/	6	10	10	/	/	9	5	9	/	10	8	9	/	9	8	9	9	9	/	8	8	8	4
Eden Valley Cabernet		8	7	10	6	8	7	10	10	6	9	8	7	9	7	10	7	7	9	9	9	6	7	8	7	8	8	10	7
Eden Valley Riesling		8	/	8	8	/	8	10	9	8	8	8	/	10	10	8	/	/	9	9	/	8	9	9	/	10	8	10	8
Eden Valley Shiraz		8	/	10	6	8	/	10	10	6	9	8	/	9	/	10	/	/	9	9	/	8	9	9	/	8	10	4	4
McLaren Vale Shiraz		6	6	/	6	8	5	10	10	/	/	8	6	10	/	10	5	/	9	9	/	9	8	8	/	8	8	9	5
Padthaway Chardonnay		-	-	-	-	-	-	-	-	-	-	-	-	-	9	10	8	8	9	9	/	/	8	8	/	/	/	8	4
Padthaway Shiraz		-	-	-	-	-	9	9	5	6	/	5	10	8	10	9	8	9	9	9	/	/	8	9	/	/	/	8	4
TAS																													
Vintage		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Eastern Tasmania		-	-	-	-	-	-	-	-	-	-	-	-	-	8	9	/	9	7	8	6	6	10	9	/	9	8	10	6
Northern Tasmania		-	-	-	-	-	-	-	-	-	-	-	-	-	8	9	/	8	/	10	/	/	10	9	/	8	8	9	6
Southern Tasmania		-	-	-	-	-	-	-	-	-	-	-	-	-	8	9	6	8	6	10	/	6	10	9	/	8	8	10	5
VIC																													
Vintage		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Beechworth Chardonnay		-	-	9	7	8	8	9	10	8	8	/	8	9	8	10	7	9	8	10	8	10	8	4	9	6	10	4	3
Beechworth Pinot Noir		-	-	9	6	8	/	9	10	8	8	/	8	9	8	9	9	8	10	8	9	9	9	4	8	4	9	3	
Geelong Chardonnay		-	-	-	-	-	-	/	10	8	8	8	8	8	8	/	9	/	9	9	8	8	/	9	/	8	6	8	6
Geelong Pinot Noir		-	-	-	-	8	/	9	9	8	6	8	9	8	9	/	8	8	9	9	8	8	8	9	/	6	9	5	5
Gippsland Pinot Noir		-	-	-	-	-	-	-	-	-	-	-	-	-	8	9	8	10	/	8	8	10	8	/	9	8	6	8	5
Goulburn Valley & Nagambie Lakes		/	/	10	6	9	6	10	9	/	5	8	6	9	8	10	8	8	9	10	8	9	8	8	6	8	6	8	4
Grampians Shiraz		/	/	8	6	/	5	9	9	8	5	8	8	9	8	9	8	6	9	10	/	10	9	9	6	6	10	5	
Heathcote Valley Shiraz		/	/	10	6	8	6	10	9	/	5	8	6	8	9	10	/	8	10	10	8	9	10	8	6	/	9	5	5
Macedon Ranges Chardonnay		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	7	9	8	8	9	8	7	7	6	10	5	
Macedon Ranges Pinot Noir		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	/	8	/	9	8	8	9	8	/	6	10	4	
Mornington Peninsula Chardonnay		-	-	-	-	-	9	8	5	/	/	6	/	8	/	9	8	6	8	9	8	9	8	9	8	8	6	9	6
Mornington Peninsula Pinot Noir		-	-	-	-	-	9	8	6	/	6	8	6	8	/	/	9	8	6	8	9	9	9	8	8	6	10	5	
Pyrenees Cabernet		6	/	9	5	8	6	10	8	6	4	8	6	9	/	10	/	6	9	10	/	10	9	9	/	/	10	5	
Pyrenees Shiraz		5	7	10	5	8	6	10	9	7	4	8	6	10	8	8	10	7	7	10	10	7	10	9	9	7	7	9	5
Sunbury Shiraz		6	/	8	6	8	5	10	9	/	/	8	5	8	8	8	/	8	9	10	/	8	8	9	8	/	6	10	5
Yarra Valley Cabernet		/	5	9	5	8	4	10	9	8	8	8	/	8	10	/	8	10	10	8	9	9	9	/	/	4	9	5	
Yarra Valley Chardonnay		8	8	7	7	7	4	9	8	7	8	7	6	7	9	9	7	8	9	10	8	9	9	9	8	7	4	10	7
Yarra Valley Pinot Noir		/	/	8	/	8	5	8	9	/	6	8	6	/	10	9	/	10	9	10	8	6	9	9	/	/	4	9	4
WA																													
Vintage		'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
Great Southern Cabernet		-	-	-	-	-	-	-	8	8	6	8	9	9	8	/	6	6	10	8	5	8	7	6	9	10	9	9	9
Great Southern Shiraz		-	-	-	-	-	-	7	8	6	9	9	9	8	7	6	6	10	8	5	8	7	6	9	10	9	9	9	
Margaret River Cabernet		/	6	9	8	8	6	10	9	9	/	10	10	9	8	/	8	/	10	9	/	10	8	6	10	10	10	9	
Margaret River Chardonnay		-	-	-	9	8	/	8	9	10	6	9	10	8	9	6	/	/	10	9	/	8	8	/	10	10	10	9	
Margaret River Shiraz		8	6	10	8	9	6	9	9	8	6	8	9	8	8	/	8	/	10	9	/	10	8	6	10	10	10	9	8
Pemberton Pinot Noir		-	-	-	-	-	-	-	-	-	-	-	-	-	6	6	8	6	8	9	6								

Summary – The USA

The US now represents 8% of global wine production and 12% of global wine consumption. By value, it is marginally second only to France as the world's largest market.

Capacity has been increasing at <1% per annum since 2005 and bearing hectares are almost 95% of land under vine.

Production increased by ~20% in 2012 with above average yields lapping a low yielding 2011.

Total consumption is up 2% in 2012 by volume, driven by a continued increase in per capita consumption. Value growth was higher due to ongoing premiumisation trends.

Per capita consumption has almost doubled in the last 15 years, although at ~10l per person remains less than half that of Australia and the UK, and a third of Europe.

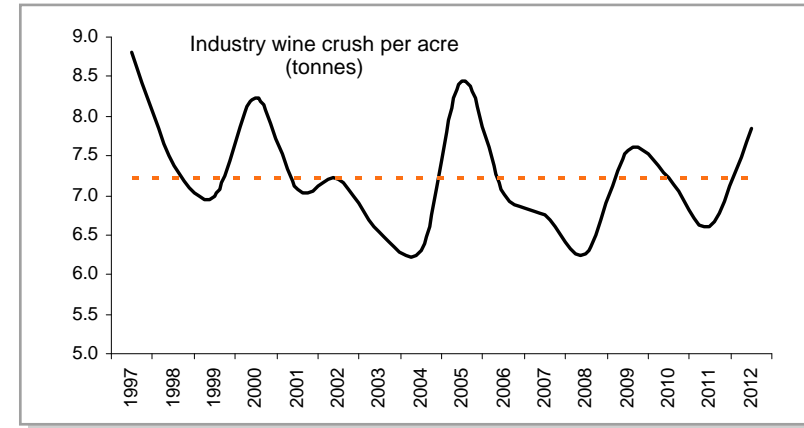
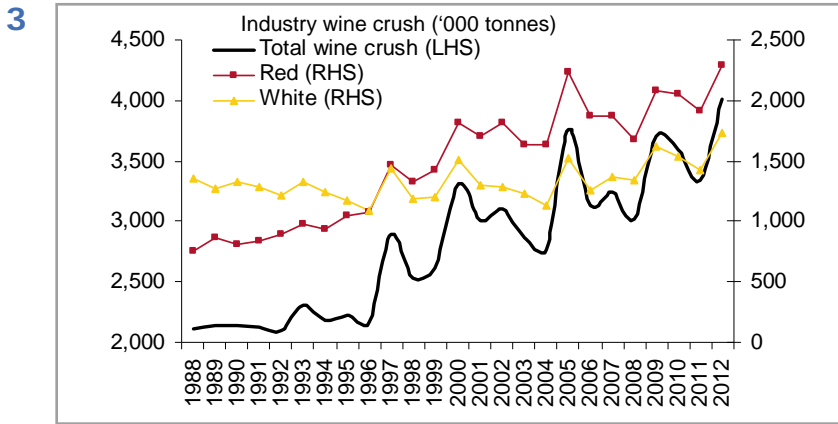
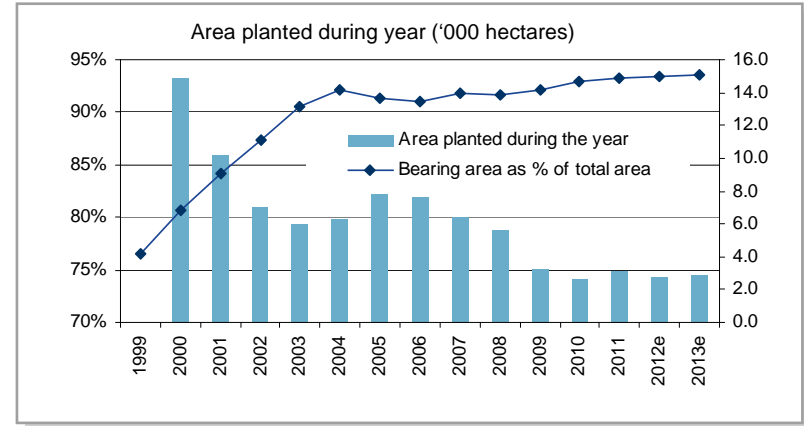
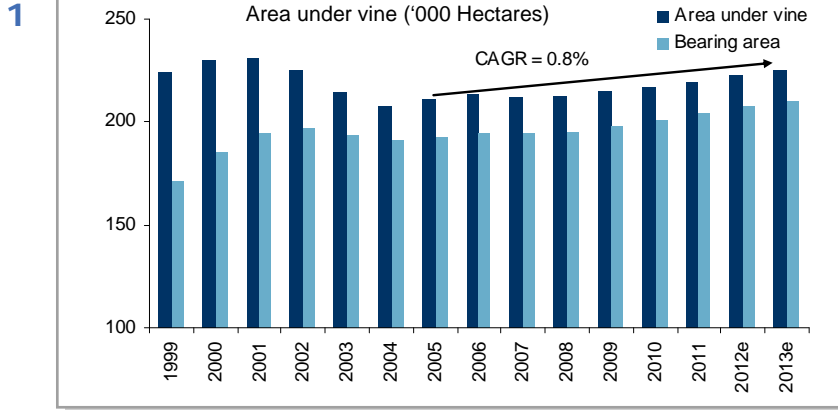
The US is a net importer of wine. In normal yielding vintages it produces ~300m unit cases pa, exports roughly 40m cases and consumes just over 350m cases pa. Ongoing growth in consumption therefore places upward pressure on demand from the global export pool, as it is not able to be met by domestic production. The US market is also therefore less loyal to domestic production than many other markets. ~10% of US consumption is of Italian wine alone.

As a result, imports have continued to grow share of US consumption, despite USD weakness. New world exporters have recently overtaken the old world in terms of share of US imports. A strengthening USD could see incremental demand for imports, at the expense of domestic producers.

Export volume growth accelerated through to 2008, however stalled more recently with ongoing strong growth coming from Hong Kong & China, whilst other regions stagnate. Weaker domestic production in 2010 and 2011 could be a factor causing greater retention of domestically produced wine.

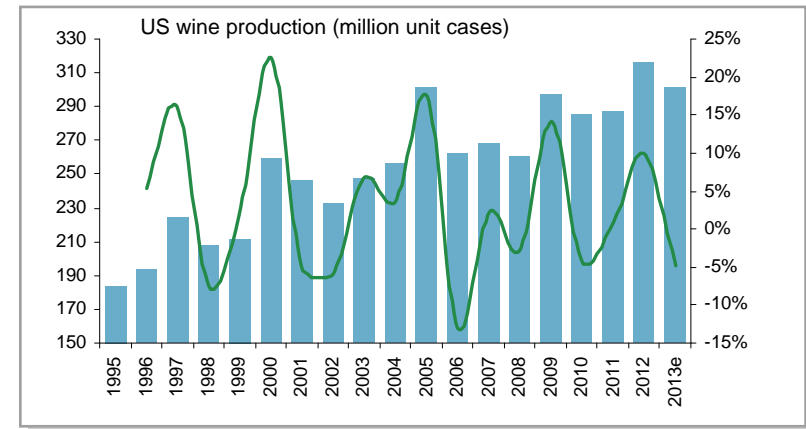
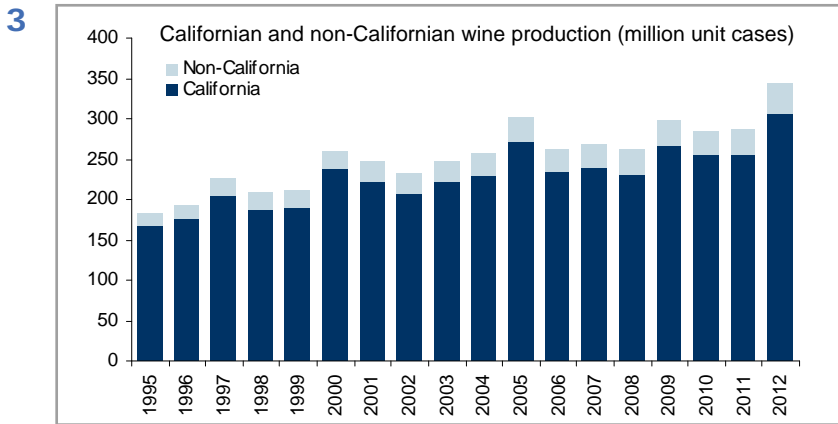
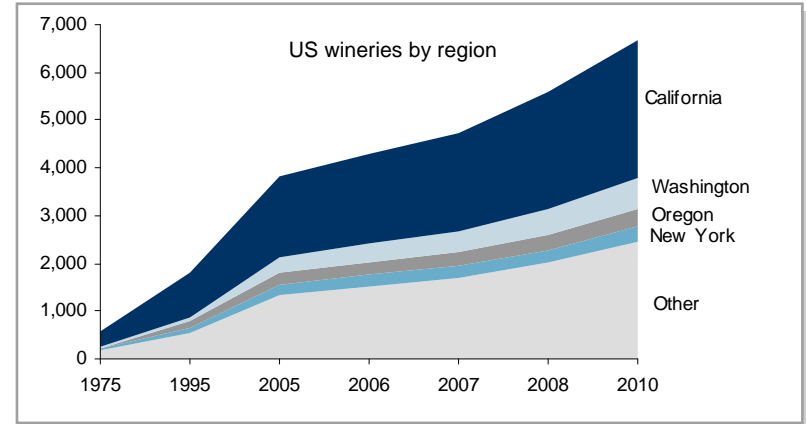
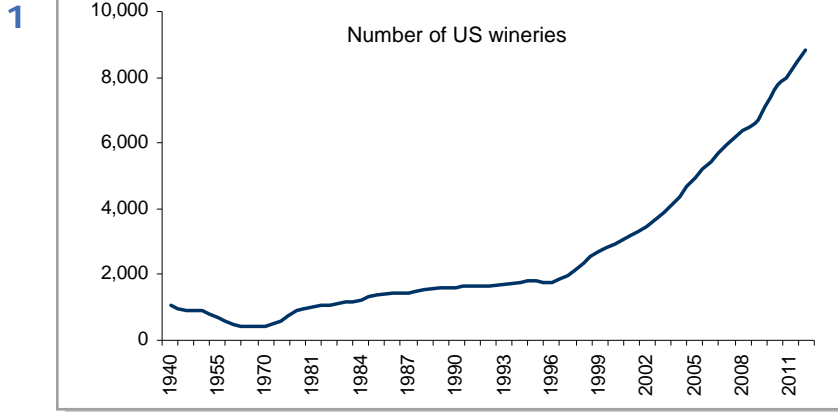
As a net importer, supply and demand remains largely in balance (its easier to manage imports in short term than production). The higher yielding 2012 has created a temporary excess in supply which we may see nearer term downward pressure on imports.

United States – Industry Capacity



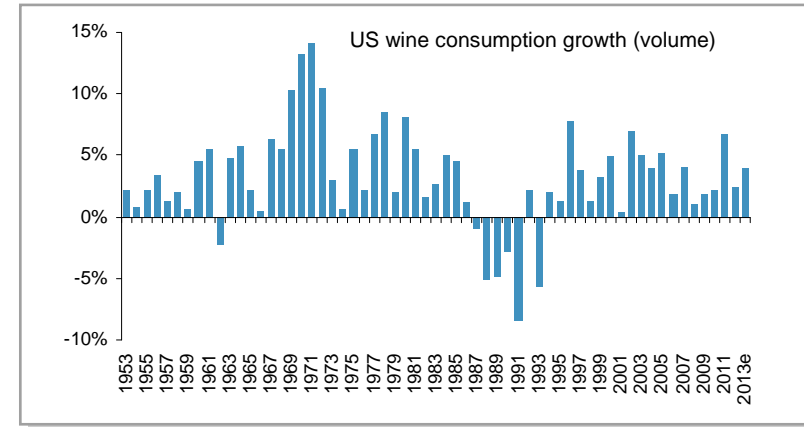
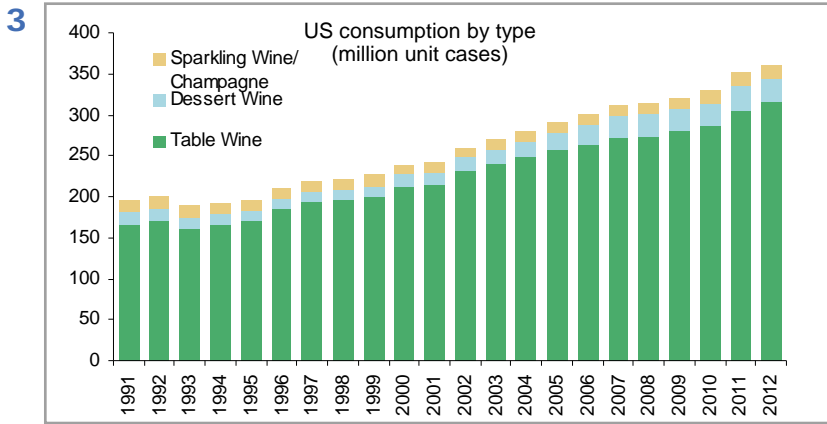
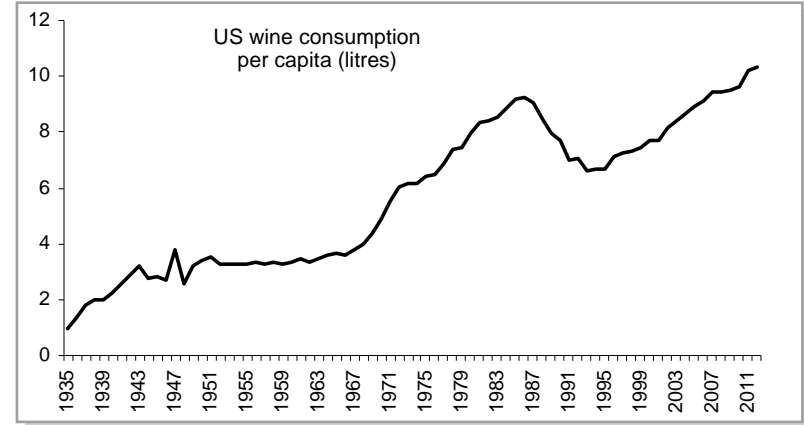
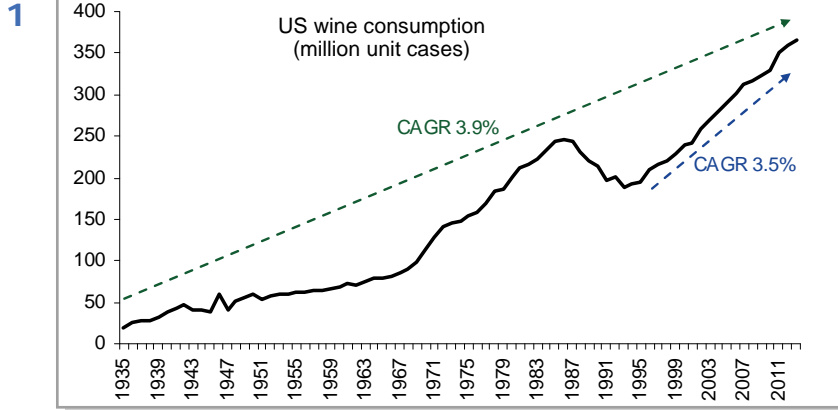
[1] Rapid expansion of wine-growing land in the 1990s retraced after the economic slowdown in the early part of the decade, and US\$ strength whilst changing taste profiles led to substantial growth in imports. [2] New plantings have decelerated, negligible in recent years, and partially offset by removals. Volatility of industry supply has been driven primarily by yield variation [4].

United States - Production



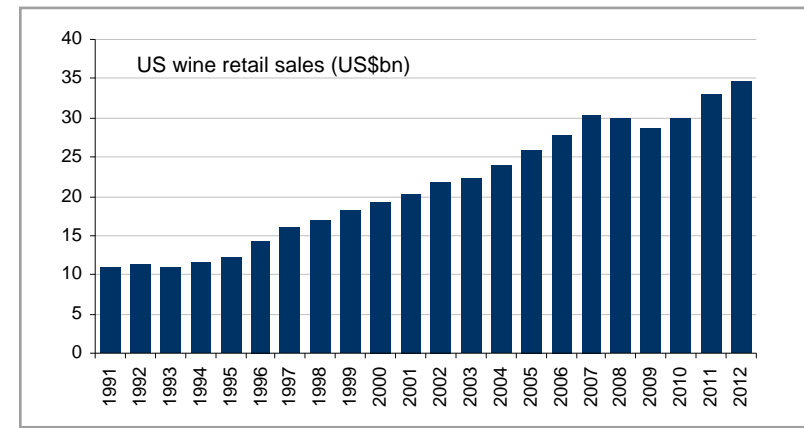
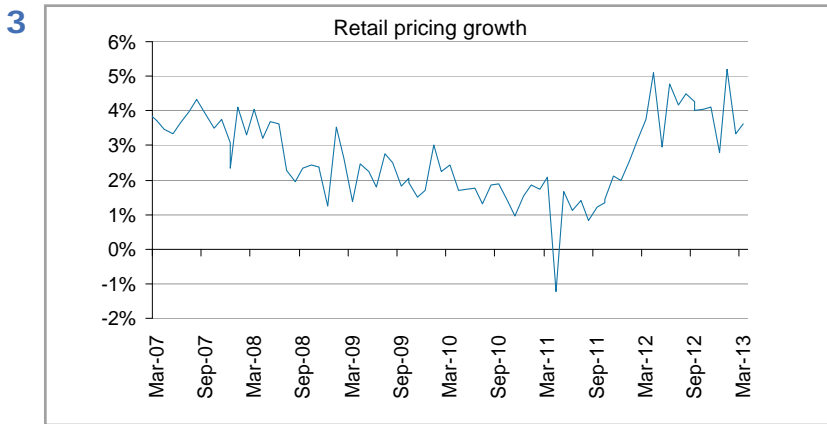
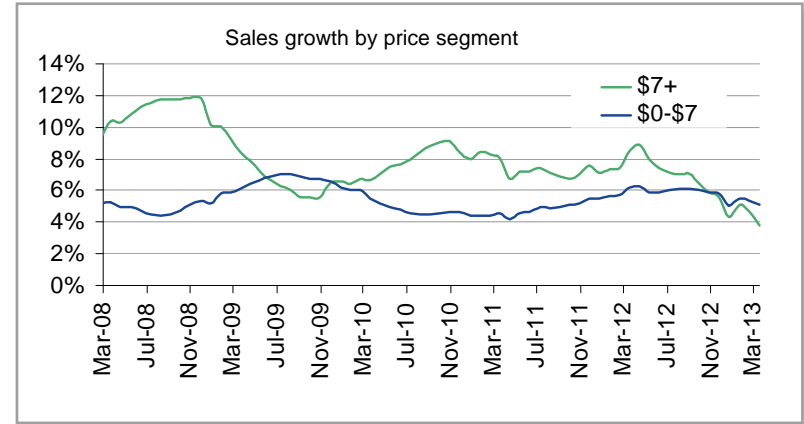
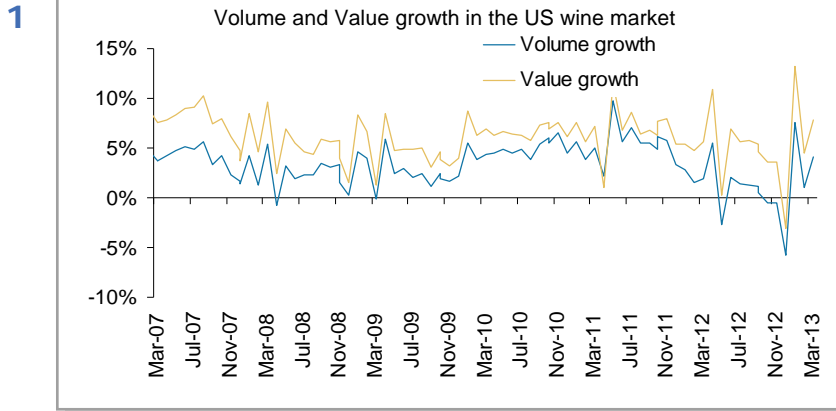
[1] The number of wineries in the US has expanded dramatically in the past 10-15 years, as 'lifestyle' operators have entered the industry. However, this is not driving material growth in industry supply. [2] California still represents just under half of the number of wineries in the US, despite the proliferation of boutiques in other states, [3] and 90% of production by volume. [4] Production increased substantially in 2012, as above average yields lapped below average yields from a weak 2011 vintage.

United States – Consumption



[1&2] The US wine market continues to grow, driven by rising per capita consumption and population growth. [4] During the last real recession (1988-1993) growth turned substantially negative, but this was partly the switch to wine coolers, and the peak publicity of drink driving programs.

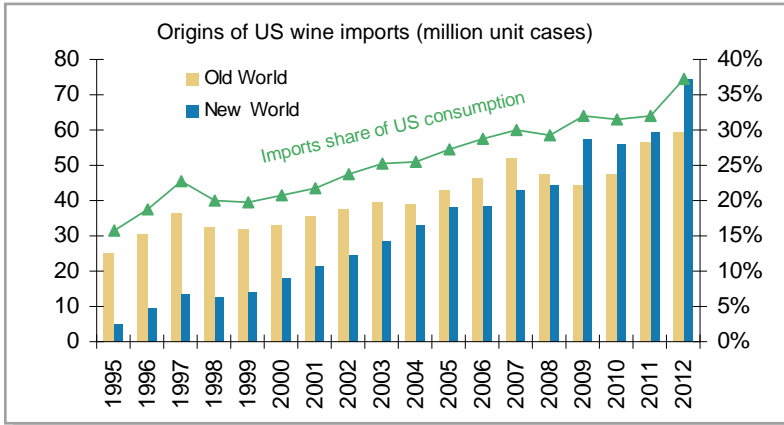
United States – Consumption: Retail



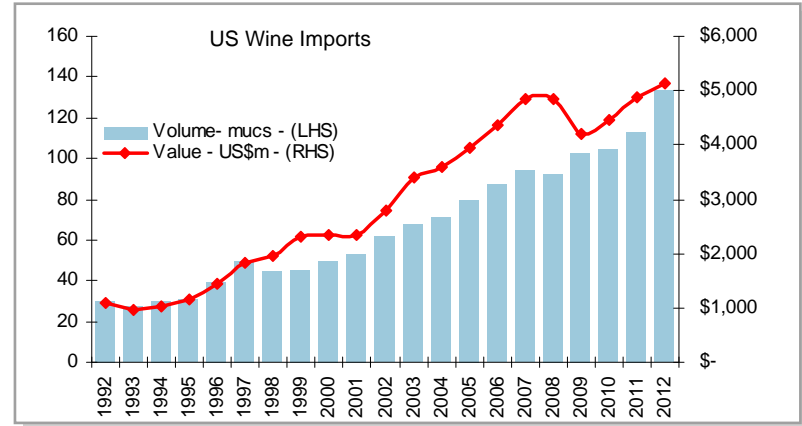
[1] The US retail wine market has maintained a mid to high single digit growth rate in value over the past 5 years, with volume in the low to mid single digits. [3] Average retail pricing has maintained a +1 to +4% run rate over that time, driven primarily by mix, with faster growth coming from higher value segments – suggesting a premiumisation trend. More recently, evidence of list price increases is less common, due to fragmentation of brands, and a market which is characterised by a high level of promotional activity.

United States – Imports (i)

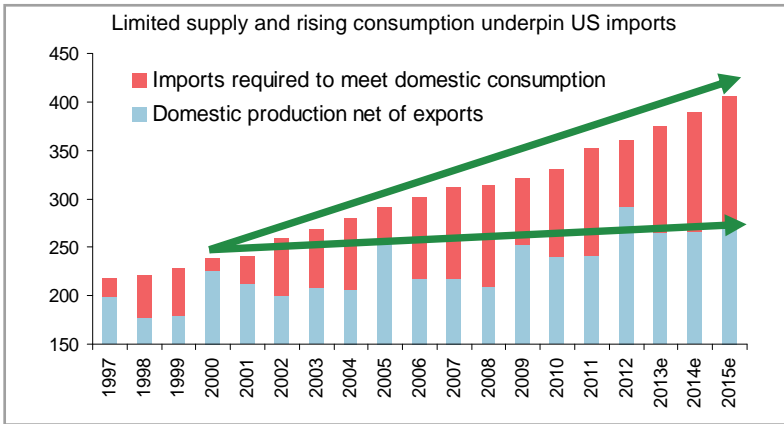
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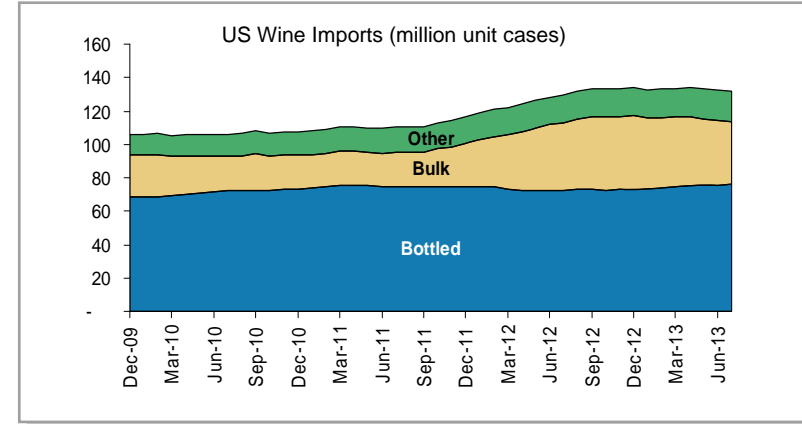
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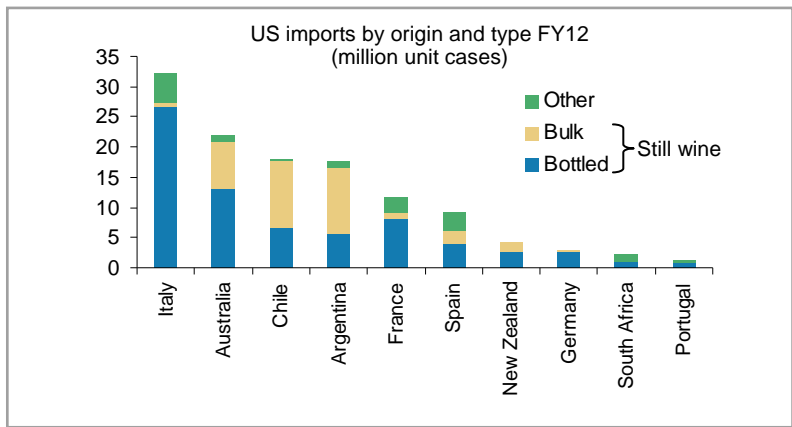
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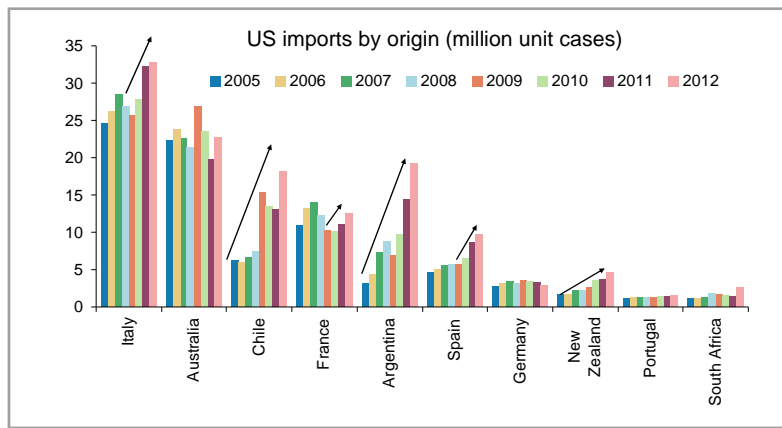
[1] As domestic consumption growth exceeds domestic production growth, imports have grown as a share of US consumption. Originally focused on old world regions, a combination of lower cost of production and varietal preference (specifically moscato) has seen a structural shift towards new world imports. With domestic production fully absorbed, imports will continue to grow in order to meet rising consumption.

United States – Imports (ii)

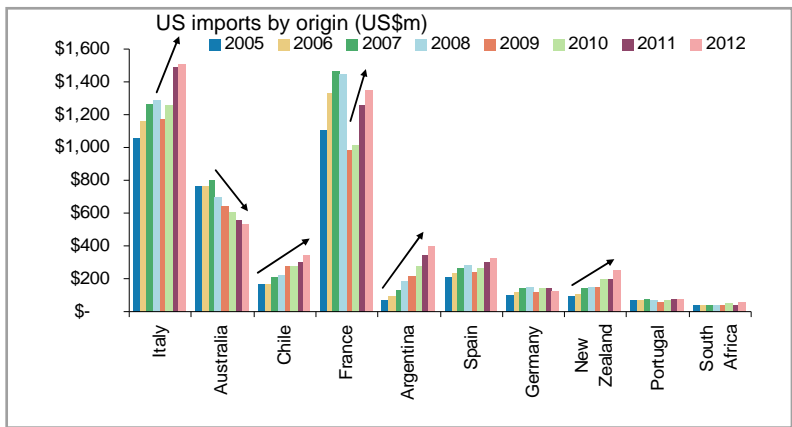
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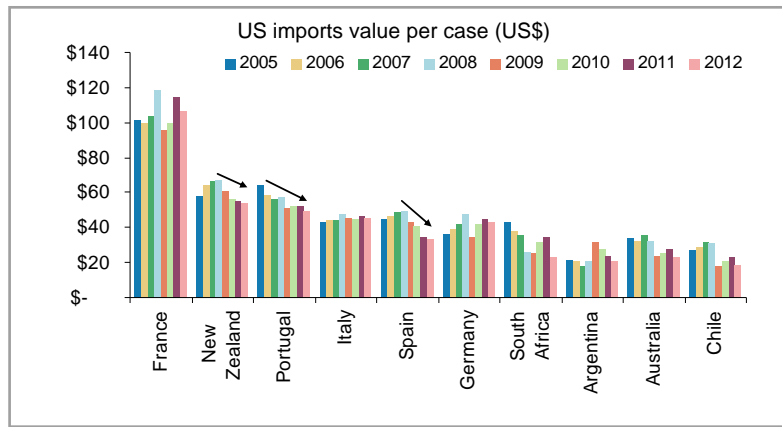
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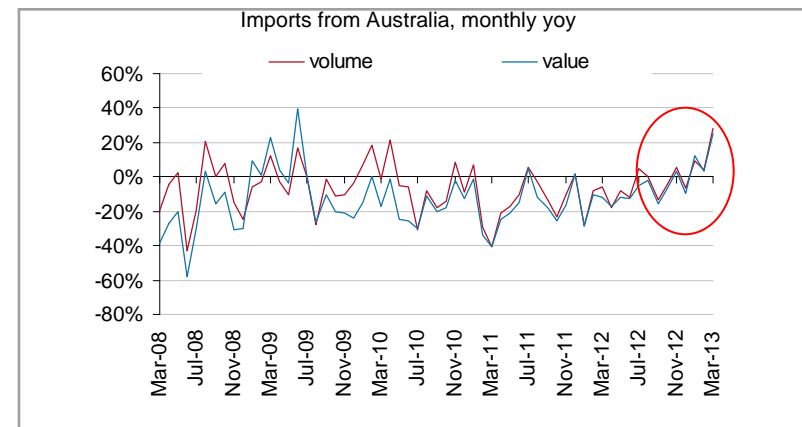
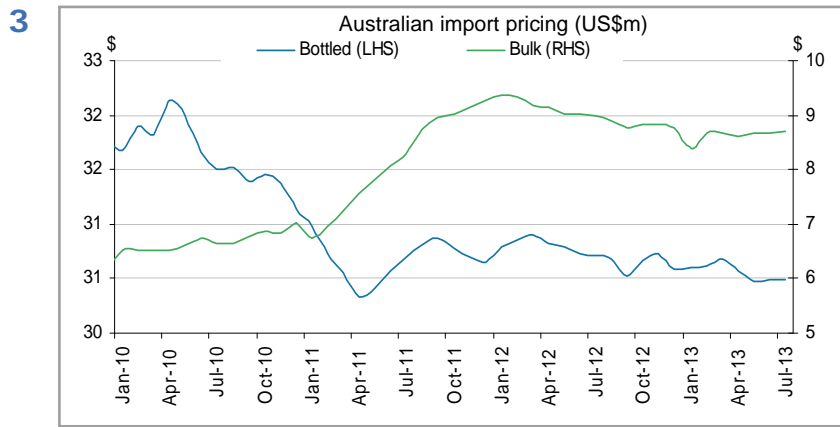
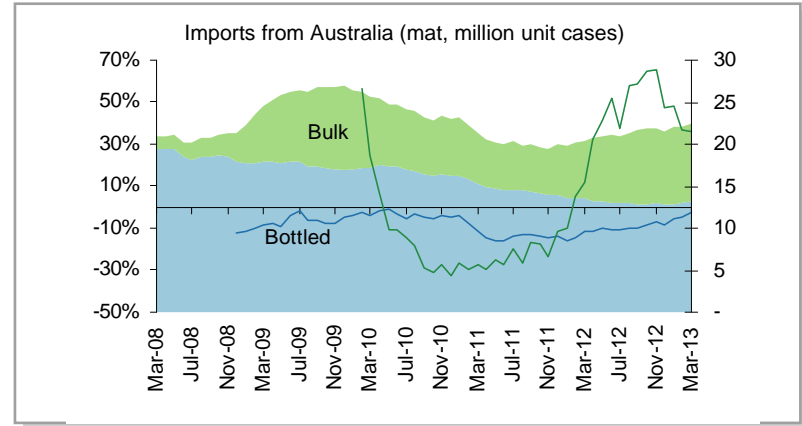
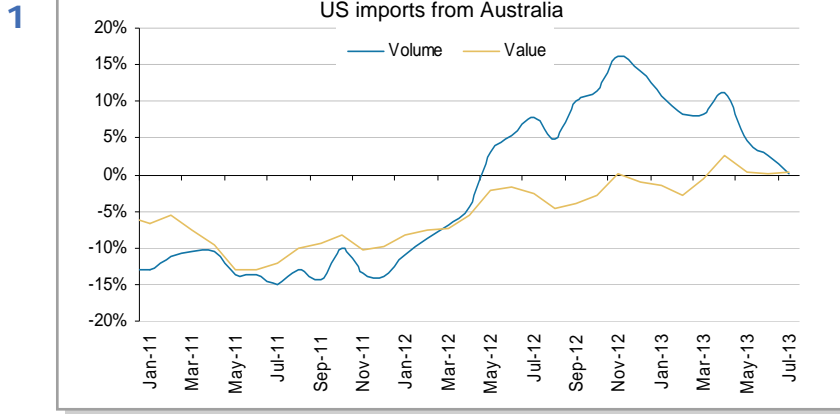


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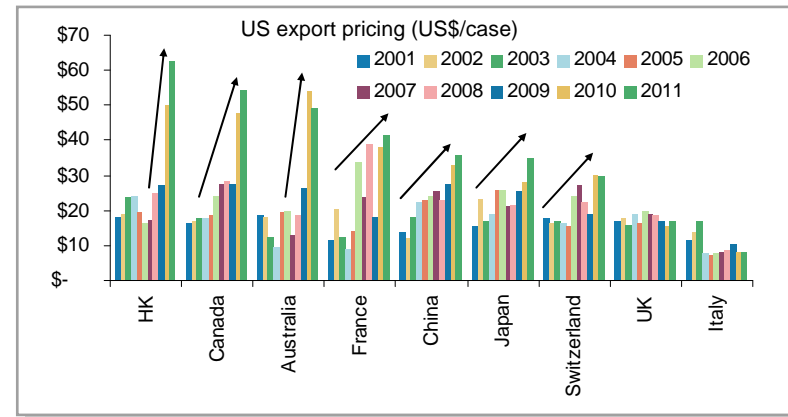
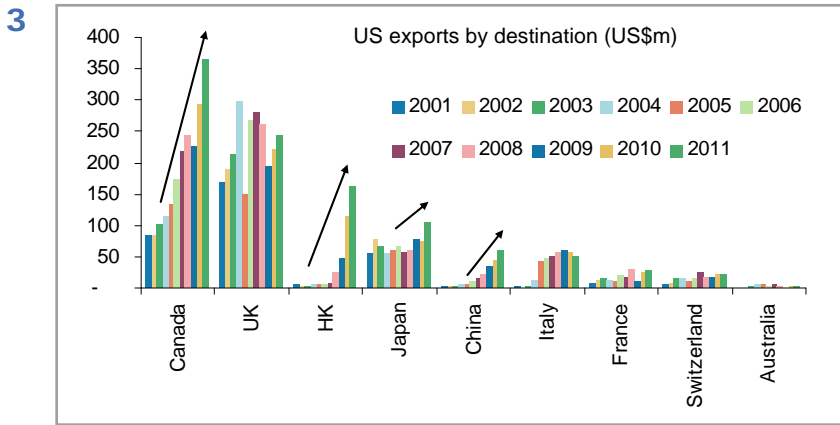
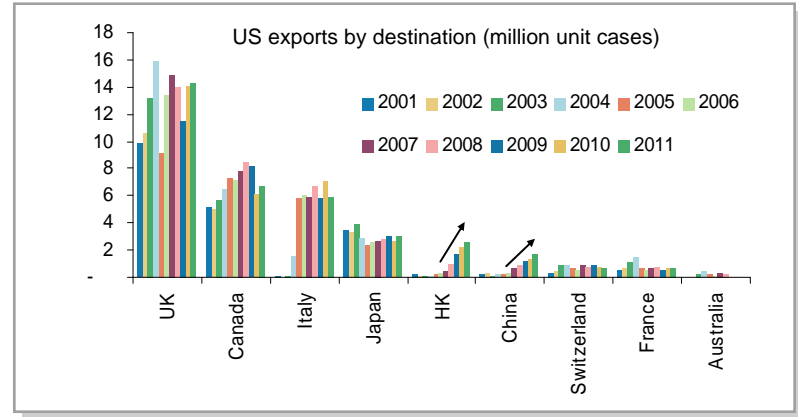
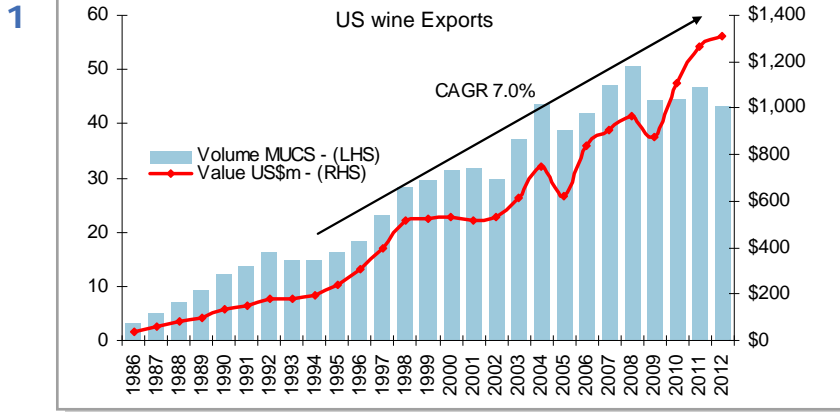
[1] Italy dominates US imports, is almost exclusively bottled, and represents ~10% of total US consumption. Australia is second, however has lost share to Argentina, Chile and Spain due to varietal preferences and cost of production advantage. There has been a trend towards importing in bulk, due to cost advantages of bottling in market, and domestic wine makers seeking access to varietals not available in the US, for local brands. This has resulted in overall declines in value per case. Argentina and Chile for example have seen the highest volume growth to the US, and the majority of their exports to the US are in bulk [1].

United States – Imports from Australia



[1&2] Import volumes from Australia increased in 2012 following a period of decline, primarily driven by bulk shipments. Bottled exports have remained in decline. More recent trends have shown bottled exports trending positively, increasing yoy in Q1 of 2013 [4]. Bottled prices fell substantially as the A\$ appreciated, however have been relatively stable over the past 18 months. Bulk pricing has come under pressure due to competition from lower cost to produce regions [3].

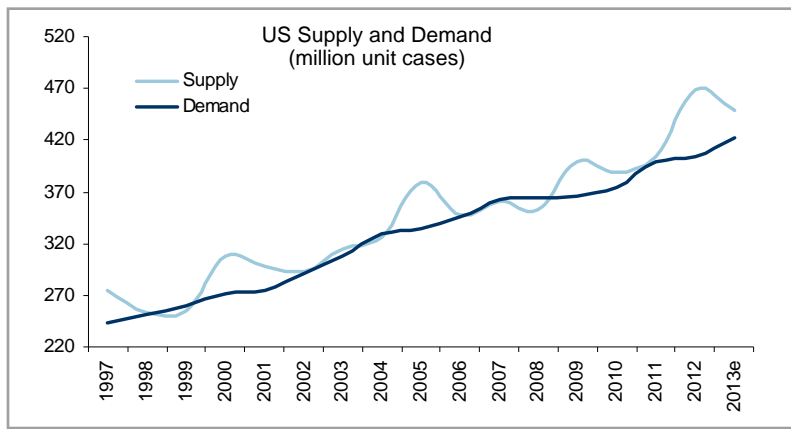
United States - Exports



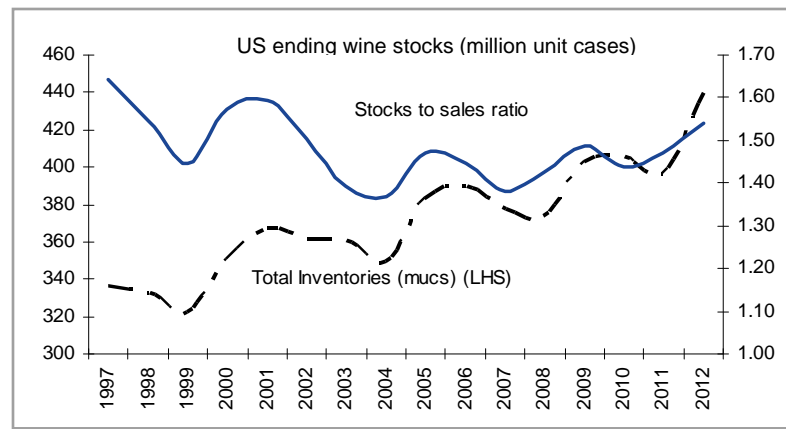
[1 & 2] US exports saw strong growth through to 2008, driven at different points in time by the UK, Canada and Italy. The UK is by far the largest volume market for the US, but at lower price points. Canada dominates US exports by value, and has shown substantial growth. The weak USD has seen a substantial increase in the price per case across virtually all markets, with the exception of the UK, whose pound has been equally as weak. Poor vintages in 2010 and 2011 may have seen a greater retention of domestically produced wines, causing export volumes to correct, however a weak currency provided continued step up in value growth.

United States – Supply/Demand

1

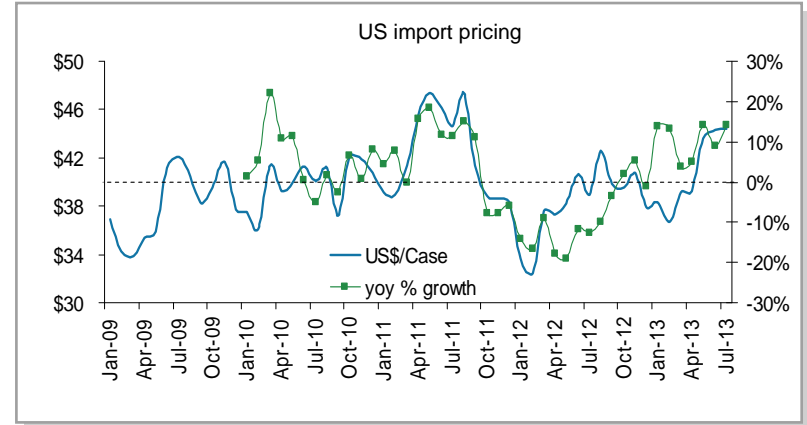
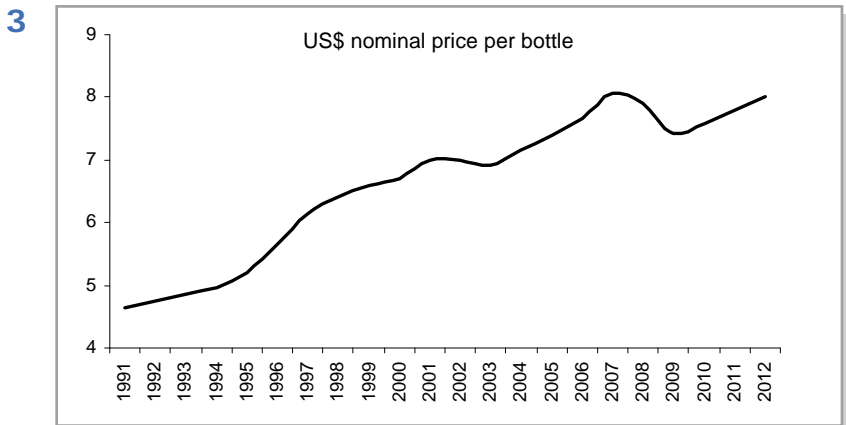
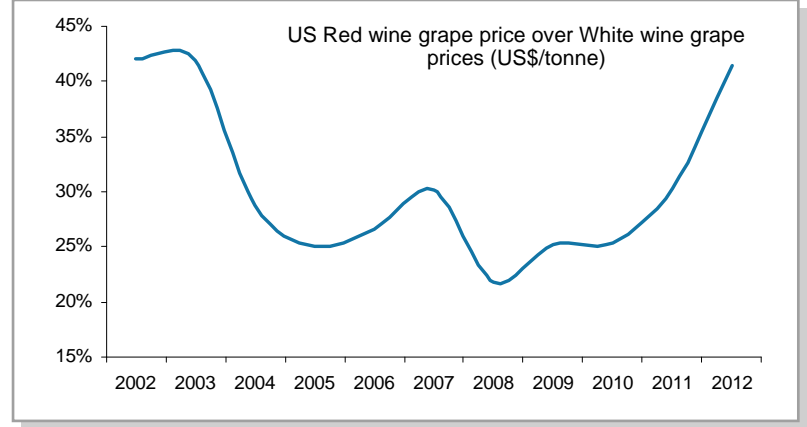
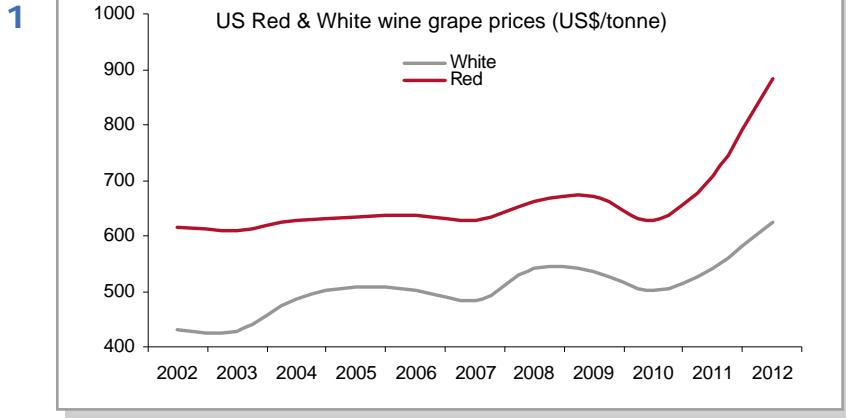


2



As a net importer, the US market is predominately in balance – it is easier to manage short term imports than it is short term production. That said, yield variation has at times caused the market to be in excess, and this is normally corrected in a short time frame by adjusting imports. Inventories have increased broadly in line with total consumption, and stocks to sales have been fairly consistent, rising in 2012 on the larger vintage and strong import growth prior to harvest.

United States – Wine Pricing



[1] US wine grape prices increased in 2011 on a smaller vintage, and maintained this positive trend in 2012, despite a rebound in supply. Prices are supported by full demand for domestically produced wine. [2] Red wine prices have increased at a faster rate than white wine, and have expanded their premium to white back to ~40%. [3] US retail wine prices have continued their upward trend, driven largely by premiumisation within the category as opposed to actual list price increases. Import pricing trended negatively through 2012, due to an increase in bulk wine shipments, though is showing a more positive trend as we enter 2013 [4].

Summary – Europe

Europe accounts for ~57% of global wine production, 57% of global consumption and 62% of the global trade in wine. Much of this trade is within Europe.

Almost half of the global export market is produced and shipped within Europe.

Capacity has been in structural decline over the past decade. Area under vine has fallen by 12% over that time frame.

Production declined by ~10% in 2012, due in part to ongoing removal of capacity, as well as poor weather conditions. Total production has fallen by 25% since its last peak in 2004. Normal weather conditions could see a partial recovery in 2013.

Consumption was stable in 2012, although down 11% over the past decade. The world's largest consumer, France, continued to grow following the 2011 inflection point, as did Germany, although Italy, Spain and to a lesser extent the UK saw continued declines.

Export volumes were flat in 2012, with strong growth to China and Japan offset by a more significant decline to Russia.

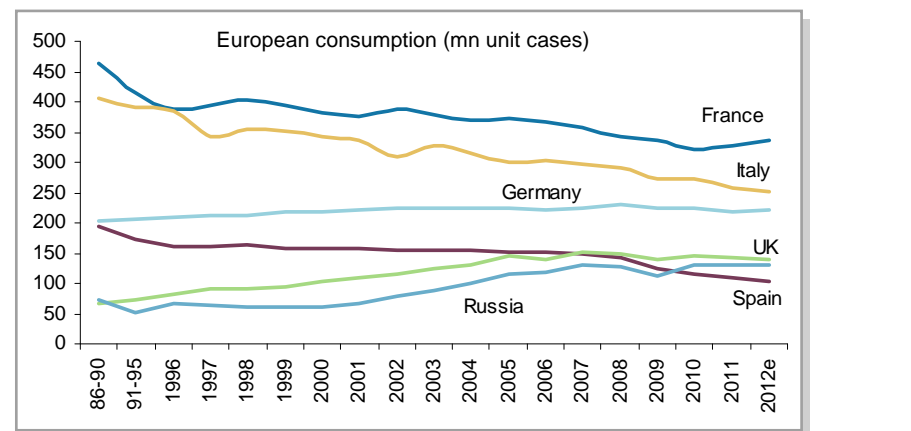
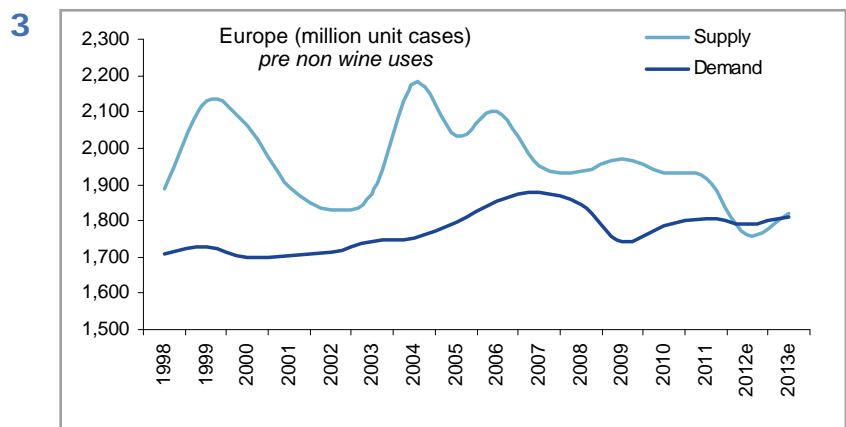
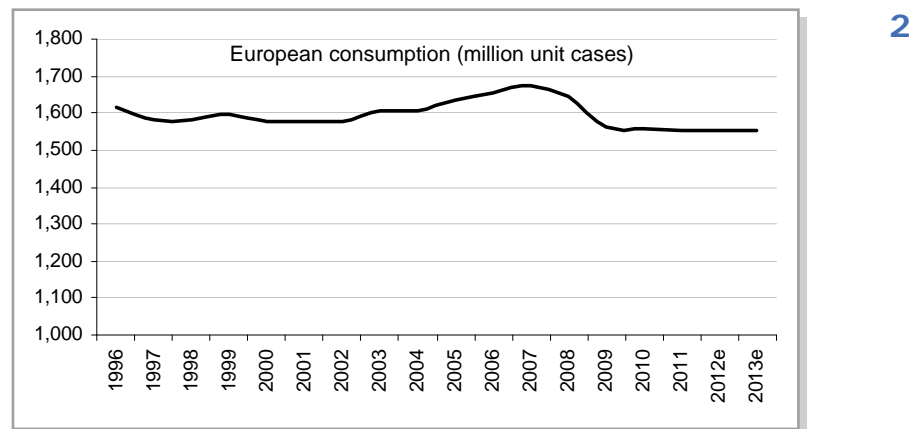
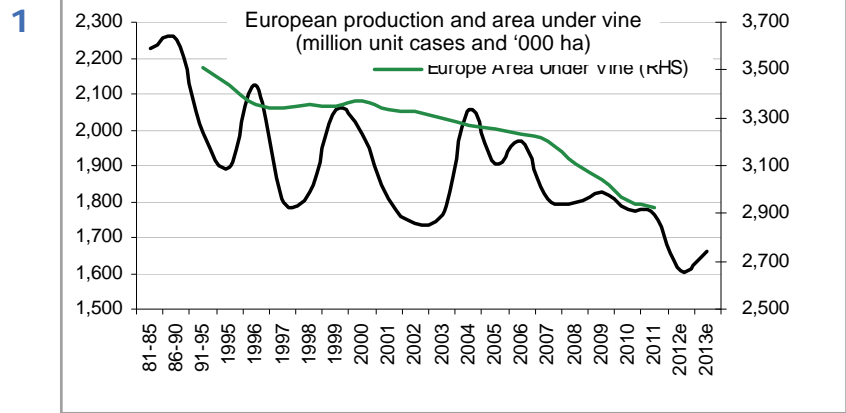
Imports remained flat in 2012. A strong A\$ saw imports from Australia (EU's largest import market) fall by 6%, and -9% from the US. This was offset by strong growth from Chile and other smaller producers.

Germany and the UK are the largest importers, the UK is the largest by value. German wine consumers are very price focused, so accessing this market from afar looks problematic.

5 years ago Europe was producing 300mn+ cases of excess supply, representing 15% of worldwide consumption. By 2012 that gap has reversed to ~40mn cases of excess demand, and that is before taking into consideration roughly 300mn unit cases of non wine use.

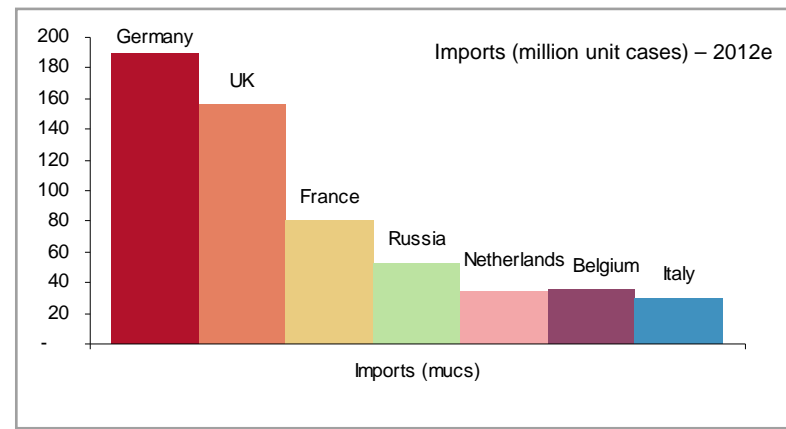
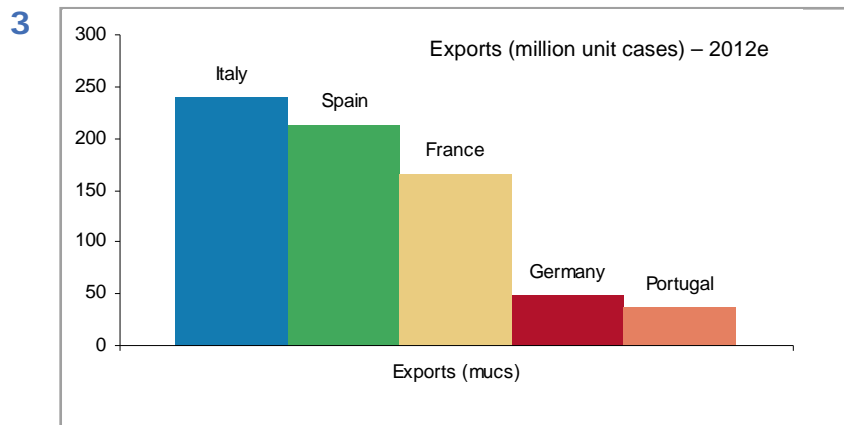
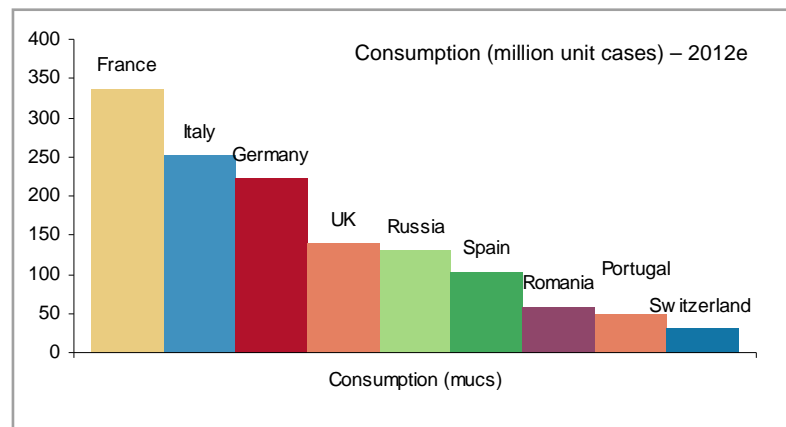
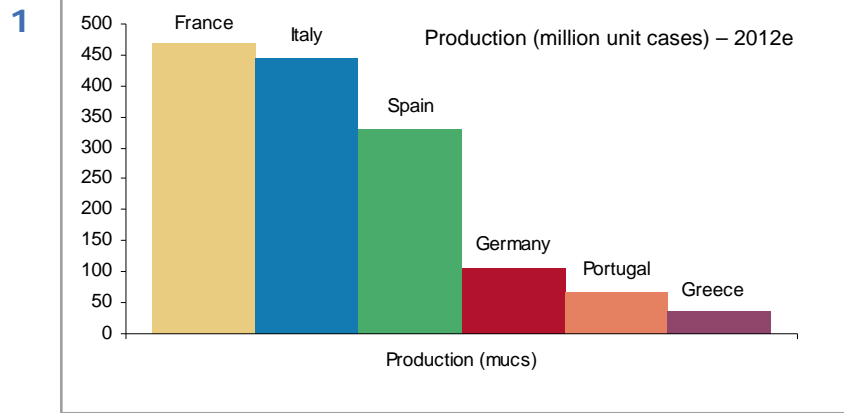
Current consumption is being sourced from earlier vintages and inventories are being reduced, however as the 2012 vintage comes into supply, we see scope for a reduction in exports from the EU, and / or a step up in import demand by the EU, in order to meet EU consumption, placing tightening pressure on global export markets.

Europe – Production and Consumption Trends



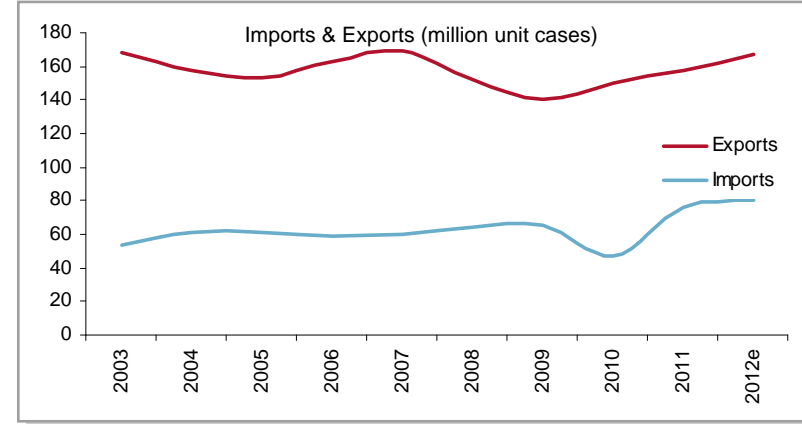
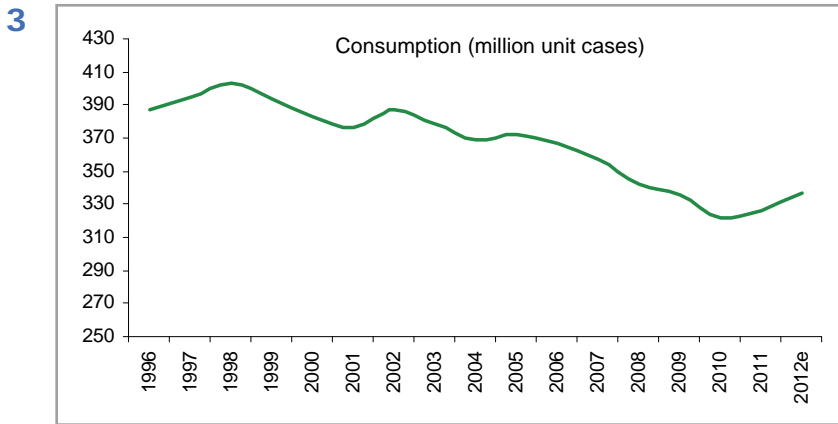
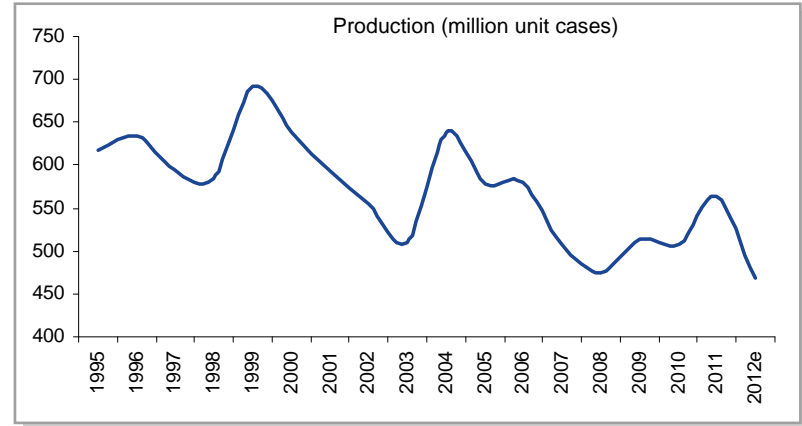
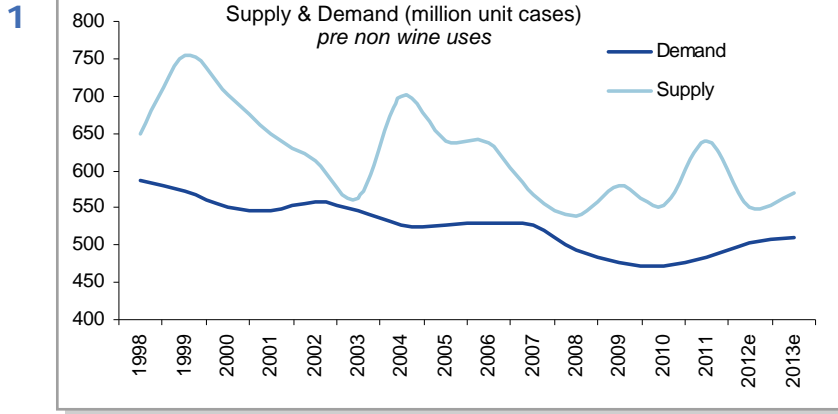
Overall European wine capacity and production has continued its decline, with weather also contributing to the fall in 2012 [1]. Consumption remains steady, with ongoing recovery in France offsetting declines in Italy and Spain [2 & 4]. European end demand is being bolstered by rising exports, particularly to China and the US. Together with declining production, Europe returned to balance in 2012, and this is prior to adjusting for non wine uses (c300mn unit cases) [3].

Europe – Key Producers, Exporters, and Importers



[1] Italy, France, and Spain continue to be the largest producers of wine in the world, and are well ahead of other European producers. Collectively, they produce 45% of global production, and approximately 81% of European production. [2] France consumes more in market, whilst Italy and Spain are more significant exporters [3]. [4] Germany consumes well in excess of domestic production and is the largest importer in Europe, closely followed by the UK.

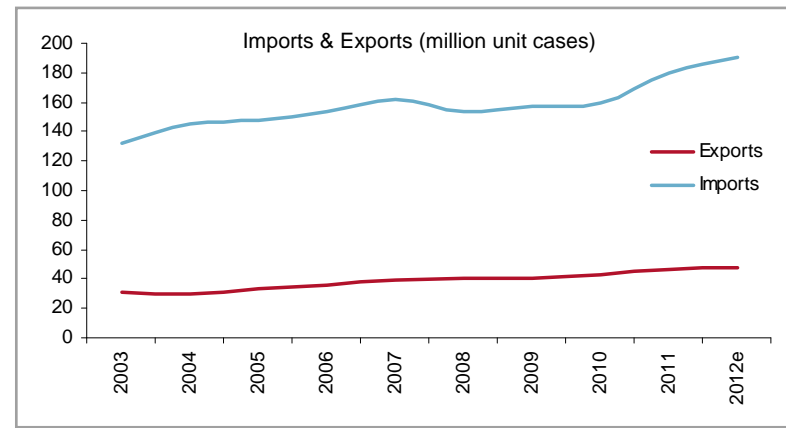
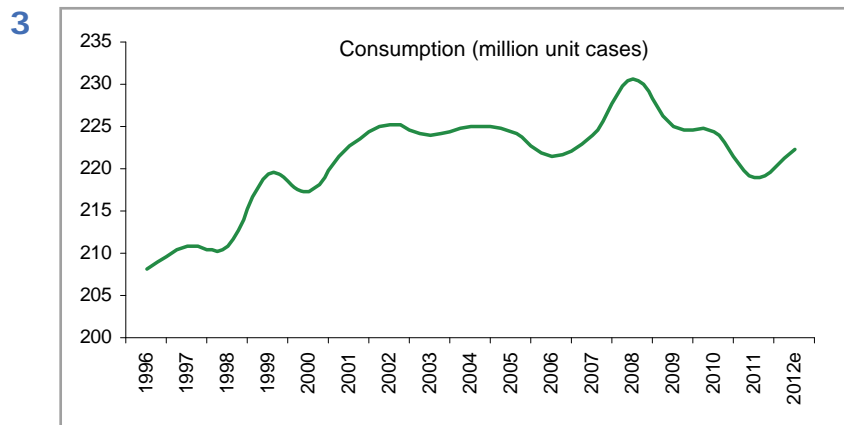
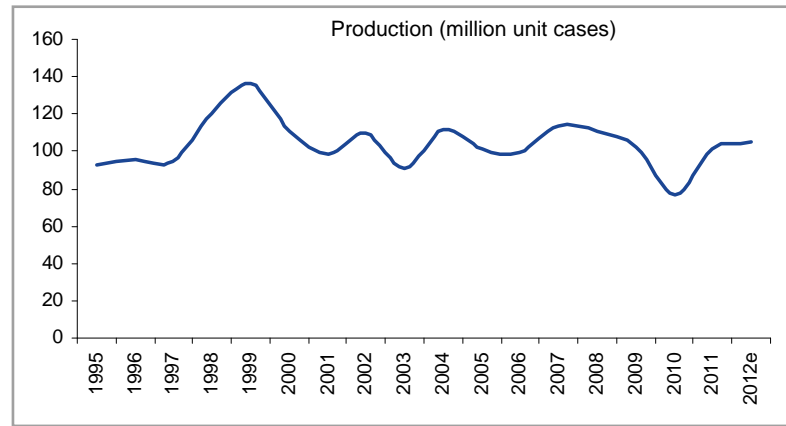
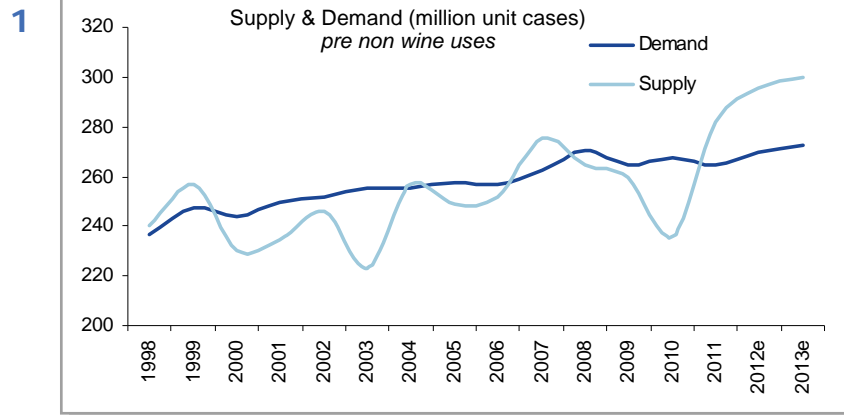
France – Production corrected in 2012, bringing supply back towards demand



Note – these charts represent supply and demand prior to adjusting for non wine use, which is c300mn unit cases in total for Europe

[2] Production saw a sharp decline in 2012 due to ongoing removal of capacity and poor weather conditions. [3] Consumption has been in decline for sometime, but reported a second year of growth following an inflection point in 2010. [4] Export demand continues to be supported by China and the US whilst imports were broadly flat yoy. [1] Supply has corrected, although remains in excess of demand. Most, if not all of this excess however is removed after accounting for non wine uses.

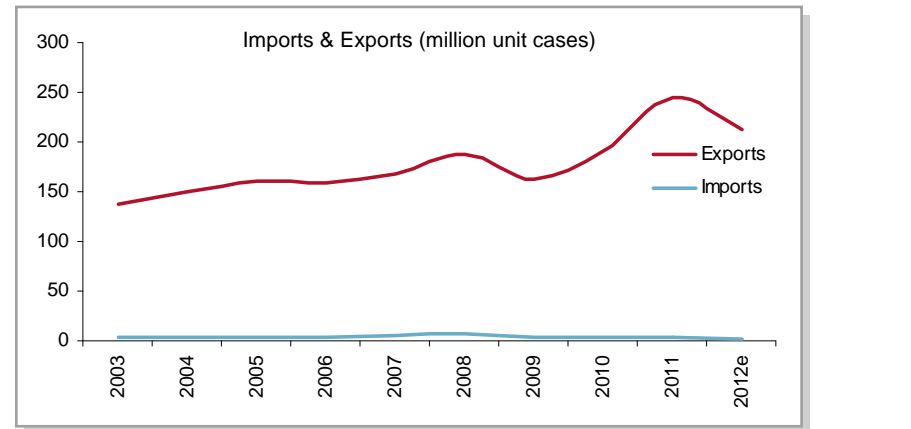
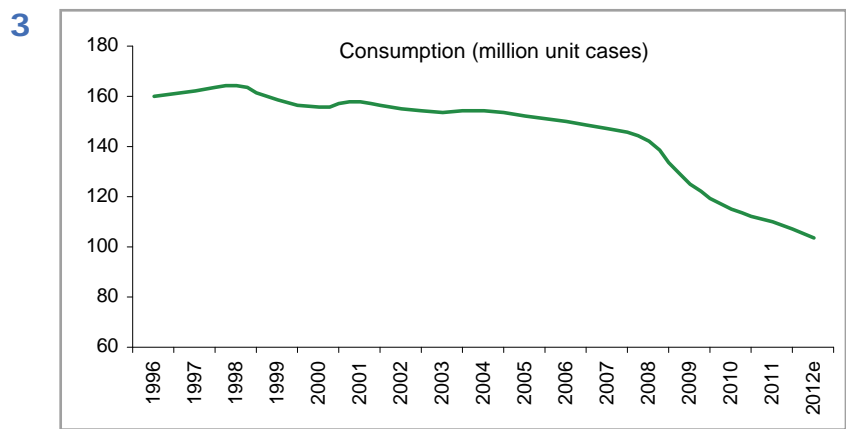
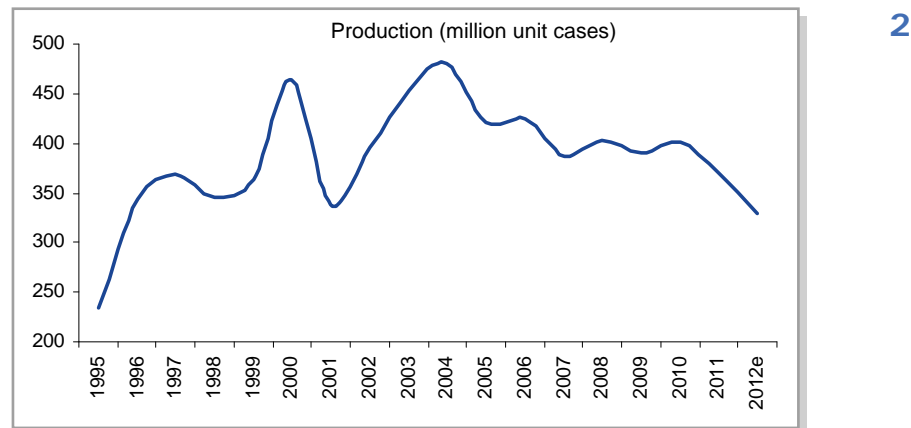
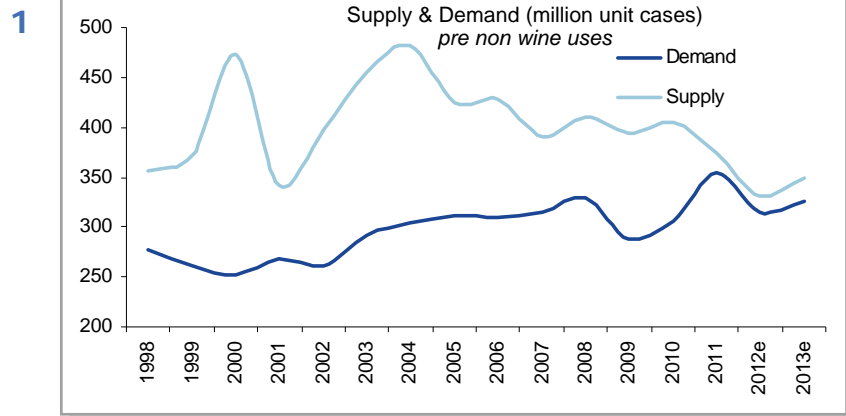
Germany – Overshot on imports in 2011 and 2012



Note – these charts represent supply and demand prior to adjusting for non wine use, which is c300mn unit cases in total for Europe

[2] Production was steady in 2012 and broadly in line with the longer term average. [3] Consumption has been in decline since 2008, however saw a positive rebound in 2012. [4] a pick up in imports in 2011, combined with a fall in consumption led supply to exceed demand in that year, and further import growth has maintained that excess in 2012. We would expect exports to normalise in 2013 to balance supply once more.

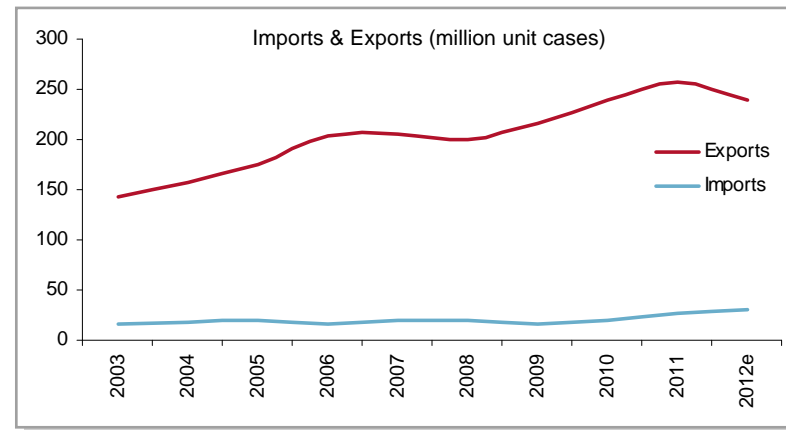
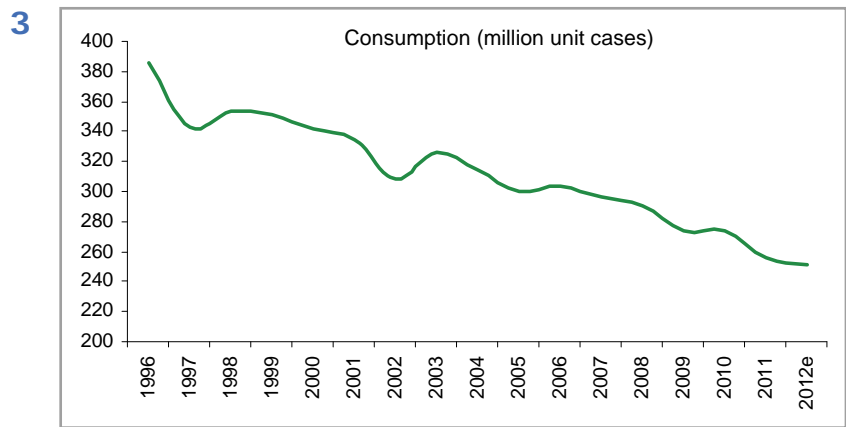
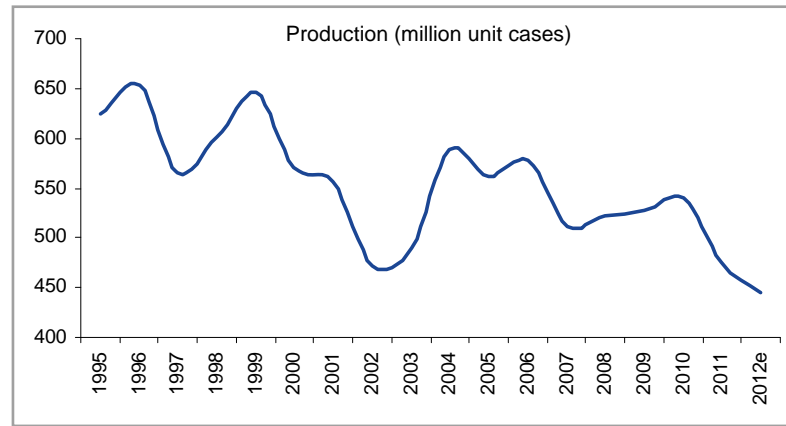
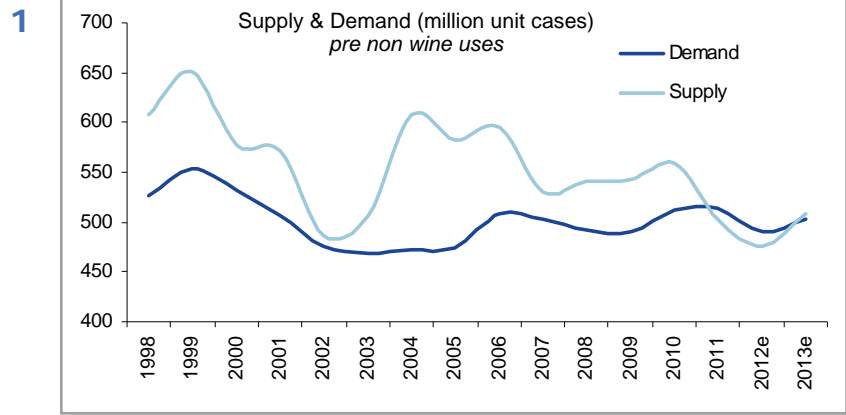
Spain – Production declines matching consumption declines, supply largely in balance



Note – these charts represent supply and demand prior to adjusting for non wine use, which is c300mn unit cases in total for Europe.

[2 & 3] Production has been in decline since 2004 in response to weakening domestic consumption and significant excess supply. Exports steadily increased through to 2008, accelerating through to 2011, providing further support for total demand [4]. The supply led correction has largely restored balance, even before adjusting for non wine uses.

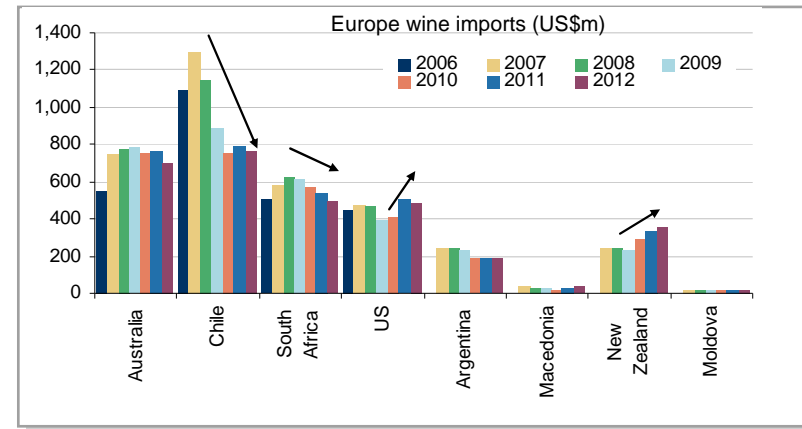
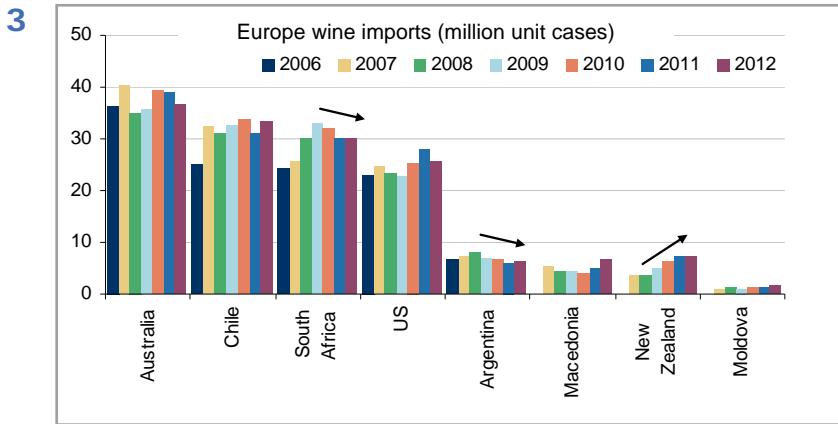
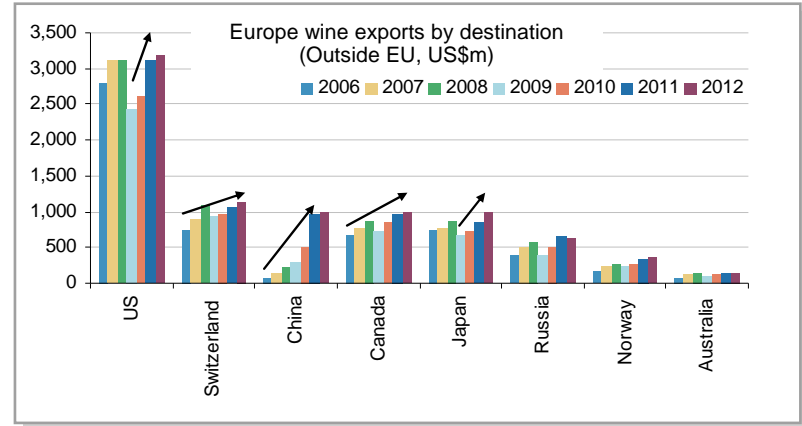
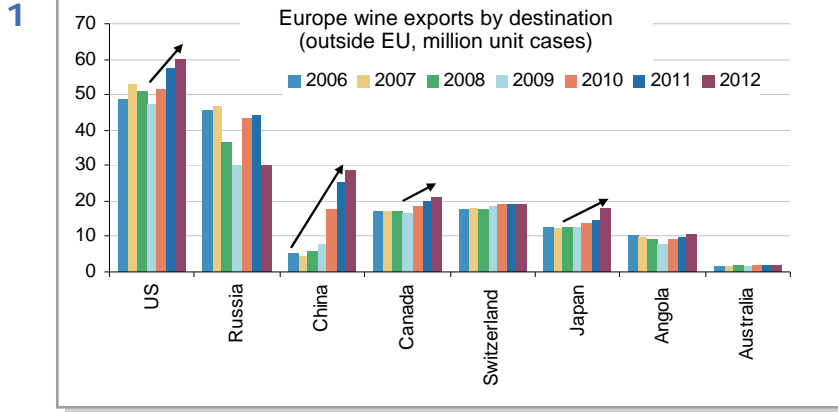
Italy – Production declines matching consumption declines, supply largely in balance



Note – these charts represent supply and demand prior to adjusting for non wine use, which is c300mn unit cases in total

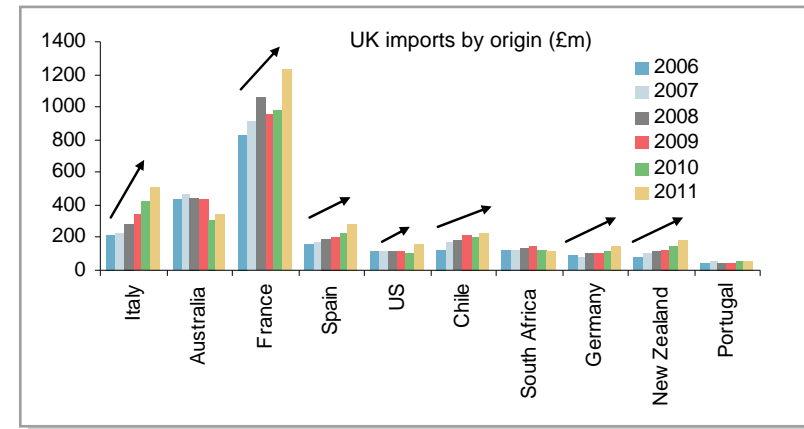
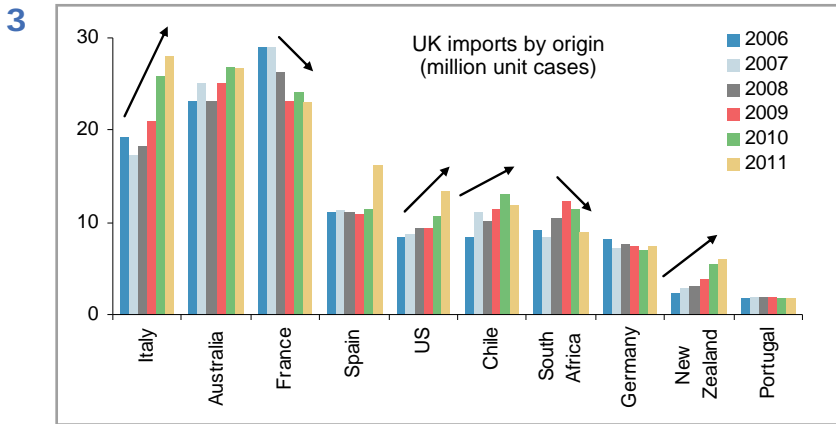
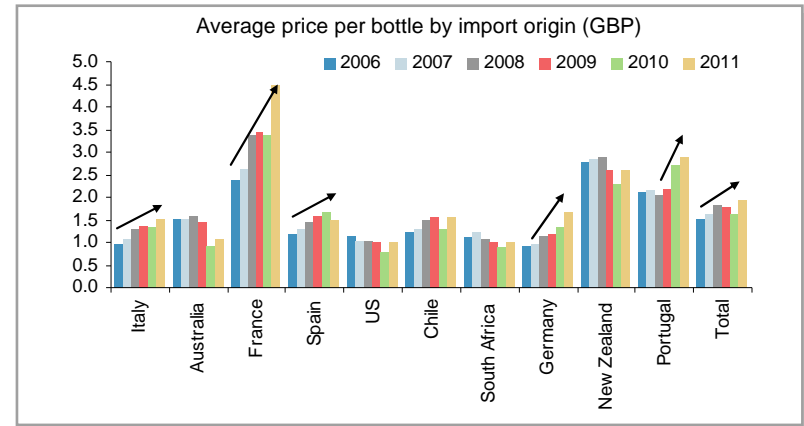
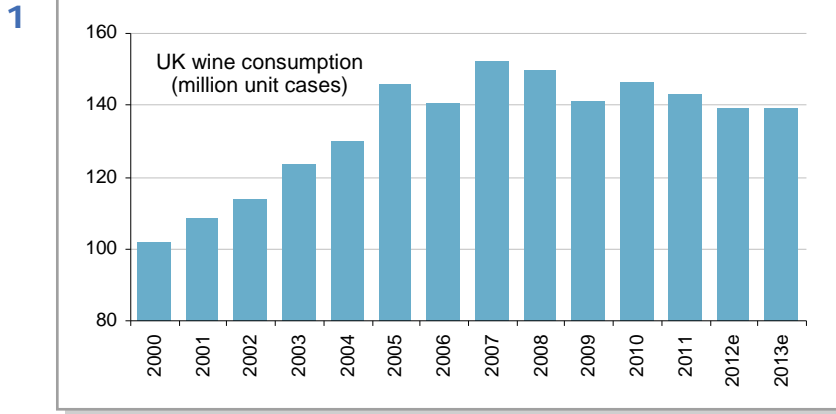
[2 & 3] Production has been in a long term decline response to weakening domestic consumption and an extended period of excess supply. Exports have steadily increased through to 2011, though have moderated in 2012 [4]. The supply led correction has restored balance, even before adjusting for non wine uses.

Europe – The External Picture



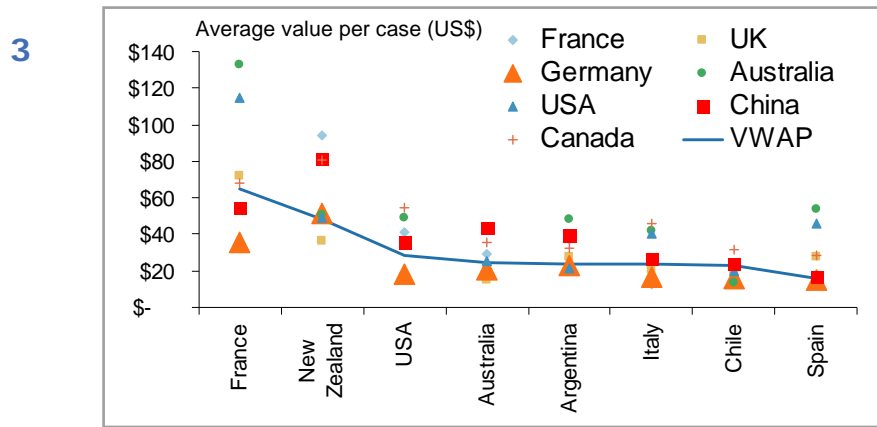
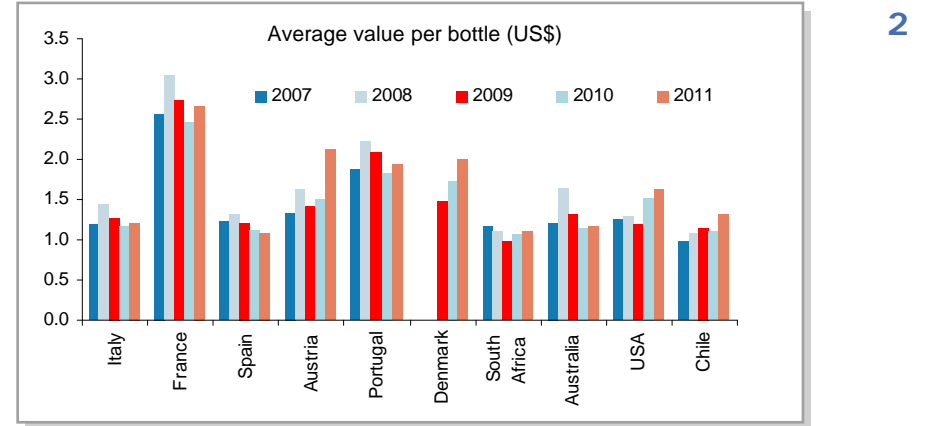
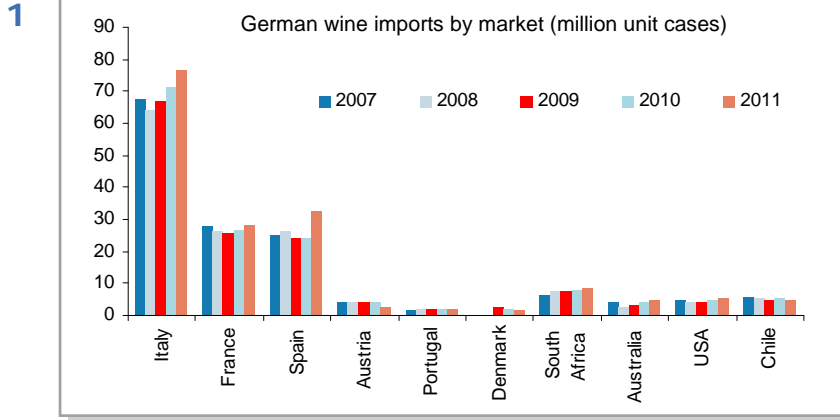
[1&2] The US is the key focus of European exports and growth has been solid, although Russia has previously taken a large amount of low-price product. Exports to China have been rapidly growing in volume and value terms to be almost the second largest export destination for European wine (although growth was more modest in 2012). [3&4] Australia is the largest exporter to Europe by volume, courtesy of its UK presence. NZ and the US have taken share of EU imports in recent years.

United Kingdom – The Critical European Importer by Value



[1] The UK is the second largest importer of wine in the world by volume, although a weakened economy has seen modest declines in consumption in recent years. [3&4] Primary sources of imports are all the major producers. A strong A\$ has seen Australia surrender the number one position by volume, having been overtaken by Italy. The US, Chile and particularly NZ have all experienced strong growth in exports to the UK, both in volume and value.

Germany – A Key Importer, but Value Focused



Italy dominates exports to Germany, more than twice as many volumes as Spain or France. France however realises higher price points and so leads total export value. The average value of imports is exceptionally low, making Germany a very difficult market for those with distance to transport product which is the case for most new world countries.

France vintage chart

Vintage	12	11	10	09	08	07	06	05	04	03	02	01	00	99	98	97	96	95	94	93	92	91	90	89	88	87	86	85	83	82	81	80	79	78
Champagne			7	7	8	5	7	7	8	6	10	4	6	6	8	7	8	9	5	6	7	4	10	9	8	4	6	9	7	9	7	4	6	5
Red Bordeaux	8	8	10	10	8	6	8	10	7	8	7	8	10	7	8	5	9	8	5	4	3	5	10	9	8	5	8	8	7	10	6	4	7	7
White Bordeaux	7	8	7	7	8	7	8	9	7	9	5	10	7	8	8	9	10	9	6	2	4	4	10	9	10	5	8	7	9	7	6	6		4
Red Burgundy		8	9	9	7	6	7	10	5	8	9	7	7	9	8	7	9	8	4	9	6	8	10	9	8	6	6	9	7	5	6	7		9
White Burgundy		8	9	8	7	7	8	8	7	6	9	7	9	8	7	8	8	8	7	8	8	6	8	8	7	6	8	8	7	7	4	6		7
Chablis		8	10	7	8	8	7	9	6	7	9	7	8	7	7	8	9	9	6	6	8	5	10	8	7	5	7	7	7	6	8	6	6	7
Rhone		8	10	9	7	9	7	9	6	7	5	9	9	7	9	6	7	9	6	8	5	7	10	9	8	5	8	9	9	8	5	6		10
Loire		8	9	7	8	8	7	10	8	8	9	7	8	7	7	9	8	9	6	7	5	4	10	9	8	6	8	8	7	7	6	5		6
Alsace		8	9	8	8	9	7	10	7	7	9	5	8	7	8	9	8	9	6	8	7	5	10	10	8	5	7	8	9	5	7	4		5

Summary – China emerging as a global wine powerhouse

China is now the fifth largest import market globally, following a substantial growth in the past 5 years.

Consumption has doubled twice in the last 5 years. Per capita consumption is significantly below global levels but rising, as households migrate up the income scale into brackets that typically over-index on consumption of wine.

Domestic production has increased 4x over the past decade, and is now the fifth largest producer of wine globally. The majority of production occurs in the North East provinces, which are largely in line with Mediterranean Europe and Californian growing regions.

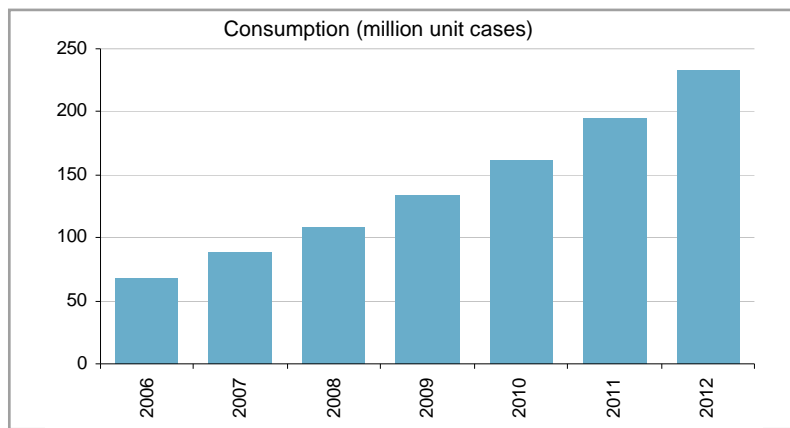
Imports have dominated growth in recent years, and are now 20% of total consumption. France accounts for half of total imports by volumes, and 54% by value. Australia is the number two import market with 15% share and Italy #3 with 6%. Imports are skewed to bottled wine – 67% by volumes and 91% by value. Average import prices in China are amongst the highest globally, with import demand skewed towards premium and luxury wines.

Total consumption is estimated to nearly double by 2016, to over 400m unit cases, which would make China the worlds largest consumer of wine. Domestic production growth has been strong (currently delivering ~180mn cases) and domestic wine makers are becoming increasingly responsive to the threat from imports. However targeted levels of domestic production fall short of this forecast level of production. As a result, further import demand will likely be required to meet the rising consumption gap.

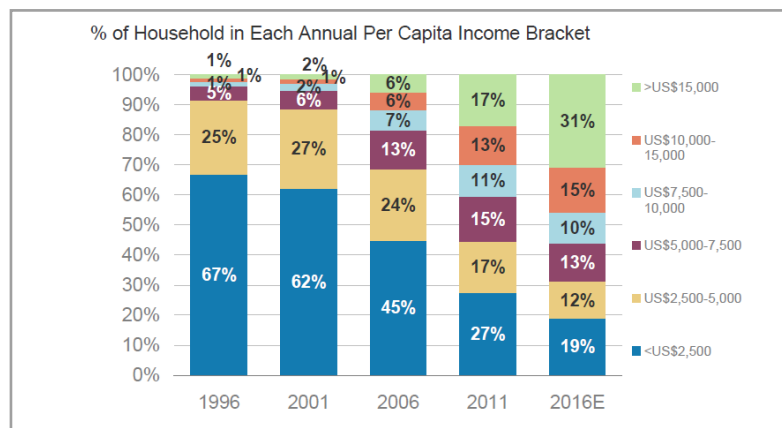
As a net importer of wine, supply and demand has remained largely in balance.

China – A structural growth story

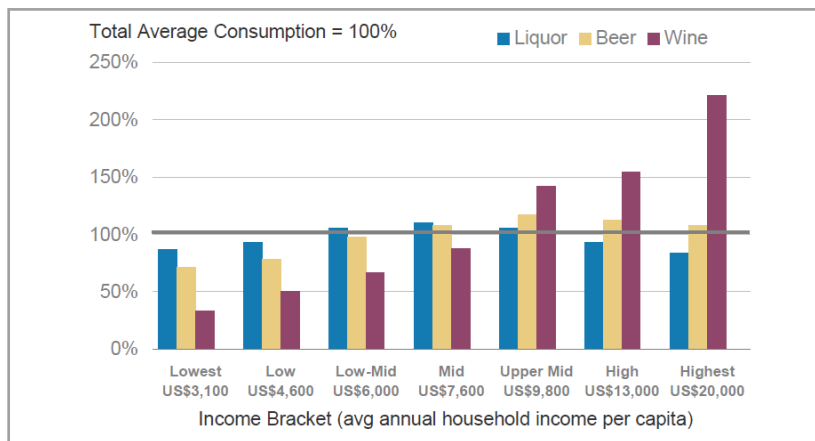
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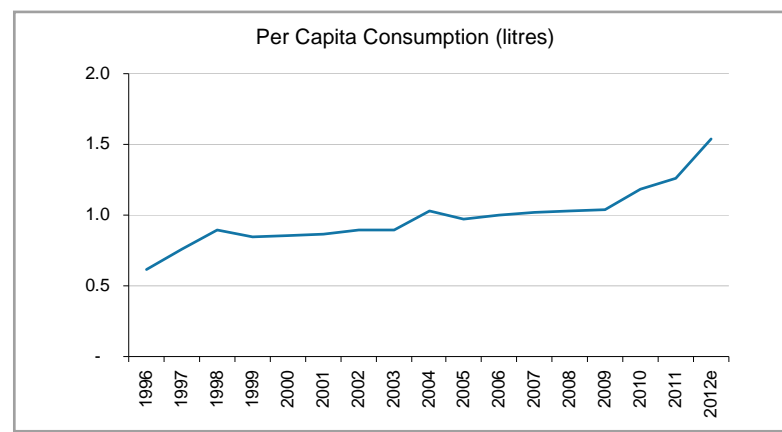
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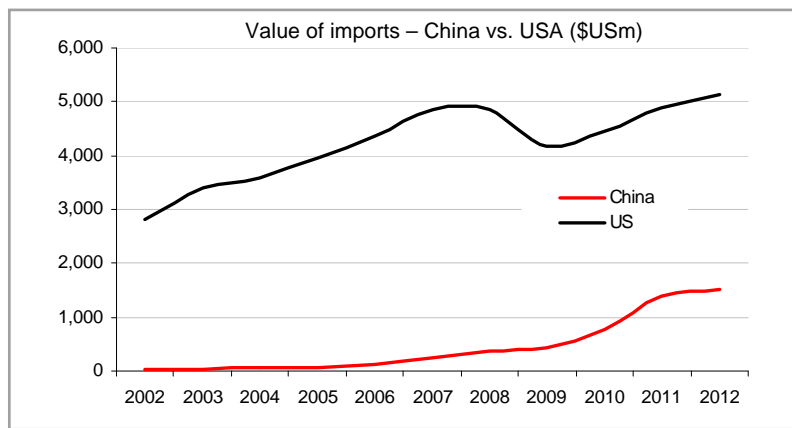
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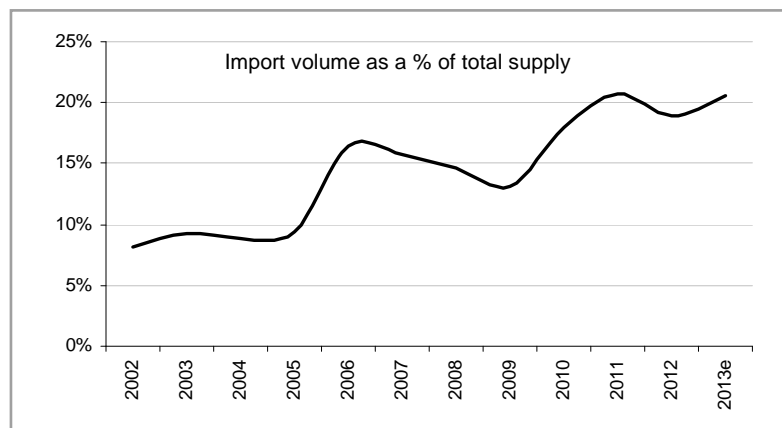
Chinese wine consumption has twice doubled over the past 5 years [1], driven by increasing per capita consumption off a very low base [4], a migration of households up the income scale [2], into income brackets that over-index on consumption of wine [3] and a growing appetite for imported wine. With per capita consumption a fraction of global levels, and expectations for a near doubling of households in China with income brackets that favour wine consumption, we see strong structural support for ongoing consumption growth.

China – Imports have been a meaningful driver of recent growth

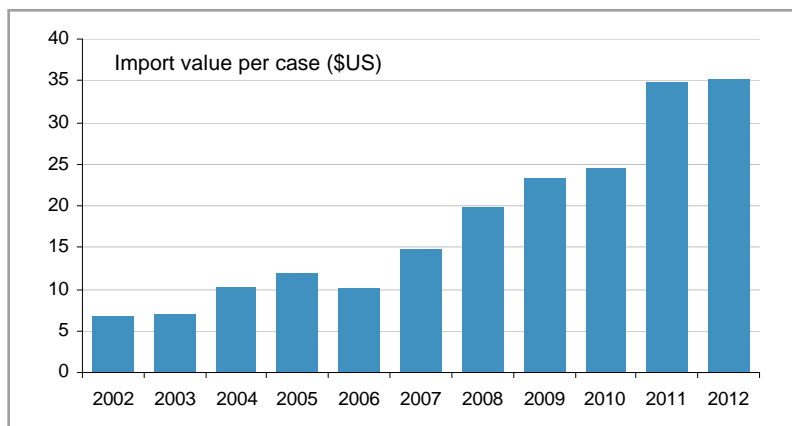
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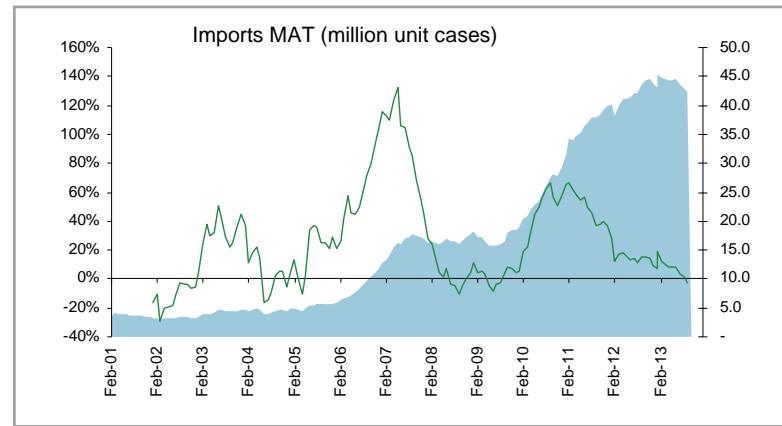
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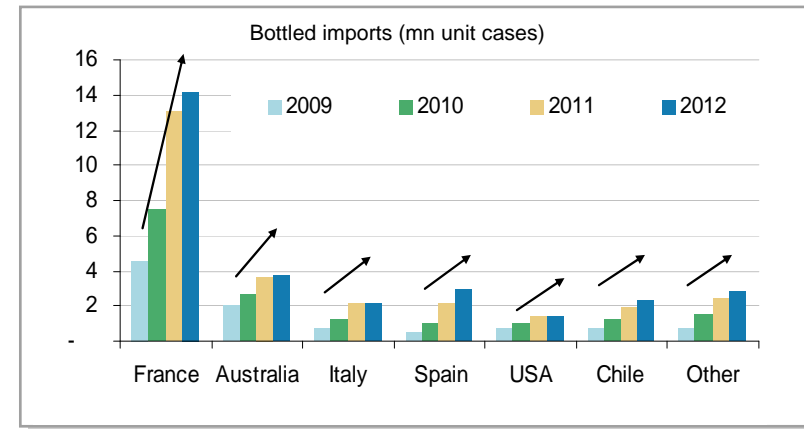
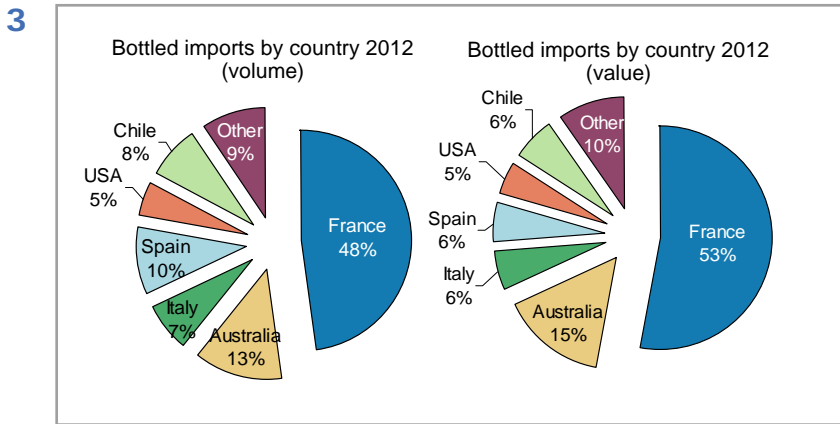
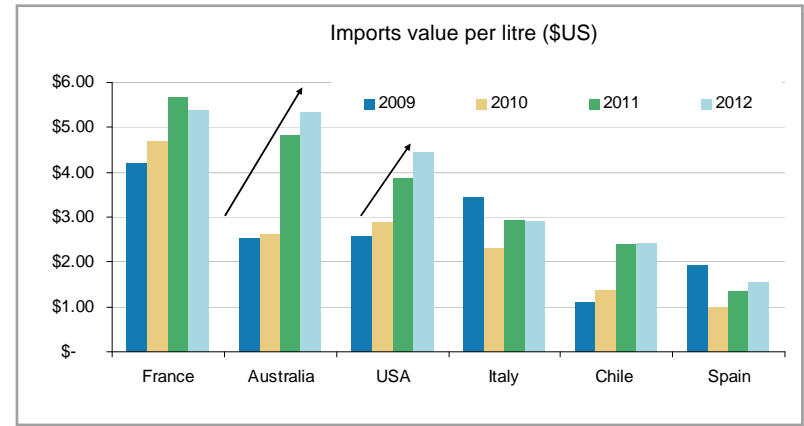
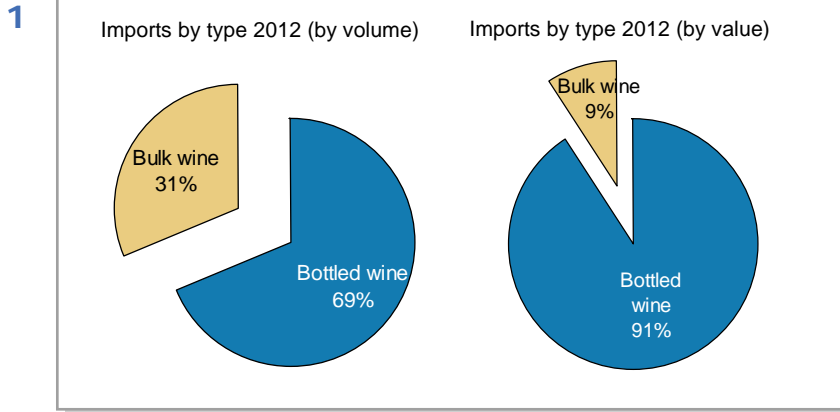


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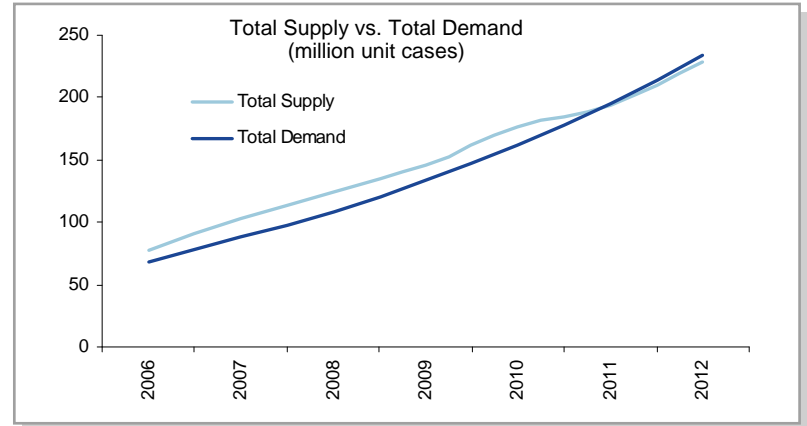
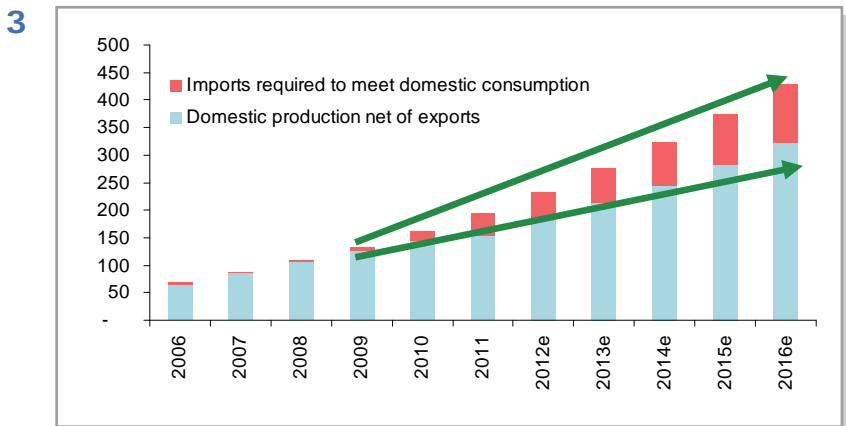
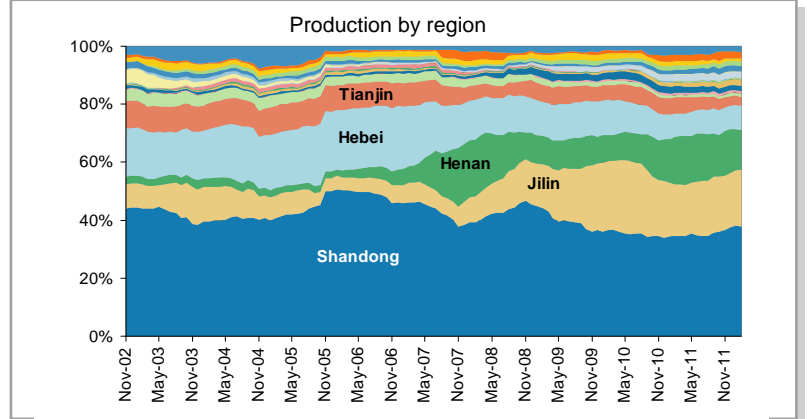
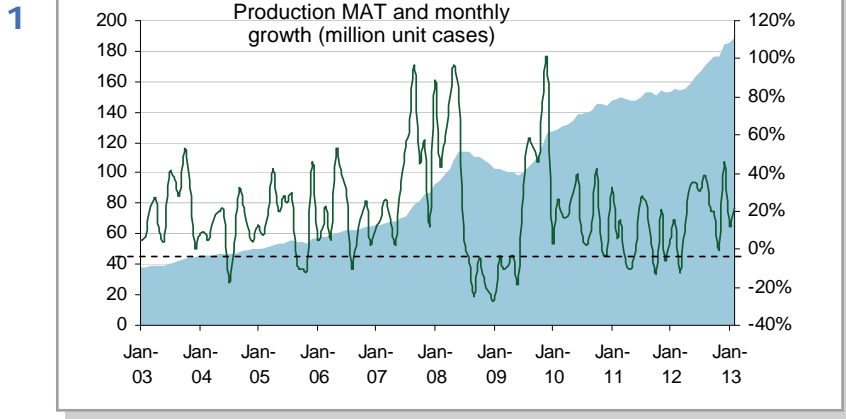
Total value of Chinese imports has accelerated strongly from a near zero base 10 years ago [1], and imports now represent 1 in 5 bottles of wine consumed in China [2]. The average value per case has also risen substantially reflecting China’s bias towards premium and luxury wines for imports [3]. Total import growth moderated in 2012 from very high levels in 2011, as the overall base increased, and due to stronger competition from domestic producers.

China – Bottled imports drive value growth



Bottled imports represent over 2/3rds of import volume and more than 90% of imported value [1]. Value per case increases were most noticeable to Australia and the US, although France has seen a modest reduction in 2012 [2]. The source for bulk imports varies year-to-year depending on supply and cost (currency of producer therefore being relevant), bottled imports on the other hand, are consistently dominated by France with Australia at number 2 [3].

China – Domestic production has accelerated, imports still required to meet future growth



Domestic production has accelerated in response to the accelerating demand [1]. Shandong is the primary production region, however the majority of incremental production has come from the Jilin and Henan regions in the North East of China [2]. Total consumption is estimated to exceed 400m unit cases of wine by 2016, however targeted levels of domestic production fall short of this level. As a result, further import demand will likely be required to meet the rising consumption gap [3]. As a net importer, supply and demand is predominately in balance [4].

Source: OIV, China Customs, comtrade, Morgan Stanley Research, e= Euromonitor estimates for consumption

Summary – Other New World Markets

Argentina, Chile, South Africa and New Zealand are New World producers with a significant presence on export markets, despite relatively small (except for Argentina) domestic consumption bases. **As net exporters of wine, balancing supply and demand is heavily reliant on exports.** Internal factors such as varietal strength and relative cost of production are drivers of export demand, whilst currency movements are a major external driver.

Argentinean supply continues to be structurally higher than demand. An exceptionally low yielding vintage in 2012 has provided some relief, but current export demand is not sufficient to absorb normalised levels of supply. **The US has driven an increase in Exports in 2012,** however the majority of this is now bulk.

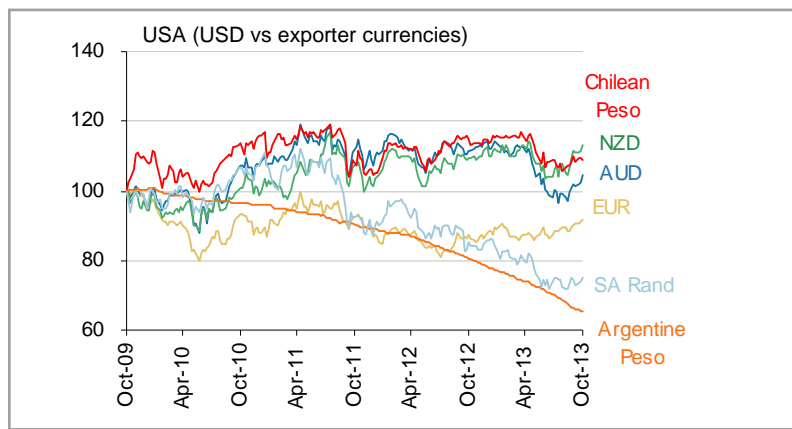
Steady growth in capacity and rising yields has led to a **doubling in production from Chile** over the past decade. A relatively low cost of production has boosted export competitiveness. Bulk exports are still the largest proportion of growth, and this needs to continue given existing capacity coming on-stream. **Demand and supply has been generally well managed over time, but is currently in a slight excess.**

South Africa continues to be plagued by oversupply due largely to still increasing production (despite some removal of capacity) and weaker exports, which have been in decline for 5 years. Export prices are amongst the lowest globally as the country is increasingly reliant on value focused markets such as the UK and Germany.

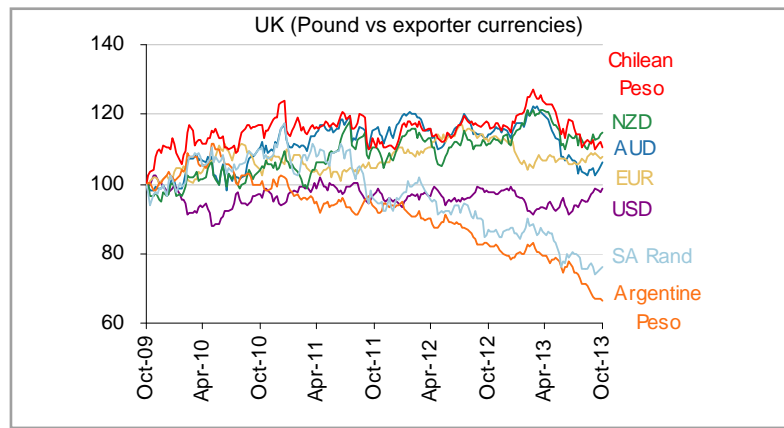
New Zealand moved into undersupply in 2012, following decades of oversupply. The country has benefited significantly from its ongoing popularity of its Sauvignon Blanc, with export demand re-accelerating in 2012. Exports are extremely concentrated - **Australia, the UK and US make up ~85% of export volumes.** Average export prices are high, second only to France.

The Major Importers: Which exporters have benefited / harmed from currency movements?

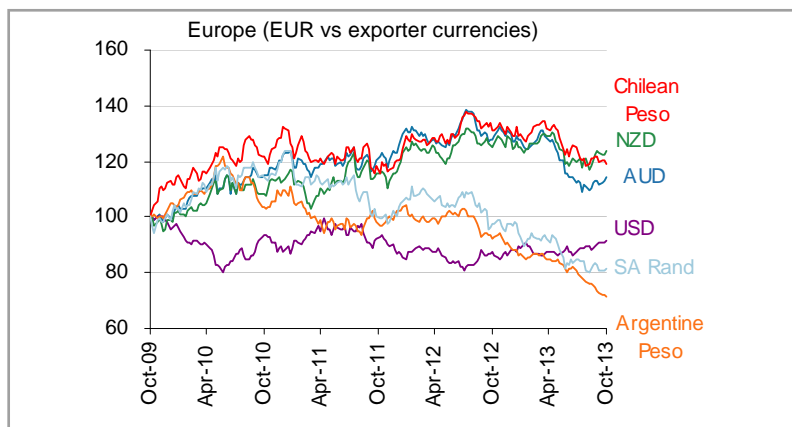
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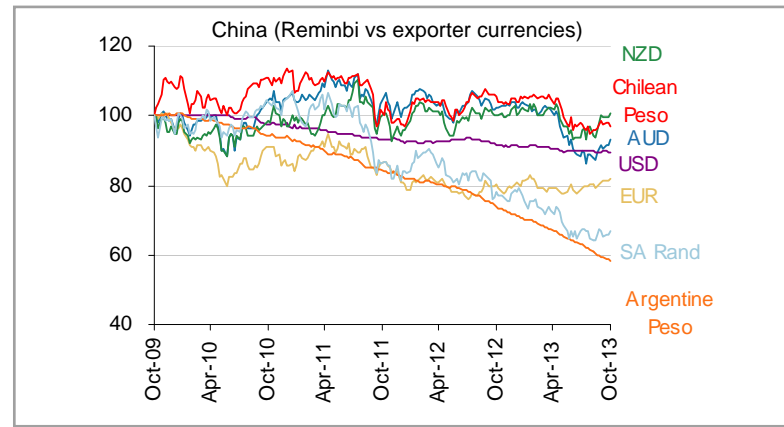
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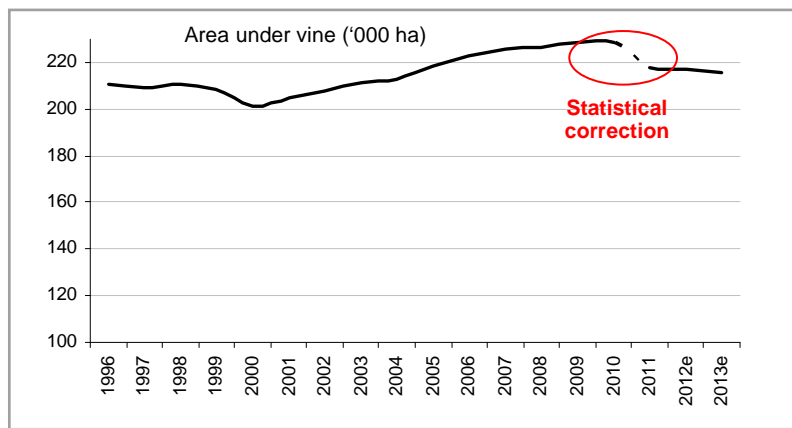
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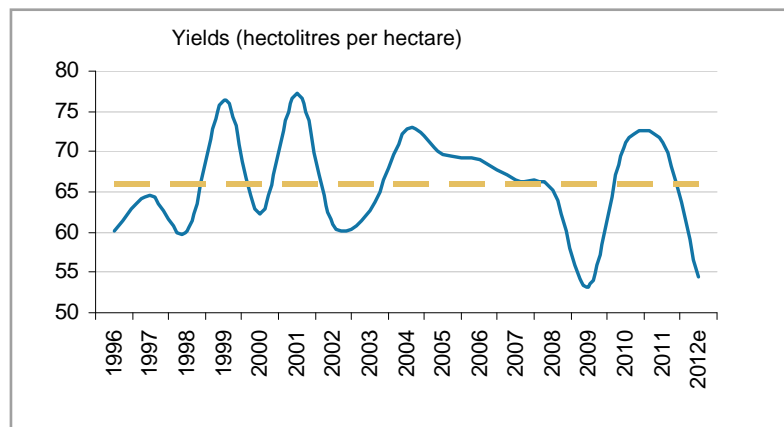
Across all four major wine importers (US, UK, Europe and China), Australian and New Zealand exports face the biggest currency headwinds whilst Chilean exports have also experienced headwinds, although to a lesser degree. The two exporting countries which have benefited the most from currency movements are Argentina in particular and also South Africa, whose currencies have depreciated vs all the major importing currencies. In the Chinese import market, US and European exports have also benefited from currency depreciation vs the Renminbi.

Argentina – Production variations from yield volatility, exports trending positively

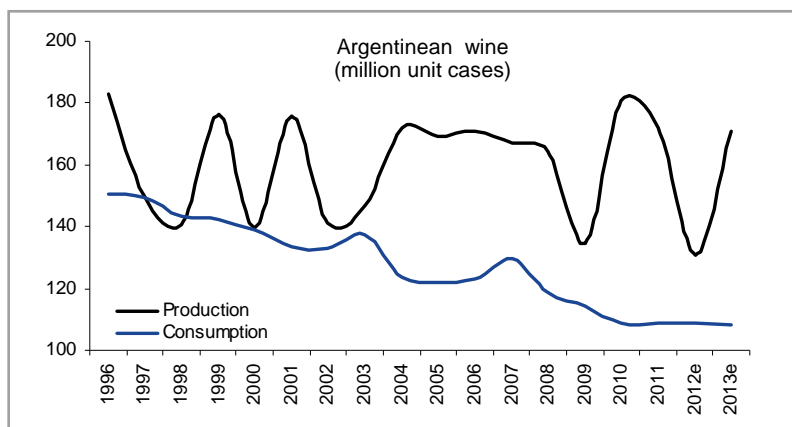
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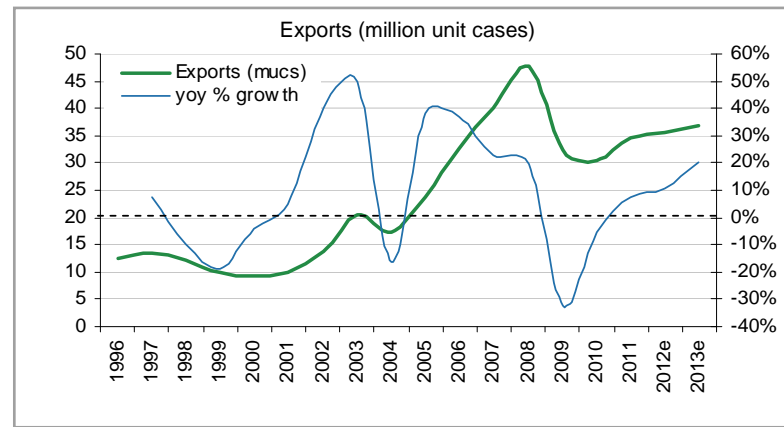
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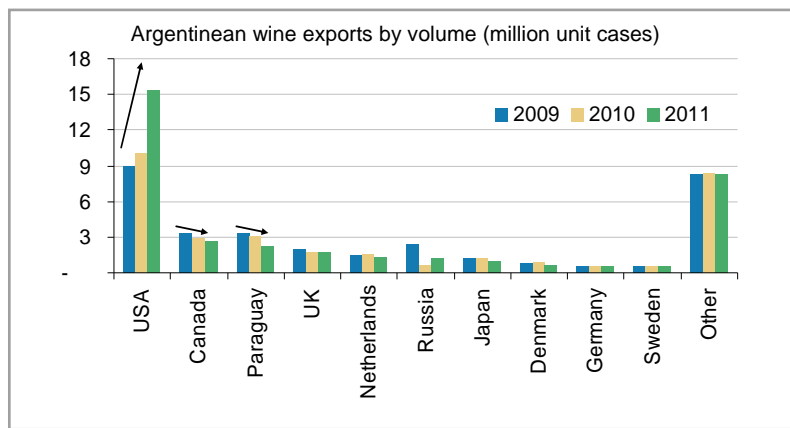
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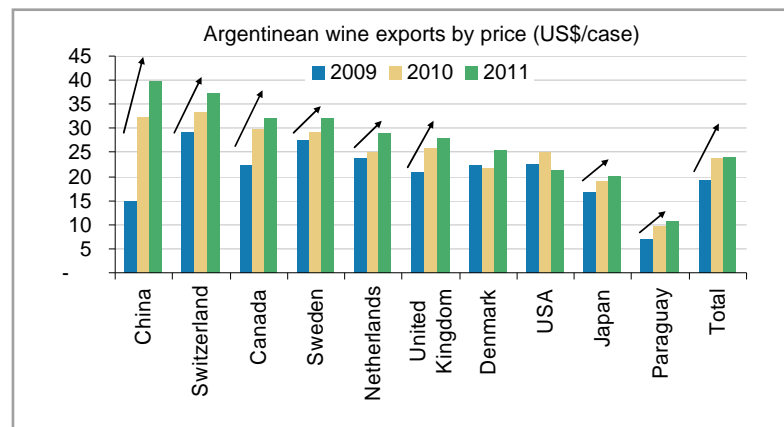
Area under vine was relatively flat in 2012 following a rising trend over the past decade (*note a statistical correction to reporting area was responsible for the step down in 2011*) [1]. Yield variations have been quite significant [2], causing large swings in production [3]. Production declined by ~25% in 2012 on a weather impacted fall in yields, whilst domestic consumption stabilised at low levels following an extended period of decline [3]. Exports maintained a 10% growth rate in 2012, though still remain well below 2008 highs [4].

Argentina – Normalised supply still well above demand

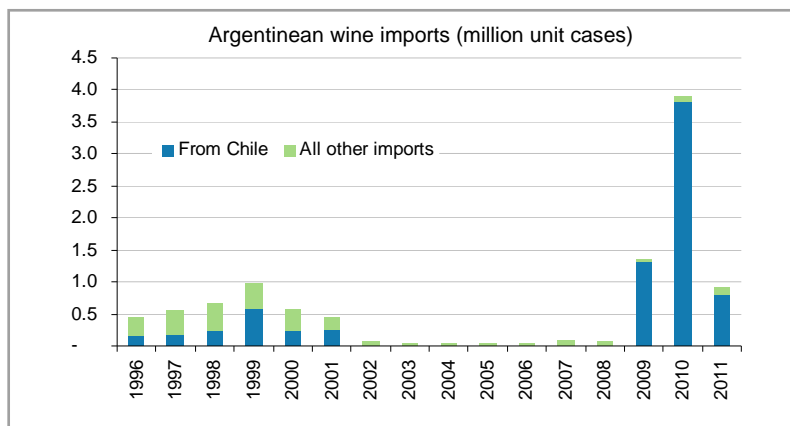
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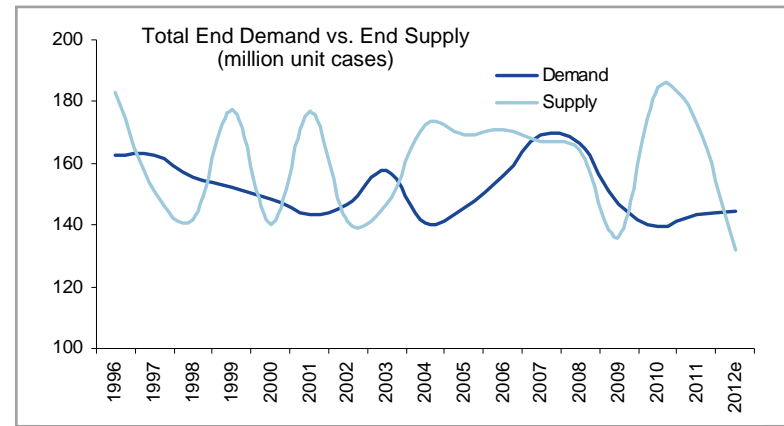
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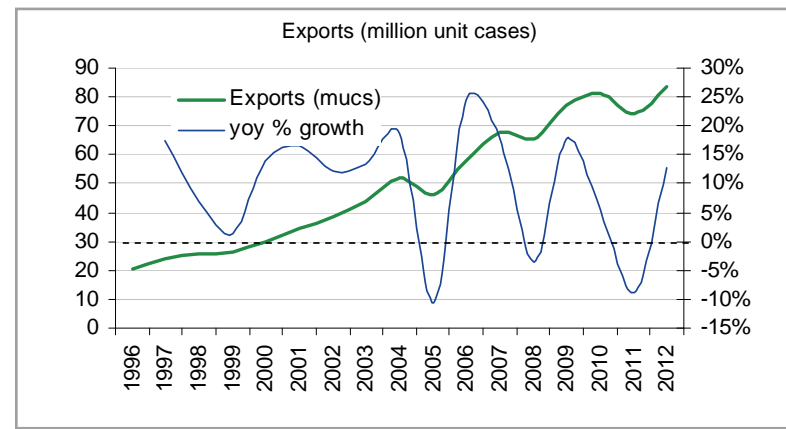
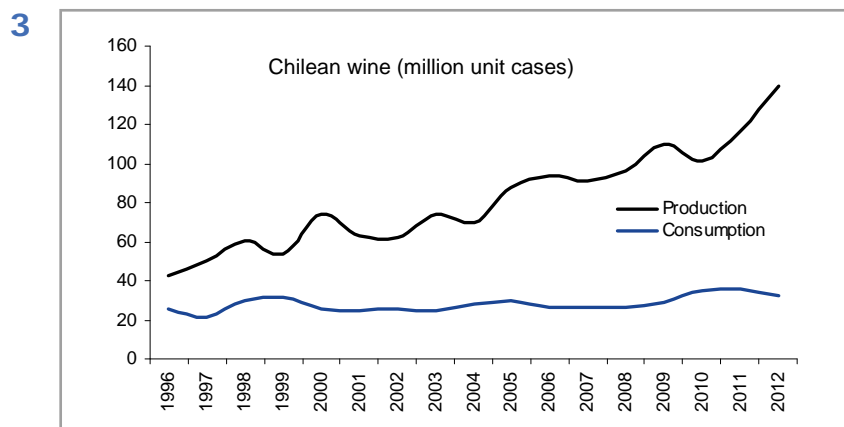
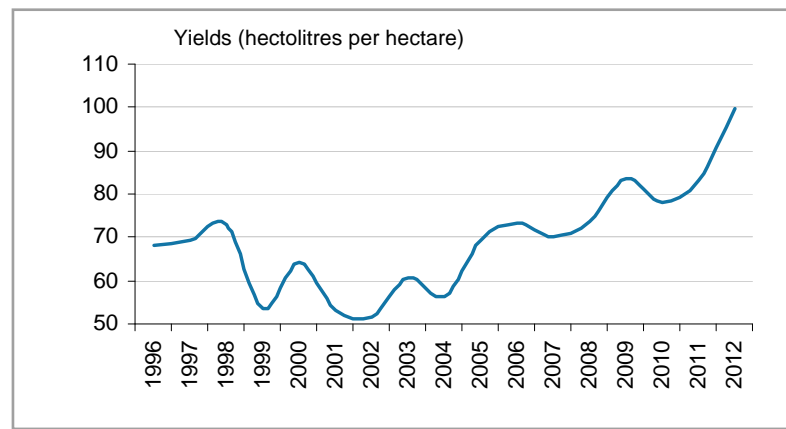
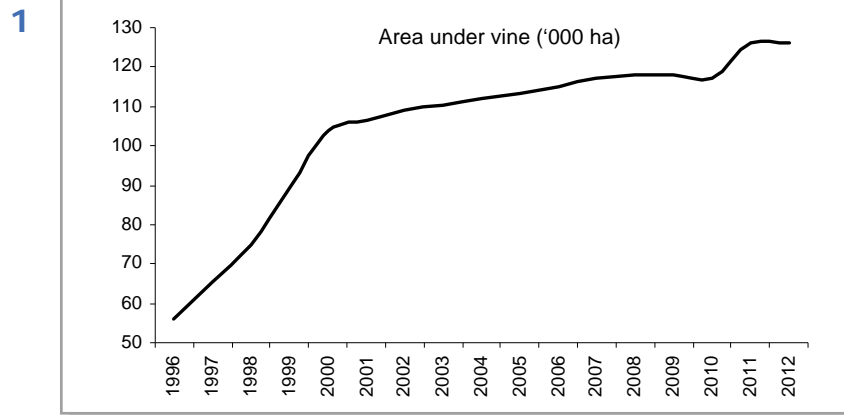


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Exports to the US have been boosted by the rapid increase in demand for the Moscato varietal, with exports to most other regions flat to slightly down [1]. Although price increases have been impressive for many countries, pricing declined to the US where the majority of incremental exports have been in bulk [2]. Imports (mostly comprised of bulk trade with Chile) are relatively immaterial for Argentinian supply, with a large domestic consumption base apparently very loyal to domestic producers [3]. With the exception of abnormally low yielding vintages in 2009 and 2012, supply appears to be well in excess of current levels of demand in Argentina [4].

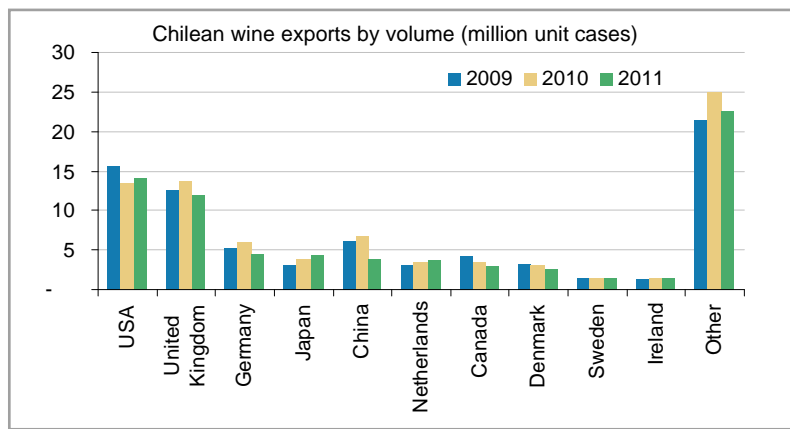
Chile – Rising yields driving production and creating an excess in the near term



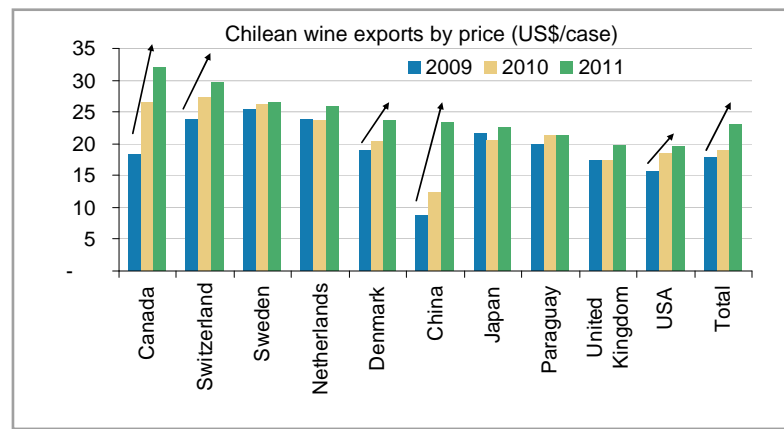
Chile has seen a modest but steady increase in land under vine over the past decade [1]. Yields have increased substantially, particularly in 2012, driving production growth [2 & 3]. Consumption has remained steady overall however declined slightly in 2012, whilst export demand have returned to growth in 2012 after 2 year correction from the 2010 peak [3 & 4].

Chile – Spike in production has led to an excess in 2012

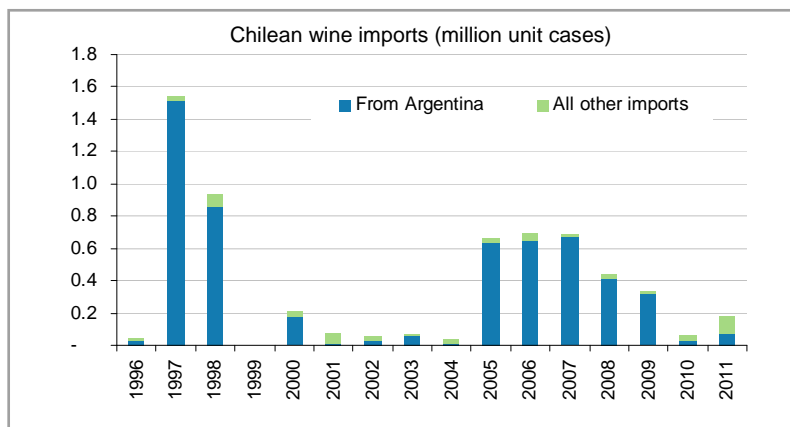
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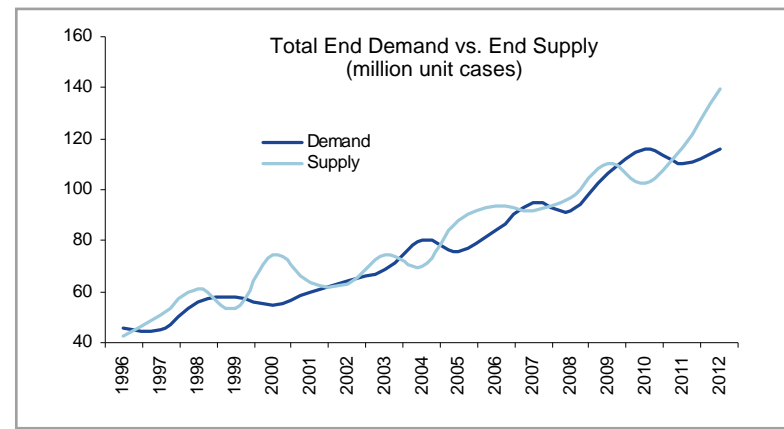
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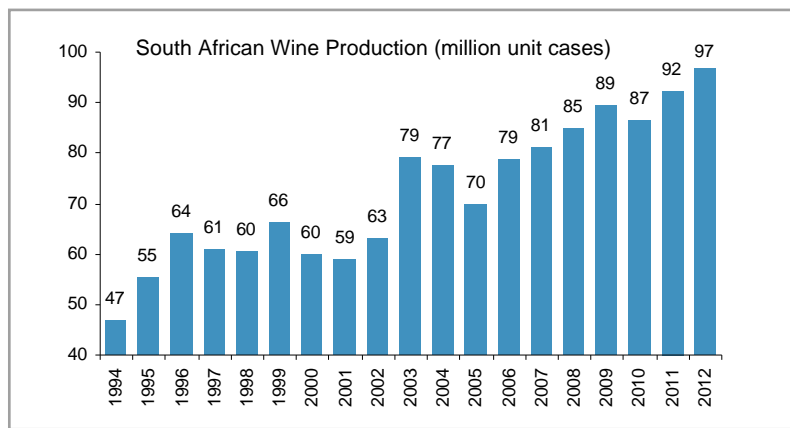
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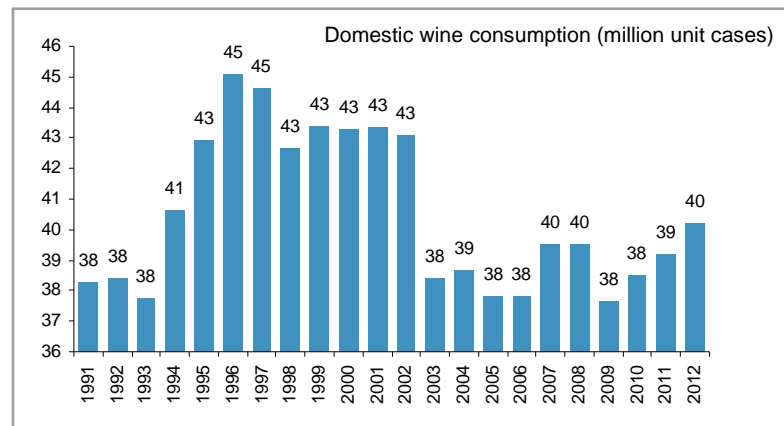
The US and UK are the largest single export markets for Chile, together accounting for over 30% of total exports, whilst there is a large tail of export markets [1]. Export pricing is improving to most markets [2]. Imports are immaterial to supply and have historically focused on bulk trade from Argentina [3]. The rise in production in 2011 and 2012 has not been full absorbed by an improvement in exports, resulting in oversupply which has been maintained in 2012 [4].

South Africa – Production growth still outpacing growth in end demand

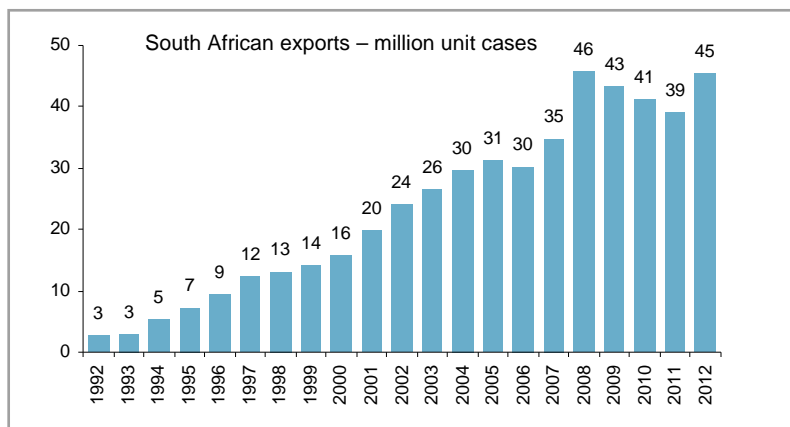
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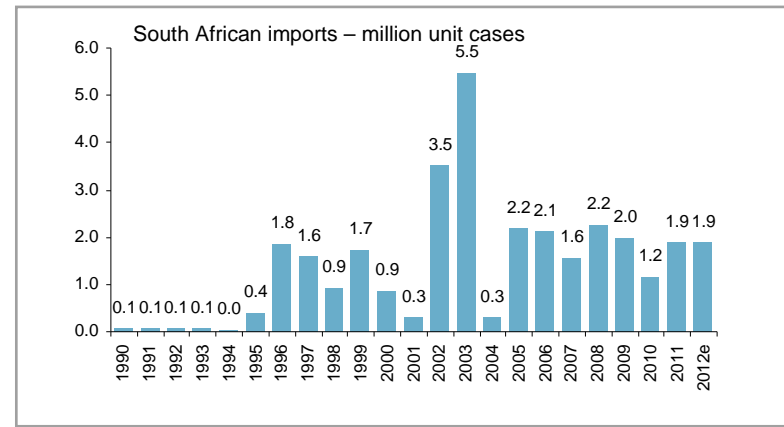
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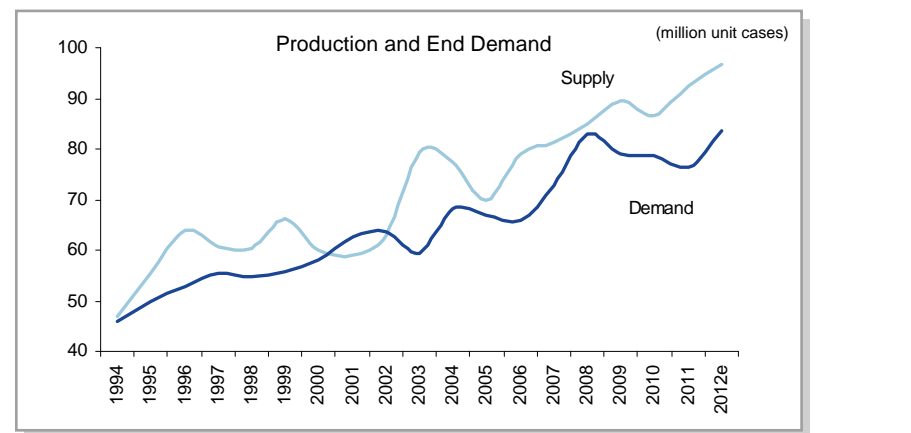
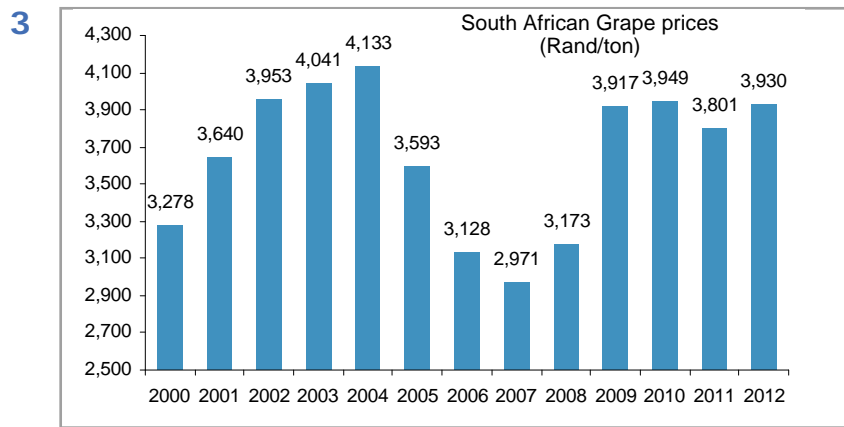
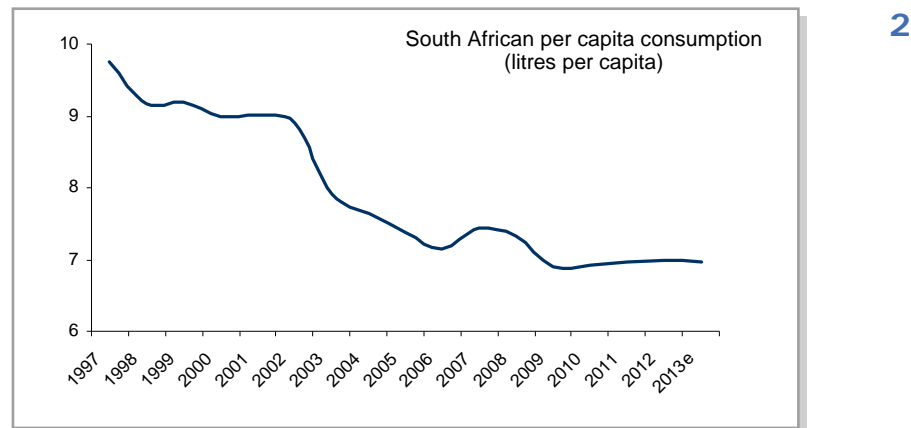
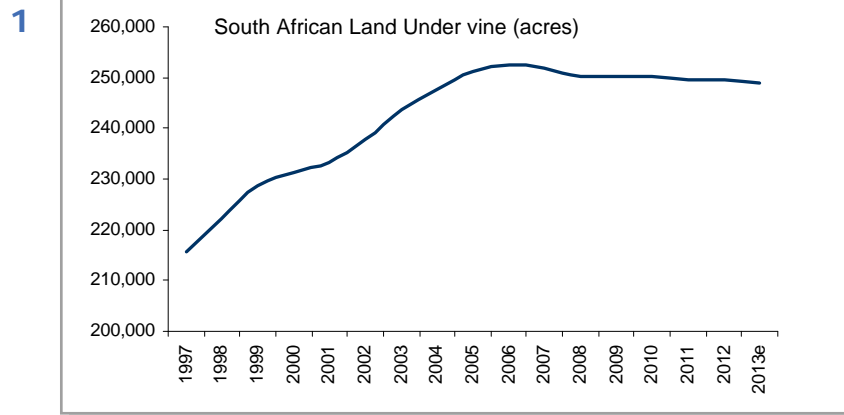


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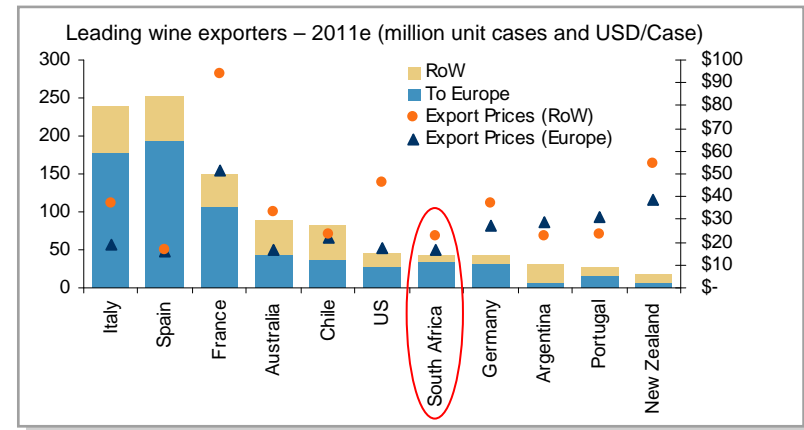
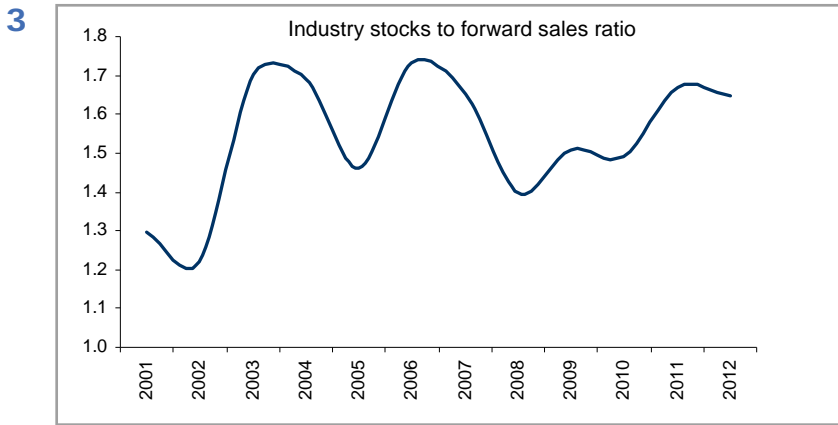
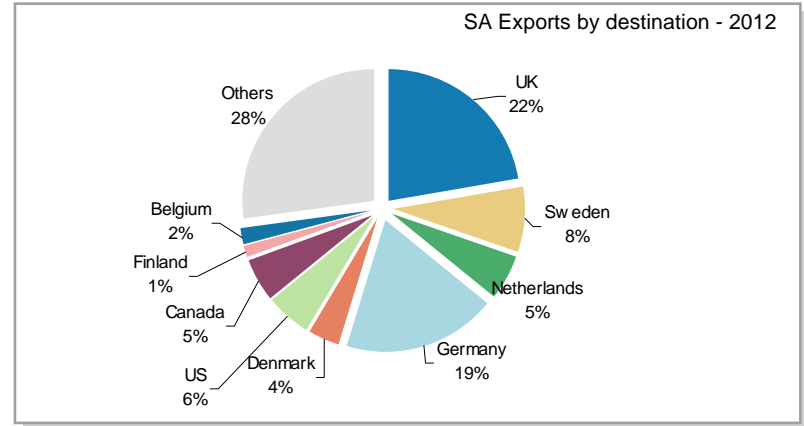
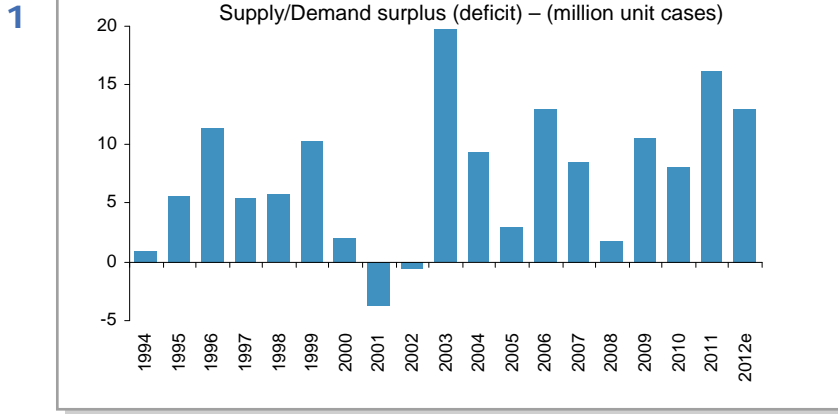
[1] South Africa produces approximately 90 million cases of wine (increasing slightly over the past 3 years) of which just under half is consumed in the domestic market (also showing modest growth) [2]. Exports have been in decline since 2008, down a further 5% in 2012 [3] whilst imports remain largely immaterial at less than 5% of consumption [4].

South Africa – Remains in excess supply



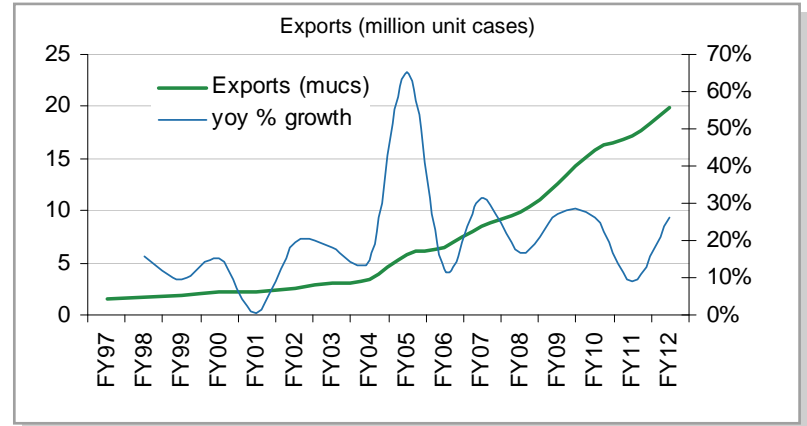
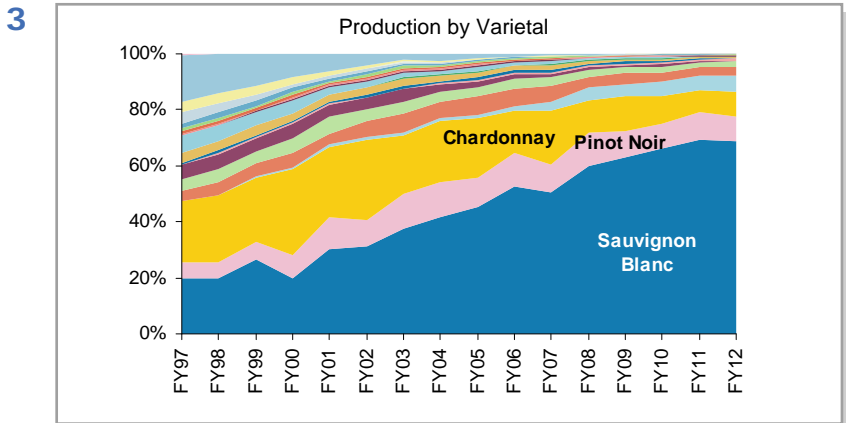
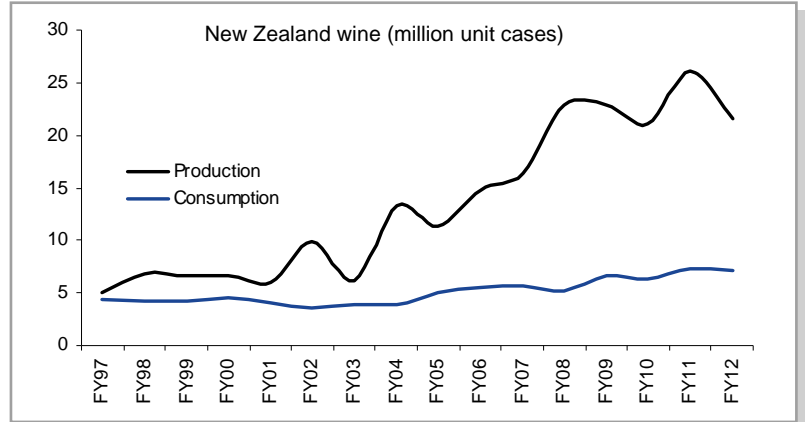
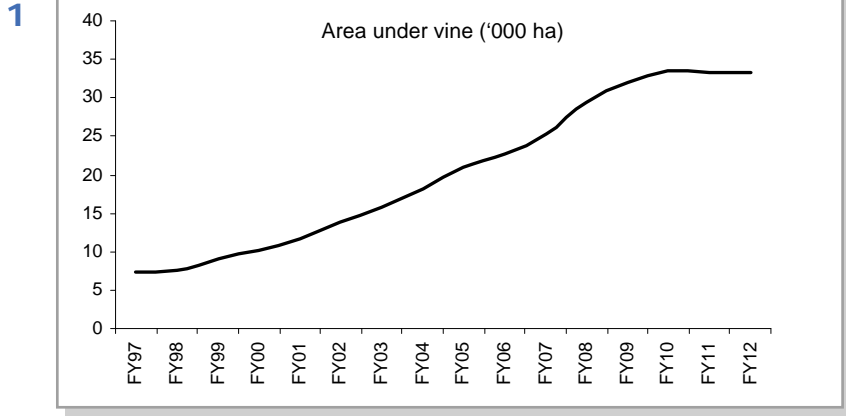
[1] Capacity has been gradually removed, although not at a rate to match declining demand. [4] Accelerating export demand through to 2008 had the industry on trending towards balance but a reversal of this export trend thereafter has not been able to be offset by modest improvement in domestic consumption. Improvement in exports and consumption in 2012 has partially narrowed the gap, however the industry remains in excess supply.

South Africa – Overall export prices are amongst the lowest globally



[1] South Africa's oversupply contributed further to inventories in 2012 and the stocks to sales ratio continues to increase beyond comfort levels [3]. Overall export prices are amongst the lowest globally [4] as the country has been forced to export a large amount of low-quality bulk product to markets like the UK and Germany [2].

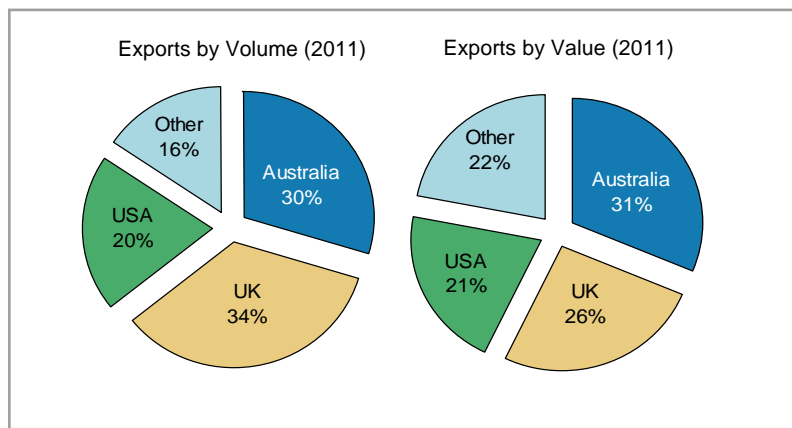
New Zealand – Small, but Savvy



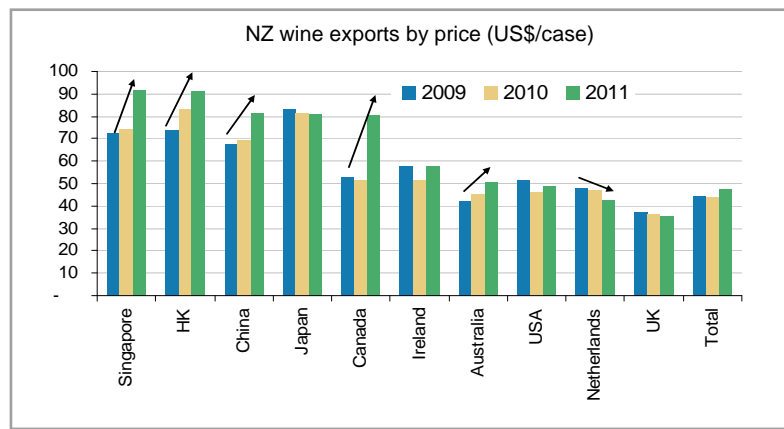
New Zealand's area under vine has stopped growing [1] following a deceleration in export demand in 2011 [4] whilst lower yields have seen production fall in 2012 [2]. Export growth has historically been very strong, rising 10x over the past 15 years [4] as demand for New Zealand Sauvignon Blanc [3] skyrocketed. Despite its success, the New Zealand market remains very small, with total exports equivalent to only 25% of Australia's total. Export growth has re-accelerated in 2012 [4].

New Zealand – Small, but Still a Key Competitor to Brand Australia

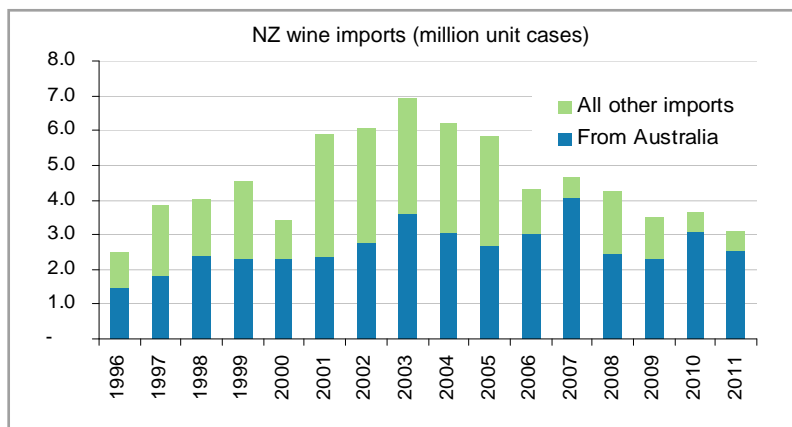
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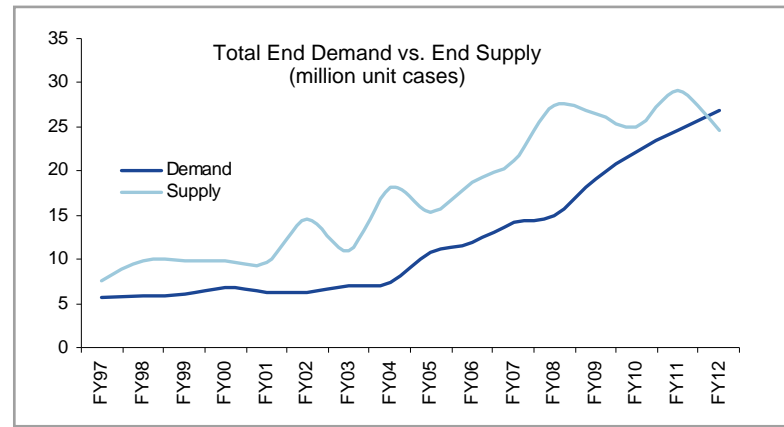
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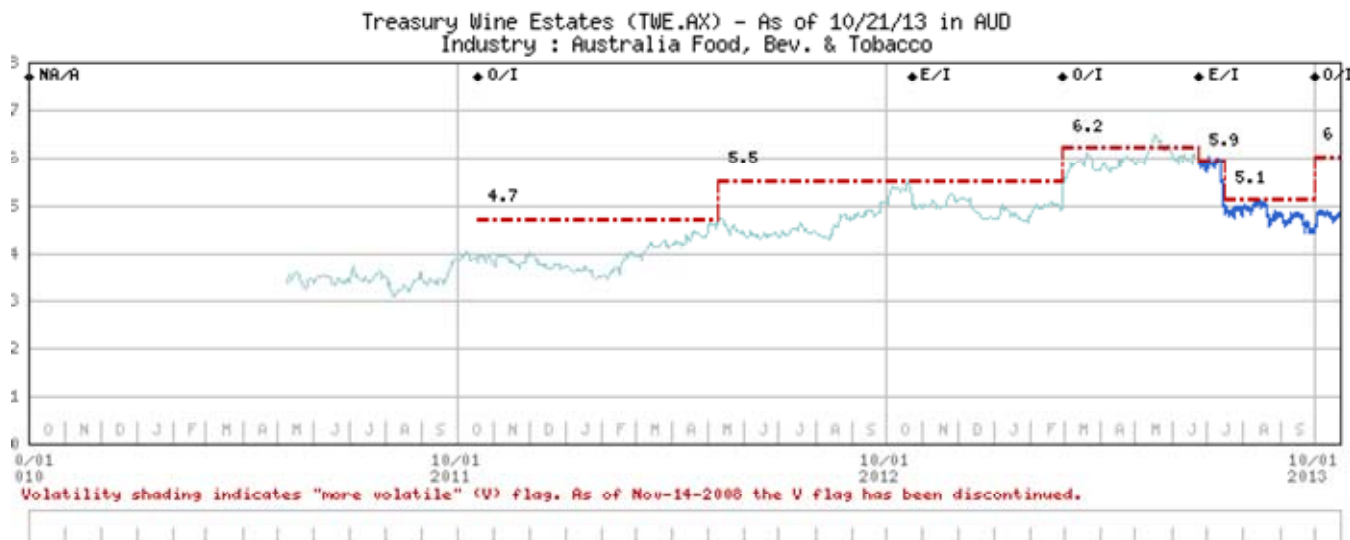
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New Zealand relies on three key export markets: Australia, The UK and The US [1]. Export prices for NZ wine are high and rising [2], almost double Australia's pricing and second only to France on the global stage. Imports have steadily declined since 2003 from all regions except Australia [3]. Stable domestic consumption, a rebound in export demand, combined with a fall in production has seen NZ move into an *undersupply* situation for the first time in more than 15 years [4].

Stock Price, Price Target, and Ratings History

(See Rating Definitions)



Stock Rating History: 10/1/10 : NA/A; 10/18/11 : 0/I; 10/22/12 : E/I; 2/28/13 : 0/I; 6/24/13 : E/I;
9/30/13 : 0/I
Price Target History: 10/18/11 : 4.7; 5/10/12 : 5.5; 2/28/13 : 6.2; 6/24/13 : 5.9; 7/16/13 : 5.1; 9/30/13 : 6

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)



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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
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Equal-weight/Hold	1278	44%	493	46%	39%
Not-Rated/Hold	114	4%	28	3%	25%
Underweight/Sell	526	18%	140	13%	27%
Total	2,920		1071		

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