



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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This past winter in California will probably go down as being drier than average. However, late, persistent rain in March has been advantageous in ensuring water availability during the growing season and, in slowing the development of the vines, reducing their exposure to frost risk. March also brought considerable snow to the Sierra Nevada, boosting the snowpack to 93% of normal. Mid-April brought some reports of hail in California following the recent storm pattern: it'll be a case of waiting to see if it had any lasting effect. All in all, the growing areas are in good shape and more spring-like weather will hopefully commence soon.

Market activity remains slow on bulk wine and grapes. Prices are high: business is proceeding consistently, but in small volumes. As shown in last month's report, California's total bulk wine inventory is now the largest it has been since 2015. 'California' appellation Chardonnay is in demand but some Coastal Chardonnay has been put back onto the market by buyers (see below). There is activity on Coastal appellation and 'California' Cabernet but it is not keeping up with a Cabernet inventory – both bulk wine and grapes – inflated by increased acres and two successive record harvests. Activity on premium/Coastal Pinot Noir bulk wines has picked up a little in the past month: there's been some long-term big volume deals being extended and ongoing activity on high-end Pinot Noir on the spot market. Russian River still seems to be very active. The Pinot Noir grape market has not been as active as on the wine side, in-line with the quiet Californian grape market in general. Zinfandel bulk wine is seeing activity, but at prices lower than the sellers initially hoped for.

With inventory ample, good options and activity quieted, buyers feel able to wait for the market to come to them, perhaps waiting to see how the 2018 crop develops before committing. We feel wise for grape/bulk wine suppliers to take advantage of the buying activity that does occur and close deals that they feel provide a reasonable return and not get caught up speculating on where the market is going to go. Consider potential deals carefully and if they make sense, lock in the return. Once the 2018 vintage is in, some of the older inventory – 2014, 2015 – is going to be considered non-vintage generic by the market.

We see the US wine industry's exposure to any US-China so-called "trade war" as limited. Total US wine exports to China were reportedly worth USD79 million at the last count, a fraction of the USD34 billion Californian enterprise. Much of the US wine available on the Chinese market is at a price point at which import tariffs – although high – will have limited deterrence anyway. The weaker US dollar, meanwhile, has made Valley wines more attractive to European and Asian buyers, the main attractions being generic reds and Zinfandel rosés.

Robert Selby

Margin Management

The conversation on the market has switched from premiumization to margin management. With slightly slower sales for wines priced at the premium end (making it difficult to raise retail prices on these) and high grape pricing on the Coast, buyers have been establishing and building new wine brands that utilize the 'California' appellation. This enables Coastal wines to be blended with good quality Lodi and north Valley wines to help manage cost of goods sold; Napa and Sonoma wineries are looking to source from other Coastal regions to accomplish the

same thing. The focus now is on creating brands each marketed around a distinctive brand identity and the quality of the wine, not necessarily a wine appellation. These brands often retail closer to the midmarket, for example at USD13-16/bottle. At the same time, positioned just under that price category, at perhaps USD10-12/bottle, good quality brands are being launched that source 100% from Lodi/the north Valley, lifting the market at the lower end. There is, then, a gradual shift in emphasis towards the mid-market.

Chardonnay

California's 2017 Chardonnay harvest was not bumper, at 613,990 tons. There have not been significant new plantings in recent years, and 'California' appellation Chardonnay is seeing strong demand. The overall Chardonnay market is thus balanced but the Central Coast Chardonnay market is not coming into line with this situation as one might expect: there is a lack of buying activity in the Central Coast – particularly in Monterey and Santa Barbara – where some volumes are being put back onto the market by businesses that normally buy. It might be that buyers are hesitating in this market due to sellers' pricing expectations, which might not be attractive right now to buyers struggling for room on margin. The strength of Chardonnay on the retail side may lie with the USD13-15/bottle category, rather than the USD20-25/bottle category. Buyers may be waiting to see if there will be a softening on price mid-year as the 2018 harvest nears and tank space is needed.

Chardonnay	\$/Gal
	2017v
Sonoma	\$16 - \$23
Napa	\$17 - \$23
North Coast	\$10 - \$13
Central Coast	\$8 - \$13
Northern Interior	\$7 - \$9
Central Valley	\$7 - \$9

In the North Coast, Napa and Russian River Chardonnays are receiving renewed or continued strong interest. In the North Coast in general and in Sonoma in particular, as well as in parts of Lodi, demand for 2018 Chardonnay grapes (and some Pinot Noir grapes) is now coming in from the sparkling winemakers. Sparkling wines continue to see good growth on the US retail market.

Sauvignon Blanc

Availability of 'California' Sauvignon Blanc is tight with plenty of buyer demand. The Sauvignon Blanc market is active because significantly less Sauvignon Blanc is produced in the Valley than in the Coast. Owners of big Coastal Sauvignon Blanc programs may be looking into 'California' brand extensions to ameliorate cost, placing further demand on that area. Ciatti is also seeing some brands looking to move from Sonoma or Napa into a larger 'North Coast' appellation.

After strong post-harvest business on Coastal/premium Sauvignon Blanc, demand had died down; there remains

wine on the market in the Coast as spring gets underway. Buyers may move onto the market for the remaining Coastal Sauvignon Blanc, or a price adjustment might need to come.

With demand for 'California' Sauvignon Blanc as it is, the varietal has become an option for growers in Lodi and the north Valley looking to replant, when 2-3 years ago they would not have considered it. Ciatti has seen acres of Sauvignon Blanc going in; these plantings are probably a mix of contractual and speculative.

Hot Opps Box

There are opportunities for buyers in terms of long-term Coastal Cabernet deals. There are opportunities on bulk Napa Cabernet, Coastal Merlot and Coastal reds across the board. On grapes, there are opportunities on Sonoma County Chardonnay, premium Zinfandel, and Pinot Noir. Sellers should consider offers for their product carefully and lock in any returns that seem fair, particularly on older wines.

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