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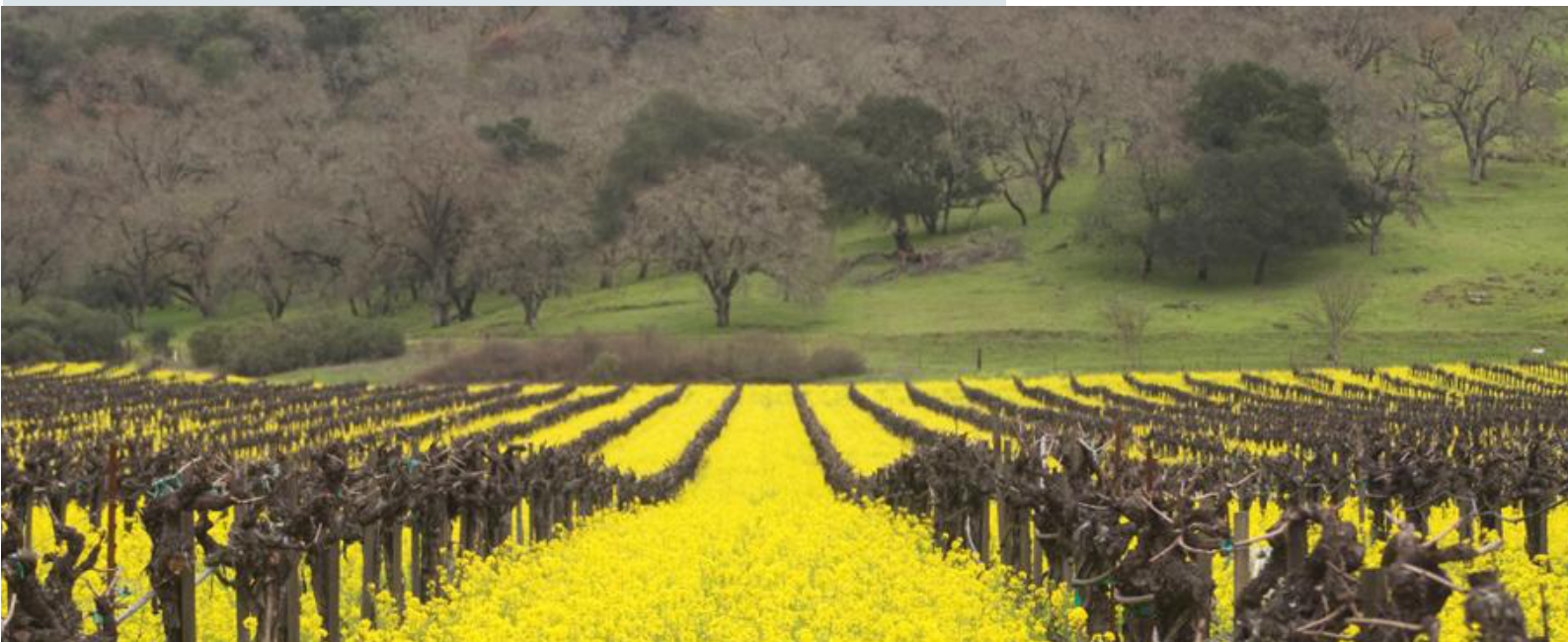


California Report

April 2019
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**Ciatti Global Wine
& Grape Brokers**

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- 3 Gallo-Constellation Deal
- 3 Chardonnay
- 4 Hot Opps Box
- 5 Contacts

Reading online?
Use the links above
to jump through this
document.

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Ahead of the USDA's 2018 grape crush report, published Wednesday April 10th, this month's *California Report* provides an update on current conditions in Californian's vineyards and bulk market activity. Stay tuned on the 10th for our press release responding to the crush report, then May's instalment of our *California Report* will delve deeper into the crush report's findings.

The big weather news is: for the first time in 12 years, there is no region in California under a drought watch or warning. Winter has been cooler and wetter than average, particularly in the northern half of the state (and as far south as Paso Robles). In Northern California rain has stayed in the forecast through March and into the first half of April as well.

The late spring rain in Northern California has delayed budbreak with many areas reporting budbreak occurring later than normal. The wet conditions in the vineyards is also delaying handwork. Growers are keeping an eye on fruit set and bloom. The Central Valley has been drier than the Coast but Sierra Nevada snowpack was at 161% of normal by the turn of the month, the fourth-highest level in the last 40 years.

The uptick in activity levels registered on the bulk market last month has continued, mainly driven by more realistic pricing and opportunistic buyers seeking creative deals. Prices are increasingly at levels commensurate with where consumers want to buy wine and where wineries can make a margin. These prices are often below the supplier's planned return – more so in the Coast than in the Valley – but they recognise the need to move inventory ahead of the next harvest and not incur lengthy storage costs.

The majority of activity is happening on 2017 Coastal red wines such as Cabernet and Pinot Noir, with the remaining 2017 Chardonnay being mopped up as well. There has been activity on 2018 Coastal Sauvignon Blanc and some small activity on 2018 Coastal Pinot Noir, and on Lodi/Central Valley 2018 Chardonnay which seems closer to balance than anything else in the marketplace. There has been next to no activity yet on 2018 Coastal Chardonnay or (normal at this stage in the buying timing) Cabernet.

Grape activity has picked up a little in the past month, mostly wineries seeking to re-sign contracts with suppliers at reduced pricing versus where they have been in the past. Buyers are ensuring they pay a price that reflects the current and future market they see. The spot market for grapes, meanwhile, is quiet, with some activity on very specific, high-end quality Napa Valley fruit in small volumes. Potential buyers know there is big inventory out there so there is no need to rush, and are awaiting the crush report and for the picture on the 2019 harvest to become clearer. The slow market is putting pressure on sellers in terms of cashflow, storage costs and capacity for the coming 2019 harvest; we have already seen activity looking for storage. Buyers, meanwhile, continue to put inventory onto the market.

Robert Selby

Gallo-Constellation Deal

You will not have failed to learn that on April 3rd Gallo announced it had entered into an agreement with Constellation to purchase more than 30 brands, as well as more than a half a dozen facilities from New York to California to Chile.

While we will all keep a close eye on what will happen, it is apparent that Gallo's energy and renewed focus on these brands could have implications for grapes and bulk wine from the San Joaquin Valley

and beyond, as well as far-reaching brand impact given the nature of their global distribution.

Chardonnay

The bulk market for 2018 Chardonnay has been quiet on the Coast and only slightly more active in the Central Valley. The current slowness of the Chardonnay market is a little surprising considering that the varietal's bulk inventory was not huge going into the 2018 vintage and buying activity on it in both the Coast and Central Valley was until then good. In addition, not a great

deal of new plantings have gone in on this varietal.

The slow Chardonnay market is perhaps a reflection of buyers waiting to see what Chardonnay volume figure the imminent grape crush report gives out, but also of the varietal's softening sales at the retail end. Gomberg-Fredrikson's 2018 *Annual Wine Industry Review*

reported that Chardonnay, the varietal with the largest volume share of the wine retail market in US food stores (20%), saw sales down 194,000 cases – 1.2% - in 2018. This drop was bigger than for any other white varietal, and the third-biggest sales drop overall, behind those seen on Merlot and White Zinfandel respectively.

2018 Purchases in U.S. Food Stores by Type

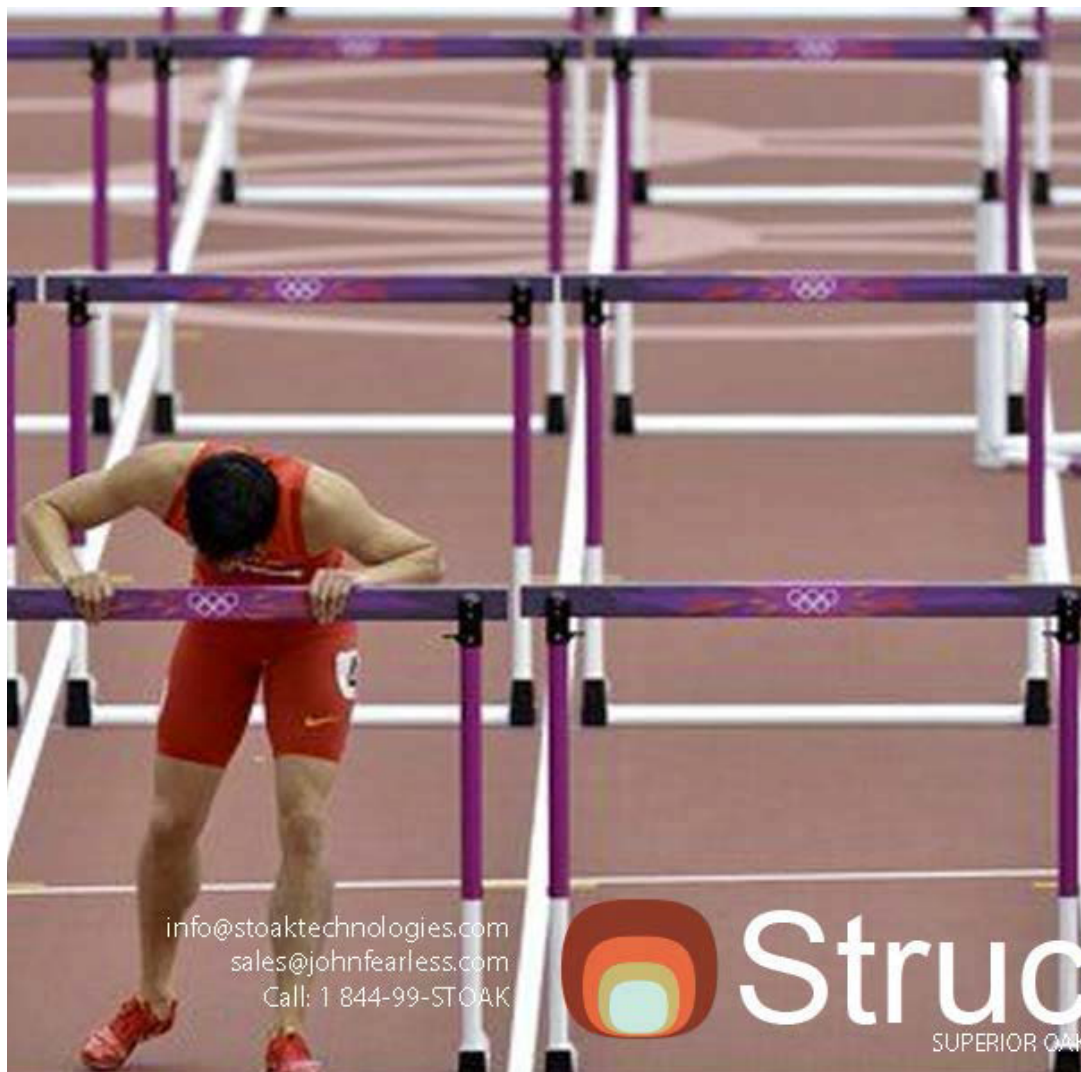
	Volume Share	Case Change (000)	Volume % Change	Revenue % Change
Cabernet Sauvignon	16%	129	1%	4%
Other Red	13%	94	1%	4%
Merlot	6%	(363)	-7%	-5%
Pinot Noir	6%	65	1%	4%
Malbec	2%	(128)	-9%	-8%
Zinfandel	1%	(36)	-3%	0%
Syrah	1%	(70)	-7%	-3%
Total Red	47%	(348)	-1%	2%
Chardonnay	20%	(194)	-1%	1%
Pinot Grigio	10%	(29)	0%	1%
Sauvignon Blanc	6%	256	6%	8%
Muscat	3%	(172)	-6%	-6%
Other White	3%	(134)	-5%	-3%
Riesling	2%	(79)	-5%	-5%
Total White	44%	(436)	-1%	1%
Rosé	5%	602	18%	32%
White Zin / Blush	4%	(262)	-7%	-5%
Total Table Wines	100%	(443)	-1%	3%

Source: Gomberg - Fredrikson Report - December 2018: Published March 18, 2019

Hot Opps Box

Bulk wine pricing has fallen back to where it was five years ago, so now is a good time for wine buyers to step into the market and secure what they need, either on spot or contract. There is the ability to buy or even contract out bulk wine for longer periods at more realistic pricing. More wines are being listed and coming onto the market each day and we have large amounts of very good quality bulk wines available. There continue to be particular opportunities on 2016, 2017 and 2018 Cabernet and other reds – including Pinot Noir – from premium markets in the North and Central Coasts.

It is also a good time to secure **2019 grapes** and beyond on multi-year, amenably-priced contracts. If you're thinking about buying grapes, or if you have grapes available for sale this year, contact **Molly on +1 415 630 2416 or molly@ciatti.com** to get listed.



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